

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 [Fee Required]
For the fiscal year ended December 31, 1996

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1943 [No Fee Required]

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 (I.R.S. Employer Identification No.)
incorporation or organization)

39 EAST CANAL STREET
NELSONVILLE, OHIO 45764
(Address of principal executive offices, including zip code)

(614) 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

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 \$38,532,536 on February 28,
1997.

There were 3,697,653 shares of the Registrant's Common Stock
outstanding on February 28, 1997.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the
fiscal year ended December 31, 1996, are incorporated by reference in Part II.

Portions of the Registrant's Proxy Statement for 1997 Annual Meeting
of Shareholders are incorporated by reference in Part III.

PART I

ITEM 1. BUSINESS.

OVERVIEW

Rocky Shoes & Boots, Inc. (the "Company" or "Rocky") designs,
develops, manufactures, and markets premium quality men's and women's footwear.
Rocky offers footwear that is comfortable, lightweight, durable, and relatively
insensitive to changing fashion trends. The Company markets its footwear
through several distribution channels, primarily under the registered
trademark, ROCKY(R).

The Company's product line is organized into three primary categories:
rugged outdoor footwear, including hunting and hiking boots, with suggested
retail prices generally ranging from \$60 to \$190 per pair; nonmilitary
occupational footwear, with suggested retail prices generally ranging from \$40
to \$160; and handsewn casual footwear, with suggested retail prices generally
ranging from \$100 to \$150 per pair. The Company also sells footwear
accessories, such as waterproof socks and innersole support systems, and has a
factory outlet store in Nelsonville, Ohio.

Innovativeness, quality, and durability are hallmarks of the ROCKY(R) brand name. The Company continually monitors the development of innovative raw materials and has distinguished its branded products by incorporating new fabric technologies into the design of its footwear. Rocky places an emphasis on the manufacture of waterproof footwear and is currently the largest customer of GORE-TEX(R) waterproof fabric for footwear. The Company was also the first footwear manufacturer to market an all CORDURA(R) nylon fabric hunting boot.

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. (nka Rocky Shoes & Boots Co. ("Rocky Co.)) as an Ohio corporation, reacquired the Nelsonville, Ohio, operating assets of the original company, and moved the business' principal executive offices back to Nelsonville, Ohio. In 1987, Five Star Enterprises Ltd. ("Five Star"), a Cayman Islands corporation, was formed by John W. Brooks, Mike Brooks, and three other executive officers of the Company at the time, to produce shoe and boot uppers at a manufacturing facility located in La Vega, Dominican Republic. In 1988, Lifestyle Footwear, Inc., ("Lifestyle"), a Delaware corporation, was established as a subsidiary of Rocky Co. and commenced operations at a manufacturing facility in Aquadilla, Puerto Rico.

The Company was formed as an Ohio corporation in June 1992 in anticipation of an initial public offering following the reorganization of the business of Rocky Co. and Five Star. Effective February 3, 1993, the Company, Rocky Co., Five Star, and the then shareholders of Rocky Co. and Five Star were parties to a reorganization pursuant to which the then shareholders of Rocky Co. and Five Star received in the aggregate 2,150,000 shares of Common Stock of the Company, 100,000 shares of the Company's Series A Non-Voting Convertible Preferred Stock, and \$160,000 in cash in exchange for all outstanding shares of capital stock of Rocky Co. and Five Star. Rocky Co. and Five Star then became wholly owned subsidiaries of the Company (the "Reorganization"). The Company sold 1,597,500 shares of its Common Stock and certain shareholders sold an additional 300,000 shares of Common Stock to the public on February 3, 1993. Effective December 26, 1996, Rocky Co. was merged with and into the Company.

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

PRODUCT LINES

The Company's product lines consist of rugged outdoor shoes and boots, occupational footwear, and handsewn casual footwear. Accessories and retail sales from Rocky's factory outlet store in Nelsonville, Ohio, also contribute to the Company's net sales. The following table, which is derived from the Company's internal sales records, indicates the percentage of net sales derived from each major product line, accessories, and the factory outlet store for the year ended December 31, 1996 ("Fiscal 1996"), the short transitional fiscal period from July 1 to December 31, 1995 ("Transitional Fiscal 1995"), and the fiscal years ended June 30, 1995 ("Fiscal 1995"), and June 30, 1994 ("Fiscal 1994"). Historical percentages may not be indicative of the Company's future product mix.

PERCENTAGE OF NET SALES

<TABLE>
 <CAPTION>

	Fiscal 1996	Transitional Fiscal 1995	Fiscal 1995	Fiscal 1994
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Rugged outdoor footwear	57.8%	65.7%	57.6%	54.3%
Occupational footwear	23.3	20.9	24.0	25.8
Handsewn casual footwear	5.7	2.1	8.1	10.8
Factory outlet store	6.6	7.6	6.1	3.9
Other	6.6	3.7	4.2	5.2
	-----	-----	-----	-----
	100.0%	100.0%	100.0%	100.0%
	-----	-----	-----	-----

</TABLE>

All of the Company's products feature advanced engineering and biomechanically designed styles, incorporating many of the following premium quality materials: full grain waterproof, breathable leather; CORDURA(R) nylon fabric in a variety of colors and camouflages which will not mildew or retain moisture, is durable, and is more abrasion resistant than leather; GORE-TEX(R) waterproof fabric bootie liners, made from a guaranteed waterproof, yet

breathable material; THINSULATE(R) thermal insulation; CAMBRELLE(R) cushioned linings which are manufactured from a material that breathes, absorbs perspiration, and resists mildew and odors; innersole support systems which form to the contours of the foot supporting the arch and metatarsal areas and are removable and fully washable; VIBRAM(R) rubber outsoles which are long-wearing, flexible, and slip-resistant and incorporate AIR-O-MAGIC(R) air-cushioned footbeds; and the Company's polyurethane direct injected soles which are lightweight insulated, flexible, slip-resistant, and oil-resistant. Corporations other than the Company own the trademarks listed above. See "Business - Trademarks and Trade Names."

All of the Company's footwear begins with a form or mold known as a "last," which is shaped like a foot. The last is used to produce a number of shoes with the same characteristics. Among other things, it determines the height of the heel and the shape of the toe. The Company's footwear eventually takes the shape of the last. The shape of the last largely determines the comfort and fit of the shoe or boot. The lasts for the Company's footwear are designed and developed by the Company and then produced by third-party suppliers. Lasts are durable and do not require frequent replacement or rework, and one last can be used with more than one style within a particular category of footwear. The Company, for example, has used certain of its lasts for more than 10 years. There are several suppliers capable of producing the Company's lasts, and the Company is not dependent on any one supplier.

RUGGED OUTDOOR FOOTWEAR. Rugged outdoor footwear is the Company's largest product line in terms of total net sales, representing 57.8%, or \$42.3 million, of Fiscal 1996 net sales. Suggested retail prices for Rocky's rugged outdoor footwear generally range from \$60 to \$190 per pair. The Company sells its rugged outdoor footwear primarily to retail shoe, sporting goods, and outdoor specialty stores and to mail order catalog companies. Although Rocky's hunting boots must be somewhat responsive to new camouflage patterns, its rugged outdoor footwear is relatively

- 2 -

insensitive to changing fashion trends, significantly reducing the risk of product obsolescence and inventory markdowns. For example, the ROCKY(R) STALKERS(TM) boots and ROCKY(R) CORNSTALKERS(R) boots were first introduced in 1984 and 1988, respectively, and remain two of the Company's most popular boot styles. The Company currently has six primary styles of rugged outdoor footwear: ROCKY(R) STALKERS(TM) boots, ROCKY(R) CORNSTALKERS(R) boots, ROCKY(R) SIDEWINDER(R) SERIES boots, ROCKY(R) BEAR CLAW(TM) SERIES boots, ROCKY(R) SNOW/STALKERS(R) boots, and ROCKY(R) TUFF TERRAINERS(TM) Gore-Tex(R) handsewn casual oxfords and boots.

ROCKY(R) STALKERS(TM) boots feature uppers of full grain waterproof leather and CORDURA(R) nylon fabric, GORE-TEX(R) waterproof bootie liners, THINSULATE(R) thermal insulation, innersole support systems, tridensity polyurethane direct injected soles, and rustproof speed lacing hardware. The ROCKY(R) CORNSTALKERS(R) boots, currently the most popular boot produced by the Company, are similar in design to the ROCKY(R) STALKERS(TM) boots, but feature uppers of all CORDURA(R) nylon fabric, Goodyear welt construction, and dual density polyurethane, low impact, slip-resistant, and oil-resistant soles. ROCKY(R) STALKERS(TM) and ROCKY(R) CORNSTALKERS(R) boots are marketed primarily to hunters who desire a durable, waterproof, insulated all-season boot suited to rugged terrain. ROCKY(R) SIDEWINDER(TM) SERIES boots are engineered to be durable, comfortable, at lower prices than the ROCKY(R) BEAR CLAW SERIES(TM). ROCKY(R) BEAR CLAW SERIES(TM) boots are designed for outdoor enthusiasts who venture into slick, muddy areas. They feature 1/4-inch round cleats in the center of the sole that provide additional traction in slippery situations. ROCKY(R) SNOW/STALKERS(R) boots feature uppers of premium waterproof leathers and a dual density polyurethane light weight rubber bottom, and incorporate the BEAR CLAW(TM) SERIES outsole design. ROCKY(R) TUFF TERRAINERS(R) are handsewn casual oxfords and six inch boots that feature Gore-Tex(R) liners.

OCCUPATIONAL FOOTWEAR. Duty or occupational footwear for the non-military uniform market is the Company's second largest product line. In Fiscal 1996, net sales of occupational footwear amounted to \$17.0 million, representing 23.3% of the Company's Fiscal 1996 net sales. Suggested retail prices for Rocky's occupational footwear generally range from \$40 to \$160 per pair. The Company sells its occupational footwear primarily to mail order catalog companies and to retail uniform and specialty stores. The Company currently has six primary styles of occupational shoes and boots which are offered to the uniform market. All styles are designed to be comfortable, flexible, lightweight, and durable and are typically worn by people who are required to be on their feet at work. These products are similar in design to certain of Rocky's rugged outdoor footwear styles, except they are primarily black in color and feature innersole support systems, CAMBRELLE(R) cushioned linings, and slip-resistant, oil-resistant, polyurethane soles. Certain of the Company's occupational footwear also feature the GORE-TEX(R) waterproof bootie liner.

In 1994, the Company introduced the 4 WAY STOP(TM) line of occupational shoes designed for food service workers, who often encounter wet slippery conditions. The 4 WAY STOP(TM) shoes have an exclusive "downspout"

design sole that causes liquid to flow through the sole and out the sides, increasing traction. The 4 WAY STOP(TM) shoes exceed the U.S. government's standards for slip resistance by a factor of two.

In 1995, the Company introduced the ROCKY(R) Professionals line of occupational shoes with dress shoe styling designed for safety forces and general occupational markets. This line features waterproof leather uppers, lightweight soles and materials, slip resistant polyurethane injected soles, breathable linings, and superior lateral stability.

The Company has a broad range of occupational shoes and boots which are certified slip-resistant by the United States Postal Service. All shoes and boots meeting the United States Postal Service specifications are required to carry the "SR/USA" label, signifying "Slip resistant, made in the USA," and have been authorized by that service for use by United States letter carriers and other postal workers. Other consumers in the uniform trade include police and hotel/restaurant employees, as well as FBI agents, special military units, border patrol agents, customs inspectors, prison guards, United Parcel Service employees, and employees of the National Park Service, Department of Fish and Wildlife, and the United States Army Corps of Engineers.

HANDSEWN CASUAL FOOTWEAR. Aggregate sales of the Company's handsewn casual footwear were \$4.2 million in Fiscal 1996, which accounted for 5.7% of net sales. Suggested retail prices for ROCKY(R) handsewn casual footwear generally range from \$90 to \$150 per pair. The majority of handsewn casual footwear sales in Fiscal 1996 were

- 3 -

ROCKY(TM) TUFF TERRAINERS(TM). The introduction of the ROCKY(TM) TUFF TERRAINERS(TM) in 1996, has substantially broadened the Company's retail customer base.

FACTORY OUTLET STORE. In August 1994, the Company opened a 12,500 square foot factory outlet store in Nelsonville, Ohio, to replace a 3,000 square foot store. This expanded store, adjacent to the Company's manufacturing facilities, primarily sells first-quality, irregular, and close-out ROCKY(R) footwear and accessories, together with footwear and apparel from other manufacturers. Retail sales from the factory outlet store for Fiscal 1996 were approximately \$4.8 million, representing 6.6% of the Company's net sales.

OTHER. The Company manufactures and/or markets a variety of footwear accessories, including GORE-TEX(R) waterproof oversocks, GORE-TEX(R) waterproof booties, innersole support systems, foot warmers, laces, and foot powder. The GORE-TEX(R) waterproof oversocks are sold under the ROCKY(R) brand name and as private label products. Additionally, the Company occasionally sells shoe uppers to other footwear manufacturers. Aggregate sales of other products were \$4.8 million in Fiscal 1996, representing 6.6% percent of the Company's net sales.

LICENSING. During Fiscal 1995, the Company initiated a program to license its ROCKY(R) name and trademarks to manufacturers of various products and apparel items. Revenues under this program were nominal in Fiscal 1996.

PRODUCT DESIGN

The Company has assembled a team led by Ted Kastner, Vice President of Product Development and Sourcing, which also includes Mike Brooks, Chairman, President, and Chief Executive Officer, and Diana Wurfbain, footwear designer, to design and develop new products. Mr. Kastner has over 26 years of experience in the footwear industry with an emphasis on product design and development. Mr. Brooks has been instrumental in the design of many of the Company's current products and is a pattern engineering and shoe design graduate of the Ars Satoria in Milan, Italy. Ms. Wurfbain is an architect, civil engineer, and artist with a diverse background in art, graphics, and design.

The Company's product design and development are initiated both internally and externally by Rocky's customers and suppliers. Certain of Rocky's marketing personnel and sales representatives work closely to identify opportunities for new styles, camouflage patterns, or design improvements. These opportunities are reported to the design team, which oversees the development testing of the new footwear. The Company also receives design and product innovation ideas from trade shows and from its customers and suppliers who work with the Company to design footwear incorporating desired features or product innovations. Once the product design has been approved for production, the last is developed by the Company and then reproduced by a third-party supplier. As part of the design process, the Company maintains a Computer Aided Design (CAD) system, which significantly shortens the development period for new footwear styles, enabling the Company to market its new designs more quickly.

MANUFACTURING

The manufacture of footwear involves five primary operations: production of the shoe or boot uppers; lasting the uppers to define the shape,

form, and size of the shoe or boot; bottoming the footwear; finishing the footwear; and packaging the footwear. The Company's shoe or boot uppers are relatively flat component parts consisting of leather and/or nylon fabric, lining materials, and insulation. Shoe or boot uppers are produced at the Company's manufacturing facilities by cutting individual shoe parts from the appropriate materials and then assembling the appropriately matched parts by stitching and combining machines. The unlasted, unformed shoe and boot uppers are then ready for lasting and bottoming operations. The shoe or boot uppers are attached to a last; innersoles are also attached to the bottom of the last; forms or "counters" are inserted to shape and strengthen the heel and toe; and the lasted footwear is run through a heating element resulting in the shoe or boot taking the shape of the last. Outsoles are then attached by direct molding of polyvinylchloride or polyurethane or by attaching a premolded outsole with cement. Bottoming operations are modified when a GORE-TEX(R) bootie is incorporated into the footwear style. Next, the footwear is "finished," which

- 4 -

involves steps such as removing excess molding, polishing the leather, adding laces, and attaching tags. The shoe or boot is then packaged for delivery to customers.

During Fiscal 1996, most of the Company's products were manufactured in the Company's own facilities located in Ohio, Puerto Rico, and the Dominican Republic. Production planning for all facilities is centrally coordinated in Ohio six months in advance and is updated weekly to assure that the Company is able to respond quickly to changes in product demand or consumer preferences. During Fiscal 1996, the Company's manufacturing facilities operated at record production levels for most of the year.

Finished goods are stored in the Ohio warehouse until used to fill an order. If the product ordered is in inventory, footwear can be shipped to customers within one week of the order; however, a majority of the Company's orders for rugged footwear are placed in January through April for delivery in July through October.

The Company's manufacturing facilities in the Dominican Republic produce shoe uppers, including all of the Company's handsewn casual shoe uppers. In 1996, this manufacturing facility produced an average of 4,800 pairs of shoe uppers per day for shipment to the manufacturing facilities in Ohio and Puerto Rico for bottoming, finishing, and packaging and has the capacity to produce 8,000 pairs of shoe uppers a day. The Dominican Republic manufacturing facility consists of approximately 94,000 square feet and, at December 31, 1996, employed approximately 738 persons.

The Company operates a 20,500 square foot manufacturing facility and a 22,700 square foot manufacturing facility/warehouse in Aquadilla, Puerto Rico, which, at December 31, 1996, employed approximately 266 persons. In 1996, these facilities produced an average of 800 pairs of shoe uppers per day and an average of 1,400 pairs of finished footwear per day which is shipped to the Ohio warehouse. It has the capacity to produce 1,000 uppers and 3,000 finished footwear daily.

The Company's manufacturing facility in Nelsonville, Ohio, primarily is involved in bottoming, finishing, and packaging the Company's products and, in 1996, produced an average of 3,200 pairs of footwear daily and has a capacity of 6,000 pairs per day. This manufacturing facility, consisting of approximately 41,000 square feet of manufacturing space, also houses the Company's outsole molding equipment. At December 31, 1996, the manufacturing operations in Ohio employed approximately 158 persons.

Although the Company's manufacturing facilities operated at close to capacity during the third and fourth quarters of Fiscal 1996, the Company anticipates that such facilities will operate at higher levels in the first and second quarters of 1997. Additionally, the Company anticipates adding additional employees to the second and third shifts at all of its manufacturing facilities in 1997. There, however, can be no assurance that the Company will operate at higher levels or will need to add additional personnel in the future.

Most of the Company's footwear is produced in its own facilities. The Company sources some product from manufacturers in the Far East, notably China. A greater portion of the Company's product may be sourced in the future as the Company's own manufacturing facilities reach capacity. The Company will source product from outside facilities only after it is assured that these facilities will maintain the high quality that has become associated with ROCKY(R) branded footwear. All product sourcing is planned and implemented under the direction and supervision of the Company's Vice President of Product Development and Sourcing.

Because the Company manufactures most of its uppers in the Dominican Republic and sources a portion of its product from the Far East, the Company's business is subject to some of the risks generally associated with 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; foreign governmental regulations and taxation; fluctuations in foreign exchange rates; changes in economic conditions in the foreign country; and changes in relationships between the United States and the foreign country. If any such factors were to render the conduct of business in the foreign countries, particularly the Dominican Republic, undesirable or impractical, such a development could have a material adverse effect on the Company's business, financial condition, and results of operations. Although

- 5 -

management acknowledges these risks, the Company continues to manufacture a large majority of its products at its own manufacturing facilities in Ohio, Puerto Rico, and the Dominican Republic and management believes that it is subject to less exposure to potential United States import restrictions and duties than if it were to import a majority of its products from the Far East, South America, or Europe. Due to Puerto Rico's status as a possession of the United States, there are no import controls on the Company's products produced in Puerto Rico.

During Fiscal 1994, Rocky completed the process of restructuring all of its facilities to a team pass-through "modular manufacturing" system from a piecework system. Operators are paid an incentive for team production, quality, and attendance goals. This change required the purchase of additional equipment and a reconfiguration of the work stations. The intent of the pass-through system is to switch from a one process per worker assembly production line to a system in which several workers apply multiple processes to each pair of footwear to significantly reduce work-in-process, increase output per square foot of manufacturing space, and lower factory damage rates. The Company began achieving increased efficiencies in Fiscal 1995 and the Company continues to refine its systems through ongoing process improvement. The Company benefited from the "modular manufacturing" system throughout 1996. In late 1996 and early 1997, the Company added additional modules in all of its factories to increase manufacturing capacity.

Compliance with federal, state, and local regulations with respect to the environment has not had, nor is it expected to have, any material effect on the earnings, manufacturing process, capital expenditures, or competitive position of the Company.

DISTRIBUTION

The Company's footwear is distributed nationwide and in Canada from the Company's warehouse located in Nelsonville, Ohio. During Fiscal 1994, the Company increased the size of its distribution facilities in Nelsonville from 40,000 square feet to 98,000 square feet, installed an automated inventory management system, and added a bar-code labeling system to facilitate inventory control and handling. This has resulted in improved inventory management controls, and the Company believes that additional improvements can be achieved in future periods. The Company installed an incentive-based "teamwork" distribution system for its associates early in 1995. At December 31, 1996, the Company employed approximately 48 persons in warehousing and distribution in Nelsonville. Beginning in January 1997, the Company entered into a lease for a warehouse facility in Logan, Ohio, approximately 12 miles away from the Company's manufacturing facility in Nelsonville, Ohio, to store raw materials. The new warehouse space will enable the Company to use approximately 20,000 more square feet of the Nelsonville facility for storage of finished goods.

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 blanket orders on leather to protect the Company's 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(R) waterproof fabric, CORDURA(R) material, and soling materials. Although the Company has no reason to believe that these materials will not continue to be available from its current suppliers, based on its experience in the footwear industry, the Company is confident that there are acceptable present alternatives to these suppliers and materials, with the exception of the GORE-TEX(R) waterproof fabric.

GORE-TEX(R) waterproof fabric is purchased directly from W. L. Gore & Associates, Inc. ("Gore"), which is the Company's single largest supplier, in terms of dollars spent on raw materials. A majority of the Company's footwear, in terms of number of pairs produced directly by the Company, incorporates GORE-TEX(R) waterproof fabric. Rocky, which has been a customer of Gore since 1980, was one of the first companies to use GORE-TEX(R) waterproof fabric in the manufacture of footwear products. The Company was also the first footwear manufacturer licensed by Gore to manufacture, promote, sell, and distribute worldwide footwear using GORE-TEX(R) waterproof fabric. The Company

- 6 -

is the largest customer of GORE-TEX(R) waterproof fabric for footwear. Although other waterproofing techniques or materials are available, the Company places a high value on its GORE-TEX(R) license because the GORE-TEX(R) trade name has high brand name recognition and the GORE-TEX(R) waterproof fabric used in the manufacture of ROCKY(R) footwear has a reputation for quality and proven performance. The Company, based on its long, mutually beneficial relations with Gore, has no reason to believe that its supply of GORE-TEX(R) waterproof fabric will be interrupted in the future.

Under the Company's licensing agreement, a prototype or sample of each style of shoe or boot designed and produced by the Company that incorporates GORE-TEX(R) waterproof 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, for example, immersing the Company's hunting boot prototype for days in a water exclusion tester and flexing the boot 500,000 times, simulating a 500-mile march through several inches of water. The footwear is then placed in a sweat absorption and transmission tester to measure "breathability," this is, the amount of perspiration that can escape from the footwear.

Until 1996, all of the Company's GORE-TEX(R) footwear was guaranteed to be waterproof for two years from the date of purchase. Beginning in 1996, all of the Company's GORE-TEX(R) footwear is guaranteed to be waterproof for one year from the date of purchase. The Company changed this warranty policy to be consistent with what it believes is the industry standard. When a customer claims that a product is not waterproof, the product is returned to the 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. Historically, the expenses associated with this guarantee have been consistent with the footwear industry.

QUALITY ASSURANCE

Quality control is stressed at every stage of the manufacturing process at each of the Company's manufacturing facilities. The Company's Quality Assurance Manager reports directly to the President of the Company and oversees all aspects of the quality assurance program. Each manufacturing facility is staffed with trained quality assurance personnel. A portion of each production employee's compensation is based on production of a quality product.

Factory visits are conducted by the Quality Assurance Manager to observe the facility's quality control procedures and to correct any deficiencies. Every pair of ROCKY(R) footwear, or its components parts, produced at the Company's facilities is inspected by quality control employees at least five times during the manufacturing process with some styles inspected up to nine times. Every GORE-TEX(R) waterproof 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 Ohio warehouse also conduct quality control testing on the raw material inventory and inspect random samples from the finished goods inventory from each of the Company's manufacturing facilities to ensure that these inventories meet the Company's high quality standards.

SALES AND MARKETING

The Company has more than 2,600 active customer accounts and its products are sold in these customers' 4,000 store locations and through 22 mail order catalog companies. The Company's largest customers in Fiscal 1996 included Bass Pro Shops, Springfield, Missouri; Cabellas, Sidney, Nebraska; Fechheimer Brothers Co., Cincinnati, Ohio; Dicks Clothing and Sporting Goods, Pittsburgh, Pennsylvania; Galls Inc., Lexington, Kentucky; and R&R Uniforms Inc., Nashville, Tennessee. No single customer accounted for more than 10% of sales in 1996.

The Company has sales and marketing staff located in Nelsonville, Ohio. Approximately 28 persons were employed in the sales and marketing functions at December 31, 1996. In addition, the Company maintains a network

of 55 independent sales representatives, operating in 14 geographic territories, who sell the Company's products nationwide and in Canada. The Company's independent sales representatives do not sell competing product lines but may sell complementary categories of products or product lines, such as outdoor apparel. The Company's independent sales representatives are paid on a commission basis and are responsible for sales, service, and follow-up. Orders are filled from the Company's warehouse on a daily basis and shipped via commercial carrier directly to the retailing customer. Senior management is actively involved in the marketing effort to major accounts.

The Company's sales terms generally specify F.O.B. Nelsonville, Ohio, and payment net 30 days east of Colorado and net 45 days for Colorado and points west. The Company also offers extended payment terms to its customers on the sale of insulated boots. This program gives the Company an early indication of the demand for its product and also evens out the shipping schedule. Rocky assesses a finance charge of 1.5% per month for past due accounts. Additional product is not shipped to customers with past due accounts. Customers are required to make a minimum opening order of \$3,000. The Company's returned goods policy specifies that no product may be returned without prior permission. Returned goods stickers are furnished for approved returns. When approved, adjustments on worn shoes are based on the amount of wear shown. The Company reserves the right to refuse any unauthorized returns.

The Company has developed marketing and advertising programs to gain national exposure in its targeted markets for its branded products. By creating strong brand awareness for the Company's products, the Company seeks to increase the general level of retail prices for its products, expand its customer base, and increase repeat business from customers across ROCKY(R) product lines. In connection with its focus on brand name recognition, the Company's marketing personnel have developed a product kit, product catalog, and dealer support system which includes national print advertising, point-of-sale displays, co-op advertising programs, and an award winning national telemarketing operation.

The Company's national telemarketing operation is a "store-locator" system. As part of the telemarketing operation, the Company places advertisements containing a toll-free telephone number in various national and international publications. A potential customer calls into the telemarketing center where trained telemarketing representatives, who are familiar with all styles of ROCKY(R) footwear, respond to questions, and refer the caller to one to three retailers in or near the caller's area according to ZIP code. The telemarketing representative records the name, address, and telephone number of the caller and a letter is sent to the potential customer thanking him or her for the inquiry, again identifying the nearby retailers, and inviting the caller to visit the stores to try on a pair of ROCKY(R) shoes or boots. An additional letter is sent to each of the retailers who were recommended to the caller, providing the retailers with the name, address, and telephone number of the caller and requesting that their staff contact the potential customer and personally invite them to the store to shop for ROCKY(R) footwear. A ROCKY(R) postcard is provided for the retailer's convenience. A similar process is used with reader service cards placed in various publications which advertise the Company's products.

ADVERTISING AND PROMOTIONS

The Company advertises and promotes the ROCKY(R) brand through a variety of methods, including product packaging, national print advertising, point-of-sale displays, and trade shows, which are an important source of new orders. The Company has expanded the number of trade shows it attends in response to increasing demand and favorable results received from attending such shows. The Company's sales and marketing personnel are responsible for conceiving, developing, and implementing all aspects of ROCKY(R) advertising and promotion. The Company's marketing and advertising programs target specific consumer markets to increase brand awareness through colorful catalogs, fliers, and magazine advertisements. The rugged outdoor footwear market includes hunters, fishermen, hikers, walkers, and other sportsmen. The Company's occupational footwear is marketed to the non-military uniformed

- 8 -

occupations, such as postal workers, police, FBI agents, border patrol, customs inspectors, prison guards, overnight carrier employees, and hotel/restaurant employees. In Fiscal 1996, Transitional Fiscal 1995, Fiscal 1995, and Fiscal 1994, the Company's advertising expense was approximately \$1,399,000, \$1,890,000, \$1,737,000, and \$965,000, respectively. The Company anticipates its advertising expense will increase to approximately \$2,000,000 to \$2,500,000 for 1997.

The Company places full page advertisements in a number of magazines and other publications having national and international circulations, including Sports Afield, Field & Stream, North American Hunter, Outdoor Life, North American Fisherman, Police and Security News, Rescue, and Law and Order. During Fiscal 1996, the Company significantly reduced its advertising expense. The Company anticipates that its advertising expense in 1997 will normalize to levels indicative of prior years. The Company places a high emphasis on its waterproof footwear and advertises accordingly. Advertising materials also emphasize that the Company's shoes and boots are innovative, lightweight, comfortable, functional, and durable. Many of the Company's advertisements also indicate that ROCKY(R) footwear is "Made in the U.S.A.," where appropriate.

SEASONALITY

The Company has historically experienced significant seasonal fluctuations in the sale of its rugged outdoor footwear. A majority of the orders for rugged outdoor footwear are placed in January through April for

delivery in July through October. In order to meet demand, the Company must manufacture its rugged outdoor footwear year round to be in a position to ship advance orders during the last two quarters of each calendar year. Accordingly, inventory levels have been highest during the first two 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 quarter will be indicative of results for the full year or for future quarters.

Footwear retailers in general are placing orders closer to the 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. There can be no assurance that the results for any particular quarter or year will be indicative of results for the full year or for any future quarter or year.

Many of the Company's products, particularly its rugged outdoor footwear line, are used by consumers in cold or wet weather. Mild or dry weather can have a material adverse effect on sales of the Company's products, particularly if mild or dry weather conditions occur in broad geographical areas during late Fall or early Winter. Also, due to variations in weather conditions from year to year, results for any single quarter or year may not be indicative of results for any future quarter or year. Due to extremely cold winters in 1995 and in 1996 and 1996 and 1997, the Company believes that a significant portion of its customers' inventory have sold through at retail.

BACKLOG

At December 31, 1996, December 31, 1995, June 30, 1995, and June 30, 1994, the Company had unfilled orders from its customers in the amount of approximately \$3.3 million, \$1.8 million, \$20.9 million, and \$23.7 million, respectively. Substantially all of the orders at December 31, 1996, are expected to be filled before March 1997. 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.

- 9 -

PATENTS, TRADEMARKS AND TRADE NAMES

The Company owns United States Patent Nos. Des. 367,165, Des. 367,354, Des. 368,797, Des. 368,361, Des. 369,018, and Des. 369,019 for shoe uppers. The Company has ten other design patent applications for shoe uppers that have been allowed, but for which patents have not yet been issued. The Company has six additional design patent applications pending for shoe soles and a shoe uppers.

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(R), ROCKY BOOTS(R) (which claims a ram's head design as part of the mark), CORNSTALKERS(R), COME WALK WITH U.S. and Design(R), ROCKY 911 SERIES and Design(R), SNOW/STALKER(R), 4 WAY STOP and Design(R), BEAR CLAW(R), and STALKERS(R). An additional mark variation for ROCKY BOOTS and Design(TM) (which claims a ram's head design as part of the mark) is the subject of a pending federal application for registration. In addition, the Company uses and has common law rights in the marks ROCKY(R) MOUNTAIN STALKERS(TM), ROCKY(R) BEAR CLAW(TM) SERIES, and other ROCKY(R) marks. During 1994, the Company began to increase distribution of its goods in several other countries, including countries in Western Europe and other similarly developed countries. The Company has applied for trademark registration of its ROCKY(R) mark in a number of countries.

The Company also uses in its advertising and in other documents trademarks owned by corporations other than the Company. GORE-TEX(R) is a registered trademark of W.L. Gore & Associates, Inc.; CORDURA(R) is a registered trademark of E.I. Du Pont de Nemours and Company; THINSULATE(R) is a registered trademark of Minnesota Mining and Manufacturing Company; VIBRAM(R) is a registered trademark of Vibram S.P.A.; AIR-O-MAGIC(R) is a registered trademark of WBS Co.; and CAMBRELLE(R) 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 and many of its competitors have greater financial, distribution, and marketing resources than the Company. The Company has at least five major competitors in the rugged

outdoor footwear market and three major competitors in the occupational footwear market. In the handsewn casual market there are numerous competitors. All of these competitors have strong brand name recognition in the markets that they serve.

Product function, design, comfort, and quality, continued technological improvements, brand awareness, timeliness of product delivery, and product pricing are all important elements of competition in the markets for the Company's footwear. The Company believes that, based on these factors, it maintains a strong competitive position in its outdoor footwear and occupational footwear market niches.

The footwear industry is subject to rapid changes in consumer preferences. Although demand for the Company's rugged outdoor and occupational footwear is relatively less sensitive to changing fashion trends, as these product lines are primarily classic styles which emphasize functionality and performance, consumer preferences and fashion trends are becoming relatively more important even in these lines. The Company's handsewn casual product line and certain styles within its rugged outdoor and occupational product lines are relatively more susceptible to fashion trends, and 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.

- 10 -

EMPLOYEES

At December 31, 1996, the Company had approximately 1,530 full-time employees and 13 part-time employees. In the United States, the Company employed at December 31, 1996 approximately 368 full-time and 13 part-time employees, including 158 in production, 48 in warehousing and distribution, 28 in sales and marketing, and the balance in support, managerial, and administrative positions. In addition, at December 31, 1996, the Company had approximately 1,162 full-time employees in the Dominican Republic and Puerto Rico, including 1,004 in production and the balance in managerial and administrative positions. The production employees at the Ohio facility are represented by the Amalgamated Clothing and Textile Workers Union. The current collective bargaining agreement between the Company and the union was reached in May 1996 and will expire in May 1998. 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 1997 and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Footwear Retailing. Although the footwear industry is subject to rapid changes in consumer preference, the Company believes that demand for its rugged outdoor and occupational shoes and boots is relatively insensitive to changing fashion trends, as these products are more classic styles which emphasize functionality and performance. The Company's handsewn casual product line is more susceptible to fashion trends. The future success of this product line will depend more upon the Company's ability to anticipate and respond to changing fashion trends and consumer demands in a timely manner. The Company's failure to do so could adversely affect consumer acceptance of its handsewn casual product line. In addition, sales of the Company's outdoor rugged and handsewn casual footwear and, to a lesser extent, occupational footwear, are likely to be negatively affected by weak consumer spending as a result of adverse trends or uncertainties regarding the general economy. See "BUSINESS -- Seasonality."

Seasonality. The Company has historically experienced significant seasonal fluctuations in the sale of its rugged outdoor footwear. A majority of the orders for rugged outdoor footwear are placed in January through April for delivery in July through October. In order to meet demand, the Company must manufacture its rugged outdoor footwear year-round to be in a position to ship advance orders during the quarters beginning in July and October of each year. Accordingly, inventory levels have been highest during the quarter beginning in April of each year and sales have been highest in the quarters beginning in July and October of each year. Although the Company believes that sales of its rugged outdoor footwear will continue to reflect this pattern, there is no assurance that the results for any particular quarter will be indicative of

results for the full year or for future seasons. See "BUSINESS -- Seasonality."

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

Competition. The Company operates in a competitive environment within its targeted markets. The Company's diverse product line could make it vulnerable to competitors who focus their resources on specific niches or products.

- 11 -

In addition, many of the Company's competitors have greater financial, distribution, and marketing resources than the Company. The Company's future success will depend to a significant degree upon its ability to remain competitive in the areas of quality, timely delivery of product, and price. See "BUSINESS -- Competition."

Reliance on Suppliers. The Company has been a customer of W. L. Gore & Associates, Inc. ("Gore") since 1980 and was the first footwear manufacturer licensed by Gore to manufacture, promote, sell, and distribute footwear worldwide using GORE-TEX(R) waterproof fabric. The Company is currently one of the largest customers of GORE-TEX(R) waterproof fabric for footwear. The licensing agreement with Gore prohibits the Company from manufacturing any products containing any taped waterproof, breathable products other than GORE-TEX(R) products during the term of the agreement and for a period of three years from its termination. Although other waterproofing techniques or materials are available, the Company places a high value on its GORE-TEX(R) license because the GORE-TEX(R) trade name has a high brand name recognition and the GORE-TEX(R) waterproof fabric used in the manufacture of ROCKY(R) footwear has a reputation for quality and proven performance. The Company's licensing agreement with Gore may be terminated by either party upon 90 days written notice; however, the Company has no reason to believe that its supply of GORE-TEX(R) waterproof fabric will be interrupted in the future. See "BUSINESS -- Suppliers."

Changing Consumer Buying Patterns. Historically, the Company has chosen not to sell products to discount mass merchandisers and large discount store chains. A continued shift in the marketplace from the traditional independent retailers to these large discount retailers has increased the pressure on manufacturers such as the Company to sell to the large discount retailers and at less than historic margins. This merchandising trend has existed for a number of years and a number of marginal retail customers of the Company have ceased doing business as a result. Although progressive independent retailers have attempted to combat the buying power of mass merchandisers by joining buying groups, stressing personal service, and stocking more products that address specific local needs, a continued shift to mass merchandisers could have a material adverse effect on the Company and could cause the Company to reevaluate its strategies.

Reliance on Key Personnel. The Company believes that the development of its business has been, and will continue to be, highly dependent upon Mike Brooks, Chairman, President, and Chief Executive Officer of the Company. The loss of the services of Mr. Brooks could have a material adverse effect upon the Company's business and development.

Offshore Manufacturing. Most of the Company's rugged outdoor and handsewn casual footwear uppers are produced in the Dominican Republic. The Company's business is, therefore, subject to some of the risks generally associated with 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; foreign governmental regulation and taxation; fluctuations in foreign exchange rates; changes in economic conditions in 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, such a development could have a material adverse effect on the Company's business, financial condition, and results of operations. Although the Company acknowledges the risks generally associated with doing business offshore, the Company believes that the location of its manufacturing facilities in Ohio, Puerto Rico, and the Dominican Republic gives the Company less exposure to potential United States import restrictions and duties than if it were to import its products from the Far East, South America or Europe. See "Business -- Manufacturing."

Tax Benefits. The Company's tax rate typically has been substantially below the United States federal statutory rates in past years. Prior to Fiscal 1996, the Company paid no foreign income tax on the income generated by its subsidiary in the Dominican Republic. Beginning in the fourth quarter of Fiscal

1996, the Company elected to repatriate a portion of the income generated by its subsidiary in the Dominican Republic. The Company has elected not to repatriate the accumulated earnings prior to fourth quarter of Fiscal 1996 for the Dominican Republic subsidiary. Accumulated earnings are afforded favorable income tax treatment under the Internal Revenue Code for income generated by the Company's subsidiary in Puerto Rico, and the Company receives local tax abatements for its subsidiary in Puerto Rico. The Company has elected not to repatriate the earnings its subsidiary in Puerto Rico and thus has not

- 12 -

recorded any additional U.S. income taxes that would otherwise be assessed. However, beginning in Fiscal 1994, the Company has provided for the 10% tollgate tax on the annual earnings of its subsidiary in Puerto Rico in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes."

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. The Company anticipates that it will continue to earn income in Puerto Rico and, therefore, expects a lower effective tax rate than the United States federal statutory rate of 34%, so long as the present tax laws remain in effect. The Company cannot anticipate future changes in such laws.

Stock Ownership by Management and Principal Shareholders; Anti-Takeover Measures. The directors and executive officers of the Company beneficially own approximately 29.4% of the outstanding Common Stock, assuming the conversion of all Series A Preferred Stock into 45,000 shares of Common Stock. These shareholders are able to exert significant influence over the election of the members of the Board of Directors of the Company and the affairs of the Company. The Company has also adopted certain anti-takeover 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 Stock Price. The market price of the Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. In addition, the stock market in recent years has experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These broad fluctuations may adversely affect the market price of the Common Stock.

Limited Protection of Proprietary Technology; Risk of Third Party Infringement Claims. The Company regards certain of its shoe and boot designs as proprietary and relies on patents to protect those designs. While the Company believes that the ownership of the patents is a significant factor in its business, its success does not depend only on the ownership of the patents or future patents, but also on the innovative skills, technical competence, quality of service and marketing abilities of its personnel. 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. 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 in this marketplace, there may be increased competition in the market.

Existing intellectual property laws afford only limited protection, and it may be possible for unauthorized third parties to copy the Company's shoe and boot designs or to reverse engineer or obtain and use information that the Company regards as proprietary. There can be no assurance that the Company's competitors will not independently develop shoe and boot designs that are substantially equivalent or superior to those of the Company.

The Company owns United States federal registrations for a number of its marks and designs. Additional marks and designs are the subject of pending federal applications for registration. The Company also uses and has common law rights in certain marks. During 1994, the Company began to increase distribution of its goods in several other countries, including countries in Western Europe and other similarly developed countries. Accordingly, the Company has applied for trademark registrations in a number of these countries.

The Company believes its trademark and trade name protection provides it with a measure of security against competition, and with name recognition and customer goodwill. The Company intends to enforce its trademarks and trade names against unauthorized use by third parties. However, existing trademark and trade name laws afford only limited protection, and it may be possible for unauthorized third parties, especially in foreign countries, to use the Company's trademarks or trade names and realize monetary gain at the Company's expense. Although such unauthorized use may be illegal, the Company may be forced to expend substantial resources to enforce its rights and nonetheless be divested of a portion of its goodwill as a result of such unauthorized use.

- 13 -

ITEM 2. PROPERTIES.

The Company owns a 25,000 square foot building in Nelsonville, Ohio, subject to a mortgage. Opened in September 1994, the first floor of the new building is a 12,500 square foot factory outlet store. The second floor, also 12,500 square feet, houses the Company's executive offices. This building is located adjacent to the Company's Nelsonville factory.

The Company leases a 5,000 square foot building, formerly its headquarters, in Nelsonville, Ohio, to a third party under a two year lease. This building is owned by the Company subject to a mortgage. Subsequent to December 31, 1996, the Company re-occupied this facility.

The Company leases its 41,000 square foot manufacturing facility in Nelsonville, Ohio, from the William Brooks Real Estate Company, an entity owned by certain members of the Brooks family, including Mike Brooks and Barbara Brooks Fuller, who are also executive officers and directors of the Company. The 10-year lease expires in 1997 and is renewable for two additional five-year terms.

The Company also owns a warehouse in Nelsonville, Ohio, subject to a mortgage, which was recently expanded to 98,000 square feet. This warehouse receives and stores raw materials for all of the Company's manufacturing facilities and stores and distributes finished goods to customers throughout the United States and Canada.

Lifestyle leases a 20,500 square foot manufacturing facility and a 22,700 square foot manufacturing facility/warehouse in Puerto Rico from the Puerto Rico Industrial Development Company under net noncancellable operating leases, one of which expires in 1998 and the other expires in 2002. These leases will automatically renew for additional 10-year periods unless otherwise terminated.

Five Star's manufacturing facility, consisting of three connected buildings, is located in a tax-free trade zone in the Dominican Republic. Five Star leases this 82,600 square foot facility from the Dominican Republic Corporation for Industrial Development under a Consolidation of Lease Contract, dated as of December 13, 1993. The term of the Consolidation of Lease Contract expires on February 1, 2003.

Additionally, under a two year lease entered in January 1997, the Company leases 18,000 square feet of warehouse space in Logan, Ohio.

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.

- 14 -

PART II

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

MARKET INFORMATION

The Company's Common Stock has traded on the Nasdaq National Market under the symbol "RCKY" since February 3, 1993. The following table sets forth, for the periods indicated, the range of high and low sales prices for the common stock of the Company as reported by the Nasdaq National Market:

QUARTER ENDED	LOW	HIGH
<S>	<C>	<C>
Fiscal 1995:		
September 30, 1994	\$9.25	\$11.50
December 31, 1994	\$8.50	\$10.50
March 31, 1995	\$8.25	\$10.50

June 30, 1995	\$8.00	\$10.00
Transitional Fiscal 1995:		
September 30, 1995	\$5.25	\$6.675
December 31, 1995	\$5.75	\$6.75
Fiscal 1996:		
March 31, 1996	\$5.00	\$6.75
June 30, 1996	\$5.25	\$8.50
September 30, 1996	\$6.75	\$8.25
December 31, 1996	\$6.75	\$10.00

The number of record holders of Common Stock of the Company as of February 28, 1997 was 232. The closing sales price of the common stock on February 28, 1997 was \$14.00.

It is the current intention of the Board of Directors of the Company not to pay cash dividends, but rather to use the Company's cash resources for the expansion of its business. Although the Company paid cash dividends prior to becoming a public company in Fiscal 1993, future dividend policy will depend upon the earnings and financial condition of the Company and the Company's need for funds and other factors. See also Note 4 of Notes to Consolidated Financial Statements concerning restrictions on maintaining a certain level of tangible net worth, as defined, under the terms of the Company's credit arrangement.

- 15 -

MARKET MAKERS

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

<S>	<C>
Barber & Bronson, Inc.	J. C. Bradford & Co.
Herzog, Heine, Geduld, Inc.	Mayer & Schweitzer, Inc.
McDonald & Company Securities, Inc.	Nash, Weiss & Co.
The Ohio Company	Troster Singer Corp.

- 16 -

ITEM 6. SELECTED FINANCIAL DATA.

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

	YEAR	TWELVE	SIX	YEAR ENDED JUNE 30,			
	ENDED	MONTHS	MONTHS	1995	1994	1993	1992
	12/31/96	ENDED	ENDED				
	-----	12/31/95	12/31/95	1995	1994	1993	1992
	-----	(UNAUDITED)	-----	-----	-----	-----	-----
	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA							
Net sales.....	\$73,148	\$60,384	\$36,124	\$60,227	\$52,895	\$41,205	\$32,504
Income (loss) before extraordinary loss and cumulative effect of change in accounting principle.....			(490)	1,433	1,820	1,767	1,623
Extraordinary loss, net of income taxes.....						(148)	
Cumulative effect of change in accounting principle.....						134	
Net income (loss).....	\$2,806	\$(537)	\$(490)	\$1,433	\$1,820	\$1,753	\$1,623
BALANCE SHEET DATA							
Total assets.....	\$58,090	\$49,081	\$49,081	\$59,458	\$51,943	\$38,528	\$25,559
Total long-term debt.....	19,520	16,554	16,554	15,503	17,357	5,251	2,109
Shareholders' equity.....	26,375	23,569	23,569	24,059	22,627	21,594	6,047
PER SHARE							

Income (loss) before extraordinary loss and cumulative effect of change in accounting principle.....	\$0.74	\$(0.15)	\$(0.13)	\$0.38	\$0.47	\$0.61	\$0.72
Extraordinary loss, net of income taxes.....						(0.05)	
Cumulative effect of change in accounting principle.....						0.04	
Net income (loss).....	\$0.74	\$(0.15)	\$(0.13)	\$0.38	\$0.47	\$0.60	\$0.72
Weighted average number of common shares and equivalents outstanding.....	3,777	3,666	3,666	3,741	3,842	2,900	2,250

</TABLE>

- 17 -

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

The information required by this item is included under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION" in the Company's Annual Report to Shareholders and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Company's consolidated financial statements as of December 31, 1996 and 1995 and for the years ended December 31, 1996 and 1995 (unaudited), the six months ended December 31, 1995, and the years ended June 30, 1995 and 1994, together with the independent auditors' report thereon appear in the Company's Annual Report to Shareholders and are incorporated herein by reference.

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

Not applicable.

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 1997 Annual Meeting of Shareholders (the "Proxy Statement") to be held on May 20, 1997, 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 - MEETINGS, COMMITTEES, AND COMPENSATION OF THE BOARD OF DIRECTORS," "- EXECUTIVE COMPENSATION," 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

- 18 -

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 the Company's Annual Report to Shareholders and are incorporated herein by reference.

Consolidated Balance Sheets as of December 31, 1996 and December 31, 1995

Consolidated Statements of Operations for the fiscal year ended December 31, 1996, the twelve months ended December 31, 1995 (unaudited), the six months ended December 31, 1995 and the fiscal years ended June 30, 1995 and June 30, 1994

Consolidated Statements of Shareholders' Equity for the fiscal year ended December 31, 1996, the six months ended December 31, 1995 and the fiscal years ended June 30, 1995 and June 30, 1994

Consolidated Statements of Cash Flows for the fiscal year ended December 31, 1996, the twelve months ended December 31, 1995 (unaudited), the six months ended December 31, 1995 and the fiscal years ended June 30, 1995, and June 30, 1994

Notes to Consolidated Financial Statements for the fiscal year ended December 31, 1996, the six months ended December 31, 1995 and the fiscal years June 30, 1995, and June 30, 1994

Independent Auditors' Report

- (2) The following financial statement schedule for the fiscal year ended December 31, 1996, the six months ended December 31, 1995 and the fiscal years ended June 30, 1995, and June 30, 1994 is included in this Annual Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements contained in the Annual Report.

Schedule II -- Consolidated Valuation and Qualifying Accounts

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

- 19 -

- (3) Exhibits:

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER
<S>	<C>	<C>
3(i)	Amended and Restated Articles of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
3(ii)	Amended and Restated Code of Regulations of the Registrant (previously filed as Exhibit 3.2 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
4.1	Form of Stock Certificate for the Registrant (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
4.2	Articles Fourth, Fifth, Sixth, Seventh, Eighth, Eleventh, Twelfth, and Thirteenth of the Registrant's Amended and Restated Articles of Incorporation (see Exhibit 3(i)).	
4.3	Articles I and II of the Registrant's Code of Regulations (see Exhibit 3(ii)).	
10.1	Form of Employment Agreement, dated July 1, 1995, for executive officers (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.2	Information concerning Employment Agreements substantially similar to Exhibit 10.1 (previously filed, with same exhibit number, as an exhibit to the	

Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).

10.3	Deferred Compensation Agreement, dated May 1, 1984, between Rocky Shoes & Boots Co. and Mike Brooks (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.4	Information concerning Deferred Compensation Agreements substantially similar to Exhibit 10.3 (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.5	Form of Company's amended 1992 Stock Option Plan (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.6	Form of Stock Option Agreement (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S>	<C>	<C>
10.7	Revolving Credit Loan Agreement, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One Columbus, N.A., The Huntington National Bank, and Bank One, Columbus, N.A., as Agent.	—
10.8	Buy-Sell Agreement, dated December 21, 1992, among the Registrant, Mike Brooks, Charles Stuart Brooks, Jay W. Brooks, Barbara Brooks Fuller, and Patricia H. Robey (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.9	Master Agreement, dated as of February 1, 1996, by and between Bank One, Columbus, N.A., and Rocky Shoes & Boots Co. (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1995 and incorporated herein by reference).	
10.10	Indemnification Agreement, dated December 21, 1992, between the Registrant and Mike Brooks (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.11	Information concerning Indemnification Agreements substantially similar to Exhibit 10.10 (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993, and incorporated herein by reference).	o
10.12	Trademark License Agreement and Manufacturing Certification Agreement, each dated May 14, 1994, between Rocky Shoes & Boots Co. and W. L. Gore & Associates, Inc. (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.13	Decree of Tax Exemption from the Government of the Commonwealth of Puerto Rico (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.13A	English Translation of Addendum to Exhibit 10. 13 (previously filed, with the same exhibit number, as an exhibit to Amendment No. 1 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.14	Lease Agreement, dated March 1, 1987, as amended, between Rocky Shoes & Boots Co. and William Brooks Real Estate Company regarding Nelsonville factory (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	

</TABLE>

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S> 10.15	<C> Lease Contract, dated August 31, 1988, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development Company regarding factory location 1 (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.16	Lease Contract, undated, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development company regarding factory location 2 (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.16A	English translation of Exhibit 10.16 (previously filed, with the same exhibit number, as an exhibit to Amendment No. 1 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.17	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 (previously filed, as exhibit number 10.2, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference).	
10.17A	English translation of Exhibit 10.17 (previously filed, as exhibit number 10.2A, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference).	
10.18	Continuing Security Agreement, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and Bank One, Columbus, N.A., as Agent.	
10.19	Loan Purchase, Assignment and Master Amendment Agreement, dated as of February 1, 1996, among Bank One Columbus, N.A., NBD Bank, NBD Bank, as Agent, Rocky Shoes & Boots, Inc., Rocky Shoes & Boots, Co., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1995 and incorporated herein by reference).	
10.20	Installment Business Loan Note, dated August 19, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.21	Second Amendment to Business Loan Note, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc.	

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S> 10.22	<C> Term Lease Master Agreement, dated April 27, 1993, between Rocky Shoes & Boots, Inc. and IBM Credit Corporation (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993, and incorporated herein by reference).	
10.23	Fourth Amendment to Promissory Note, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., and Lifestyle	

10.24	Acceptance Credit Agreement, dated May 4, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.25	Adjustable Rate Note, dated May 23, 1988, between Nelsonville Home and Savings Association and Rocky Shoes & Boots Co. (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.26	First Amendment to Acceptance Credit Agreement, dated October 20, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.27	Form of Company's 1995 Stock Option Plan (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.28	Form of Stock Option Agreement under the 1995 Stock Option Plan (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.29	Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated March 30, 1995, between Rocky Shoes & Boots Co. and NBD Bank, as Agent (previously filed as Exhibit No. 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
10.30	Installment Business Loan Note, dated May 11, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	

</TABLE>

- 23 -

<TABLE> <CAPTION>		
EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER
<S>	<C>	
10.31	Construction and Term Loan Agreement, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.32	Promissory Note, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.33	Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.34	First Amendment to Construction and Term Loan Agreement, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.35	First Amendment to Promissory Note, dated January 28, 1994,	

among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).

- 10.36 First Amendment to Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).
- 10.37 Promissory Note, dated December 20, 1993, between Rocky Shoes & Boots, Inc. and Charles Stuart Brooks (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).
- 10.38 Letter Agreement between the Registrant and the Kravetz Group, dated August 3, 1994 (previously filed as Exhibit No. 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).

</TABLE>

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S>	<C>	
10.39	Amendment to Buy-Sell Agreement, dated as of March 30, 1995, among the Registrant, Mike Brooks, Barbara Brooks Fuller, Patricia H. Robey, Jay W. Brooks and Charles Stuart Brooks (previously filed as Exhibit No. 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
10.41	Amended and Restated Master Business Loan Note, dated March 30, 1995, among the Registrant, Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc. (previously filed as Exhibit No. 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
10.42	Third Amendment to Construction and Term Loan Agreement, dated as of March 30, 1995, among the Registrant, Rocky Shoes & Boots Co., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (previously filed as Exhibit No. 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
10.43	Loan Agreement, dated as of October 7, 1994, between the Director of Development of the State of Ohio and Rocky Shoes & Boots Co. (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	
10.44	Promissory Note, dated October 7, 1994, by Rocky Shoes & Boots Co. (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	
10.45	Security Agreement, dated as of October 7, 1994, between the Director of Development of the State of Ohio and Rocky Shoes & Boots Co. (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	
10.46	Form of Employment Agreement, dated September 7, 1995, for executive officers (previously filed, as exhibit number 10.5, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference).	
10.47	Information covering Employment Agreements substantially similar to Exhibit 10.46 (previously filed, as exhibit number 10.5, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference.)	

13 Portions of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1996. _____

21.1 Subsidiaries of the Registrant. _____

</TABLE>

- 25 -

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S> 23.1	<C> Consent of Deloitte & Touche LLP.	_____
24.1	Powers of Attorney.	_____
27.1 </TABLE>	Financial Data Schedule.	_____

- o Management contract or compensatory plan.

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 on page _____.

(D) FINANCIAL STATEMENT SCHEDULES

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

- 26 -

INDEPENDENT AUDITORS' REPORT

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

We have audited the consolidated financial statements of Rocky Shoes & Boots, Inc. and subsidiaries as of December 31, 1996 and 1995 and for the year ended December 31, 1996, the six months ended December 31, 1995, and the year ended June 30, 1995 and 1994, and have issued our report thereon dated March 11, 1997; such financial statements and report are included in your 1996 Annual Report to Stockholders and are incorporated herein by reference. Our audits also included the consolidated financial statement schedule of Rocky Shoes & Boots, Inc. and subsidiaries, listed in Item 14. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statement taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

March 11, 1997
Columbus, Ohio

- 27 -

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

SCHEDULE II

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS FOR THE YEAR DECEMBER 31, 1996,
THE SIX MONTHS ENDED DECEMBER 31, 1995, AND
FOR THE FISCAL YEARS ENDED JUNE 30, 1995 AND 1994

<TABLE> <CAPTION>	COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E
			Additions Charged To		
		Balance at	-----		Balance

DESCRIPTION	Beginning of Period	Costs and Expenses	Other Accounts	Deductions	at End of Period
<S>	<C>	<C>		<C>	<C>
ALLOWANCE FOR DOUBTFUL ACCOUNTS:					
Year ended December 31, 1996	\$156,000	\$384,813		\$ (249,813)	\$291,000
	=====	=====		=====	=====
Six months ended December 31, 1995	\$285,000	\$119,940		\$ (248,940)	\$156,000
	=====	=====		=====	=====
Fiscal year ended June 30, 1995	\$180,000	\$189,385		\$ (84,385)	\$285,000
	=====	=====		=====	=====
Fiscal year ended June 30, 1994	\$100,000	\$113,731		\$ (33,731)	\$180,000
	=====	=====		=====	=====
RESERVE FOR OBSOLETE INVENTORY -					
Year ended December 31, 1996	\$ 0	\$642,000		\$ 0	\$642,000
	=====	=====		=====	=====

</TABLE>

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 28, 1997

By: /s/ MIKE BROOKS

Mike Brooks, Chairman, President,
and Chief Executive 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.

<TABLE>
<CAPTION>

Signature	Title	Date
<S>	<C>	<C>
/s/ Mike Brooks ----- Mike Brooks	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 28, 1997
* David S. Fraedrich ----- David S. Fraedrich	Executive Vice President, Treasurer, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	March 28, 1997
* Curtis A. Loveland ----- Curtis A. Loveland	Secretary and Director	March 28, 1997
* Leonard L. Brown ----- Leonard L. Brown	Director	March 28, 1997
* Barbara Brooks Fuller ----- Barbara Brooks Fuller	Director	March 28, 1997
* Stanley I. Kravetz ----- Stanley I. Kravetz	Director	March 28, 1997
* James L. Stewart ----- James L. Stewart	Director	March 28, 1997
* Robert D. Stix ----- Robert D. Stix	Director	March 28, 1997

*By: /s/ MIKE BROOKS

Mike Brooks, Attorney-in-Fact

</TABLE>

 EXHIBIT INDEX

TO

ANNUAL REPORT
 ON FORM 10-K

FOR THE FISCAL YEAR ENDED
 DECEMBER 31, 1996

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S>	<C>	
3(i)	Amended and Restated Articles of Incorporation of the Registrant (previously filed as Exhibit 3.1 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
3(ii)	Amended and Restated Code of Regulations of the Registrant (previously filed as Exhibit 3.2 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
4.1	Form of Stock Certificate for the Registrant (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
4.2	Articles Fourth, Fifth, Sixth, Seventh, Eighth, Eleventh, Twelfth, and Thirteenth of the Registrant's Amended and Restated Articles of Incorporation (see Exhibit 3(i)).	
4.3	Articles I and II of the Registrant's Code of Regulations (see Exhibit 3(ii)).	
10.1	Form of Employment Agreement, dated July 1, 1995, for executive officers (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.2	Information concerning Employment Agreements substantially similar to Exhibit 10.1 (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.3	Deferred Compensation Agreement, dated May 1, 1984, between Rocky Shoes & Boots Co. and Mike Brooks (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.4	Information concerning Deferred Compensation Agreements substantially similar to Exhibit 10.3 (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.5	Form of Company's amended 1992 Stock Option Plan (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.6	Form of Stock Option Agreement (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o

</TABLE>

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT	EXHIBIT INDEX
---	---------	------------------

	DESCRIPTION	PAGE NUMBER
<S>	<C>	<C>
10.7	Revolving Credit Loan Agreement, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., Bank One Columbus, N.A., The Huntington National Bank, and Bank One, Columbus, N.A., as Agent.	—
10.8	Buy-Sell Agreement, dated December 21, 1992, among the Registrant, Mike Brooks, Charles Stuart Brooks, Jay W. Brooks, Barbara Brooks Fuller, and Patricia H. Robey (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.9	Master Agreement, dated as of February 1, 1996, by and between Bank One, Columbus, N.A., and Rocky Shoes & Boots Co. (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1995 and incorporated herein by reference).	
10.10	Indemnification Agreement, dated December 21, 1992, between the Registrant and Mike Brooks (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	o
10.11	Information concerning Indemnification Agreements substantially similar to Exhibit 10.10 (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993, and incorporated herein by reference).	o
10.12	Trademark License Agreement and Manufacturing Certification Agreement, each dated May 14, 1994, between Rocky Shoes & Boots Co. and W. L. Gore & Associates, Inc. (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.13	Decree of Tax Exemption from the Government of the Commonwealth of Puerto Rico (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10. 13A	English Translation of Addendum to Exhibit 10. 13 (previously filed, with the same exhibit number, as an exhibit to Amendment No. 1 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.14	Lease Agreement, dated March 1, 1987, as amended, between Rocky Shoes & Boots Co. and William Brooks Real Estate Company regarding Nelsonville factory (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	

</TABLE>

- 31 -

<TABLE> <CAPTION>	EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S>	<C>		
10.15		Lease Contract, dated August 31, 1988, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development Company regarding factory location 1 (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.16		Lease Contract, undated, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development company regarding factory location 2 (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.16A		English translation of Exhibit 10.16 (previously filed, with the same exhibit number, as an exhibit to Amendment No. 1 to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.17		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 (previously filed, as exhibit number 10.2, as an exhibit to the Company's Quarterly	

Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference).

- 10.17A English translation of Exhibit 10.17 (previously filed, as exhibit number 10.2A, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference).
- 10.18 Continuing Security Agreement, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and Bank One, Columbus, N.A., as Agent.
- 10.19 Loan Purchase, Assignment and Master Amendment Agreement, dated as of February 1, 1996, among Bank One Columbus, N.A., NBD Bank, NBD Bank, as Agent, Rocky Shoes & Boots, Inc., Rocky Shoes & Boots, Co., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the transition period ended December 31, 1995 and incorporated herein by reference).
- 10.20 Installment Business Loan Note, dated August 19, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).
- 10.21 Second Amendment to Business Loan Note, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc.

</TABLE>

- 32 -

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER <C>
<S>	<C>	
10.22	Term Lease Master Agreement, dated April 27, 1993, between Rocky Shoes & Boots, Inc. and IBM Credit Corporation (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993, and incorporated herein by reference).	
10.23	Fourth Amendment to Promissory Note, dated January 28, 1997, among Rocky Shoes & Boots, Inc., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc.	
10.24	Acceptance Credit Agreement, dated May 4, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.25	Adjustable Rate Note, dated May 23, 1988, between Nelsonville Home and Savings Association and Rocky Shoes & Boots Co. (previously filed, with the same exhibit number, as an exhibit to the Registration Statement on Form S-1 (Registration No. 33-56118) and incorporated herein by reference).	
10.26	First Amendment to Acceptance Credit Agreement, dated October 20, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
10.27	Form of Company's 1995 Stock Option Plan (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.28	Form of Stock Option Agreement under the 1995 Stock Option Plan (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	o
10.29	Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated March 30, 1995, between Rocky Shoes & Boots Co. and NBD Bank, as Agent (previously filed as Exhibit No. 10.3 to the Company's	

Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).

10.30 Installment Business Loan Note, dated May 11, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).

</TABLE>

- 33 -

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER
---	------------------------	------------------------------------

<S> 10.31	Construction and Term Loan Agreement, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
--------------	---	--

10.32	Promissory Note, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
-------	--	--

10.33	Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated October 27, 1993, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
-------	---	--

10.34	First Amendment to Construction and Term Loan Agreement, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
-------	--	--

10.35	First Amendment to Promissory Note, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
-------	---	--

10.36	First Amendment to Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated January 28, 1994, among Rocky Shoes & Boots, Inc., Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc., and NBD Bank (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
-------	--	--

10.37	Promissory Note, dated December 20, 1993, between Rocky Shoes & Boots, Inc. and Charles Stuart Brooks (previously filed, with the same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1994, and incorporated herein by reference).	
-------	--	--

10.38	Letter Agreement between the Registrant and the Kravetz Group, dated August 3, 1994 (previously filed as Exhibit No. 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
-------	---	--

</TABLE>

- 34 -

<TABLE>

<CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER
<S> 10.39	<C> Amendment to Buy-Sell Agreement, dated as of March 30, 1995, among the Registrant, Mike Brooks, Barbara Brooks Fuller, Patricia H. Robey, Jay W. Brooks and Charles Stuart Brooks (previously filed as Exhibit No. 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	<C>
10.41	Amended and Restated Master Business Loan Note, dated March 30, 1995, among the Registrant, Rocky Shoes & Boots Co., Five Star Enterprises Ltd., Lifestyle Footwear, Inc. (previously filed as Exhibit No. 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
10.42	Third Amendment to Construction and Term Loan Agreement, dated as of March 30, 1995, among the Registrant, Rocky Shoes & Boots Co., Five Star Enterprises Ltd., and Lifestyle Footwear, Inc. (previously filed as Exhibit No. 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995, and incorporated herein by reference).	
10.43	Loan Agreement, dated as of October 7, 1994, between the Director of Development of the State of Ohio and Rocky Shoes & Boots Co. (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	
10.44	Promissory Note, dated October 7, 1994, by Rocky Shoes & Boots Co. (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	
10.45	Security Agreement, dated as of October 7, 1994, between the Director of Development of the State of Ohio and Rocky Shoes & Boots Co. (previously filed, with same exhibit number, as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995, and incorporated herein by reference).	
10.46	Form of Employment Agreement, dated September 7, 1995, for executive officers (previously filed, as exhibit number 10.5, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference).	
10.47	Information covering Employment Agreements substantially similar to Exhibit 10.46 (previously filed, as exhibit number 10.5, as an exhibit to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995, and incorporated herein by reference.)	
13	Portions of the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1996.	---
21.1 </TABLE>	Subsidiaries of the Registrant.	---

- 35 -

<TABLE> <CAPTION> EXHIBIT NUMBER	EXHIBIT DESCRIPTION	EXHIBIT INDEX PAGE NUMBER
<S> 23.1	<C> Consent of Deloitte & Touche LLP.	<C>
24.1	Powers of Attorney.	
27.1 </TABLE>	Financial Data Schedule.	
o	Management contract or compensatory plan.	

- 36 -

=====

REVOLVING CREDIT LOAN AGREEMENT

among

ROCKY SHOES & BOOTS, INC.,

FIVE STAR ENTERPRISES LTD.,

LIFESTYLE FOOTWEAR, INC.,

BANK ONE, COLUMBUS, NA,

THE HUNTINGTON NATIONAL BANK

and

BANK ONE, COLUMBUS, NA, as Agent

Dated as of January 28, 1997

=====

TABLE OF CONTENTS

(This Table of Contents is not part of this Agreement
and is only for convenience of reference.)

<TABLE>
<CAPTION>

	Page
	<C>
 <S>	
ARTICLE I: Definitions	
Section 1.1	1
Section 1.2	11
Section 1.3	12
Section 1.4	12
 ARTICLE II: Amount and Terms of Commitment, Revolving Credit Loans and Letters of Credit	
Section 2.1	12
Section 2.2	13
Section 2.3	13
Section 2.4	13
Section 2.5	14
Section 2.6	14
Section 2.7	14
Section 2.8	14
Section 2.9	15
Section 2.10	16
 ARTICLE III: Interest and Prepayments	
Section 3.1	16
Section 3.2	17
Section 3.3	17
Section 3.4	18
Section 3.5	19
 ARTICLE IV: Letters of Credit	
Section 4.1	19
Section 4.2	21
Section 4.3	22
Section 4.4	23
Section 4.5	23

</TABLE>

<TABLE>
<S> <C>

ARTICLE V: Representations and Warranties

 Section 5.1 Representations and Warranties..... 23

ARTICLE VI: Conditions of Lending

 Section 6.1 Conditions to Initial Transaction..... 29

 Section 6.2 Conditions to Each Transaction..... 31

ARTICLE VII: Covenants

 Section 7.1 Affirmative Covenants..... 32

 Section 7.2 Negative Covenants..... 37

ARTICLE VIII: Events of Default

 Section 8.1 Events of Default..... 40

 Section 8.2 Allocation of Proceeds..... 43

ARTICLE IX: The Agent

 Section 9.1 Appointment..... 43

 Section 9.2 Delegation of Duties..... 44

 Section 9.3 Exculpatory Provisions..... 44

 Section 9.4 Reliance by Agent..... 44

 Section 9.5 Notice of Default..... 44

 Section 9.6 Non-Reliance on Agent and Other Banks..... 45

 Section 9.7 Indemnification..... 45

 Section 9.8 Bank One in Its Individual Capacity..... 46

 Section 9.9 Successor Agent..... 46

ARTICLE X: Assignment and Participation

 Section 10.1 Assignments..... 46

 Section 10.2 Participations..... 46

 Section 10.3 Disclosure of Information..... 47

ARTICLE XI: Miscellaneous

 Section 11.1 Expenses..... 47

 Section 11.2 Covenants to Survive, Binding Agreement..... 48

 Section 11.3 Waivers..... 48

 Section 11.4 Notices..... 48

 Section 11.5 Section Headings, Severability, Entire Agreement..... 49

 Section 11.6 Governing Law..... 50

</TABLE>

<TABLE>
<S> <C>

 Section 11.7 Right of Setoff..... 50

 Section 11.8 Amendments..... 50

 Section 11.9 Taxes and Fees..... 50

 Section 11.10 Counterparts..... 50

 Section 11.11 Effective Date..... 51

 Section 11.12 Waiver of Jury Trial..... 51

 Section 11.13 Waiver of Subrogation..... 51

 Section 11.14 Confession of Judgment..... 51

Signatures..... 52

Exhibit A -- Bank One Note

Exhibit B -- HNB Note

Exhibit C -- Legal Opinions

Exhibit D -- Borrowing Base Certificate

Schedule 5.1(d) -- Litigation

Schedule 5.1(s) -- Intellectual Property

Schedule 5.1(u) -- Contingent Obligations

</TABLE>

REVOLVING CREDIT LOAN AGREEMENT

THIS REVOLVING CREDIT LOAN AGREEMENT (the "Agreement"), dated as of January 28, 1997, is made and entered into by and among Rocky Shoes & Boots, Inc., an Ohio corporation ("Rocky Inc."), Five Star Enterprises Ltd., a Cayman Islands corporation ("Five Star"), Lifestyle Footwear, Inc., a Delaware corporation ("Lifestyle") (the foregoing parties being referred to herein individually as a "Borrower" and collectively as the "Borrowers"), Bank One, Columbus, NA, a national banking association ("Bank One"), The Huntington National Bank, a national banking association ("HNB") (Bank One and HNB shall be referred to herein individually as a "Bank" and collectively as the "Banks"), and Bank One, Columbus, NA, as Agent, acting in the manner and to the extent described in Article IX (in such capacity, the "Agent").

BACKGROUND INFORMATION

A. The Borrowers have requested that the Banks provide revolving credit and other credit facilities to the Borrowers, and the Banks have agreed to provide such revolving credit and other credit facilities, upon and subject to the terms and conditions as hereinafter set forth.

PROVISIONS

NOW, THEREFORE, in consideration of the provision of such revolving credit and other credit facilities, the agreements and covenants hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Banks, the Agent and the Borrowers do hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1 Definitions. As used herein, in any certificate, document or report delivered pursuant to this Agreement (unless otherwise defined in such certificate, document or report), the following terms shall have the following meanings:

"Accounts Receivable" shall mean, at any date, the total of all accounts which would be properly classified in accordance with GAAP as accounts receivable on the balance sheets of the Borrowers at such date.

"Affiliate" shall mean any Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, a Borrower. For purposes of this definition, "control" means power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of the governing body or person of such Person or (ii) direct or cause the direction of the management and policies of such Person whether by contract or otherwise.

"Agent" shall mean the Agent as provided in Article IX, and its successors and assigns.

"Aggregate Commitment" shall mean the collective, but several, Commitments of the Banks to make Revolving Credit Loans to the Borrowers and issue, provide and fund Commercial L/Cs and Standby L/Cs on behalf of the Borrowers up to the following maximum aggregate amounts, subject to the terms and conditions of this Agreement:

(i) from January 28, 1997 through and including May 31, 1997, the maximum aggregate amount of Twenty-Five Million Dollars (\$25,000,000);

(ii) from June 1, 1997 through and including December 31, 1997, the maximum aggregate amount of Thirty-Five Million Dollars (\$35,000,000); and

(iii) from January 1, 1998 through and including April 30, 1998, the maximum aggregate amount of Twenty-Five Million Dollars (\$25,000,000).

"Agreement" shall mean this Revolving Credit Loan Agreement, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Agreement Regarding Lease" shall mean the Agreement Regarding Lease dated May 4, 1993, and a First Amendment thereof, among NBD, Rocky Co. and William Brooks Real Estate Company regarding the Borrowers' facility located at 45 Canal Street, Nelsonville, Ohio, as assigned by NBD to Bank One pursuant to an Assignment of Agreement Regarding Lease dated February 2, 1996, as the same may be further amended, modified, supplemented, extended, restated or replaced from time to time.

"Annual Review Date" shall mean April 30, 1997 and each April 30 thereafter while this Agreement is in effect.

"Available Commitment" shall mean, at any particular time, an amount equal to the excess, if any, of (i) the Aggregate Commitment over (ii) the sum of (x) the aggregate unpaid principal amount at such time of all Revolving Credit Loans made by the Banks pursuant to Article II, plus (y) 100% of the Dollar amount available to be drawn under outstanding Standby L/Cs at such time, plus (z) 50% of the Dollar amount available to be drawn under outstanding Commercial L/Cs at such time.

"Bank One Note" shall mean the Master Business Loan Note, in the form of Exhibit A attached hereto, executed by the Borrowers and payable to the order of Bank One in the maximum principal amount of Twenty-One Million Dollars (\$21,000,000), of even date herewith, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

-2-

"Borrowing Base" shall mean the sum of (i) 80% of the amount of Eligible Accounts Receivable, plus (ii) 50% of the amount of Inventory, valued at the lower of cost or fair market value. Unless the Banks shall otherwise permit, cost shall be calculated on a FIFO basis.

"Borrowing Base Certificate" shall have the meaning set forth in Section 7.1(b)(iv).

"Business Day" shall mean any day excluding Saturday, Sunday or any day that shall be in the City of Columbus, Ohio or New York, New York, a legal holiday or a day on which banking institutions are authorized by law or any Governmental Authority to close.

"Capital Expenditures" shall mean, with respect to the Borrowers for any period, the sum of the aggregate of all expenditures (whether paid in cash, capitalized as an asset or accrued as a liability) by the Borrowers during such period which, in accordance with GAAP, are or should be included in "capital expenditures" or similar items reflected in the statements of cash flows of the Borrowers .

"Cash Flow Coverage" shall mean, with the following items of the Borrowers being determined in accordance with GAAP, the ratio of (i) the sum of net income, plus depreciation, plus interest expense, minus dividends paid for the last four (4) Fiscal Quarters, to (ii) the sum of principal and interest payments due with respect to Indebtedness, plus capital lease payments, as determined at the end of each Fiscal Quarter of the Borrowers' Fiscal Year, based on such financial data for the previous four (4) Fiscal Quarters.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" shall have the meaning set forth in the Security Agreement and as described in the Dominican Republic Documents and the Puerto Rico Documents.

"Commercial L/C" shall mean an irrevocable letter of credit under which Bank One agrees to make payments in Dollars for the account of a Borrower, or on behalf of a Borrower, in respect of obligations of a Borrower incurred pursuant to contracts made with respect to the importation of raw materials.

"Commercial L/C Application" shall mean a Commercial Letter of Credit Application and Agreement in Bank One's customary form at any time with respect to a request to issue a Commercial L/C.

"Commitment" shall mean:

(a) with respect to Bank One, the commitment of Bank One to make Revolving Credit Loans to the Borrowers and issue, provide and fund Commercial L/Cs and

-3-

Standby L/Cs on behalf of the Borrowers up to the following maximum aggregate amounts, subject to the terms and conditions of this Agreement:

(i) from January 28, 1997 through and including May 31, 1997, the maximum aggregate amount of Fifteen Million Dollars (\$15,000,000);

(ii) from June 1, 1997 through and including December 31, 1997, the maximum aggregate amount of Twenty-One Million Dollars (\$21,000,000); and

(iii) from January 1, 1998 through and including April 30, 1998, the maximum aggregate amount of Fifteen Million Dollars (\$15,000,000)

(b) with respect to HNB, the commitment of HNB to make Revolving Credit Loans to the Borrowers and to purchase participations from Bank One with respect to Commercial L/Cs and Standby L/Cs on behalf of the Borrowers up to the following maximum aggregate amounts, subject to the terms and conditions of this Agreement:

(i) from January 28, 1997 through and including May 31, 1997, the maximum aggregate amount of Ten Million Dollars (\$10,000,000);

(ii) from June 1, 1997 through and including December 31, 1997, the maximum aggregate amount of Fourteen Million Dollars (\$14,000,000); and

(iii) from January 1, 1998 through and including April 30, 1998, the maximum aggregate amount of Ten Million Dollars (\$10,000,000).

"Commitment Period" shall mean the period of time from the date hereof through and including April 30, 1998, as such date may be extended as provided in Section 2.4(b).

"Consolidated Current Assets" at any date shall mean the total of all the Borrowers' assets treated as current assets in accordance with GAAP, consistent with those used in the preparation of the Borrowers' financial statements referred to in Section 5.1(g).

"Consolidated Current Liabilities" at any date shall mean the total of all the Borrowers' liabilities treated as current liabilities in accordance with GAAP, consistent with those used in the preparation of the Borrowers' financial statements referred to at Section 5.1(g), and shall include all outstanding Revolving Credit Loans made hereunder.

"Consolidated Earnings" at any date shall mean the amount which would be set forth opposite the caption "net income" (or any like caption) in a consolidated statement of income or operations of the Borrowers at such date prepared in accordance with GAAP, consistently applied.

-4-

"Consolidated Liabilities" at any date shall mean the total of all accounts which would be properly classified as liabilities in a consolidated balance sheet of the Borrowers at such date prepared in accordance with GAAP, consistently applied.

"Consolidated Tangible Net Worth" at any time shall mean the excess, if any, of the total amount of assets over the total amount of liabilities, as the same would appear in a consolidated balance sheet of the Borrowers at such date prepared in accordance with GAAP, less the book value of all intangible assets, other than the deferred pension asset, determined in accordance with GAAP.

"Contingent Obligation" shall mean as to any Person, any reimbursement obligations of such Person in respect of drafts that may be drawn under letters of credit and any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations primarily to pay money ("primary obligations") of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including without limitation any obligation of such Person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation, or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the

net worth or solvency of the primary obligor, (c) to purchase property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, or (d) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect thereof; provided, however, that the term "Contingent Obligation" shall not include endorsements of instruments for deposit or collection in the ordinary course of business.

"Contractual Obligation" shall mean as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its property is bound.

"Current Ratio" at any date shall mean the ratio of Consolidated Current Assets to Consolidated Current Liabilities.

"Default" shall mean an event or condition which would constitute an Event of Default with the giving of notice or lapse of time, or otherwise.

"Dollar" and the sign "\$" shall mean lawful money of the United States of America.

"Dominican Republic Documents" shall mean the Chattel Mortgage Agreement dated as of November 15, 1994 and the Agreement dated October 7, 1994 entered into by and among NBD, Rocky Inc. and Five Star with respect to property of Five Star located in the Dominican Republic, as assigned to Bank One pursuant to a Loan

-5-

Purchase, Assignment and Master Amendment Agreement among Bank One, NBD, NBD as agent, and the Borrowers, dated as of February 1, 1996.

"Effective Federal Funds Rate" shall have the meaning set forth in Section 3.4(c).

"Eligible Accounts Receivable" shall mean, at any date, the total of all Accounts Receivable on the balance sheets of the Borrowers at such date in which the Banks have a perfected first priority security interest, excluding Accounts Receivable (i) which are more than ninety (90) days past due, (ii) subject to offset, by credit or otherwise, or defense, (iii) which arise from sales to Affiliates or are bonded, (iv) which arise from sales to account debtors who are located outside the territorial limits of the United States of America, (v) which arise from an account debtor which has more than 50% of its accounts payable owed to the Borrowers more than 90 days past due, and (vi) which are otherwise unacceptable to the Agent, in its discretion.

"Environmental Laws" shall have the meaning assigned in Section 5.1(p) .

"ERISA" shall mean the Employee Retirement Income Security Act of 1974 and all rules and regulations promulgated pursuant thereto, as the same may from time to time be supplemented or amended.

"ERISA Event" shall mean, with respect to any Borrower, (a) a Reportable Event (other than a Reportable Event not subject to the provision for 30-day notice to the PBGC under regulations issued under Section 4043 of ERISA), (b) the withdrawal of such Borrower or any Affiliate of such Borrower from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA if such withdrawal would have a Material Adverse Effect on such Person, (c) the filing by such Borrower of a notice of intent to terminate a Plan under a distress termination or the treatment of a Plan amendment as a distress termination under Section 4041(c) of ERISA, (d) the institution of proceedings against such Borrower to terminate a Plan by the PBGC under Section 4042 of ERISA, (e) the failure to make required contributions that would result in the imposition of a lien under Section 412 of the Code or Section 302 of ERISA, (f) any Prohibited Transaction involving any Plan, and (g) any other event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"Event of Default" and "Events of Default" shall have the meaning assigned in Section 8.1.

"Facility Documents" shall mean this Agreement, the Agreement Regarding Lease, the Mortgage, the Security Agreement, the Notes, the Dominican Republic Documents, the Puerto Rico Documents and any and all other documents evidencing, securing or relating to the Revolving Credit Loans, the Commercial L/Cs and/or the Standby

L/Cs, as such documents may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Federal Funds Rate" shall mean, for any day, the rate per annum (rounded, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, provided that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to Bank One on such day on such transaction as determined by the Agent.

"Fiscal Quarter" shall mean, as to the Borrowers, any consecutive three-month period ending on any March 31, June 30, September 30 or December 31.

"Fiscal Year" shall mean, as to the Borrowers, any period of twelve consecutive calendar months ending on December 31.

"GAAP" shall mean generally accepted accounting principles in the United States of America in effect at the time any determination is made or financial statement is required hereunder as promulgated by the American Institute of Certified Public Accountants, the Accounting Principles Board, the Financial Accounting Standards Board or other body existing from time to time which is authorized to establish or interpret such principles.

"Governmental Authority" shall mean any national government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Hazardous Substances" shall have the meaning assigned in Section 5.1(p).

"HNB Note" shall mean the Master Business Loan Note, in the form of Exhibit B attached hereto, executed by the Borrowers and payable to the order of HNB in the maximum principal amount of Fourteen Million Dollars (\$14,000,000), of even date herewith, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Indebtedness" shall mean as to any Person, at any particular time (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (including, without limitation, any such indebtedness secured by assets of such Person); (b) all obligations of such Person for the payment or rent or hire of property of any kind whatsoever under leases or lease arrangements which under GAAP are required to be capitalized; (c) all obligations of such Person under conditional sales or

other title retention agreements; and (d) all indebtedness for borrowed money secured by any lien upon property owned by such Person (whether or not the holder of such indebtedness has any recourse against such Person).

"Inventory" shall mean at any date the total of all accounts which would be properly classified in accordance with GAAP as inventory on the balance sheets of the Borrowers at such date.

"Late Funding Charge" shall have the meaning set forth in Section 3.4(c).

"Late Payment Charge" shall have the meaning set forth in Section 3.4(a).

"L/C Funding" shall mean the funding of a draw pursuant to a Commercial L/C or a Standby L/C to the beneficiary thereof.

"L/C Funding Commitment Percentage" shall mean the percentage that each Bank's commitment to participate in the funding of Commercial L/Cs and Standby L/Cs bears to the aggregate commitment of both Banks to participate

in the funding of draws under Commercial L/Cs and Standby L/Cs; specifically, 60% as to Bank One, and 40% as to HNB.

"L/C Funding Date" shall mean a date that a draw is funded pursuant to a Commercial L/C or a Standby L/C to the beneficiary thereof.

"Lien" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement, including without limitation, any conditional sale or other title retention agreement, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing.

"Material Adverse Effect" shall mean, relative to any occurrence of whatever nature (including any determination in litigation, arbitration or governmental proceeding or investigation) that the Agent reasonably determines will have a materially adverse effect on:

(a) the assets, business, profits, properties, condition (financial or otherwise), operations or foreseeable financial prospects of each Borrower, taken individually, or all of the Borrowers, taken as a whole; or

(b) the inability of any Borrower to perform any of its payment or other obligations under this Agreement, any other Facility Documents or the transactions contemplated thereby; or

(c) the ability of any Borrower to perform any of its payment or material obligations under the Notes or hereunder.

-8-

"Mortgage" shall mean the Open-End Mortgage, Security Agreement and Assignment of Rents and Leases, dated as of March 30, 1995, executed by Rocky Co. which secures, among other obligations, the Notes, and was recorded with the Athens County, Ohio Recorder in Official Record Volume 195, Page 475, on April 7, 1995, as assigned to the Agent pursuant to an Assignment of Mortgage, dated as of February 2, 1996, and recorded with the Athens County, Ohio Recorder in Official Record Volume 217, Page 494, as the same may be amended, modified, supplemented, restated or replaced from time to time.

"NBD" shall mean NBD Bank, an Ohio banking corporation, and its predecessors and successors.

"Notes" shall mean, collectively, the Bank One Note and the HNB Note.

"Notice of Borrowing" shall have the meaning assigned in Section 2.5(a).

"Participant" shall mean any Person, now or at any time hereafter, participating with either Bank in the Revolving Credit Loans to the Borrowers or with respect to Commercial L/Cs or Standby L/Cs pursuant to this Agreement, and its successors and assigns.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Person" shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"Plan" shall mean any employee benefit plan or other plan maintained for employees covered by Title 10 of ERISA.

"Prime Rate" shall mean the prime rate established and announced by Bank One from time to time based on its consideration of economic, money market, business and competitive factors, and it is not necessarily Bank One's most favored rate, and adjusted to conform to changes as of the opening of business on the date of any such change in such Prime Rate. In the event Bank One shall abolish or abandon the practice of announcing its Prime Rate or should the same be unascertainable, the Agent shall designate a comparable reference rate which shall be deemed to be the Prime Rate under this Agreement and the other Facility Documents.

"Prohibited Transaction" shall mean a transaction described in Section 406 of ERISA which is not the subject of an exemption pursuant to Section 408 of ERISA.

"Puerto Rico Documents" shall mean, collectively, (i) the Chattel Mortgage Note, (ii) the Agreement for the Creation of Factor's Lien, (iii) the Notice of Establishment

-9-

of Factor's Lien and Assignment of Accounts Receivable, and (iv) the Personal Property Mortgage and Affidavit, all dated as of October 7, 1994, executed by Lifestyle in favor of NBD with respect to property of Lifestyle located in Puerto Rico, as assigned to Bank One pursuant to a Loan Purchase, Assignment and Master Amendment Agreement among Bank One, NBD, NBD as agent, and the Borrowers, dated as of February 1, 1996.

"Real Property" shall have the meaning assigned in Section 5.1(p).

"Reportable Event" shall have the meaning given such term in Section 4043(b) of ERISA.

"Required Property Insurance Coverage" shall mean at any time insurance insuring all property of the Borrowers against loss or damage by fire, lightening, vandalism and malicious mischief and all other perils covered by standard "extended coverage" or "all-risk" insurance in an amount not less than the replacement cost of such property and with not more than \$5,000.00 deductible from the loss payable for any casualty. If any insurance policies with respect to Required Property Insurance Coverage is written on a co-insurance basis, such policy must contain an agreed amount endorsement as evidence that the coverage is in an amount sufficient to insure the full amount of such property.

"Required Public Liability Insurance Coverage" shall mean comprehensive general accident and public liability insurance (including coverage for elevators and escalators, if any, on property owned or leased by the Borrowers) against injury, loss and/or damage to persons and property in an amount which is not less than \$1,000,000.00 for injury to persons and not less than \$1,000,000.00 for damage to property per occurrence, subject to an aggregate of \$2,000,000.00 per year, or such other additional amounts as may from time to time be requested by the Banks.

"Requirements of Law" shall mean as to any Person, the articles (certificate) of incorporation and code of regulations (by-laws) or partnership agreement or other organizational or governing documents of such Person, and any law, statute, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"Revolving Credit Borrowing Date" shall have the meaning set forth in Section 2.4.

"Revolving Credit Loan" or "Revolving Credit Loans" shall mean a loan or loans made from time to time to the Borrowers by the Banks pursuant to Section 2.1 and as evidenced by the Notes.

"Revolving Credit Loan Commitment Percentage" shall mean the percentage that each Bank's commitment to make Revolving Credit Loans bears to the aggregate

-10-

commitment of both Banks to make Revolving Credit Loans hereunder; specifically, 60% as to Bank One, and 40% as to HNB.

"Rocky Co." shall mean Rocky Shoes & Boots Co., a former subsidiary of Rocky Inc. which was merged into Rocky Inc. as of December 31, 1996.

"Security Agreement" shall mean the Continuing Security Agreement entered into by and among the Borrowers and the Agent for the ratable benefit of the Banks, dated of even date herewith, as the same may be modified, amended, supplemented, restated or replaced from time to time.

"Setoff Obligation" shall mean and include all Total Indebtedness of the Borrowers to the Banks, including, but not limited to, the Indebtedness of the Borrowers arising under the Notes, the Commercial L/Cs, the Standby L/Cs or any other document, instrument or agreement referred to herein.

"Standby L/C" shall mean an irrevocable letter of credit under which Bank One agrees to make payments in Dollars for the account of a Borrower, or on behalf of a Borrower, in respect of obligations of a Borrower incurred pursuant to contracts made or performances undertaken or like matters relating to contracts to which a Borrower is or proposing to become a party in the ordinary course of such Borrower's business.

"Standby L/C Application" shall mean a Standby Letter of Credit Application and Agreement in Bank One's customary form at any time with respect to a request to issue a Standby L/C.

"Termination Date" shall mean the date upon which the Commitment Period ends.

"Total Indebtedness" shall mean all Indebtedness and liabilities of the Borrowers owing to the Banks from time to time, including the indebtedness referred to herein.

"Uniform Customs" shall mean the Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC Publication No. 500, or any amendment thereof or successor thereto.

SECTION 1.2 Use of Terms. Unless otherwise defined or the context otherwise requires, terms for which meanings are provided in this Agreement shall have such meanings when used in the exhibits and schedules hereto, the Facility Documents and any other communications delivered from time to time in connection with this Agreement. Terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa, unless otherwise defined in the plural.

-11-

SECTION 1.3 Cross References; Headings. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement or in any of the other Facility Documents shall refer to this Agreement or such Facility Documents as a whole and not to any particular provision of this Agreement or such Facility Documents. Section, article, schedule and exhibit references contained in this Agreement are references to sections, schedules and exhibits in or to this Agreement unless otherwise specified. Any reference in any section or definition to any clause is, unless otherwise specified, to such clause of such section or definition. The various headings in this Agreement and the other Facility Documents are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Agreement or the other Facility Documents or any provision hereof or thereof.

SECTION 1.4 Accounting Terms. Any accounting term used in this Agreement and in the other Facility Documents and any certificate or other document made or delivered pursuant hereto that is not specifically defined shall have the meaning customarily given in accordance with GAAP; provided, however, that in the event that changes in GAAP shall be mandated by the Financial Accounting Standards Board, or any similar accounting body of comparable standing, and to the extent that such changes would modify or could modify such accounting terms or the interpretation or computation thereof, such changes shall be followed in defining such accounting terms only from and after the date the Borrowers and the Banks shall have amended this Agreement to the extent necessary to reflect any such changes in the financial covenants and other terms and conditions of this Agreement.

ARTICLE II

AMOUNT AND TERMS OF COMMITMENT, REVOLVING CREDIT LOANS AND LETTERS OF CREDIT

SECTION 2.1 Commitments to Make Revolving Credit Loans.

(a) Subject to the terms and conditions of this Agreement, each Bank severally agrees to make Revolving Credit Loans to the Borrowers from time to time during the Commitment Period; provided that, immediately after each such Revolving Credit Loan is made, the aggregate principal amount of Revolving Credit Loans by such Bank shall not exceed the amount of its Commitment (as such Commitment may be reduced from time to time in accordance with the terms of this Agreement), either as to Dollar amount or its Revolving Credit Loan Commitment Percentage. During the Commitment Period and as long as no Event of Default exists, the Borrowers may use the Aggregate Commitment by borrowing, repaying the Revolving Credit Loans, in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof.

(b) Up to Three Million Dollars (\$3,000,000) of the Aggregate Commitment may be taken, from time to time, at the Borrowers' option, in the form of Commercial L/Cs

and/or Standby L/Cs pursuant to the terms hereof and the Commercial L/C Applications and the Standby L/C Applications, respectively.

(c) Notwithstanding any provision hereof to the contrary, the total amount of outstanding Revolving Credit Loans under the Aggregate Commitment, when taken together with the total aggregate Dollar amount available to be drawn under outstanding Commercial L/Cs and Standby L/Cs, shall at no time exceed the lesser of (i) the Aggregate Commitment or (ii) the Borrowing Base plus 50% of the Dollar amount available to be drawn under outstanding Commercial L/Cs.

SECTION 2.2 Amounts Drawn Under L/Cs. Amounts paid against draws under Commercial L/Cs and/or Standby L/Cs shall be considered to be Revolving Credit Loans outstanding under the Aggregate Commitment until such amounts shall have been reimbursed to the Banks pursuant to the terms of the Commercial L/C Applications and/or the Standby L/C Applications, as the case may be.

SECTION 2.3 Loan Administration. The Banks shall have no obligation to advance or re-advance any sums, make any Revolving Credit Loan or issue any Commercial L/Cs or Standby L/Cs pursuant to terms of this Agreement at any time when a Default or an Event of Default exists.

SECTION 2.4 Notes; Termination Date.

(a) The Revolving Credit Loans made by the Banks to the Borrowers pursuant hereto shall be evidenced by the Notes, payable to the order of the respective Bank and evidencing the obligation of the Borrowers to pay the aggregate unpaid principal amount of the Revolving Credit Loans made by such Bank, with interest thereon as prescribed in Article III and in the Notes. Each Bank is hereby authorized to record electronically or otherwise the date and amount of each Revolving Credit Loan disbursement made by such Bank, the date and amount of each payment or repayment of principal thereof and such other information as it deems necessary or appropriate and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded; provided, however, the failure of such Bank to make any such recordation(s) shall not affect the obligation of the Borrowers to repay outstanding principal, interest or any other amount due hereunder or under such Note in accordance with the terms hereof and thereof.

(b) Each Note shall (i) be dated as of the date hereof, and (ii) mature on the Termination Date; provided, however, that on or before each Annual Review Date, the Banks, in their sole discretion, may elect to extend the Commitment Period and the Borrowers' right to obtain Revolving Credit Loans hereunder for an additional one (1) year period, or such other period as the Banks may so elect, from the Termination Date then in effect, by providing written notice to the Borrowers on or before an Annual Review Date. If the Banks shall not have provided the Borrowers with written notice of their intention to

so extend, the Borrowers' right to obtain Revolving Credit Loans under this Agreement shall terminate as of the then existing Termination Date.

SECTION 2.5 Notice of Revolving Credit Loan Borrowing.

(a) When the Borrowers desire to borrow under the Aggregate Commitment, the Borrowers shall certify compliance with the conditions precedent set forth in Article VI, and further shall give the Agent prior written, telephonic or telegraphic notice (which notice shall be irrevocable) (a "Notice of Borrowing") of their intention to borrow not later than 1:00 p.m., Columbus, Ohio time on the proposed date of the borrowing (a "Revolving Credit Borrowing Date"), specifying the aggregate principal amount of the Revolving Credit Loan to be made on the Revolving Credit Borrowing Date, which amount shall not exceed the Available Commitment and otherwise conform to the requirements hereof.

(b) Upon receipt of a Notice of Borrowing given in accordance with Section 2.5(a), the Agent shall promptly (and in any event on or before 2:00 p.m. Columbus, Ohio time on the day such Notice of Borrowing is received by the Agent) notify each Bank of the contents thereof and of such Bank's Revolving Credit Loan in proportion to its Revolving Credit Loan Commitment Percentage.

(c) Not later than 3:00 p.m. Columbus, Ohio time on the

applicable Revolving Credit Borrowing Date, each Bank shall make available its Revolving Credit Loan in proportion to its Revolving Credit Loan Commitment Percentage in federal or other funds immediately available in Columbus, Ohio, to the Agent at its address set forth in Section 11.4. Unless the Agent determines that any applicable condition(s) specified in Article VI has not been satisfied, the Agent will make the funds so received from the Banks available to the Borrowers at the Agent's aforesaid address.

SECTION 2.6 Mandatory Reduction and Termination of Commitments. The Commitments shall terminate on the Termination Date and any Revolving Credit Loans then outstanding shall be due and payable. Accrued interest on the Revolving Credit Loans and all other outstanding fees, charges and expenses on or related to the Revolving Credit Loans shall be paid by the Borrowers on the Termination Date.

SECTION 2.7 Use of Proceeds. The Borrowers represent that the proceeds of the Revolving Credit Loans made hereunder shall be used by them for general working capital purposes which are legal and proper purposes and which are consistent with all applicable laws and statutes.

SECTION 2.8 Fees.

(a) Aggregate Commitment. During the Commitment Period, the Borrowers shall pay to the Agent for the benefit of each Bank a commitment fee on the

-14-

daily average unused amount of the Aggregate Commitment at a rate equal to one-quarter of one percent (1/4%) per annum (calculated on the basis of a 360-day year for the actual number of days elapsed); provided, however, that the aggregate Dollar amount available to be drawn under outstanding Commercial L/Cs and Standby L/Cs shall not be included as usage in determining this commitment fee. Such commitment fee shall accrue on the unused amount of the Aggregate Commitment beginning on the date hereof and shall continue to accrue thereafter through the Termination Date. The accrued commitment fee shall be payable quarterly in arrears beginning on March 31, 1997, upon written notice to the Borrowers by the Agent setting forth such accrued commitment fee.

(b) Commercial L/Cs. The Borrowers shall pay to the Agent the fees with respect to the issuance of Commercial L/Cs as set forth in Article IV.

(c) Standby L/Cs. The Borrowers shall pay to the Agent the fees with respect to the issuance of Standby L/Cs as set forth in Article IV.

SECTION 2.9 Additional Costs. (a) In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to either Bank, or any interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by either Bank with any guideline, request or directive of any such authority (whether or not having the force of law), shall (i) affect the basis of taxation of payments to either Bank of any amounts payable by the Borrowers under this Agreement (other than taxes imposed on the overall net income of either Bank by the jurisdiction, or by any political subdivision or taxing authority of such jurisdiction, in which such Bank has its principal office), or (ii) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit, including Commercial L/Cs and Standby L/Cs, extended by either Bank, or (iii) impose any other condition with respect to this Agreement, the Notes or the Revolving Credit Loans, the Commercial L/Cs or Standby L/Cs and the result of any of the foregoing is to increase the cost to either Bank of making, funding or maintaining such Revolving Credit Loans or Commercial L/Cs or Standby L/Cs or to reduce the amount of any sum receivable by either Bank thereon, then the Borrowers shall pay to such Bank, from time to time, upon request by such Bank, additional amounts sufficient to compensate such Bank for such increased cost or reduced sum receivable to the extent such Bank is not compensated therefor in the computation of the interest rate applicable to such Revolving Credit Loan or fees on Commercial L/Cs or Standby L/Cs. A statement as to the amount of such increased cost or reduced sum receivable, prepared in good faith and in reasonable detail by such Bank and submitted by such Bank to the Borrowers, shall be conclusive and binding for all purposes, absent manifest error in computation.

(b) In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to either Bank or any interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by either Bank with

any guideline, request or directive of any such authority (whether or not having the force of law), including any risk-based capital guidelines, affects or would affect the amount of capital required or expected to be maintained by either Bank (or any corporation controlling such Bank) and such Bank determines that the amount of such capital is increased by or based upon the existence of such Bank's obligations hereunder and such increase has the effect of reducing the rate of return on such Bank's (or such controlling corporation's) capital as a consequence of such obligations hereunder to a level below that which such Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then the Borrowers shall pay to such Bank, from time to time, upon request by such Bank, additional amounts sufficient to compensate such Bank (or such controlling corporation) for any increase in the amount of capital and reduced rate of return which such Bank reasonably determines to be allocable to the existence of such Bank's obligations hereunder. A statement as to the amount of such compensation, prepared in good faith and in reasonable detail by such Bank and submitted by such Bank to the Borrowers, shall be conclusive and binding for all purposes, absent manifest error in computation. Such Bank may, at its option, specify that such amounts are to be paid by way of an increase in the commitment fees payable by the Borrowers pursuant to Section 2.8.

SECTION 2.10 Illegality and Impossibility. In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to either Bank, or any interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by either Bank with any request or directive of such authority (whether or not having the force of law), including without limitation exchange controls, shall make it unlawful or impossible for either Bank to maintain any loan or transaction under this Agreement, the Borrowers shall, upon receipt of notice thereof from such Bank, immediately repay in full the then outstanding principal amount of all Revolving Credit Loans made by such Bank so affected, together with all accrued interest thereon to the date of payment. This provision is for the benefit of the Banks and is not intended to increase the yield to the Banks above the rates of interests provided for in this Agreement. This Section 2.10 shall apply only as long as such illegality exists. The Banks shall use reasonable, lawful efforts to avoid the impact of such law, treaty, rule or regulation.

ARTICLE III

INTEREST AND PREPAYMENTS

SECTION 3.1 Interest. The Notes and the Revolving Credit Loans thereunder shall bear interest at the Prime Rate, computed on the basis of the actual number of days elapsed in a year of 360 days, until maturity, whether by demand, acceleration or otherwise. Upon the occurrence of an Event of Default hereunder or under either Note, and during the continuance of such, the interest rate per annum shall be 300 basis points above the interest rate then in effect. Interest shall be payable monthly in arrears

commencing on February 1, 1997, and continuing on the first day of each month thereafter, and at maturity. The interest rate shall change on the effective date of any change in the Prime Rate. Any change in the interest rate on a Revolving Credit Loan resulting from a change in the Prime Rate shall become effective automatically and immediately without notice to the Borrowers. Each determination by the Agent of interest accrued on any Revolving Credit Loan shall constitute prima facie evidence of the accuracy of such determination.

The Agent shall determine the interest rate applicable to the Revolving Credit Loans hereunder. The Agent shall give prompt notice to the Borrowers and the Banks by telex, cable or telecopy of each interest rate so determined, and its determination shall be conclusive in the absence of manifest error.

SECTION 3.2 Principal Payments. The Borrowers shall pay to the Agent for the pro rata benefit of the Banks the principal amount of the Revolving Credit Loans (together with all accrued interest thereon) on the Termination Date.

SECTION 3.3 Prepayments.

(a) Optional Prepayments. At their option and upon prior written, telephonic or telegraphic notice to the Agent not later than 1:00 p.m., Columbus, Ohio time on a Business Day which is at least one Business Day prior to the proposed date of prepayment (which also must be a Business Day), the Borrowers may prepay the Revolving Credit Loans in whole at any time or in part from time to time, without premium or penalty. In their notice of prepayment, the Borrowers shall specify the date of prepayment, the amount of the prepayment and the Revolving Credit Loan(s) to be prepaid. Each such optional prepayment shall be applied to prepay ratably the Revolving Credit Loans of the Banks. Upon receipt of notice of prepayment pursuant to this subsection, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such prepayment and such notice shall not thereafter be revocable by the Borrowers.

(b) Mandatory Prepayment. The Borrower shall repay the Revolving Credit Loans or provide cash to the Agent with respect to outstanding and undrawn Commercial L/Cs and/or Standby L/Cs on each such date as and to the extent the outstanding balance of all Revolving Credit Loans plus the Dollar amount available to be drawn under outstanding Commercial L/Cs and/or Standby L/Cs exceeds the lesser of (i) the Aggregate Commitment or (ii) the Borrowing Base plus 50% of the Dollar amount of outstanding Commercial L/Cs. Each such mandatory prepayment shall be applied to prepay ratably the Revolving Credit Loans of the Banks. Upon receipt of any prepayment pursuant to this subsection, the Agent shall promptly notify each Bank of such Bank's ratable share of such prepayment.

-17-

SECTION 3.4 General Provisions as to Payments and Funding of Loans and L/Cs.

(a) The Borrowers shall make each payment of principal of, and interest on, each Bank's Revolving Credit Loans and of each Bank's commitment fees hereunder, not later than 10:00 a.m. (Columbus, Ohio time) on the date when due, in federal or other funds immediately available at the place where payment is due, to the Agent at the Agent's address set forth in Section 11.4. The Agent shall distribute such payments ratably to the Banks on the date such payments are received in like funds as received. If such payment amount is distributed by the Agent to a Bank on a date after the date such payments are so received by the Agent, the Agent (and not the Borrowers) shall pay to such Bank on demand an amount ("Late Payment Charge") equal to the product of (i) the daily average Federal Funds Rate (as defined herein, except as reasonably determined by such Bank) during such period as reasonably determined by such Bank, multiplied by (ii) the amount of such Bank's Revolving Credit Loan Commitment Percentage of such payment amount, multiplied by (iii) a fraction, the numerator of which is the number of days that elapse from and including the date on which the Agent received such payment amount to the date on which the amount of such Bank's Revolving Credit Loan Commitment Percentage of such payment amount shall have become immediately available to such Bank, and the denominator of which is 360. A certificate of such Bank submitted to the Agent with respect to any such Late Payment Charge shall be conclusive in the absence of manifest error.

(b) Whenever any payment of principal of, or interest on, any Revolving Credit Loan or of commitment fees shall be due on a day which is not a Business Day, the day for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is so extended or is extended by operation of law or otherwise, interest thereon shall be payable for such extended time period.

(c) Unless the Agent shall have been notified in writing by either Bank on or prior to a Revolving Credit Borrowing Date or an L/C Funding Date, as the case may be, that such Bank will not make available to the Agent the amount that would constitute its Revolving Credit Loan Commitment Percentage of the borrowing or its L/C Funding Commitment Percentage of draws made on such date and, in the case of an L/C Funding, not reimbursed by the Borrowers, the Agent may assume that such Bank has made such amount available to the Agent on such Revolving Credit Borrowing Date or L/C Funding Date in accordance with this Agreement, and the Agent may in reliance upon such assumption make available to the Borrowers a corresponding amount or fund a draw under a Commercial L/C or Standby L/C, as the case may be. If such amount is made available to the Agent on a date after such Revolving Credit Borrowing Date or an L/C Funding Date, such Bank shall pay to the Agent on demand an amount (the "Late Funding Charge") equal to the product of (i) the daily average Federal Funds Rate during such period as quoted by the Agent, multiplied by (ii) the amount of such Bank's applicable Revolving Credit Loan Commitment Percentage of such borrowing or L/C Funding Commitment Percentage of such funding, multiplied by (iii) a fraction, the numerator of which is the number of days that elapse from and including such Revolving Credit Borrowing Date or L/C Funding Date to the date on which such Bank's applicable Revolving Credit Loan Commitment Percentage

of such borrowing or L/C Funding Commitment Percentage of such funding shall have become immediately available to the Agent, and the denominator of which is 360 (the "Effective Federal Funds Rate"). A certificate of the Agent submitted to either Bank with respect to any Late Funding Charges shall be conclusive in the absence of manifest error. If such amount is so available, such payment to the Agent shall constitute such Bank's Revolving Credit Loan on such Revolving Credit Borrowing Date or L/C Funding on such L/C Funding Date, as the case may be, for all purposes of this Agreement. If such amount is not so made available to the Agent within two (2) Business Days following such Revolving Credit Borrowing Date or the L/C Funding Date, then the Agent shall immediately notify the Borrowers of such failure and on the third Business Day following receipt of such notice, the Borrowers shall pay to the Agent an amount equal to that portion of such borrowing for which the Agent did not receive funds from such Bank, together with interest thereon for each day that the Borrowers had the use thereof at the Effective Federal Funds Rate. Nothing contained in this subsection shall relieve a Bank which has failed to make available its ratable portion of any borrowing or funding hereunder from any obligation to do so in accordance with the terms hereof.

(d) The failure of either Bank to make the Revolving Credit Loan or L/C Funding to be made by it on any Revolving Credit Borrowing Date or L/C Funding Date, respectively, shall not relieve the other Bank of its obligation, if any, hereunder to make its Revolving Credit Loan on such Revolving Credit Borrowing Date or L/C Funding on such L/C Funding Date, but neither Bank shall be responsible for the failure of the other Bank to make the Revolving Credit Loan or L/C Funding to be made by such other Bank on such Revolving Credit Borrowing Date or L/C Funding Date.

SECTION 3.5 Security Set-Off. The Borrowers hereby grant to each Bank, as security for the full and punctual payment of and performance of the obligations of the Borrowers under this Agreement, a continuing lien on and security interest in deposits or other sums credited by or due from such Bank to the Borrowers or subject to withdrawal by the Borrowers; and regardless of the adequacy of any Collateral or other means of obtaining repayment of such obligations, each Bank may at any time upon or after the occurrence of an Event of Default, without notice to the Borrowers, set-off the whole or any portion or portions of any or all such deposits and other sums against such obligations whether or not any other Person or Persons could also withdraw money therefrom. Any sums so set-off shall be held in trust by such Bank for the pro rata benefit of both Banks with respect to their respective Revolving Credit Loans and L/C Fundings.

ARTICLE IV

LETTERS OF CREDIT

SECTION 4.1 Issuance of Commercial L/Cs.

(a) Request to Issue. The Borrowers may request Bank One to issue, extend or modify a Commercial L/C by delivery to Bank One of a Commercial L/C

Application completed to the satisfaction of Bank One, together with the proposed form of such Commercial L/C and such other certificates, documents and other papers and information as Bank One may reasonably request.

(b) Form and Expiry. Each Commercial L/C issued hereunder shall, among other things, (i) be in such form requested by the Borrowers and shall be acceptable to Bank One in its sole discretion, and (ii) have an expiry date occurring not later than one year after such Commercial L/C's date of issuance. If the Aggregate Commitment is terminated, not later than such termination, all outstanding Commercial L/Cs shall be returned to Bank One or the Borrowers shall provide cash to fully collateralize all outstanding Commercial L/Cs. Each Commercial L/C Application and each Commercial L/C shall be subject to the Uniform Customs and, to the extent not subject to the Uniform Customs and to the extent not inconsistent therewith, the laws of the State of Ohio.

(c) Procedure for Opening Commercial L/Cs. Upon receipt of any Commercial L/C Application and the requested form of the Commercial L/C from the Borrowers, Bank One will review such Commercial L/C Application and the other certificates, documents, information and papers delivered to Bank One

in connection therewith, in accordance with its customary procedures and shall promptly notify the Borrowers of its decision whether to issue the Commercial L/C and, if its decision is to issue the Commercial L/C on the terms and in the form requested, open such Commercial L/C by issuing the original of such Commercial L/C to the beneficiary thereof and by furnishing a copy thereof to the Borrowers.

(d) Payments. The Borrowers agree (a) to reimburse Bank One, forthwith upon its demand and otherwise in accordance with the terms of the Commercial L/C Application relating thereto, for any expenditure or payment made by Bank One under or in connection with any Commercial L/C and (b) to pay interest on any unreimbursed portion of any such payments from the date of such payment until reimbursement in full thereof at a rate per annum equal to (i) prior to the date which is one Business Day after the day on which Bank One demands reimbursement from the Borrower for such payment, the rate which would then be payable on any outstanding Revolving Credit Loan which is not in default and (ii) thereafter, the rate which would then be payable on any outstanding Revolving Credit Loan which is in default.

(e) Commercial L/C Fees. In lieu of any letter of credit commissions and fees provided for in any Commercial L/C Application (other than standard issuance, amendment and negotiation fees), the Borrowers agree to pay Bank One, for the ratable benefit of the Banks, with respect to each Commercial L/C, a nonrefundable Commercial L/C fee as follows, payable when issued: if the Commercial L/C is payable via (i) a sight draft, the fee shall be one-quarter of one percent (.25%) per annum of the face amount of such Commercial L/C, and (ii) a time draft, the fee shall be one and one-half percent (1.5%) per annum of the face amount of such Commercial L/C. In addition, Bank One shall charge and retain for its own account its standard issuance, amendment and negotiation fees, if any, with respect to the issuance and administration of the Commercial L/Cs.

-20-

SECTION 4.2 Issuance of Standby L/Cs.

(a) Request to Issue. The Borrowers may request Bank One to issue, extend or modify a Standby L/C by delivery to Bank One of a Standby L/C Application completed to the satisfaction of Bank One, together with the proposed form of such Standby L/C and such other certificates, documents and other papers and information as Bank One may reasonably request.

(b) Form and Expiry. Each Standby L/C issued hereunder shall, among other things, (i) be in such form requested by the Borrowers and shall be acceptable to Bank One in its sole discretion, and (ii) have an expiry date occurring not later than one year after such Standby L/C's date of issuance. If the Aggregate Commitment is terminated, not later than such termination, all outstanding Standby L/Cs shall be returned to Bank One or the Borrowers shall provide cash to fully collateralize all outstanding Standby L/Cs. Each Standby L/C Application and each Standby L/C shall be subject to the Uniform Customs and, to the extent not subject to the Uniform Customs and, to the extent not inconsistent therewith, the laws of the State of Ohio.

(c) Procedure for Opening Standby L/Cs. Upon receipt of any Standby L/C Application and the requested form of the Standby L/C from the Borrowers, Bank One will review such Standby L/C Application and the other certificates, documents, information and papers delivered to Bank One in connection therewith, in accordance with its customary procedures and shall promptly notify the Borrowers of its decision whether to issue the Standby L/C and, if its decision is to issue the Standby L/C on the terms and in the form requested, open such Standby L/C by issuing the original of such Standby L/C to the beneficiary thereof and by furnishing a copy thereof to the Borrowers.

(d) Payments. The Borrowers agree (i) to reimburse Bank One forthwith upon its demand and otherwise in accordance with the terms of the Standby L/C Application relating thereto, for any expenditure or payment made by Bank One under or in connection with any Standby L/C and (ii) to pay interest on any unreimbursed portion of any such payment from the due date of any such payment until reimbursement in full thereof at a rate per annum equal to (x) prior to the date which is one Business Day after the date on which Bank One demands reimbursement from the Borrowers for such payment, the rate which would then be payable on any outstanding Revolving Credit Loan which is not in default and (y) thereafter, the rate which would then be payable on any outstanding Revolving Credit Loan which is in default.

(e) Standby L/C Fees. In lieu of any letter of credit commissions and fees provided for in any Standby L/C Application (other than standard issuance, amendment and negotiation fees), the Borrowers agree to pay Bank One, for the ratable benefit of the Banks, with respect to each Standby L/C a nonrefundable Standby L/C Fee of one and one-half percent (1.5%) per annum of the face amount of each Standby L/C, payable in advance not later than

the date of issuance thereof. In addition, Bank One shall charge

-21-

and retain for its own account its standard issuance, amendment and negotiation fees, if any, with respect to the issuance and administration of the Standby L/Cs.

SECTION 4.3 Participation of L/Cs.

(a) Purchase by HNB. HNB shall purchase from Bank One participations in all Commercial L/Cs and Standby L/Cs issued pursuant to this Agreement or which are currently outstanding which may hereafter be renewed or otherwise extended or modified. Such participations shall be in an amount equal to the Revolving Credit Loan Commitment Percentage for HNB. All interest thereon and all fees and commissions, other than Bank One's standard issuance, amendment and negotiation fees, with respect to the issuance or renewal of such Commercial L/Cs and Standby L/Cs shall be shared ratably by the Banks in accordance with their respective Revolving Credit Loan Commitment Percentage.

(b) Amendment of L/C. If any such Commercial L/C or Standby L/C is amended whereby the amount is increased, each Bank's share of participation shall be increased accordingly to its Revolving Credit Loan Commitment Percentage.

(c) Payments. If the Borrowers do not immediately reimburse Bank One for amounts funded under draws under Commercial L/Cs or Standby L/Cs, HNB shall make payment to Bank One in an amount equivalent to its participation in the Commercial L/Cs or Standby L/Cs at Bank One's address set forth in Section 11.4 hereof, and in any event not later than the time of payment provided for in the terms and conditions of the applicable Commercial L/C Applications and Standby L/C Applications. HNB's obligation to purchase such participations shall be primary, and not subject to any condition, precedent or otherwise, except the issuance of the subject Commercial L/C or Standby L/C.

Until payment of HNB's participation to Bank One, Bank One shall be entitled to all amounts of credits received by Bank One or either Bank from the Borrowers, whether by voluntary payment, realization upon any security or exercise of the right of setoff, or by payment from any source, except, that upon default of the applicant, all payments received by either Bank shall be applied in the proportion set forth in Section 8.2.

(d) No Liability. Bank One shall not be liable to HNB for any action taken or omitted with respect to the Commercial L/Cs or Standby L/Cs unless caused by its own gross negligence or willful misconduct. Bank One shall exercise the same care as in dealing with its own letters of credit, but shall not be responsible in any manner to ascertain or inquire as to the financial condition of the Borrowers, or the Borrowers' authority to execute the Commercial L/C Applications and Standby L/C Applications, or the existence or possible existence of any event of default under the Commercial L/C Applications and Standby L/C Applications, or be responsible to file or record or refile or rerecord to maintain or establish the validity, priority or enforceability of any rights in and to the Collateral given by the Borrowers under terms and conditions of the Commercial L/C Applications and Standby L/C Applications or other security agreement given by the Borrowers or by way of hypothecation.

-22-

SECTION 4.4 Further Assurances. The Borrowers hereby agree from time to time, to do and perform any and all acts and to execute any and all further instruments reasonably requested by the Agent more fully to effect the purposes of this Agreement and the issuance of Commercial L/Cs and Standby L/Cs hereunder, and further agrees to execute any and all instruments reasonably requested by the Agent in connection with the obtaining and/or maintaining of any insurance coverage, if any, applicable to any Commercial L/C or Standby L/C.

SECTION 4.5 Obligations Absolute. The Commercial L/C and Standby L/C payment obligations of the Borrowers under this Agreement and the Commercial L/C Applications and the Standby L/C Applications shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement and the Commercial L/C Applications and the Standby L/C Applications under all circumstances, including the following:

(a) the existence of any claim, setoff, defense or other

right which the Borrowers may have at any time against any beneficiary, or any transferee, of any Commercial L/C or Standby L/C (or any Person for whom any such beneficiary or any such transferee may be acting), the Banks, or any other Person, whether in connection with this Agreement, the Commercial L/C Applications, the Standby L/C Applications, the transactions contemplated herein and therein, or any unrelated transaction;

(b) any statement or any other document presented under any Commercial L/C or Standby L/C proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(c) payment by Bank One under any Commercial L/C or Standby L/C against presentation of a draft or certificate which does not comply with the terms of such Commercial L/C or Standby L/C provided that Bank One has made such payment to the beneficiary set forth on the face of such Commercial L/C or Standby L/C, as the case may be, and Bank One has not made such payment negligently or with willful misconduct; or

(d) any other circumstances or happening whatsoever, whether or not similar to any of the foregoing.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

SECTION 5.1 Representations and Warranties. Each Borrower represents and warrants to the Banks that:

-23-

(a) Good Standing and Qualification. Each Borrower (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (ii) has all requisite corporate power and authority to own and operate its properties and to carry on its business as presently conducted, (iii) is duly qualified as a foreign corporation to do business in and is in good standing under the laws of each jurisdiction where, by the nature of its business or because of the character of the properties owned or leased by it or the transaction of its business, failure to be so qualified would have a Material Adverse Effect or where failure to qualify would affect the ability of such Borrower to enforce any of its material rights, and (iv) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not, in the aggregate, have a Material Adverse Effect and would not materially and adversely affect the ability of each Borrower to perform its obligations under this Agreement and all other Facility Documents.

(b) Authority. Each Borrower has full power and authority to enter into this Agreement and all other Facility Documents, to make the borrowings contemplated hereby, to execute, deliver and perform the Notes, the Commercial L/C Applications and the Standby L/C Applications and to incur the obligations provided for herein and therein, all of which have been duly authorized by all necessary and proper corporate action. No consent, waiver or authorization of, or filing with, any Person (including without limitation any Governmental Authority), is required to be made or obtained by any Borrower in connection with the borrowings hereunder or the execution, delivery, performance, validity or enforceability of this Agreement and all other Facility Documents.

(c) Binding Agreements. This Agreement and all other Facility Documents constitute, and the Notes, when executed and delivered pursuant hereto for value received, shall constitute, the valid and legally binding obligations of each Borrower, enforceable in accordance with their respective terms, except as enforcement of such terms may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or similar laws affecting creditors' rights generally, provided, however, that the Borrowers represent and warrant that no such limitations currently exist as of the date of this Agreement, or (ii) equitable principles which may limit the availability of the remedy of specific performance or other equitable remedies.

(d) Litigation. Except as set forth on Schedule 5.1(d), there are no actions, suits, investigations or administrative proceedings of or before any court, arbitrator or Governmental Authority, to the knowledge of each Borrower, pending or threatened against any Borrower or any of its properties or assets which: (i) either in any case or in the aggregate, if adversely determined, would have a Material Adverse Effect on any Borrower; or (ii) question the validity of this Agreement or any other Facility Documents or any action to be taken in connection with the transactions contemplated hereby and thereby.

(e) No Conflicting Law or Agreements. The execution, delivery

and performance by and of each Borrower of this Agreement and all other Facility Documents: (i) do not violate any provision of the articles (certificate) of incorporation and code of

-24-

regulations (by-laws) of each Borrower; (ii) do not violate any order, decree or judgment by which any Borrower is bound, or, to the best of each Borrower's knowledge, any provision of any law, statute, rule or regulation; (iii) do not violate or conflict with, result in a breach of or constitute (with notice, lapse of time, or otherwise) a default under any agreement, mortgage, indenture or contract to which any Borrower is a party, or by which any Borrower's properties are bound; or (iv) do not, to each Borrower's knowledge, result in the creation or imposition of any lien, security interest, charge or encumbrance of any nature whatsoever upon any property or assets of any Borrower, except for the security interests created by the Security Agreement, the Dominican Republic Documents, the Puerto Rico Documents or hereunder.

(f) Taxes. With respect to all taxable periods of each Borrower, each Borrower has filed all tax returns which are required to be filed and all federal, state, municipal, franchise and other taxes shown to be due and payable on such filed returns have been paid or have been reserved against, as required by GAAP, and no Borrower knows of any unpaid assessment against it.

(g) Financial Statements. The Borrowers have heretofore delivered to the Banks (i) the audited annual consolidated balance sheet of the Borrowers as of December 31, 1995 and the related statements of income, shareholders' equity and cash flows for the year then ended, and (ii) the unaudited consolidated balance sheet of the Borrowers as of September 30, 1996, and the related statement of income for the period then ended. Such financial statements, with accompanying footnotes, fairly present the financial condition, results of operations and cash flows of the Borrowers as of the dates and for the periods referred to and have been prepared in accordance with GAAP consistently applied by the Borrowers throughout the periods involved. The financial statements referred to in this Section 5.1 (g) do not, nor does this Agreement or any written statement furnished by the Borrowers to the Banks in connection herewith, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading.

(h) Adverse Developments. Since the date of the financial statements most recently furnished to the Banks, there has been no change in the business, prospects, operations or condition, financial or otherwise, of the Borrowers or any of the properties or assets of the Borrowers which would have a Material Adverse Effect on the Borrowers.

(i) Existence of Assets and Title Thereto. Each Borrower has good and marketable title to its properties and assets, including the properties and assets reflected in the financial statements referred to above. Such properties and assets are not subject to any Lien except as expressly permitted under the terms of this Agreement or the Security Agreement, the Dominican Republic Documents and the Puerto Rico Documents. Each Borrower shall not cause or permit in the future (upon the happening of a contingency or otherwise) any of its property whether now owned or hereafter acquired to be subject to a Lien except as provided in this Section 5.1 (i).

-25-

(j) Regulation U. No Borrower is engaged in nor will engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" under Regulation U of the Board of Governors of the Federal Reserve System as now or from time to time in effect. No part of the proceeds of the borrowings hereunder will be used, directly or indirectly, for the purpose of "purchasing" or "carrying" any "margin stock". The terms "purchasing," "carrying" and "margin stock" shall be as defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System. If requested by the Agent, the Borrower will furnish to the Banks a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in said Regulation U to the foregoing effect.

(k) Compliance. No event has occurred and no condition exists which would constitute an Event of Default pursuant to this Agreement. No Borrower is in default with respect to any order, writ, injunction or decree of any court or of any federal, state, municipal or other Governmental Authority, commission, board, bureau, agency, authority or official or, to the knowledge

of the Borrower, in violation of any law, statute, rule or regulation to which it or its properties are subject, which default or violation might have a Material Adverse Effect on any Borrower. No Borrower is in default in the payment or performance of any of its obligations or in the performance of any mortgage, indenture, lease, contract or other agreement to which it is a party or by which it or any of its assets or properties may be bound, which default might have a Material Adverse Effect on any Borrower. No Borrower has failed to obtain any licenses, permits, franchises or other governmental or environmental authorizations necessary to the ownership of its properties or to the conduct of its business, which violation or failure might have a Material Adverse Effect on any Borrower.

(l) Leases. Each Borrower enjoys quiet and undisturbed possession under all leases under which it is operating, and all such leases are valid and subsisting, and not in default.

(m) Pension Plans. No ERISA Event has occurred with respect to any Plan of the Borrowers. The PBGC has not made a determination that, with respect to any Plan of any Borrower, an event or condition has occurred which constitutes grounds under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any such Plan. The Borrowers are not in violation of any laws, ordinances, governmental rules or regulations to which they are subject, including without limitation any laws, rulings or regulations relating to ERISA or Section 4975 of the Code, which violation might have a Material Adverse Effect on any Borrower.

(n) Investment Company Act. No Borrower is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

(o) No Insolvency. On the date hereof and after giving effect to all Indebtedness of the Borrower (including the Revolving Credit Loans), (a) each Borrower

-26-

will be able to pay its obligations as they become due and payable; (b) the present fair saleable value of each Borrower's assets exceeds the amount that will be required to pay its probable liability on its obligations as the same become absolute and matured; (c) the sum of each Borrower's property at a fair valuation exceeds such Borrower's Indebtedness; and (d) each Borrower will have sufficient capital to engage in its business. The grant by the Borrowers of the security interest in the Collateral for the Revolving Credit Loans, the Commercial L/Cs and the Standby L/Cs pursuant to the Security Agreement, the Dominican Republic Documents and the Puerto Rico Documents constitutes fair consideration and reasonably equivalent value because of the receipt of the proceeds of such credit facilities.

(p) Environmental Matters.

(i) No Borrower has used Hazardous Materials on, from or affecting any real property owned, leased or used by any Borrower (the "Real Property") in any manner which violates any Environmental Laws governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials, and to the best knowledge of each Borrower, no present or prior owner of the Real Property or any tenant, subtenant, occupant, prior tenant, prior subtenant or prior occupant has used Hazardous Materials on, from or affecting the Real Property in any manner which violates any Environmental Laws governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials;

(ii) No Borrower has ever received any notice of any violation of any Environmental Laws governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials, and to the best knowledge of each Borrower, there have been no actions commenced or threatened by any party for noncompliance therewith;

(iii) Each Borrower shall keep or cause the Real Property to be free of Hazardous Materials except to the extent that such Hazardous Materials are stored and/or used in compliance all applicable Environmental Laws; and, without limiting the foregoing, no Borrower shall cause or permit the Real Property to be used to generate, manufacture, refine, transport, treat, store, handle, dispose of, transfer, produce or process Hazardous Materials, except in compliance with all applicable Environmental Laws, nor shall any Borrower knowingly cause or permit, as a result of any intentional or negligent act or omission on the part of any Borrower, or any tenant, subtenant or occupant, a release of Hazardous Materials onto the Real Property; and

(iv) Each Borrower shall (x) conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove any Hazardous Materials on, under, from or affecting the Real Property in accordance with all applicable Environmental Laws, to the satisfaction of the Agent and in accordance with the orders and directives of all Governmental Authorities and (y) defend, indemnify and hold harmless the Agent and the Banks, their respective

-27-

employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses of whatsoever kind or nature, known or unknown, contingent or otherwise, arising out of, or in any way relating to (A) the presence, disposal, release or threatened release of any Hazardous Materials on, over and under, from or affecting the Real Property or the soil, water, vegetation, buildings, personal property, persons or animals thereon; and (B) any personal injury (including wrongful death) or property damage (real or personal) arising out of or relating to such Hazardous Materials including, without limitation, attorneys' and consultants' fees, investigation and laboratory fees, court costs and litigation expenses.

The provisions of this Section 5.1(p) shall be in addition to any and all other obligations and liabilities each Borrower may have to the Agent and the Banks at common law and shall survive (i) the repayment of all sums due under the Notes, the Acceptance Credit Agreement and any other Facility Document and (ii) the satisfaction of all other obligations of each Borrower hereunder and under the other Facility Documents.

As used herein, "Hazardous Substances" shall mean and include all hazardous and toxic substances, wastes, materials, compounds, pollutants and contaminants (including, without limitation, asbestos, polychlorinated biphenyls, and petroleum products) which are included under or regulated by the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. ss.9601, et seq., the Toxic Substances Control Act, 15 U.S.C. ss.2601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. ss.6901, et seq., the Water Quality Act of 1987, 33 U.S.C. ss.1251, et seq., the Clean Air Act, 42 U.S.C. ss.7401, et seq., and any other federal, state or local statute, ordinance, law, code, rule, regulation or order regulating or imposing liability (including strict liability) or standards of conduct regarding Hazardous Substances (herein the "Environmental Laws").

(q) Flood Plain Area. Except for a portion of the Real Property located at 294 South Harper Street, Nelsonville, Ohio (as to which Real Estate the Borrowers have obtained, and will continue to maintain, flood insurance), none of the Real Property or where any of the Collateral is situated is located in any area designated as a "flood plain area" pursuant to 42 U.S.C. ss.4101 et seq., and the regulations promulgated thereunder.

(r) Accuracy of Information. All information, reports and other papers and data (including without limitation, copies of all filings made with all Governmental Authorities) furnished heretofore or contemporaneously herewith by or on behalf of the Borrowers to the Agent, the Banks or any Person furnishing an opinion required to be delivered hereunder for purposes of or in connection with this Agreement and the other Facility Documents and the transactions contemplated hereby and thereby, is, and all other such information hereafter furnished by or on behalf of the Borrowers to the Agent, the Banks or any Person furnishing an opinion required to be delivered hereunder will be, true and accurate in every material respect on the date as of which such information is dated or certified and not incomplete by omitting to state any material fact necessary to make such information not misleading and the Borrowers have notified the Banks of all events

-28-

that have occurred since such date that would render such information incomplete or misleading.

(s) Assets for Conduct of Business. The Borrowers possess adequate assets, patents, patent applications, copyrights, trademarks, servicemarks, and trade names or licenses thereto, to continue to conduct their business as heretofore conducted, without any material conflict with the rights of others, except that the failure to possess such asset or assets, in the aggregate, would not have a Material Adverse Effect, and all material patents, patent applications, copyrights, trademarks, servicemarks, trade names and licenses in existence on the date hereof are listed on Schedule 5.1(s).

(t) Trade Relations. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship of any Borrower with any customer or any group of customers whose purchases individually or in the aggregate are material to the business of the Borrowers, taken as a whole, and there exists no present condition or state of facts or circumstances known to the Borrowers that would have a Material Adverse Effect or prevent the Borrowers from conducting their business, taken as a whole, after the consummation of the transactions contemplated by this Agreement in substantially the same manner in which such business has heretofore been conducted.

(u) Contingent Obligations. The Borrowers have no Contingent Obligations other than those disclosed in the financial statements of the Borrowers previously furnished to the Banks or on Schedule 5.1(u).

ARTICLE VI

CONDITIONS OF LENDING

SECTION 6.1 Conditions to Initial Transaction. The agreement of the Banks to make the initial transaction hereunder, whether such transaction be a Revolving Credit Loan or the issuance of a Commercial L/C or a Standby L/C on any date, is subject to the satisfaction of the following conditions precedent:

(a) Facility Documents. The Agent shall have received (i) this Agreement, executed and delivered by duly authorized officers of the Borrowers, (ii) the Notes, conforming to the requirements hereof and executed and delivered by duly authorized officers of the Borrowers, (iii) the Security Agreement, executed and delivered by duly authorized officers of the Borrowers, and (iv) each of the other Facility Documents, conforming to the requirements hereof and duly executed and delivered by or on behalf of each of the parties thereto.

(b) Consents. The Agent shall have received true copies (in each case certified as to authenticity on such date by such Person as may be appropriate or may be reasonably required by the Agent) of all documents and instruments, including all consents,

-29-

authorizations and filings, required or advisable under any Requirements of Law or by any Contractual Obligation in connection with the execution, delivery, performance, validity and enforceability of this Agreement, the Notes, the Security Agreement and the other Facility Documents, and such consents, authorizations and filings shall be reasonably satisfactory in form and substance to the Agent and its counsel and be in full force and effect.

(c) Corporate Documents. The Agent shall have received true and complete certified copies of each Borrower's Articles (Certificate) of Incorporation and Code of Regulations (By-Laws), and a copy of the resolutions (in form and substance satisfactory to the Agent) of the Board of Directors of each Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Notes, the Security Agreement and the other Facility Documents, (ii) the consummation of the transactions contemplated hereby, (iii) the borrowing and other financial transactions herein provided for, and (iv) the documents provided for in this Agreement, certified by the Secretary or an Assistant Secretary of each Borrower, as of the date hereof. Such certificate shall state that the resolutions set forth therein have not been amended, modified, revoked or rescinded as of the date hereof.

(d) Good Standing Certificates. The Agent shall have received copies of certificates dated as of a recent date from the Secretary of State, or other appropriate authority of such jurisdiction, evidencing the good standing of each Borrower in the jurisdiction of its incorporation.

(e) Incumbency Certificates. The Agent shall have received a certificate of the Secretary or an Assistant Secretary of each Borrower, dated as of the date hereof, as to the incumbency and signature of the officers of each Borrower executing this Agreement, the Notes, the Security Agreement, the other Facility Documents and any certificate or other documents to be delivered pursuant hereto or thereto.

(f) Release of Existing Liens. The Agent shall have received all filing receipts, acknowledgments or other evidence satisfactory to it evidencing any recordation or filing necessary to release all Liens (except Liens pursuant to the Security Agreement, the Dominican Republic Documents and the Puerto Rico Documents) on the assets or properties of the Borrowers.

(g) Financial Information. The Agent shall have received a copy of each of the financial statements referred to in Section 5.1(g).

(h) No Litigation. No suit, action, investigation, inquiry or other proceeding (including, without limitation, the enactment or promulgation of a statute or rule) by or before any arbitrator or any Governmental Authority shall be pending and no preliminary or permanent injunction or order by a state or federal court shall have been entered (i) in connection with this Agreement, the Notes, the Security Agreement, the other Facility Documents or any of the transactions contemplated hereby or thereby, or (ii) which, in the reasonable judgment of the Agent, would have a Material Adverse Effect.

-30-

(i) No Violation. The consummation of the transactions contemplated hereby and by the Notes, the Security Agreement and the other Facility Documents shall not contravene, violate or conflict with, nor involve the Agent or the Bank in a violation of, any Requirement of Law.

(j) Legal Opinion. The Agent shall have received the executed legal opinions of Porter, Wright, Morris & Arthur and Hunter & Hunter, legal counsel to the Borrowers, substantially in the form of Exhibit C attached hereto.

(k) Filings. The Agent shall have received all filing receipts, acknowledgments or other evidence satisfactory to it evidencing any recordation or filing necessary to perfect the security interests granted pursuant to the Security Agreement, the Dominican Republic Documents and the Puerto Rico Documents in favor of the Agent and the Banks in the Collateral and evidence satisfactory to the Agent that such security interests constitute valid and perfected first security interests.

(l) Insurance Certificates and Policies. The Agent shall have received the certificates of insurance and copies of hazard insurance policies referred to in Section 7.1(j).

SECTION 6.2 Conditions to Each Transaction. The agreement of the Banks to make any transaction hereunder, whether such transaction be a Revolving Credit Loan or the issuance of a Commercial L/C or a Standby L/C on any date (including, without limitation, the initial transaction hereunder), is subject to the satisfaction of the following conditions precedent as of the date such transaction is requested to be made:

(a) Representations and Warranties. Each of the representations and warranties made by each Borrower in or pursuant to this Agreement, the Notes, the Security Agreement or any other Facility Document delivered in connection herewith or therewith shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(b) No Default. No Event of Default and no Default shall have occurred and be continuing on such date or after giving effect to the transaction requested to be made on such date.

(c) No Litigation. No litigation, investigation or proceeding before or by any arbitrator or Governmental Authority shall be continuing or threatened against any Borrower questioning the enforceability of or such Borrower's authority to enter into this Agreement, the Notes, the Security Agreement or the other Facility Documents.

(d) Additional Documents. The Agent shall have received each additional document, instrument or item of information reasonably requested by the Agent, including, without limitation, a copy of any debt instrument, security agreement or other material contract to which any Borrower may be a party.

-31-

(e) Additional Matters. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement, the Notes, the Security Agreement and the other Facility Documents shall be reasonably satisfactory in form and substance to the Agent and the Banks.

Each such transaction by the Borrowers hereunder shall constitute a representation and warranty by the Borrowers to the Agent and the Banks as of the date of such transaction that the conditions contained in this Section 6.2 have been satisfied.

COVENANTS

SECTION 7.1 Affirmative Covenants. So long as the Borrowers may borrow (including pursuant to Commercial L/Cs and Standby L/Cs) under this Agreement and until payment in full of the Notes, any L/C Funding or any other amount or obligation owing to the Banks hereunder, the Borrowers shall, unless the Banks shall otherwise consent in writing:

(a) Financial Statements. Furnish to each of the Banks:

(i) as soon as available, but in any event within ninety (90) days after the end of each Fiscal Year of the Borrowers, a copy of the audited consolidated balance sheet of the Borrowers as at the end of such Fiscal Year and the related audited consolidated statements of income and shareholders' equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous year, together with the opinion of independent certified public accountants of nationally recognized standing, which opinion shall not contain a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit or qualification which would affect the computation of financial covenants contained herein other than a qualification for consistency due to a change in the application of GAAP with which the Borrowers' independent certified public accountants concur; and

(ii) as soon as available, but in any event not later than forty-five (45) days after the end of each month, the unaudited unconsolidated balance sheet of each Borrower (other than Rocky Inc.) as at the end of such month and the related unaudited unconsolidated statements of income and shareholders equity of each such Borrower for such month and the portion of the Fiscal Year through such date, setting forth in each case in comparative form the figures for the previous year, certified by an appropriate officer as being fairly stated in all material respects.

-32-

(b) Certificates; Other Information. Furnish to each of the Banks:

(i) concurrently with the delivery of each annual financial statement referred to in Section 7.1(a) (i) and each monthly financial statement referred to in Section 7.1(a) (ii) above that ends on the last day of a Fiscal Quarter, a certificate of an appropriate officer of the Borrowers (in such form as shall be reasonably acceptable to the Banks) stated to have been made after due examination by such officer (x) stating that, to the best of such officer's knowledge, the Borrowers during such period have observed or performed in all material respects all of its covenants and other agreements, and satisfied every condition, contained in this Agreement, the Notes and the other Facility Documents to be observed, performed or satisfied by them and that such officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate, (y) showing in detail the calculations supporting such statement in respect of Sections 7.2 (l) (i), (ii), (iii), (iv) and (v), and (z) stating that, to the best of such officer's knowledge, the representations and warranties expressed in Article V are true, correct and complete in all material respects on and as of the date of such financial statements delivered concurrently therewith, except in each case of (x), (y) or (z) as may otherwise be specifically set forth in such certificate;

(ii) promptly after the same are sent, copies of all quarterly financial statements, reports and notice which any Borrower sends to its stockholders as stockholders and promptly after the same are filed, copies of all financial statements and reports (including, without limitation, reports on Forms 10-K, 10-Q and 8-K) which any Borrower may make to, or file with, and copies of all material notices any Borrower receives from, the Securities and Exchange Commission or any public body succeeding to any or all of the functions of the Securities and Exchange Commission;

(iii) promptly after receipt thereof, a copy of all material, detailed financial and management reports regarding the Borrowers, or any of them, submitted to any of them by its independent certified public accountants in connection with each annual or interim audit report made by such accountants of the books of any of them, including information with respect to such accountants annual review of the internal control procedures of the Borrowers;

(iv) on or prior to thirty (30) days after the last day of each calendar month after the date hereof, a certificate substantially in the form of Exhibit D (a "Borrowing Base Certificate"), certified by an officer of the Borrowers as true and correct, setting forth the amount of Eligible Accounts Receivable and Inventory, in each case as of the last Business Day of said calendar month; provided that, in addition, the Borrowers may provide to the Agent a Borrowing Base Certificate as of a more recent date,

certified by an officer of the Borrowers as true and correct, setting forth the amount of Eligible Accounts Receivable and Inventory, in each case as of such more recent date ; provided further, that if such more recent Borrowing Base Certificate does not contain the amount of Inventory as of such more recent date, the amount of Inventory shall be the amount on the last monthly Borrowing Base Certificate less the amount that Eligible Accounts Receivable have increased since the last monthly Borrowing Base Certificate furnished to the Agent; and

-33-

(iv) promptly, on reasonable notice to the Borrowers, such additional financial and other information as the Banks may from time to time reasonably request.

(c) Monthly Inventory, Accounts Receivable and Other Reports. Furnish to the Banks as soon as available, but in no event no more than thirty (30) days after the end of each calendar month, an Inventory listing, an aging schedule of Accounts Receivable and backlog, orders booked and sales variance reports as of the last day of, or for, such month, each in form and substance satisfactory to the Banks.

(d) Payment of Obligations. Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all their Indebtedness, including without limitation all amounts due under the Notes and hereunder, and other material obligations of whatever nature, except, without prejudice to the effectiveness of subpart (iv) of Section 8.1(b), for any Indebtedness or other obligations (including any obligations for taxes), when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrowers.

(e) Maintenance of Rights. Preserve, renew and keep in full force and effect, and take all reasonable action to maintain, all rights, privileges, licenses, permits, contracts, copyrights, patents, trademarks, trade names and franchises necessary or desirable in the normal conduct of their business; and comply with all Requirements of Law.

(f) Inspection of Property; Books and Records; Discussions. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to their business and activities, subject in the case of interim statements to year-end audit adjustments; and permit representatives of the Agent and the Banks to visit and inspect any of their properties, and examine and make abstracts from any of the books and records at any reasonable time and as often as may reasonably be requested, and to discuss the business, operations, properties and financial and other condition of the Borrowers and, if notice thereof is given to the Borrowers prior to the date of such discussions, with their independent certified public accountants.

The Borrowers shall permit the Agent and/or each Bank, at each of their option, to do quarterly audits of the Collateral and other assets of the Borrowers. The Borrowers shall pay to the Agent and/or each Bank, as the case may be, the costs for such audits. Should the Borrowers fail to pay to the Agent and/or each Bank, as the case may be, upon demand, the costs of such audits, interest shall accrue thereon from the date of demand until paid in full at the default rate of interest set forth in the Notes.

-34-

(g) Notices. Promptly give notice to the Banks:

(i) of the occurrence of any Default or Event of Default of which a Borrower has actual knowledge;

(ii) of any (x) default or event of default, under any loan, letter of credit agreement or acceptance agreement, (y) default under any other obligations that would enable the obligee of such obligations to compel the Borrowers to immediately pay all amounts owing thereunder or otherwise accelerate payments thereunder and would have a Material Adverse Effect, or (z) litigation, investigation or proceeding which may exist at any time between any Borrower and any Governmental Authority, which, if adversely determined, would have a Material Adverse Effect;

(iii) of any litigation or proceeding affecting or threatened in writing against any Borrower (x) in which the amount involved is

\$250,000.00 or more (or \$1,000,000 or more as to such threatened litigation or proceeding) and not covered by insurance and which, in the reasonable opinion of an appropriate officer of such Borrower, would, if adversely determined, have a Material Adverse Effect on the Borrowers taken as a whole, or (y) in which injunctive or similar relief is sought and which, in the reasonable opinion of an appropriate officer of such Borrower, would, if adversely determined, have a Material Adverse Effect on the Borrowers taken as a whole;

(iv) of the following events, as soon as possible and in any event within thirty (30) days after the Borrowers know or have reason to know thereof: (x) the occurrence of any Reportable Event with respect to any Plan with respect to which the PBGC has not waived the thirty (30) day reporting requirement, or (y) the institution of proceedings or the taking or expected taking of any other action by PBGC or the Borrowers to terminate or withdraw or partially withdraw from any Plan under circumstances which could lead to material liability to the PBGC or, with respect to a Multiemployer Plan, the Reorganization or Insolvency (as each such term is defined in ERISA) of the Plan and in addition to such notice, deliver to the Banks whichever of the following may be applicable: (A) a certificate of an appropriate officer of the Borrowers setting forth details as to such Reportable Event and the action the Borrowers propose to take with respect thereto, together with a copy of any notice of such Reportable Event that may be required to be filed with PBGC, or (B) any notice delivered by PBGC evidencing its intent to institute such proceedings or any notice to PBGC that such Plan is to be terminated, as the case may be; and

(v) of a material adverse change (other than with respect to changes in the normal course of any Borrower's business, such as seasonal fluctuations) in the business, operations, property or financial or other condition of the Borrowers taken as a whole; a "material adverse change" for the purposes of this paragraph (v) shall be deemed to have occurred only if such change or changes in condition involve in the aggregate an amount exceeding \$250,000.00.

-35-

Each notice pursuant to this Section 7.1 (g) shall be accompanied by a statement of the chief executive officer or chief financial officer of the Borrowers setting forth details of the occurrence referred to therein and stating what action the Borrowers propose to take with respect thereto.

(h) Other Information. Furnish to the Banks (i) promptly upon receipt thereof, copies of any reports submitted to the Borrowers by its independent certified public accountants in connection with any internal audit of the Borrowers made by such accountants; and (ii) such additional information, reports or statements as the Banks may from time to time reasonably request.

(i) Taxes. Pay and discharge all taxes, assessments, governmental charges and levies upon or collected by the Borrowers as and when they become due and payable, unless, and only to the extent that, such taxes, assessments, governmental charges and levies shall be contested in good faith by appropriate proceedings and shall have been reserved against as required by GAAP, by the Borrowers.

(j) Maintenance of Property; Insurance. Keep all property useful in and necessary to its business in good working order and condition; and shall keep their property continuously insured with Required Property Insurance Coverage and maintain Required Public Liability Insurance Coverage.

All insurance shall be obtained and maintained either by means of policies with generally recognized, responsible insurance companies qualified to do business in the jurisdiction where such property is located or pursuant to other arrangements satisfactory to the Agent. The insurance to be provided may be by blanket policy. The Banks shall be named as additional insureds, loss payees and mortgagees on each policy of insurance to the extent of its interest in the Collateral, and each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than thirty (30) days advance written notice to the Agent. The Borrowers shall deposit with the Agent certificates or other evidence satisfactory to it that (i) the insurance required hereby has been obtained and is in full force and effect, and (ii) all premiums thereon have been paid in full. Prior to the expiration of any such insurance, the Borrowers shall furnish the Agent with evidence satisfactory to it that such insurance has been renewed or replaced and that all premiums thereon have been paid in full.

All policies providing the Required Property Insurance Coverage shall contain standard loss payable clauses requiring all proceeds resulting from any claim from loss or damage in excess of \$500,000.00 with respect to the Collateral to be paid to the Agent and shall be paid and applied as set forth in the Security Agreement. Any proceeds of policies providing

Required Public Liability Insurance Coverage shall be applied toward the extinguishment or satisfaction of the liability with respect to which such insurance proceeds have been paid.

-36-

In the event the Borrowers fail to provide, maintain, keep in force and deliver and furnish to the Agent, the policies of insurance required by this Section 7.1 (j), the Agent and/or the Banks may procure such insurance or single-interest insurance for such risk covering the Banks' interest and the Borrowers will pay all premiums thereon promptly upon demand by the Agent, together with interest thereon at the rate then in effect under the Notes.

(k) ERISA Funding Requirements. Comply with all funding requirements of ERISA with respect to any Plan of any Borrower.

(l) Indemnification. Defend, indemnify and hold the Agent and the Banks and any of their respective officers, directors and employees harmless against any and all loss, cost, expense, claims or actions arising out of the execution and delivery of this Agreement, the Notes, the Security Agreement and the other Facility Documents, and the transactions contemplated hereby and thereby, regardless of whether or not the disbursement of any Revolving Credit Loans shall actually occur, unless any such loss, cost, expense, claim or action are due to the gross negligence or willful misconduct of the Banks. The provisions of this Section 7.1 (l) shall survive the termination of this Agreement.

(m) Performance Under Facility Documents. Perform all obligations required to be performed by each under the terms of this Agreement and the other Facility Documents and any other agreements now or hereafter existing or entered into between the Borrowers and the Banks.

(n) Corporate Existence; Foreign Qualification. Do or cause to be done at all times all things necessary to: (i) maintain and preserve their respective corporate existence; (ii) be duly qualified to do business and be in good standing as a foreign corporation in each jurisdiction where failure to do so will have a Material Adverse Effect; and (iii) comply with all Contractual Obligations.

SECTION 7.2 Negative Covenants. So long as the Borrowers may borrow (including pursuant to Commercial L/Cs and Standby L/Cs) under this Agreement and until payment in full of the Notes, or any other amount or obligation is owing to the Banks hereunder, the Borrowers shall not, unless the Banks shall otherwise consent in writing:

(a) Indebtedness. Create, incur, assume or suffer to exist any Indebtedness or liability for borrowed money, except for: (i) Indebtedness to the Banks pursuant to this Agreement; (ii) Indebtedness existing on the date hereof; and (iii) accounts payable and other liabilities created in the ordinary course of business, including but not limited to obligations described in Sections 7.2(c) and (d), but not including any liability or Indebtedness incurred in connection with the borrowing of money.

(b) Mortgages and Pledges. Create, incur, assume or suffer to exist (i) any Lien of any kind (including the charge on property purchased under conditional sales

-37-

or other title retention agreements) upon, or any security interest in, any of their property or assets, whether now owned or hereafter acquired except as specifically permitted under this Agreement, or (ii) an agreement with any Person (other than the Banks) which prohibits or restricts the granting of any such Lien of any kind in favor of the Banks, except:

(i) liens securing taxes, assessments or governmental charges or levies or the claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like persons, provided the payment thereof is not at the time required by Section 7.1(i);

(ii) liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance, social security and other like laws;

(iii) attachment, judgment or other similar liens arising in connection with court proceedings, provided the execution or other enforcement of such liens is effectively stayed and the claims secured thereby

are being actively contested in good faith and by appropriate proceedings, provided, however, that if, in the opinion of the Agent, any such lien against any Collateral is subject to imminent loss or forfeiture, the Borrowers shall discharge any such attachment, judgment or other similar lien;

(iv) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions (but not including any real estate mortgages or other similar liens) affecting real property, provided they do not in the aggregate materially detract from the value of said property or materially interfere with its use in the ordinary conduct of the owning Borrower's business;

(v) purchase money security interests not exceeding in amount the purchase price of the property purchased and up to an aggregate total of \$250,000 (when aggregated with the amount of lease obligations permitted under Section 7.2(f)); and

(vi) inchoate liens arising under ERISA to secure the contingent liability of the Borrowers.

(c) Merger, Consolidation and Acquisition of Assets. Enter into any transaction or merger, consolidation, amalgamation or reorganization or liquidate, wind up or dissolve any of the Borrowers (or suffer any liquidation or dissolution), or convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of their business or assets, whether now owned or hereafter acquired, or make any material change in the method by which they conduct the business, or acquire all or any material part of the business assets of, or any stock or other evidence of beneficial ownership of, any Person.

(d) Sale of Assets. Sell, lease or otherwise dispose of any material part of its assets outside the ordinary course of business.

-38-

(e) Contingent Liabilities. Assume, guarantee, endorse, sell with recourse, contingently agree to purchase, discount, or otherwise become or remain liable with respect to any Contingent Obligations, or enter into any agreement for the purchase or other acquisition of any product, materials or supplies, or for transportation or for the payment for services, if in any such case payment therefor is to be made regardless of the non-delivery of the product, materials or supplies or the non-furnishing of the transportation or services.

(f) Obligations as Lessee. Enter into any arrangements as lessee of real or personal property, except for (i) those existing as of the date hereof, (ii) those entered into in the ordinary course of business not to exceed an aggregate balance of \$250,000 (when aggregated with the amount of purchased assets subject to purchase money security interests permitted by Section 7.2(b)(v)), and (iii) those which are hereafter disclosed to and approved by the Banks.

(g) Transactions with Affiliates. Enter into any transactions, including without limitation, the purchase, sale or exchange of property or the rendering of any service, with any Affiliate, except (i) in the ordinary course of and pursuant to the reasonable requirements of its business and upon fair and reasonable terms no less favorable to the Borrower as would obtain in any arm's length transaction with a person not an Affiliate, and (ii) those transactions existing on the date hereof.

(h) Investments; Loans. Purchase, acquire, exercise an option to purchase or acquire, or own the assets, obligations, stock or any other interest of or in, or make loans or advances to, or investments in, any Person, except for investments by the Borrowers in (i) certificates of deposit issued by the Banks; (ii) commercial paper accorded the highest quality rating by two national rating agencies accustomed to giving such rating; (iii) readily marketable direct obligations of the United States of America or any agency thereof or readily marketable obligations fully guaranteed by the United States of America or any agency thereof; (iv) investment grade state and/or municipal bonds, tax-free state and/or municipal bonds, and preferred stocks of utilities; or (v) deposits to secure the performance of bids, tenders or contracts or to secure statutory obligations or surety or appeal bonds, or to secure indemnity, performance or other similar bonds, all in the ordinary course of business.

(i) Sale and Leaseback. Enter into any arrangements whereby any Borrower shall sell or transfer any of its property and then or within one year thereafter, as lessee, rent or lease such property.

(j) Compliance with ERISA. (i) Allow or suffer to exist any Prohibited Transaction involving any Plan, (ii) incur or suffer to exist any

accumulated funding deficiency, whether or not waived, involving any such Plan, or (iii) allow any occurrence of or suffer to exist any ERISA Event, or any other event or condition, that presents a material risk of termination of any such Plan by the PBGC; if such Prohibited Transaction,

-39-

accumulated funding deficiency or ERISA Event would result in a liability of the Borrowers to the PBGC which is material to the Borrowers.

(k) Sale of Subsidiary Securities. Sell any security, debt or equity of Five Star or Lifestyle, or permit Five Star or Lifestyle to sell or issue any security, debt or equity to any Person other than Rocky Inc.

(l) Financial Covenants.

(i) Current Ratio. Permit the Current Ratio to be less than (x) 1.2 to 1.0 from and including June 30 through and including December 30 of each Fiscal Year, and (y) 1.3 to 1.0 from and including December 31 of each Fiscal Year through and including June 29 of the succeeding Fiscal Year.

(ii) Consolidated Tangible Net Worth. Permit Consolidated Tangible Net Worth to be less than \$23,750,000, which amount shall increase annually on the last day of each Fiscal Year by 75% of Consolidated Earnings for such Fiscal Year (but not decreased by any losses), commencing with the Fiscal Year ending December 31, 1996.

(iii) Debt to Worth Ratio. Permit the ratio of Consolidated Liabilities to Consolidated Tangible Net Worth to exceed (x) 2.25 to 1.0 from and including June 30 through and including December 30 of each Fiscal Year, and (y) 1.5 to 1.0 from and including December 31 of each Fiscal Year through and including June 29 of the succeeding Fiscal Year.

(iv) Cash Flow Coverage. Permit Cash Flow Coverage to be less than 1.3 to 1.0.

(v) Capital Expenditures. Permit Capital Expenditures to exceed (x) \$2,750,000 in the Fiscal Year ending December 31, 1996, and (y) \$2,500,000 in each Fiscal Year thereafter.

ARTICLE VIII

EVENTS OF DEFAULT

SECTION 8.1 Events of Default. The occurrence of any of the following shall constitute an "Event of Default":

(a) Any Borrower fails to pay when due any amount payable under this Agreement or the Notes or make any reimbursement in connection with any Commercial L/C or Standby L/C due in accordance with the terms of the Commercial L/C Application and the Standby L/C Application, and such failure continues for more than five (5) days after such payment or reimbursement became due;

-40-

(b) Any Borrower (i) fails to observe or perform any other term of the Notes, the Commercial L/Cs or the Standby L/Cs, and such failure to observe or perform continues for more than fifteen (15) days after such failure shall first become known to any officer of any Borrower, provided, however, that such fifteen (15) day cure period shall not apply to (x) any such failure which in the Agent's good faith opinion is incapable of cure; (y) any such failure which has previously occurred; or (z) any failure to maintain and keep in effect any insurance required by any Facility Document; (ii) makes any materially incorrect or misleading representation, warranty, or certificate to the Agent or the Banks; (iii) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Agent or the Banks; or (iv) defaults under the terms of any agreement or instrument relating to any Indebtedness (other than the Indebtedness evidenced by the Notes) such that the creditor declares the Indebtedness debt due before its maturity;

(c) Any other default occurs under the terms of this Agreement, the Security Agreement or any other Facility Document or any default occurs under the terms of any other loan agreement, mortgage, security agreement or any other agreement executed as part of any other obligation or

Indebtedness of any Borrower owed to either Bank at any time, and such default continues for more than fifteen (15) days after such default shall first become known to any officer of any Borrower, provided, however, that such fifteen (15) day cure period shall not apply to (w) any failure to provide to the Banks the financial statements, documents and information required to be provided pursuant to Sections 7.1(a), (b), and (c); (x) any default which in the Agent's good faith opinion is incapable of cure; (y) any default which has previously occurred; or (z) any failure to maintain and keep in effect any insurance required by any Facility Document;

(d) A Reportable Event occurs that would permit the PBGC to terminate any Plan of any Borrower or any Affiliate of any Borrower, or the occurrence of an ERISA Event which shall not have been cured within thirty (30) days after any officer of any Borrower has knowledge thereof ;

(e) Any Borrower becomes insolvent or unable to pay its debts as they become due;

(f) Any Borrower (i) makes an assignment for the benefit of creditors; (ii) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (iii) commences or consents to any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction;

(g) A custodian, receiver or trustee is appointed for any Borrower or for a substantial part of its assets without its consent and is not removed within sixty (60) days after such appointment;

-41-

(h) Proceedings are commenced against any Borrower under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and such proceedings remain undismissed for sixty (60) days after commencement;

(i) Any judgment is entered against any Borrower, or any attachment, levy or garnishment is issued against any property of any Borrower, in excess of \$250,000.00, and which judgment, attachment, levy or garnishment has not been discharged or stayed within thirty (30) days after issuance, or for such longer period as the Banks may agree to in writing;

(j) Any Borrower, without the Banks' written consent, (i) is dissolved; (ii) merges or consolidates with any third party; (iii) sells a material part of its assets or business outside the ordinary course of its business, or (iv) agrees to do any of the foregoing;

(k) There is a substantial change (other than with respect to changes in the normal course of any Borrower's business, such as seasonal fluctuations) in the existing or prospective financial condition of any Borrower which the Banks in good faith determines to be materially adverse; or

(l) The Banks in good faith deem themselves insecure.

Upon the happening of any Event of Default, (i) all obligations of the Banks to make further Revolving Credit Loans and issue Commercial L/Cs and Standby L/Cs hereunder shall terminate, (ii) all amounts owing under the Notes, this Agreement and all other Facility Documents, shall become immediately due and payable, without notice, at either Bank's option, and (iii) the Agent and the Banks shall have all of the rights and remedies provided by any law or agreement, including the right to cause all or any part of the Collateral securing the Notes and other Indebtedness owed to the Banks to be transferred to or registered in the name of the Agent and/or the Banks or in the name of any other Person, with or without designation of the capacity of such nominee. Any requirement of reasonable notice shall be met if the Agent sends the notice to the Borrowers at least seven (7) days prior to the date of any public or private sale, disposition or other event giving rise to the required notice. The Borrowers shall be liable for any deficiency remaining after disposition of the Collateral securing the Notes. The Borrowers are liable to the Agent and the Banks for all reasonable costs and expenses of every kind incurred in the making or collection of amounts due hereunder and under the Notes, including, without limitation, reasonable attorneys' fees and court costs. These costs and expenses shall include, without limitation, any costs or expenses incurred by the Agent and the Banks in any bankruptcy, reorganization, insolvency or other similar proceeding.

If one Bank exercises its option to accelerate the maturity of its Note and pursue any remedy provided for herein, such Bank shall give immediate notice of the same to the other Bank and the Agent and such other Bank shall then accelerate the maturity of its

-42-

Note and pursue remedies hereunder. The Banks, to the extent possible, shall cooperate with each other and the Agent in pursuing such remedies.

SECTION 8.2 Allocation of Proceeds. Any moneys (including, without limitation, the proceeds of any sale of the Collateral, any part thereof or any interest therein) received by the Agent and/or the Banks pursuant to the exercise of any remedies provided herein or in the other Facility Documents or by law shall be applied in the following order of priority:

- First: the payment of each Bank and the Agent for all moneys reasonably advanced by each for taxes, assessments, insurance, costs incurred for the protection of the Collateral and costs incurred in the collection thereof (including, without limitation, reasonable attorneys' fees and expenses);
- Second: the payment to Bank One and HNB of all unpaid interest and other sums and/or charges owing to the Banks;
- Third: the payment to Bank One and HNB in proportion to the ratio of the principal amount of the Indebtedness owed to each Bank to the aggregate principal amount of the Indebtedness owed to both Banks (calculated in the case of an action in foreclosure, as of the date of the foreclosure sale, or if the action is not pursued to foreclosure, the date of dismissal of the action) of all unpaid principal constituting the Indebtedness owing to the Banks; and
- Fourth: To, or at the direction of, the Borrowers, or as a court of competent jurisdiction otherwise directs.

ARTICLE IX

THE AGENT

SECTION 9.1 Appointment. Each Bank hereby irrevocably designates and appoints Bank One as Agent of such Bank under this Agreement, each of the Notes, the Security Agreement and the other Facility Documents, and each Bank hereby irrevocably authorizes Bank One, as Agent for such Bank, to take such action on its behalf under the provisions of this Agreement, the Notes, the Security Agreement and the other Facility Document and to exercise such powers and perform such duties as are expressly delegated to Agent by the terms of this Agreement, the Notes, the Security Agreement and the other Facility Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, any Note, the Security Agreement or any other Facility Documents, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Banks, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement, any Note, the Security Agreement or any other Facility Documents, or otherwise exist against the Agent.

-43-

SECTION 9.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

SECTION 9.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents or attorneys-in-fact shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement, any Note, the Security Agreement or any other Facility Documents (except for its or such Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to either of the Banks for any recitals, statements, representations or warranties made by the Borrowers or any officer thereof contained in this Agreement, any Note, the Security Agreement or any other Facility Documents or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement, any Note, the Security Agreement or any other Facility Documents or for the value, or validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note, the Security Agreement or any other Facility Documents, or for any failure of any Borrower to perform its obligations hereunder or thereunder. The Agent shall be under no obligation to either Bank to ascertain or to inquire as to the observance or performance of any of the agreements

contained in, or conditions of, this Agreement, any Note, the Security Agreement or any other Facility Documents, or to inspect the properties, books or records of the Borrowers.

SECTION 9.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, facsimile, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrowers), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes. The Agent shall be fully justified in failing or refusing to take any action under this Agreement, any Note, the Security Agreement or any other Facility Documents unless it shall first receive such advice or concurrence of the Banks or it shall first be indemnified to its satisfaction by all Banks against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, either Note, the Security Agreement or any other Facility Documents in accordance with a request of both Banks, and such request and any action taken or failure to act pursuant thereto shall be binding upon the Banks and all future holders of the Notes.

SECTION 9.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent

-44-

has received notice from either Bank or the Borrowers referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". If the Agent receives such a notice or any other notice from a Borrower, the Agent shall promptly give notice thereof to the Banks. The Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Banks; provided that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall reasonably deem advisable in the best interest of the Banks.

SECTION 9.6 Non-Reliance on Agent and Other Banks. Each Bank expressly acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrowers shall be deemed to constitute any representation or warranty by the Agent to either Bank. Each Bank represents to the Agent that it has, independently and without reliance upon the Agent or the other Bank, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrowers and made its own decision to make its extensions of credit hereunder and enter into this Agreement. Each Bank also represents that it will, independently and without reliance upon the Agent or the other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, the Notes the Security Agreement and the other Facility Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrowers. Except for notices, reports and other documents expressly required to be furnished to the Banks by the Agent hereunder, the Agent shall not have any duty or responsibility to provide either Bank with any credit or other information concerning the business, operations, property, financial and other condition or creditworthiness of the Borrowers which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or affiliates.

SECTION 9.7 Indemnification. Each Bank agrees to indemnify the Agent in its capacity as such (to the extent not reimbursed by the Borrowers and without limiting the obligation of the Borrowers to do so), ratably according to the respective Revolving Credit Loan Commitment Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expense or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time following the payment of the Notes) be imposed on, incurred by or asserted against the Agent in any way relating to or arising out of this Agreement, the Notes, the Security Agreement and the other Facility Documents or any documents contemplated by or referred to herein or the transactions contemplated hereby or any action taken or omitted by the Agent under or in connection with any of

the foregoing; provided that neither Bank shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions,

-45-

judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Notes and all other amounts payable hereunder.

SECTION 9.8 Bank One in Its Individual Capacity. Bank One and its affiliates may make Loans to, accept deposits from and generally engage in any kind of business with the Borrowers as though Bank One were not the Agent hereunder. With respect to its Revolving Credit Loans made or renewed by it and any Note issued to it either as Bank One or the Agent, Bank One shall have the same rights and powers under this Agreement as either Bank and may exercise the same as though it were not the Agent, and the terms "Bank" and "Banks" shall include Bank One in its individual capacity.

SECTION 9.9 Successor Agent. The Agent may resign as agent upon 30 days' notice to the Banks. If the Agent shall resign as agent under this Agreement, then the Banks shall appoint from among the Banks a successor Agent for the Banks, whereupon such successor Agent shall succeed to the rights, powers and duties of the Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article IX shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

ARTICLE X

ASSIGNMENT AND PARTICIPATION

SECTION 10.1 Assignments. No Bank may sell or assign its rights and interests under this Agreement without the written consent of each Bank and the Borrowers, provided that after the occurrence of a Default or an Event of Default that has not been waived by all Banks, the consent of the Borrowers shall not be required.

SECTION 10.2 Participations.

(a) Each Bank may sell participations to one or more Participants in or to all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and Revolving Credit Loans) and any other Indebtedness that may now or hereafter be owed by any Borrower to such Bank; provided, however, that (i) such Bank's obligations under this Agreement (including its Commitment to the Borrowers hereunder) shall remain unchanged; (ii) such Bank shall remain solely responsible to the other parties hereto for the performance of such obligations; (iii) the Borrowers, the Agent and the other Bank shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement; (iv) each such participation shall be solely to a Participant; and (v) any Participant which is not an affiliate of such Bank

-46-

shall have no right to require such Bank to take or omit to take any action under this Agreement, the Notes or other Facility Documents, including, but not limited to, action extending the final maturity date of any Revolving Credit Loan in which the Participant has a participation, reducing the interest rate, fees or commissions on any Revolving Credit Loans in which such participation was sold, forgiving any principal of or interest, fees or commissions payable on any Revolving Credit Loans in which such participation was sold or releasing of all or substantially all of the Collateral as security for the Revolving Credit Loans. Each Bank agrees to incorporate the requirements set forth in the preceding sentence into each participation agreement which such Bank enters into with any Participant. The Borrowers agree that if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable, each Participant shall, to the extent permitted by applicable law, be deemed to have all rights of payment (including, without limitation, rights of setoff) in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Bank under this

Agreement; provided, however, that any Participant exercising such right shall be obligated to share with the Banks, as if such Participant were a "Bank" hereunder, the amount of any such payment or setoff in accordance with this Agreement.

(b) If a Participant shall at any time participate with a Bank in making Revolving Credit Loans hereunder or under any other agreement between such Bank and the Borrowers, the Borrowers hereby grant to such Participant (in addition to any other rights that such Participant shall have) and such Participant shall have and is hereby given a continuing lien and security interest in any money, securities or other property of the Borrowers in the custody or possession of the Participant, including the right to set-off, to the extent of Participant's participation in the obligations of the Borrowers to such Bank, as it would have if it were a direct lender to the Borrowers.

SECTION 10.3 Disclosure of Information. A Bank may, in connection with any participation or proposed participation pursuant to this Article X, disclose to the Participant or proposed Participant any information relating to the Borrowers furnished to the Bank by or on behalf of the Borrowers; provided that such proposed Participant, if not an affiliate of such Bank, executes a confidentiality letter in favor of the Borrowers.

ARTICLE XI

MISCELLANEOUS

SECTION 11.1 Expenses. Whether or not the transactions herein contemplated shall be consummated, the Borrowers agree to pay all out-of-pocket expenses (including reasonable fees and expenses of counsel) of the Agent and the Banks incurred in connection with the preparation of this Agreement, the Notes, any amendments or supplements to this Agreement, the Security Agreement and the other Facility Documents, any audit, appraisal or other such service deemed necessary or desirable by the Agent or the Banks for the preparation of the Agreement, underwriting documents or enforcing the

-47-

Agent's and the Banks' rights hereunder, and all out-of-pocket expenses (including reasonable fees and expenses of their respective counsel) incidental to the enforcement of the rights of the Agent and the Banks under any provisions of this Agreement, the Notes and any other Facility Document.

SECTION 11.2 Covenants to Survive, Binding Agreement. This Agreement shall be binding upon and inure to the benefit of the Agent, the Banks, the Borrowers and their respective successors or assigns; provided, however, that the Borrowers may not assign or otherwise dispose of any of its rights or obligations hereunder. All covenants, agreements, warranties and representations made herein, and in all certificates and documents delivered in connection with this Agreement by or on behalf of the Borrowers shall survive the execution and delivery hereof and thereof, and all such covenants, agreements, representations and warranties shall inure to the respective successors and assigns of the Banks whether or not so expressed.

SECTION 11.3 Waivers. No failure on the part of the Agent or the Banks to exercise and no delay in exercising any right or remedy hereunder or under the Notes, the Security Agreement or the Facility Documents shall operate as a waiver thereof, nor shall any single or partial exercise by the Agent or the Banks of any right, remedy or power hereunder thereunder preclude any other right, remedy or power. The rights, remedies and powers provided herein, in the Notes, the Security Agreement and the other Facility Documents are cumulative and not exclusive of any other rights, remedies or powers which the Agent, the Banks or any holder of the Notes, would otherwise have. Notice to or demand on the Borrowers in any circumstance in which the terms of this Agreement, the Notes, the Security Agreement or the other Facility Documents do not require notice or demand to be given shall not entitle the Borrowers to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Agent, the Banks or the holder of any Notes to take any other further action in any circumstances without notice or demand.

SECTION 11.4 Notices. Notice from one party to another relating to this Agreement shall be deemed effective if made in writing (including telecommunications) and delivered to the recipient's address, telex number or telecopy number set forth below (or to such other address or number as such party shall give notice) by any of the following means: (i) hand delivery, (ii) registered or certified mail, postage prepaid, with return receipt requested, (iii) Federal Express, Airborne Express or like overnight courier service or (iv) telecopy, telex or other wire transmission with request for assurance of receipt in a manner typical with respect to communications of that type. Notice made in accordance with this section shall be deemed delivered on receipt if delivered by hand or wire transmission, on the third business day after mailing

if mailed by registered or certified mail, or the next business day after mailing or deposit with an overnight courier service if delivered by express mail or overnight courier for next day delivery.

If to the Banks: Bank One, Columbus, NA
Attn: Corporate Banking, Metropolitan Division

-48-

100 East Broad Street, 7th Floor
Columbus, OH 43271-0170
Telecopier: (614) 248-5518

The Huntington National Bank
Attn: Commercial Banking
41 South High Street
Columbus, OH 43287
Telecopier: (614) 480-5791

If to the Agent: Bank One, Columbus, NA, as Agent
Attn: Corporate Banking, Metropolitan Division
100 East Broad Street, 7th Floor
Columbus, OH 43271-0170
Telecopier: (614) 248-5518

If to the Borrowers: Rocky Shoes & Boots, Inc.
Attn: David S. Fraedrich,
Executive Vice President
39 East Canal Street
Nelsonville, OH 45764
Telecopier: (614) 753-4024

Five Star Enterprises Ltd.
Attn: David S. Fraedrich,
Executive Vice President
39 East Canal Street
Nelsonville, OH 45764
Telecopier: (614) 753-4024

Lifestyle Footwear, Inc.
Attn: David S. Fraedrich,
Executive Vice President
39 Canal Street
Nelsonville, OH 45764
Telecopier: (614) 753-4024

SECTION 11.5 Section Headings, Severability, Entire Agreement. Section and subsection headings have been inserted herein for convenience only and shall not be construed as part of this Agreement. Every provision of this Agreement, the Notes, the Security Agreement and the other Facility Documents is intended to be severable; if any term or provision of this Agreement, the Notes, the Security Agreement or the other Facility Documents delivered in connection herewith shall be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof or thereof shall not in any way be affected or impaired thereby. All Exhibits and

-49-

Schedules to this Agreement shall be annexed hereto and shall be deemed to be part of this Agreement. This Agreement and the Exhibits and Schedules attached hereto and the other Facility Documents embody the entire agreement and understanding between the Borrowers, the Agent and the Bank and supersede all prior agreements and understandings relating to the subject matter hereof.

SECTION 11.6 Governing Law. This Agreement, the Notes and all other Facility Documents are being delivered, and are intended to be performed in, the State of Ohio and shall be construed and enforceable in accordance with, and governed by, the laws of the State of Ohio.

SECTION 11.7 Right of Setoff. The Borrowers hereby grant to the Banks, for the ratable benefit of both Banks, a right of setoff for all Setoff Obligations of the Borrowers to the Banks hereunder in and to any and all moneys of the Borrowers and the proceeds thereof now or hereafter held or received by or in transit to the Banks from or for the account of the Borrowers, whether for safekeeping, pledge, transmission, collection or otherwise, and also upon any and all deposits (general and special), account

balances and credits of the Borrowers with the Banks at any time existing. Each Bank, for the ratable benefit of both Banks, is hereby expressly and irrevocably authorized by the Borrowers at any time and from time to time, without notifying the Borrowers, to setoff, appropriate and apply against any and all items hereinbefore referred to in this Section 11.7 against all Setoff Obligations of the Borrowers to the Banks and the Borrowers shall continue to be liable to the Banks for any deficiency with interest at the applicable rates. The Borrowers hereby irrevocably consent that the Banks shall have the right of, and hereby irrevocably appoints each Bank as their agent for the purpose of, possessing, setting-off, appropriating and applying such items for the benefit of the Banks and paying or delivering over to the Banks any of such items for application in accordance with the provisions hereof.

SECTION 11.8 Amendments. The Banks and the Borrowers may, from time to time, enter into agreements, amendatory or supplemental hereto, for the purpose of changing any provisions of this Agreement, the Notes, the Security Agreement or the other Facility Documents or changing in any manner the rights of the Banks or the Borrowers hereunder and thereunder. Any such amendatory or supplemental agreement or waiver shall be binding on the Borrowers and the Banks.

SECTION 11.9 Taxes and Fees. Should any tax (other than a tax based upon the net income of the Banks) or any recording or filing fees become payable in respect of this Agreement, the Notes, the Security Agreement or the other Facility Documents or any amendment, modification or supplement hereof or thereof, the Borrowers agree to pay the same together with any interest or penalties thereon and agree to hold the Banks harmless with respect thereof.

SECTION 11.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one

-50-

agreement. It shall not be necessary in making proof of this Agreement or of any document required to be executed and delivered in connection herewith to produce or account for more than one counterpart.

SECTION 11.11 Effective Date. This Agreement shall be effective at such time as executed counterparts of this Agreement have been delivered by the Borrowers to the Banks.

SECTION 11.12 WAIVER OF JURY TRIAL. THE BANKS, THE AGENT AND EACH BORROWER, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE NOTES, THE OTHER FACILITY DOCUMENTS, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY OF THEM. THIS WAIVER SHALL NOT IN ANY WAY AFFECT THE AGENT'S OR THE BANKS' ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR COGNOVIT PROVISION CONTAINED IN ANY FACILITY DOCUMENT. NEITHER THE BANKS, THE AGENT NOR ANY BORROWER SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY THE BANKS, THE AGENT OR THE BORROWERS EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

SECTION 11.13 Waiver of Subrogation. Each Borrower expressly waives any and all rights of subrogation, contribution, reimbursement, indemnity, exoneration, implied contract, recourse to security or any other claim (including any claim, as that term is defined in the federal Bankruptcy Code, and any amendments) which such Borrower may now have or later acquire against any other Borrower, any other entity directly or contingently liable for the obligations of the Borrowers under this Agreement and the other Facility Documents or against the Collateral, arising from the existence or performance of such Borrower's obligations under this Agreement and the other Facility Documents.

SECTION 11.14 Confession of Judgment. Each Borrower irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Banks or the Agent, to appear for the Borrower in any court of record in Franklin County, Ohio (which the Borrower acknowledges to be the place where this Agreement was made) or any other state or jurisdiction wherein the Borrower may then reside, to (i) waive the issuing and service of process, (ii) confess judgment against the Borrower in favor of the holder of this Agreement for all amounts then due hereunder, together with costs of suit, (iii) release all errors, and (iv) waive all rights of appeal. Each Borrower consents to the jurisdiction and

-51-

venue of that court. Each Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Banks or the Agent may have in confessing judgment hereunder and consents to payment of a legal fee to any attorney-at-law confessing judgment hereunder. After judgment is entered against one or more of the Borrowers, the power conferred may be exercised as to one or more of the other Borrowers.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first written above.

BORROWERS:

Rocky Shoes & Boots Inc.,
an Ohio corporation

By: /s/ DAVID FRAEDRICH

Title: Executive Vice President
& Chief Financial Officer

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

Five Star Enterprises LTD.,
a Cayman Islands Corporation

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Lifestyle Footwear, Inc.,
a Delaware Corporation

By: /s/ DAVID FRAEDRICH

Title: Treasurer

-52-

BANKS:

Bank One, Columbus, NA,
a national banking association

By: /s/ Elizabeth Calwalder

Title: Vice President

The Huntington National Bank,
a national banking association

By: /s/ Geoffrey E. Mowery

Title: Vice President

AGENT:

Bank One, Columbus, NA,
a national banking association

By: /s/ Elizabeth Calwalder

Title: Vice President

-53-

Bank One Note

MASTER BUSINESS LOAN NOTE

Due: April 30, 1998
No. _____

\$21,000,000.00
Date: January 28, 1997

Promise to Pay: On or before April 30, 1998 (or such later date as may be provided in the Loan Agreement (defined below)), for value received, the undersigned, Rocky Shoes & Boots, Inc., an Ohio corporation, Five Star Enterprises Ltd., a Cayman Islands corporation, and Lifestyle Footwear, Inc., a Delaware corporation (collectively referred to as the "Borrower"), promise to pay, jointly and severally, to Bank One, Columbus, NA, a national banking association (the "Bank"), or order, at the office of the Agent (defined below) located at 100 East Broad Street, Columbus, Ohio 43271-0170, or at such other address as the Agent may give notice of to the Borrower, the sum of Twenty-One Million Dollars (\$21,000,000.00) or such lesser sum as is indicated on the Bank's records, plus interest computed on the basis of the actual number of days elapsed in a year of 360 days at the rate per annum announced from time to time by the Bank as its "prime" rate (which rate may not be the lowest rate charged by the Bank to any of its customers) until maturity, whether by demand, acceleration or otherwise. Such interest rate shall be referred to herein as the "Note Rate." Upon the occurrence of an Event of Default (defined below) hereunder and during the continuance of such, the interest rate per annum shall be 300 basis points above the Note Rate then in effect. Each change in the "prime" rate will immediately change the Note Rate, effective as of the opening of business on the date of the change.

In no event shall the interest rate exceed the maximum rate allowed by law; any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

Interest will be computed on the unpaid principal balance from the date of each borrowing until paid.

Until maturity, whether by demand, acceleration or otherwise, the Borrower shall pay consecutive monthly installments of interest only commencing February 1, 1997, and continuing on the first day of each month thereafter.

The Borrower may at any time prepay this Note, in whole or in part, without premium or penalty, together with accrued interest on the amount of any such prepayment, in accordance with the terms of the Loan Agreement (defined below).

The Bank shall have the right to assess a late payment processing fee in the amount of the greater of \$50.00 and 5% of the scheduled payment in the event of a default in payment that remains uncured for a period of five (5) days.

Master Note: The Bank has authorized a committed credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of loans made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those loans. The aggregate principal amount of debt evidenced by this Note shall be the amount reflected from time to time in the records of the Bank, but shall not exceed the face amount of this Note.

Credit Agreement: This Note evidences a certain debt under the terms of a Revolving Credit Loan Agreement (the "Loan Agreement") between the Bank, the Borrower, The Huntington National Bank and Bank One, Columbus, NA, as Agent (the "Agent"), dated as of January 28, 1997, as the same may be amended, modified, supplemented, restated or replaced from time to time. Reference is made to the Loan Agreement for additional provisions relating to the debt evidenced by this Note.

Security: To secure the payment of this Note and other present and future liabilities of the Borrower to the Bank, the Borrower has pledged and granted to the Agent, for the ratable benefit of the Bank and The Huntington National Bank, a continuing security interest in certain assets of the Borrower pursuant to a Continuing Security Agreement dated as of January 28, 1997, as the same may be amended, modified, supplemented, restated or replaced from time to time. The Bank shall have the right at any time to apply its own debt or liability to the Borrower or to any other party liable on this Note in whole or partial payment of this Note or other present or future liabilities, without any requirement for mutual maturity.

Related Documents: The terms of any other documents executed as part of the loan evidenced by this Note are incorporated herein by reference.

Representations by Borrower: Each Borrower represents that it is a corporation duly organized and existing under the laws of its jurisdiction of formation, and that the execution and delivery of this Note and the performance of the obligations it imposes are within its corporate powers, have been duly authorized by all necessary action of its directors and do not contravene the terms of its articles (certificate) of incorporation and code of regulations (by-laws). Each Borrower represents that the execution and delivery of this Note and the performance of the obligations it imposes do not violate any law, do not conflict with any agreement by which it is bound, do not require the consent or approval of any governmental authority or any third party, and that this Note is a valid and binding agreement, enforceable according to its terms, except as enforcement of such terms may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or similar laws affecting creditors' rights generally, provided, however, that each Borrower represents and warrants that no such limitations currently exist as of the date of this Note, or (ii) equitable principles which may limit the availability of the remedy of specific performance or other equitable remedies. Each Borrower also represents that this Note evidences a business loan exempt from the Federal Truth In Lending Act (15 USC ss.1601, et seq.), and the Board of Governors of the Federal Reserve System's Regulation Z (12 CFR ss.226, et seq.).

Additional Terms and Conditions

Events of Default: If any of the following events (each an "Event of Default") occurs:

1. Any Borrower fails to pay when due any amount payable under this Note, and such failure continues for more than five (5) days after such payment became due;

2. Any Borrower (a) fails to observe or perform any other term of this Note, and such failure to observe or perform continues for more than fifteen (15) days after such failure shall first become known to any officer of any Borrower, provided, however, that such fifteen (15) day cure period shall not apply to (i) any such failure which in the Bank's good faith opinion is incapable of cure; and (ii) any such failure which has previously occurred; (b) makes any materially incorrect or misleading representation, warranty, or certificate to the Agent or the Bank; (c) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Agent or the Bank; or (d) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by this Note) such that the creditor declares the debt due before its maturity;

3. Any default occurs under the terms of any loan agreement, mortgage, security agreement, or any other document, including the Loan Agreement, executed as part of the loan evidenced by this Note or any other obligation or indebtedness of any Borrower owed to the Bank at any time, and such default continues for more than fifteen (15) days after such default shall first become known to any officer of any Borrower, provided, however that such fifteen (15) day cure period shall not apply to (a) any default which in the Bank's good faith opinion is incapable of cure; (b) any default which has previously occurred; (c) any failure to maintain and keep in effect any insurance required under the Loan Agreement; or (d) any failure to provide to the Bank the financial statements, documents and information required to be provided pursuant to Sections 7.1(a), (b), and (c) of the Loan Agreement;

4. A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974, as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of any Borrower or any affiliate of any Borrower, or the occurrence of an "ERISA Event" (as defined in the Loan Agreement) which shall not have been cured within thirty (30) days after any officer of any Borrower has knowledge thereof;

5. Any Borrower becomes insolvent or unable to pay its debts as they become due;

6. Any Borrower (a) makes an assignment for the benefit of creditors; (b) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (c) commences or consents to any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction;

7. A custodian, receiver or trustee is appointed for any Borrower or for a substantial part of its assets without its consent and is not removed

within sixty (60) days after such appointment;

8. Proceedings are commenced against any Borrower under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and such proceedings remain undismissed for sixty (60) days after commencement;

9. Any judgment is entered against any Borrower, or any attachment, levy or garnishment is issued against any property of any Borrower, in excess of \$250,000.00, and which judgment, attachment, levy or garnishment has not been discharged or stayed within thirty (30) days after issuance, or for such longer period as the Bank may agree to in writing;

10. Any Borrower, without the Bank's written consent, (a) is dissolved, (b) merges or consolidates with any third party, (c) sells a material part of its assets or business outside the ordinary course of its business, or (d) agrees to do any of the foregoing;

11. There is a substantial change (other than with respect to changes in the normal course of any Borrower's business, such as seasonal fluctuations) in the existing or prospective financial condition of any Borrower which the Bank in good faith determines to be materially adverse; or

12. The Bank in good faith deems itself insecure:

then this Note shall become due immediately, without notice, at the Bank's option.

Remedies: If this Note is not paid at maturity, whether by demand, acceleration or otherwise, the Agent and the Bank shall have all of the rights and remedies provided by any law or agreement. Any requirement of reasonable notice shall be met if the Agent or the Bank sends the notice to the Borrower at least seven (7) days prior to the date of public or private sale, disposition or other event giving rise to the required notice. Upon default, the Agent and the Bank are authorized to cause all or any part of any collateral securing this Note to be transferred to or registered in its (their) name(s) or in the name of any other person, firm or corporation, with or without designation of the capacity of such nominee. The Borrower shall be liable for any deficiency remaining after disposition of any collateral securing this Note. The Borrower is liable to the Agent and the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of this Note, including, without limitation, reasonable attorneys' fees and court costs. These costs and expenses shall include, without limitation, any costs or expenses incurred by the Agent and the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding.

Waiver: Each endorser and any other party liable on this Note severally waives demand, presentment, notice of dishonor and protest, and consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or part of the collateral securing this Note, to the

addition of any party, and to the release or discharge of, or suspension of any rights and remedies against, any person who may be liable for the payment of this Note. No delay on the part of the Bank in the exercise of any right or remedy shall operate as a waiver. No single or partial exercise by the Bank of any right or remedy shall preclude any other future exercise of it or the exercise of any other right or remedy. No waiver or indulgence by the Bank of any default shall be effective unless in writing and signed by the Bank, nor shall a waiver on one occasion be construed as a bar to or waiver of that right on any future occasion.

Miscellaneous: Each Borrower shall be jointly and severally liable under this Note. This Note shall be binding on each Borrower and its successors, and shall inure to the benefit of the Bank, its successors and assigns. Any reference to the Bank shall include any holder of this Note. This Note is delivered in the State of Ohio and governed by Ohio law. Section headings are for convenience of reference only and shall not affect the interpretation of this Note. This Note and all related loan documents embody the entire agreement between the Borrower and the Bank regarding the terms of the loan evidenced by this Note, and supersede all oral statements and prior writings relating to that loan.

WAIVER OF JURY TRIAL. EACH BORROWER, THE AGENT AND THE BANK, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS NOTE, THE LOAN AGREEMENT, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY OF THEM. THIS WAIVER SHALL NOT IN ANY WAY AFFECT THE BANK'S OR THE AGENT'S ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR COGNOVIT PROVISION CONTAINED HEREIN, IN THE LOAN AGREEMENT OR ANY RELATED INSTRUMENT OR AGREEMENT. NO BORROWER NOR THE BANK AND THE AGENT

SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY THE BORROWER, THE AGENT OR THE BANK EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

Each Borrower irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Bank or the Agent, to appear for the Borrower in any court of record in Franklin County, Ohio (which the Borrower acknowledges to be the place where this Note was made) or any other state or jurisdiction wherein the Borrower may then reside, to (i) waive the issuing and service of process, (ii) confess judgment against the Borrower in favor of the holder of this Note for the amount then due, together with costs of suit, (iii) release all errors, and (iv) waive all rights of appeal. Each Borrower consents to the jurisdiction and venue of that court. Each Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Bank or the Agent may have in confessing

judgment under this Note and consents to payment of a legal fee to any attorney-at-law confessing judgment under the Note. After judgment is entered against one or more of the Borrowers, the power conferred may be exercised as to one or more of the other Borrowers.

The undersigned have executed this Note in Columbus, Ohio, as of the date and year first above written.

Rocky Shoes & Boots Inc.,
an Ohio corporation

By: /s/ DAVID FRAEDRICH

Title: Executive Vice President
& Chief Financial Officer

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

FIVE STAR ENTERPRISES LTD.,
A CAYMAN ISLANDS CORPORATION

LIFESTYLE FOOTWEAR, INC.,
A DELAWARE CORPORATION

By: /s/ DAVID FRAEDRICH

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Title: Treasurer

EXHIBIT B

HNB Note

MASTER BUSINESS LOAN NOTE

Due: April 30, 1998

\$14,000,000.00

No. _____

Date: January 28, 1997

Promise to Pay: On or before April 30, 1998 (or such later date as may be provided in the Loan Agreement (defined below)), for value received, the undersigned, Rocky Shoes & Boots, Inc., an Ohio corporation, Five Star Enterprises Ltd., a Cayman Islands corporation, and Lifestyle Footwear, Inc., a Delaware corporation (collectively referred to as the "Borrower"), promise to pay, jointly and severally, to The Huntington National Bank, a national banking association (the "Bank"), or order, at the office of the Agent (defined below) located at 100 East Broad Street, Columbus, Ohio 43271-0170, or at such other address as the Agent may give notice of to the Borrower, the sum of Fourteen Million Dollars (\$14,000,000.00) or such lesser sum as is indicated on the Bank's records, plus interest computed on the basis of the actual number of days elapsed in a year of 360 days at the rate per annum announced from time to time by the Agent as its "prime" rate (which rate may not be the lowest rate charged by the Agent to any of its customers) until maturity, whether by demand, acceleration or otherwise. Such interest rate shall be referred to herein as the "Note Rate." Upon the occurrence of an Event of Default (defined

below) hereunder and during the continuance of such, the interest rate per annum shall be 300 basis points above the Note Rate then in effect. Each change in the "prime" rate will immediately change the Note Rate, effective as of the opening of business on the date of the change.

In no event shall the interest rate exceed the maximum rate allowed by law; any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

Interest will be computed on the unpaid principal balance from the date of each borrowing until paid.

Until maturity, whether by demand, acceleration or otherwise, the Borrower shall pay consecutive monthly installments of interest only commencing January, 1997, and continuing on the first day of each month thereafter.

The Borrower may at any time prepay this Note, in whole or in part, without premium or penalty, together with accrued interest on the amount of any such prepayment, in accordance with the terms of the Loan Agreement (defined below).

The Bank shall have the right to assess a late payment processing fee in the amount of the greater of \$50.00 and 5% of the scheduled payment in the event of a default in payment that remains uncured for a period of five (5) days.

Master Note: The Bank has authorized a committed credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of loans made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those loans. The aggregate principal amount of debt evidenced by this Note shall be the amount reflected from time to time in the records of the Bank, but shall not exceed the face amount of this Note.

Credit Agreement: This Note evidences a certain debt under the terms of a Revolving Credit Loan Agreement (the "Loan Agreement") between the Bank, the Borrower, Bank One, Columbus, NA and Bank One, Columbus, NA, as Agent (the "Agent"), dated as of January 28, 1997, as the same may be amended, modified, supplemented, restated or replaced from time to time. Reference is made to the Loan Agreement for additional provisions relating to the debt evidenced by this Note.

Security: To secure the payment of this Note and other present and future liabilities of the Borrower to the Bank, the Borrower has pledged and granted to the Agent, for the ratable benefit of the Bank and Bank One, Columbus, NA, a continuing security interest in certain assets of the Borrower pursuant to a Continuing Security Agreement dated as of January 28, 1997, as the same may be amended, modified, supplemented, restated or replaced from time to time. The Bank shall have the right at any time to apply its own debt or liability to the Borrower or to any other party liable on this Note in whole or partial payment of this Note or other present or future liabilities, without any requirement for mutual maturity.

Related Documents: The terms of any other documents executed as part of the loan evidenced by this Note are incorporated herein by reference.

Representations by Borrower: Each Borrower represents that it is a corporation duly organized and existing under the laws of its jurisdiction of formation, and that the execution and delivery of this Note and the performance of the obligations it imposes are within its corporate powers, have been duly authorized by all necessary action of its directors and do not contravene the terms of its articles (certificate) of incorporation and code of regulations (by-laws). Each Borrower represents that the execution and delivery of this Note and the performance of the obligations it imposes do not violate any law, do not conflict with any agreement by which it is bound, do not require the consent or approval of any governmental authority or any third party, and that this Note is a valid and binding agreement, enforceable according to its terms, except as enforcement of such terms may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or similar laws affecting creditors' rights generally, provided, however, that each Borrower represents and warrants that no such limitations currently exist as of the date of this Note, or (ii) equitable principles which may limit the availability of the remedy of specific performance or other equitable remedies. Each Borrower also represents that this Note evidences a business loan exempt from the Federal Truth In Lending Act (15 USC ss.1601, et seq.), and the Board of Governors of the Federal Reserve System's Regulation Z (12 CFR ss.226, et seq.).

Events of Default: If any of the following events (each an "Event of Default") occurs:

1. Any Borrower fails to pay when due any amount payable under this Note, and such failure continues for more than five (5) days after such payment became due;

2. Any Borrower (a) fails to observe or perform any other term of this Note, and such failure to observe or perform continues for more than fifteen (15) days after such failure shall first become known to any officer of any Borrower, provided, however, that such fifteen (15) day cure period shall not apply to (i) any such failure which in the Bank's good faith opinion is incapable of cure; and (ii) any such failure which has previously occurred; (b) makes any materially incorrect or misleading representation, warranty, or certificate to the Agent or the Bank; (c) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Agent or the Bank; or (d) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by this Note) such that the creditor declares the debt due before its maturity;

3. Any default occurs under the terms of any loan agreement, mortgage, security agreement, or any other document, including the Loan Agreement, executed as part of the loan evidenced by this Note or any other obligation or indebtedness of any Borrower owed to the Bank at any time, and such default continues for more than fifteen (15) days after such default shall first become known to any officer of any Borrower, provided, however that such fifteen (15) day cure period shall not apply to (a) any default which in the Bank's good faith opinion is incapable of cure; (b) any default which has previously occurred; (c) any failure to maintain and keep in effect any insurance required under the Loan Agreement; or (d) any failure to provide to the Bank the financial statements, documents and information required to be provided pursuant to Sections 7.1(a), (b), and (c) of the Loan Agreement;

4. A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974, as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of any Borrower or any affiliate of any Borrower, or the occurrence of an "ERISA Event" (as defined in the Loan Agreement) which shall not have been cured within thirty (30) days after any officer of any Borrower has knowledge thereof;

5. Any Borrower becomes insolvent or unable to pay its debts as they become due;

6. Any Borrower (a) makes an assignment for the benefit of creditors; (b) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (c) commences or consents to any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction;

7. A custodian, receiver or trustee is appointed for any Borrower or for a substantial part of its assets without its consent and is not removed within sixty (60) days after such appointment;

8. Proceedings are commenced against any Borrower under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and such proceedings remain undismissed for sixty (60) days after commencement;

9. Any judgment is entered against any Borrower, or any attachment, levy or garnishment is issued against any property of any Borrower, in excess of \$250,000.00, and which judgment, attachment, levy or garnishment has not been discharged or stayed within thirty (30) days after issuance, or for such longer period as the Bank may agree to in writing;

10. Any Borrower, without the Bank's written consent, (a) is dissolved, (b) merges or consolidates with any third party, (c) sells a material part of its assets or business outside the ordinary course of its business, or (d) agrees to do any of the foregoing;

11. There is a substantial change (other than with respect to changes in the normal course of any Borrower's business, such as seasonal fluctuations) in the existing or prospective financial condition of any Borrower which the Bank in good faith determines to be materially adverse; or

12. The Bank in good faith deems itself insecure;

then this Note shall become due immediately, without notice, at the Bank's option.

Remedies: If this Note is not paid at maturity, whether by demand, acceleration or otherwise, the Agent and the Bank shall have all of the rights and remedies

provided by any law or agreement. Any requirement of reasonable notice shall be met if the Agent or the Bank sends the notice to the Borrower at least seven (7) days prior to the date of public or private sale, disposition or other event giving rise to the required notice. Upon default, the Agent and the Bank are authorized to cause all or any part of any collateral securing this Note to be transferred to or registered in its their name(s) or in the name of any other person, firm or corporation, with or without designation of the capacity of such nominee. The Borrower shall be liable for any deficiency remaining after disposition of any collateral securing this Note. The Borrower is liable to the Agent and the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of this Note, including, without limitation, reasonable attorneys' fees and court costs. These costs and expenses shall include, without limitation, any costs or expenses incurred by the Agent and the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding.

Waiver: Each endorser and any other party liable on this Note severally waives demand, presentment, notice of dishonor and protest, and consents to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or part of the collateral securing this Note, to the

addition of any party, and to the release or discharge of, or suspension of any rights and remedies against, any person who may be liable for the payment of this Note. No delay on the part of the Bank in the exercise of any right or remedy shall operate as a waiver. No single or partial exercise by the Bank of any right or remedy shall preclude any other future exercise of it or the exercise of any other right or remedy. No waiver or indulgence by the Bank of any default shall be effective unless in writing and signed by the Bank, nor shall a waiver on one occasion be construed as a bar to or waiver of that right on any future occasion.

Miscellaneous: Each Borrower shall be jointly and severally liable under this Note. This Note shall be binding on each Borrower and its successors, and shall inure to the benefit of the Bank, its successors and assigns. Any reference to the Bank shall include any holder of this Note. This Note is delivered in the State of Ohio and governed by Ohio law. Section headings are for convenience of reference only and shall not affect the interpretation of this Note. This Note and all related loan documents embody the entire agreement between the Borrower and the Bank regarding the terms of the loan evidenced by this Note, and supersede all oral statements and prior writings relating to that loan.

WAIVER OF JURY TRIAL. EACH BORROWER, THE AGENT AND THE BANK, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS NOTE, THE LOAN AGREEMENT, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY OF THEM. THIS WAIVER SHALL NOT IN ANY WAY AFFECT THE BANK'S OR THE AGENT'S ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR COGNOVIT PROVISION CONTAINED HEREIN, IN THE LOAN AGREEMENT OR ANY RELATED INSTRUMENT OR AGREEMENT. NO BORROWER NOR THE BANK AND THE AGENT SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY THE BORROWER, THE AGENT OR THE BANK EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

Each Borrower irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Bank or the Agent, to appear for the Borrower in any court of record in Franklin County, Ohio (which the Borrower acknowledges to be the place where this Note was made) or any other state or jurisdiction wherein the Borrower may then reside, to (i) waive the issuing and service of process, (ii) confess judgment against the Borrower in favor of the holder of this Note for the amount then due, together with costs of suit, (iii) release all errors, and (iv) waive all rights of appeal. Each Borrower consents to the jurisdiction and venue of that court. Each Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Bank or the Agent may have in confessing

judgment under this Note and consents to payment of a legal fee to any attorney-at-law confessing judgment under the Note. After judgment is entered against one or more of the Borrowers, the power conferred may be exercised as to one or more of the other Borrowers.

The undersigned have executed this Note in Columbus, Ohio, as of the date and year first above written.

Rocky Shoes & Boots Inc.,
an Ohio corporation

By: /s/ DAVID FRAEDRICH

Title: Executive Vice President
& Chief Financial Officer

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

FIVE STAR ENTERPRISES LTD.,
A CAYMAN ISLANDS CORPORATION

LIFESTYLE FOOTWEAR, INC.,
A DELAWARE CORPORATION

By: /s/ DAVID FRAEDRICH

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Title: Treasurer

CONTINUING SECURITY AGREEMENT

among

ROCKY SHOES & BOOTS, INC.,
 FIVE STAR ENTERPRISES LTD.,
 LIFESTYLE FOOTWEAR, INC.

and

BANK ONE, COLUMBUS, NA, as Agent

Dated as of January 28, 1997

TABLE OF CONTENTS

(This Table of Contents is not part of this Agreement
 and is only for convenience of reference.)

<TABLE>
 <CAPTION>

		Page
<S>	<C>	<C>
Section 1.	Definitions.....	1
Section 2.	Security for the Facility and Other Indebtedness.....	3
Section 3.	Provisions Concerning the Collateral	
	(a) Accounts Receivable.....	5
	(b) Inventory.....	5
	(c) Equipment.....	6
	(d) Intellectual Property and General Intangibles.....	6
Section 4.	Representations, Warranties and Covenants of the Debtor.....	6
Section 5.	Insurance.....	7
Section 6.	Taxes and Assessments.....	8
Section 7.	Maintenance of Collateral.....	8
Section 8.	Ownership of Collateral.....	8
Section 9.	Events of Default.....	8
Section 10.	Remedies.....	10
Section 11.	Waiver of Jury Trial.....	11
Section 12.	Miscellaneous.....	11
	Signatures.....	13

</TABLE>

(ii)

CONTINUING SECURITY AGREEMENT

THIS CONTINUING SECURITY AGREEMENT (the "Agreement"), dated as of January 28, 1997, is made and entered into by and among Rocky Shoes & Boots, Inc., an Ohio corporation, whose address is 39 East Canal Street, Nelsonville, Ohio 45764 ("Rocky Inc."), Five Star Enterprises Ltd., a Cayman Islands corporation, whose address is 39 East Canal Street, Nelsonville, Ohio 45764 ("Five Star"), and Lifestyle Footwear, Inc., a Delaware corporation, whose address is 39 East Canal Street, Nelsonville, Ohio 45764 ("Lifestyle") (Rocky Inc., Five Star and Lifestyle shall be referred to herein individually as a "Debtor" and collectively as the "Debtors"), and Bank One, Columbus, NA, a national banking association, whose address is 100 East Broad Street, 7th Floor, Columbus, Ohio 43271-0170, as Agent (in this capacity, hereinafter referred to as the "Secured Party") under a certain Revolving Credit Loan Agreement (referred to below), for the ratable benefit of Bank One, Columbus, NA, a national banking association ("Bank One"), and The Huntington National Bank, a national banking association ("HNB") (Bank One and HNB shall be referred to herein individually as a "Bank" and collectively as the "Banks").

BACKGROUND INFORMATION

A. The Banks have provided revolving credit and other credit facilities to the Debtors.

B. To secure the repayment of such revolving credit and other credit facilities and all other present and future obligations owing by the Debtors to the Banks, the Debtors desire to grant a security interest in certain collateral to the Secured Party, as agent for and for the ratable benefit of the Banks, all as hereinafter set forth.

PROVISIONS

NOW, THEREFORE, as an inducement to and in consideration of the provision of such revolving credit and other credit facilities and all other present and future obligations owing by the Debtors to the Banks, the mutual obligations contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto do hereby agree as follows:

SECTION 1. Definitions. As used herein, the following terms shall have the following meanings:

"Bank One Notes" shall mean, collectively, the Construction Loan Note, the Master Business Loan Note and the Term Note, as the same may have been or may be amended, modified, supplemented, restated or replaced from time to time.

"Collateral" shall have the meaning set forth in Section 2 hereof.

"Construction Loan Agreement" shall mean the Construction and Term Loan Agreement dated as of October 27, 1993 entered into by and among the Debtors, Rocky Co. and NBD, as modified by (i) a First Amendment to Construction and Term Loan Agreement dated January 28, 1994, (ii) a Second Amendment to Construction and Term Loan Agreement dated December 31, 1994, and (iii) a Third Amendment to Construction and Term Loan Agreement dated March 30, 1995, as assigned to Bank One pursuant to a Loan Purchase, Assignment and Master Amendment Agreement among Bank One, NBD, NBD as agent, the Debtors and Rocky Co., dated as of February 1, 1996, as the same may be further amended, modified, supplemented, restated or replaced from time to time.

"Construction Loan Note" shall mean the Promissory Note dated October 27, 1993 executed by the Debtors and Rocky Co. originally payable to the order of NBD in the original principal amount of \$2,000,000, as modified by (i) a First Amendment to Promissory Note dated January 28, 1994, (ii) a Second Amendment to Promissory Note dated December 31, 1994, and (iii) a Third Amendment to Promissory Note dated March 30, 1995, as endorsed payable to the order of Bank One pursuant to a Loan Purchase, Assignment and Master Amendment Agreement dated as of February 1, 1996, as the same may be further amended, modified, supplemented, restated or replaced from time to time.

"Credit Agreement" shall mean the Revolving Credit Loan

Agreement of even date herewith entered into by and among the Debtors, the Secured Party and the Banks, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Credit Facilities" shall mean the credit facilities extended by the Banks to the Debtors pursuant the Construction Loan Agreement, the Credit Agreement, the Letter of Credit Documents, the Swap Agreement and the Notes, as such credit facilities may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Facility Documents" shall have the meaning set forth in Section 2 hereof.

"HNB Note" shall mean the Master Business Loan Note of even date herewith executed by the Debtors and payable to the order of HNB in the maximum principal amount of \$14,000,000, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Letter of Credit Documents" shall mean, collectively, "Commercial L/Cs", "Commercial L/C Applications", "Standby L/Cs" and "Standby L/C Applications", as such terms are defined in the Credit Agreement.

"Master Business Loan Note" shall mean the Master Business Loan Note of even date herewith executed by the Debtors and payable to the order of Bank One in the maximum principal amount of \$21,000,000, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

-2-

"NBD" shall mean NBD Bank, an Ohio banking association, and its predecessors, successors and assigns.

"Notes" shall mean, collectively, the Bank One Notes and the HNB Note.

"Rocky Co." shall mean Rocky Shoes & Boots Co., a former subsidiary of Rocky Inc. which was merged into Rocky Inc. as of December 31, 1996.

"Swap Agreement" shall mean the ISDA Master Agreement dated as of February 1, 1996 entered into by and among Bank One and Rocky Inc. (as successor to Rocky Co.), as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"Swap Obligations" shall mean all repayment, reimbursement and other obligations of Rocky Inc. (as successor to Rocky Co.) owed to Bank One under the Swap Agreement.

"Term Note" shall mean Installment Business Loan dated as of May 11, 1994 executed by the Debtors and Rocky Co. and originally payable to the order of NBD in the principal amount of \$815,000, as endorsed payable to the order of Bank One pursuant to a Loan Purchase, Assignment and Master Amendment Agreement dated as of February 1, 1996, as the same may be amended, modified, supplemented, restated or replaced from time to time.

"Total Indebtedness" shall have the meaning set forth in Section 2 hereof.

"UCC" shall mean the Uniform Commercial Code as adopted in the State of Ohio, as amended from time to time.

SECTION 2. Security for the Facility and Other Indebtedness. For the purpose of securing: (i) all payments to be made by the Debtors under the Notes and pursuant to the Construction Loan Agreement, the Credit Agreement and the Letter of Credit Documents, (ii) the payment of the Swap Obligations under the Swap Agreement, (iii) the payment of all other present or future indebtedness and liabilities of the Debtors owed to the Banks (all such present and future indebtedness and liabilities, including the Credit Facilities and the Swap Obligations, being collectively referred to herein as the "Total Indebtedness"), (iv) any amounts advanced or costs incurred by the Secured Party and/or the Banks for the protection of the Collateral or in connection with the enforcement of this Agreement, the Construction Loan Agreement, the Credit Agreement, the Letter of Credit Documents, the Swap Agreement, the Notes and any other documents now or hereafter relating to the Total Indebtedness (all such documents being collectively referred to as the "Facility Documents"), and (v) the performance and observance of each covenant and agreement of the Debtors contained in this Agreement, the Construction Loan Agreement, the Credit Agreement, the Letter of Credit Documents, the Swap Agreement, the Notes and any other Facility Documents, each Debtor does hereby assign and grant a security interest to the

Secured Party, its successors and assigns, for the ratable benefit of the Banks, in the following property (the "Collateral"), whether now owned or hereafter acquired, and, whether a Debtor's interest therein as owner, co-owner, lessee, consignee, secured party or otherwise, be now owned or existing or hereafter arising or acquired and wherever located, together with all substitutions, replacements, additions and accessions therefor or thereto, all documents, negotiable documents, documents of title, warehouse receipts, storage receipts, express bills, freight bills, air bills, bills of lading, and other documents (as defined in the UCC) relating thereto, all products thereof and all cash and non-cash proceeds thereof, including, but not limited to, notes, drafts, checks, instruments, insurance proceeds, indemnity proceeds, warranty and guaranty proceeds, and all cash, accounts, chattel paper and general intangibles arising from the sale, rent, lease, casualty loss or other disposition of the Collateral, and any Collateral returned to, repossessed by or stopped in transit by each Debtor:

(a) "Accounts Receivable", which shall consist of accounts, chattel paper, and general intangibles as those terms are defined in the UCC, and any other debit owed to or receivable owned, acquired or received by each Debtor. Also included is any right to a refund of taxes and assessments paid at any time to any governmental entity. Also included are letters of credit, and drafts under them, given in support of Accounts Receivable.

(b) "Inventory", which shall consist of all property held at any location by or for each Debtor for sale, rent or lease, or furnished or to be furnished by each Debtor under any contract of service, or raw materials or work in process and their products, or materials used or consumed in its business, and shall include containers and shelving useful for storage. Without limiting the security interest granted, Inventory is presently located at the locations set forth on Schedule A attached hereto.

(c) "Equipment", which shall consist of any goods at any time acquired, owned or held by each Debtor at any location primarily for use in its business and goods which are not included in the definitions of inventory, farm products or consumer goods (as such terms are defined in the UCC), including, but not limited to, machinery, furniture, furnishings and vehicles, and any accessions, parts, attachments, accessories, tools, dies, additions, substitutions, replacements and appurtenances to them or intended for use with them. Without limiting the security interest granted, Equipment is presently located at the locations set forth on Schedule A attached hereto.

(d) "Instruments", which shall consist of each Debtor's interest of any kind in any negotiable instrument or security (whether certificated or uncertificated) as those terms are defined in the UCC, or any other writing which evidences a right to payment of money and is not itself a security agreement or lease and is of a type which is, in the ordinary course of business, transferred by delivery alone or by delivery with any necessary endorsement or assignment.

(e) "Intellectual Property", which shall consist of all trade secrets and other proprietary information, trademarks, trade names, service marks, and business names and the goodwill of business relating thereto; copyrights (including without limitation, copyrights for computer programs) and all tangible property embodying the copyrights; unpatented inventions (whether or not patentable); patent applications and patents; license agreements relating to any of the foregoing and income therefrom; books, records, computer tapes or discs, flow diagrams, specific sheets, source codes, object codes and other physical manifestations of the foregoing; and the right to sue for all past, present and future infringements of the foregoing.

SECTION 3. Provisions Concerning the Collateral

(a) Accounts Receivable

(i) Each Debtor represents and warrants that each Account Receivable reflected in each Debtor's books and records is, or will at the time it arises be, owned by such Debtor free and clear of all liens, security interests and any other encumbrances in favor of any third party; with respect to a sale of Inventory, will be a bona fide existing obligation created by the final sale and delivery of goods or the completed performance of services by such Debtor in the ordinary course of its business; will be for a liquidated amount maturing as stated in the supporting data covering such

transaction; and will not be subject to any known deduction, offset, counterclaim, return privilege or condition except as reflected on such Debtor's books and records. No Debtor shall redate any invoice. Any allowances between any Debtor and its customers will be in accordance with the usual customary practices of such Debtor, as they exist on the date of this Agreement.

(ii) If any Accounts Receivable shall arise out of a contract with the United States of America or any department, agency, subdivision or instrumentality thereof, the Debtors shall promptly notify the Secured Party thereof in writing and take all other action and execute all other documents requested by the Secured Party to perfect the Secured Party's security interest in such Accounts Receivable under the provisions of the Federal laws on assignment of claims.

(b) Inventory

(i) Each Debtor represents and warrants that each item of Inventory shall be valued by such Debtor in accordance with the methods employed as of the date of this Agreement by the Debtors' independent certified public accountants in the preparation of the Debtors' audited annual financial statements. The Inventory is located or has been located at any time during the past four months at the locations set forth on Schedule A attached hereto. Each Debtor shall not permit any Inventory to be removed from such current locations or stored at locations other than such current locations, except (x) for shipment to purchasers in the ordinary course of each Debtor's business or (y) to

-5-

such other locations as to which each Debtor shall give 30 days prior written notice to the Secured Party. Inventory may be moved from one such current location to another.

(ii) Each Debtor shall keep all of its Inventory in good order and condition and shall maintain full, accurate and complete books and records with respect to its Inventory at all times.

(c) Equipment

(i) Each Debtor represents and warrants that its Equipment is located or has been located at any time during the past four months at the locations set forth on Schedule A attached hereto. Each Debtor shall not permit any Equipment to be located at any place other than (x) such current locations, and (y) at such other locations as to which such Debtor shall give 30 days prior written notice to the Secured Party. Equipment may be moved from one such current location to another.

(ii) Each Debtor shall keep and maintain all of its Equipment in good operating condition and repair, make all necessary replacements thereto so that the value and operating efficiency thereof shall at all times be maintained and preserved. Each Debtor shall not permit any item of Equipment to become a fixture to real estate or accession to other property and the Equipment is now and shall at all times remain and be personal property.

(d) Intellectual Property and General Intangibles

(i) Each Debtor shall maintain and preserve all Intellectual Property and other general intangibles and the like which are necessary or useful for the conduct of its business.

SECTION 4. Representations, Warranties and Covenants of the Debtors. The Debtors hereby represent, warrant and covenant to the Secured Party as follows:

(a) The Debtors shall pay their Total Indebtedness, in accordance with its terms, to the Secured Party, for the ratable benefit of the Banks, secured by this Agreement.

(b) The Debtors have good title to the Collateral and have full right and authority to grant the security interest granted herein.

(c) No financing statement or security agreement purporting to cover any of the Collateral has heretofore been signed by any Debtor or names any Debtor as a "debtor" and no such financing statement or security agreement is now on file at any public office, except those set forth in Schedule B attached hereto.

-6-

(d) The Debtors shall not directly or indirectly create or permit to remain, and shall promptly discharge, any mortgage, lien, encumbrance or charge on, pledge of, security interest in or conditional sale or other title retention agreement with respect to the Collateral or any part thereof (including, without limitation, any lien, encumbrance or charge arising by operation of law) other than this Agreement, those set forth on Schedule B attached hereto and those permitted by the Credit Agreement.

(e) The Debtors will defend the Collateral against all claims and demands of all persons at any time claiming an interest therein adverse to the Secured Party.

(f) The Debtors will join with the Secured Party, at the Secured Party's request, in executing such documents, in such form and at such time, as the Secured Party deems necessary or advisable, to maintain, perfect and continue the effectiveness of the security interest granted hereby, including, but not limited to, executing, refile and rerecording any such financing statements as may be requested by the Secured Party and any and all documents, instruments and filings that may be necessary or advisable to grant and perfect a security interest or other lien in Collateral which is located outside of the United States of America, such as Collateral located at the Debtors' facilities in Puerto Rico and the Dominican Republic. The Debtors hereby irrevocably appoint the Secured Party and the Secured Party's designees as the Debtors' true and lawful attorney-in-fact with power to sign the name of the Debtors on any such documents. The Debtors ratify and approve all acts of the Secured Party and its designees as attorney-in-fact. The Secured Party or its designees as attorney-in-fact will not be liable for any acts or omissions, or for any error or judgment or mistake of fact or law, except for bad faith. The Debtors shall pay all reasonable costs and expenses in connection with any of the foregoing, including the cost of all filings made pursuant to this subsection.

(g) The Debtors shall promptly perform all of its covenants and duties under this Agreement, the Notes, the Credit Agreement and all other Facility Documents.

(h) The Debtors shall not sell, transfer, assign or otherwise dispose of the Collateral, except in the ordinary course of business and as provided herein, without the prior written consent of the Secured Party.

(i) Each Debtor warrants that its chief executive office is at the address shown above.

SECTION 5. Insurance. The Debtors shall keep the Collateral continuously insured against loss or damage by fire, lightning, vandalism, malicious mischief and all perils covered by standard "extended coverage" or "all risks" insurance in a amount not less than the replacement cost of the Collateral at any time, with loss payable clauses in favor the Secured Party, and shall furnish evidence of such insurance satisfactory to the Secured Party. All insurance policies shall be issued by carriers acceptable to the Secured Party and qualified to transact business in the jurisdictions where the Collateral is located and shall be written so as not to be subject to cancellation upon less than thirty (30) days

-7-

advance written notice to the Secured Party. The Debtors shall assign and direct any insurer to pay to the Secured Party the proceeds of all such insurance and authorizes the Secured Party to endorse in the name of the Debtor any instrument for such proceeds and refunds, and, at the option of the Secured Party, to apply such proceeds and refunds to any unpaid balance of the Notes or other Total Indebtedness, whether or not then due, or to restoration of the Collateral, returning any excess to the Debtor.

SECTION 6. Taxes and Assessments. The Debtors shall pay promptly when due and before penalty or interest accrue thereon, all taxes, assessments and other governmental charges of any kind whatsoever that now or may at any time hereafter be assessed or levied against or with respect to the Collateral which, if not paid, may become or be made a lien on the Collateral. Notwithstanding the preceding sentence, the Debtors may, at their expense and after prior written notice to the Secured Party and by appropriate legal proceedings diligently prosecuted, contest in good faith the validity or amount of any such taxes, assessments or other charges and may permit the items contested to remain unpaid during the period of contest. If at any time, however, the Secured Party shall notify the Debtors that, in its opinion, by nonpayment of any such items the security interest created by this Agreement as to any part of the Collateral will be materially affected or the Collateral or

any part thereof will be subject to imminent loss or forfeiture, the Debtors shall promptly pay such taxes, assessments or charges. During the period when the taxes, assessments or other charges so contested remain unpaid, the Debtors shall provide adequate reserves with respect to such taxes, assessments or charges.

SECTION 7. Maintenance of Collateral. The Debtors, at their expense, will keep or cause to be kept the Collateral in good order and condition (ordinary wear and tear excepted) and will make all necessary or appropriate repairs, replacements and renewals thereof unless the Secured Party otherwise consents in writing.

SECTION 8. Ownership of Collateral. The Debtors are and shall continue to be the owners of the Collateral.

SECTION 9. Events of Default. The Debtors shall be in default upon the occurrence of any of the following (each an "Event of Default"):

(a) Any Debtor fails to pay when due any amount payable under the Notes and such failure continues for more than five (5) days after such payment becomes due;

(b) Any Debtor (i) fails to observe or perform any other term of the Notes and such failure to observe or perform continues for more than fifteen (15) days after such failure shall first become known to any officer of any Debtor; provided, however, that such fifteen (15) day cure period shall not apply to (x) any such failure which in the Secured Party's good faith opinion is incapable of cure, and (y) any such failure which has previously occurred; (ii) makes any materially incorrect or misleading representation,

-8-

warranty, or certificate to the Secured Party and/or the Banks; (iii) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Secured Party and/or the Banks; or (iv) defaults under the terms of any agreement or instrument relating to any debt for borrowed money (other than the debt evidenced by the Notes) such that the creditor declares the debt due before its maturity;

(c) Any default occurs under the terms of this Agreement, the Construction Loan Agreement, the Credit Agreement, the Letter of Credit Documents or any other Facility Document or any default occurs under the terms of any other loan agreement, mortgage, security agreement or any other agreement executed as part of the Total Indebtedness of any Debtor owed to the Secured Party and/or either Bank at any time and such default continues for more than fifteen (15) days after such default shall first become known to any officer of any Debtor, provided, however, that such fifteen (15) day cure period shall not apply to (i) any default which in the Secured Party's good faith opinion is incapable of cure; (ii) any default which has previously occurred; (iii) any failure to maintain and keep in effect any insurance required by any Facility Document; or (iv) any failure to provide to the Banks the financial statements, documents and information required to be provided pursuant to Sections 7.1(a), (b), and (c) of the Credit Agreement;

(d) A "reportable event" (as defined in the Employee Retirement Income Security Act of 1974, as amended) occurs that would permit the Pension Benefit Guaranty Corporation to terminate any employee benefit plan of any Debtor or any affiliate of any Debtor, or the occurrence of an "ERISA Event" (as defined in the Credit Agreement) which shall not have been cured within thirty (30) days after any officer of any Borrower has knowledge thereof;

(e) Any Debtor becomes insolvent or unable to pay its debts as they become due;

(f) Any Debtor (i) makes an assignment for the benefit of creditors; (ii) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (iii) commences or consents to any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction;

(g) A custodian, receiver or trustee is appointed for any Debtor or for a substantial part of its assets without its consent and is not removed within sixty (60) days after such appointment;

(h) Proceedings are commenced against any Debtor under any bankruptcy, reorganization, liquidation, or similar laws of any jurisdiction, and such proceedings remain undismissed for sixty (60) days after commencement;

(i) Any judgment is entered against any Debtor, or any attachment, levy or garnishment is issued against any property of any Debtor,

in excess of \$250,000, and which judgment, attachment, levy or garnishment has not been discharged or stayed within

-9-

thirty (30) days after issuance, or for such longer period as the Secured Party may agree to in writing;

(j) Any Debtor, without the Secured Party's written consent, (i) is dissolved; (ii) merges or consolidates with any third party; (iii) except as otherwise permitted by the Credit Agreement, sells a material part of its assets or business outside the ordinary course of its business, or (iv) agrees to do any of the foregoing;

(k) There is a substantial change (other than with respect to changes in the normal course of any Debtor's business, such as seasonal fluctuations) in the existing or prospective financial condition of any Debtor which the Secured Party in good faith determines to be materially adverse; or

(l) The Banks in good faith deem themselves insecure.

SECTION 10. Remedies. Upon the occurrence of an Event of Default, the Secured Party, for the ratable benefit of the Banks, shall have the rights and remedies provided by law, this Agreement, the Construction Loan Agreement, the Credit Agreement, the Letter of Credit Documents or any other Facility Documents, or any other written agreement executed by any Debtor, including but not limited to, the right to require the Debtors to assemble the Collateral and make it available to the Secured Party at a place to be designated by the Secured Party which is reasonably convenient to both parties, the right to take possession of the Collateral with or without demand and with or without process of law, and the right to sell and dispose of it and distribute the proceeds according to law. In connection with the right of the Secured Party to take possession of the Collateral, the Secured Party may take possession of any other items of property in or on the Collateral at the time of taking possession and hold them for the Debtors without liability on the part of the Secured Party. Any requirement of reasonable notice shall be met if the Secured Party sends the notice to the Debtors at least seven (7) days prior to the date of public or private sale, disposition or other event giving rise to the required notice. Upon default, the Secured Party is authorized to cause all or any part of any Collateral to be transferred to or registered in its name or in the name of any other person, firm or corporation, with or without designation of the capacity of such nominee. The Debtors shall be liable for any deficiency remaining after disposition of the Collateral. The Debtors are liable to the Secured Party for all reasonable costs and expenses of every kind incurred in the making or collection of the Total Indebtedness, including the Credit Facilities, secured hereby, including, without limitation, reasonable attorneys' fees and court costs. These costs and expenses shall include, without limitation, any costs or expenses incurred by the Secured Party and the Banks in any bankruptcy, reorganization, insolvency or other similar proceeding.

Any moneys (including, without limitation, the proceeds of any sale of the Collateral, any part thereof or any interest therein) received by the Secured Party and/or the Banks pursuant to the exercise of any remedies provided in the Facility Documents or by law shall be applied as set forth in the Credit Agreement.

-10-

SECTION 11. WAIVER OF JURY TRIAL. THE SECURED PARTY, FOR ITSELF AND ON BEHALF OF THE BANKS, AND EACH DEBTOR, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE CREDIT AGREEMENT, THE NOTES, THE FACILITY DOCUMENTS, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY OF THEM. THIS WAIVER SHALL NOT IN ANY WAY AFFECT THE SECURED PARTY'S OR THE BANKS' ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR COGNOVIT PROVISION CONTAINED IN ANY FACILITY DOCUMENT. NEITHER THE SECURED PARTY, THE BANKS NOR THE DEBTORS SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY EITHER THE SECURED PARTY OR THE DEBTORS EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

SECTION 12. Miscellaneous.

(a) At its option, the Secured Party may, but shall be under no duty or obligation to, discharge taxes, liens, security interests or other encumbrances at any time levied or placed upon the Collateral, pay for insurance on the Collateral, and pay for the maintenance or preservation of the Collateral and the Debtors agree to reimburse the Secured Party on demand for any payment made or expense incurred by the Secured Party, with interest thereon at the highest rate then in effect under the Notes.

(b) No delay on the part of the Secured Party in the exercise of any right or remedy shall operate as a waiver, no single or partial exercise by the Secured Party of any right or remedy shall preclude any other exercise of it or the exercise of any other right or remedy, and no waiver or indulgence by the Secured Party of any default shall be effective unless in writing and signed by the Secured Party, nor shall a waiver on one occasion be construed as a waiver of that right on any future occasion.

(c) If any provision of this Agreement is unenforceable for any reason in any jurisdiction, it shall be ineffective only to that extent, and the remaining provisions shall remain valid, effective and enforceable.

(d) Notice from one party to another relating to this Agreement shall be deemed effective if made in writing (including telecommunications) and delivered to the recipient's address, telex number or telecopy number set forth below by any of the following means: (i) hand delivery, (ii) registered or certified mail, postage prepaid, with return receipt requested, (iii) Federal Express, Airborne Express or like overnight courier

-11-

service or (iv) telecopy, telex or other wire transmission with request for assurance of receipt in a manner typical with respect to communications of that type. Notice made in accordance with this section shall be deemed delivered on receipt if delivered by hand or wire transmission, on the third business day after mailing if mailed by registered or certified mail, or the next business day after mailing or deposit with an overnight courier service if delivered by express mail or overnight courier for next day delivery.

If to the Secured Party: Bank One, Columbus, NA, as Agent
Attn: Corporate Banking, Metropolitan Division
100 East Broad Street, 7th Floor
Columbus, OH 43271-0170
Telecopier: (614) 248-5518

If to the Debtors: Rocky Shoes & Boots, Inc.
Attn.: David S. Fraedrich, Executive Vice President
39 East Canal Street
Nelsonville, OH 45764
Telecopier: (614) 753-4024

Five Star Enterprises Ltd.
Attn.: David S. Fraedrich, Executive Vice President
39 East Canal Street
Nelsonville, OH 45764
Telecopier: (614) 753-4024

Lifestyle Footwear, Inc.
Attn.: David S. Fraedrich, Executive Vice President
39 East Canal Street
Nelsonville, OH 45764
Telecopier: (614) 753-4024

(e) All rights of the Secured Party shall inure to the benefit of the Secured Party's successors and assigns; and all obligations of the Debtors shall bind the Debtors' heirs, executors, administrators, successors and assigns.

(f) A carbon, photographic or other reproduction of this Agreement is sufficient, and can be filed as a financing statement.

(g) The terms and provisions of this Agreement shall be governed by Ohio law.

-12-

IN WITNESS WHEREOF, the Debtors and the Secured Party, on behalf of and for the ratable benefit of the Banks, have caused this Agreement to be duly executed and delivered as of the date first above written.

DEBTORS:

Rocky Shoes & Boots, Inc.,
an Ohio corporation

By: /s/ DAVID FRAEDRICH

Title: Executive Vice President &
Chief Financial Officer

Five Star Enterprises Ltd.,
a Cayman Islands corporation

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Lifestyle Footwear, Inc.
a Delaware corporation

By: /s/ DAVID FRAEDRICH

Title: Treasurer

SECURED PARTY:

Bank One, Columbus, NA, as Agent,
a national banking association

By: /s/ ELIZABETH CALLWALLADER

Title: Vice President

SCHEDULE A

(to Continuing Security Agreement by Rocky Shoes & Boots, Inc.,
Five Star Enterprises Ltd., and Lifestyle Footwear, Inc.
in favor of Bank One, Columbus, NA, as Agent)

COLLATERAL LOCATIONS

294 South Harper Street
Nelsonville, Ohio 45764

45 Canal Street
Nelsonville, Ohio 45764

39 East Canal Street
Nelsonville, Ohio 45764

Highway 476, Old Borinquen Road
Aguadilla, Puerto Rico

Zona Franca La Vega
La Vega, Dominican Republic

SCHEDULE B

(to Continuing Security Agreement by Rocky Shoes & Boots, Inc.,
Five Star Enterprises Ltd., and
Lifestyle Footwear, Inc. in favor of Bank One, Columbus, NA, as Agent)

UCC Financing Statements

OSOS=Ohio Secretary of State
ACOR=Athens County, Ohio Recorder

<TABLE>
<CAPTION>

Debtor -----	Secured Party -----	Filed With -----	Filing Number -----
<S> Rocky Inc.	<C> American Tech. Credit Inc.	<C> OSOS	<C> AK96483
Rocky Inc.	Citizens Bank	OSOS	AL44103
Rocky Inc.	Yale Financial	OSOS	AM90505

Rocky Inc.	Yale Financial	OSOS	AM96191
Rocky Co.	Director of Development of the State of Ohio	OSOS	AL33947
Rocky Co.	Pitney Bownes	OSOS	AL43270 AK92195 AM95166
Rocky Inc.	American Tech. Credit Inc.	ACOR	94-59983
Rocky Co.	Pitney Bownes	ACOR	94-61365 94-59873 93-58488

</TABLE>

All UCC Financing Statements in favor of the Banks.

Lien and Security interest of Rocky Co. in assets of Lifestyle pursuant to agreements dated March 19, 1991.

SECOND AMENDMENT TO INSTALLMENT BUSINESS LOAN NOTE

This Second Amendment to Installment Business Loan Note (the "Amendment"), is made and entered into as of January 28, 1997, by and among Bank One, Columbus, NA, a national banking association, with its principal place of business located at 100 East Broad Street, Columbus, Ohio 43271-0170 (hereinafter the "Bank"), and Rocky Shoes & Boots, Inc., an Ohio corporation ("Rocky Inc."), individually and as successor by merger to Rocky Shoes & Boots Co., an Ohio corporation ("Rocky Co."), Five Star Enterprises Ltd., a Cayman Islands corporation ("Five Star"), and Lifestyle Footwear, Inc., a Delaware corporation ("Lifestyle") (Rocky Inc., Five Star and Lifestyle) shall hereinafter be referred to individually as a "Borrower" and collectively as the "Borrowers"), with their principal place of business located at 39 East Canal Street, Nelsonville, Ohio 45764.

Background Information

A. The Borrowers and Rocky Co. executed and delivered to NBD Bank a certain Installment Business Loan Note in the principal amount of \$815,000, dated as of May 11, 1994, as amended by a First Amendment to Installment Business Loan Note, dated as of August 11, 1994 (such note, as so amended, the "Note").

B. The Bank purchased the Note from NBD Bank pursuant to a Loan Purchase, Assignment and Master Amendment Agreement dated as of February 1, 1996, and the Note was endorsed payable to the order of the Bank.

C. The Bank and the Borrowers desire to amend the Note, all as hereinafter set forth.

Provisions

NOW, THEREFORE, in consideration of the foregoing, the agreement of the Bank to enter into this Amendment, the agreements and covenants hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Bank and the Borrowers do hereby agree as follows:

Section 1. Amendment of the Note. Effective as of January 28, 1997, the reference to "prime" rate in the first paragraph entitled Promise to Pay on page 1 of the Note shall be amended to be the "prime" rate as announced from time to time by the Bank.

Section 2. Continuing Effect of Note. Except as set forth in this Amendment, all terms, conditions and provisions of the Note shall remain the same and continue to be in full force and effect.

Section 3. Governing Law. This Amendment is being delivered, and is intended to be performed in, the State of Ohio and shall be construed and enforced in accordance with, and governed by, the laws of the State of Ohio.

Section 4. WAIVER OF JURY TRIAL. EACH BORROWER AND THE BANK, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THE NOTE OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY OF THEM. THIS WAIVER SHALL NOT IN ANY WAY AFFECT THE BANK'S ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR COGNOVIT PROVISION CONTAINED HEREIN, IN THE NOTE OR ANY RELATED INSTRUMENT OR AGREEMENT. NO BORROWER NOR THE BANK SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY ANY BORROWER OR THE BANK EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

Section 5. Confession of Judgment. Each Borrower irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Bank, to appear for the Borrower in any court of record in Franklin County, Ohio (which the Borrower acknowledges to be the place where the Note and this Amendment were made) or any other state or jurisdiction wherein the Borrower may then reside, to (i) waive the issuing and service of process, (ii) confess judgment against the Borrower in favor of the holder of the Note for the amount then due, together with costs of suit, (iii) release all errors, and (iv) waive all rights of appeal. The Borrower consents to the jurisdiction and venue of that court. The Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Bank may have in

confessing judgment under the Note (as amended by this Amendment) and consents to payment of a legal fee to any attorney-at-law confessing judgment under the Note (as amended by this Amendment). After judgment is entered against one or more of the Borrowers, the power conferred may be exercised as to one or more of the other Borrowers.

-2-

IN WITNESS WHEREOF, the undersigned have executed this Amendment at Columbus, Ohio, as of the date first above written.

Rocky Shoes & Boots Inc.,
an Ohio corporation

By: /s/ DAVID FRAEDRICH

Title: Executive Vice President
& Chief Financial Officer

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

Five Star Enterprises Ltd.,
a Cayman Islands Corporation

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Lifestyle Footwear, Inc.,
a Delaware Corporation

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Bank One, Columbus, NA,
a national banking association

By: /s/ Elizabeth Calwalder

Title: Vice President

-3-

FOURTH AMENDMENT TO PROMISSORY NOTE

THIS FOURTH AMENDMENT TO PROMISSORY NOTE (the "Amendment") is made and entered into as of January 28, 1997, by and among Bank One, Columbus, NA, a national banking association, with its principal place of business located at 100 East Broad Street, Columbus, Ohio 43271-0170 (hereinafter the "Bank"), and Rocky Shoes & Boots, Inc., an Ohio corporation ("Rocky Inc."), individually and as successor by merger to Rocky Shoes & Boots Co., an Ohio corporation ("Rocky Co."), Five Star Enterprises Ltd., a Cayman Islands corporation ("Five Star"), and Lifestyle Footwear, Inc., a Delaware corporation ("Lifestyle") (Rocky Inc., Five Star and Lifestyle shall hereinafter be referred to individually as a "Borrower" and collectively as the "Borrowers"), with their principal place of business located at 39 East Canal Street, Nelsonville, Ohio 45764.

Background Information

A. NBD Bank, Rocky Co. and the Borrowers entered into a certain Construction and Term Loan Agreement, dated as of October 27, 1993, as amended by a certain (i) First Amendment to Construction and Term Loan Agreement, dated as of January 28, 1994, (ii) Second Amendment to Construction and Term Loan Agreement, dated as of December 31, 1994, and (iii) Third Amendment to Construction and Term Loan Agreement, dated as of March 30, 1995 (such agreement, as so amended, being referred to herein as the "Agreement").

B. The "Loan" (as defined in the Agreement) by the Bank to the Borrowers is evidenced by a certain Promissory Note, dated October 27, 1993, executed and delivered by Rocky Co. and the Borrowers to NBD Bank in the original principal amount of \$2,000,000.00, as amended by a certain (i) First Amendment to Promissory Note, dated January 28, 1994, (ii) Second Amendment to Promissory Note, dated December 31, 1994, and (iii) Third Amendment to Promissory Note, dated March 30, 1995 (such note, as so amended, being referred to herein as the "Note").

C. The Bank purchased the Note from NBD Bank pursuant to a Loan Purchase, Assignment and Master Amendment Agreement dated as of February 1, 1996, and the Note was endorsed payable to the order of the Bank.

D. The Bank and the Borrowers desire to amend the Note, all as hereinafter set forth.

Provisions

NOW, THEREFORE, in consideration of the foregoing, the agreement of the Bank to enter into this Amendment, the agreements and covenants hereinafter contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Bank and the Borrowers do hereby agree as follows:

Section 1. Amendment of Note.

(a) Effective as of January 28, 1997, the reference to "Prime Rate" in subsection (a) of the second paragraph on page 1 of the Note shall be amended to be the "prime" rate as announced from time to time by the Bank.

(b) The language in the parenthetical (ii) in subsection (b) of the second paragraph on Page 1 of the Note shall be amended in its entirety to read as follows:

(ii) the sum of (y) the yield on United State Treasury issues (as published in The Wall Street Journal, as determined by the Bank) having a comparable term to the remaining term of this Note, plus (z) 275 basis points.

Section 2. Continuing Effect of Note. Except as set forth in this Amendment, all terms, conditions and provisions of the Note shall remain the same and continue to be in full force and effect.

Section 3. Governing Law. This Amendment is being delivered, and is intended to be performed in, the State of Ohio and shall be construed and enforced in accordance with, and governed by, the laws of the State of Ohio.

Section 4. WAIVER OF JURY TRIAL. EACH BORROWER AND THE BANK, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT ANY OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THE NOTE, THE AGREEMENT, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF ANY OF THEM. THIS WAIVER SHALL NOT IN ANY WAY AFFECT THE BANK'S ABILITY TO PURSUE REMEDIES PURSUANT TO ANY CONFESSION OF JUDGMENT OR

COGNOVIT PROVISION CONTAINED HEREIN, IN THE NOTE, IN THE AGREEMENT OR ANY RELATED INSTRUMENT OR AGREEMENT. NO BORROWER NOR THE BANK SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY ANY BORROWER OR THE BANK EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY ALL OF THEM.

Section 5. Confession of Judgment. Each Borrower irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Bank, to appear for the Borrower in any court of record in Franklin County, Ohio (which the Borrower acknowledges to be the place where the Note and this Amendment were made) or any other state or jurisdiction wherein the Borrower may then reside, to (i) waive the issuing and service of process, (ii) confess judgment against the Borrower in favor of the holder of the

-2-

Note for the amount then due, together with costs of suit, (iii) release all errors, and (iv) waive all rights of appeal. The Borrower consents to the jurisdiction and venue of that court. The Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Bank may have in confessing judgment under the Note (as amended by this Amendment) and consents to payment of a legal fee to any attorney-at-law confessing judgment under the Note (as amended by this Amendment). After judgment is entered against one or more of the Borrowers, the power conferred may be exercised as to one or more of the other Borrowers.

IN WITNESS WHEREOF, the undersigned have executed this Amendment at Columbus, Ohio, as of the date first above written.

Rocky Shoes & Boots Inc.,
an Ohio corporation

By: /s/ DAVID FRAEDRICH

Title: Executive Vice President
& Chief Financial Officer

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

Five Star Enterprises LTD.,
a Cayman Islands Corporation

Lifestyle Footwear, Inc.,
a Delaware Corporation

By: /s/ DAVID FRAEDRICH

By: /s/ DAVID FRAEDRICH

Title: Treasurer

Title: Treasurer

-3-

Bank One, Columbus, NA,
a national banking association

By: /s/ Elizabeth Calwalder

Title: Vice President

-4-

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References to Fiscal 1995 and Fiscal 1994 are to fiscal years of the Company ended June 30, of the respective years. Effective December 31, 1995, the Company changed its year-end from June 30 to December 31. References to the Transition Period are to the six month period ended December 31, 1995.

<TABLE>
<CAPTION>

ENDED JUNE 30, 1994	PERCENTAGE OF NET SALES				
	YEAR ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995	SIX MONTHS ENDED 1995	DECEMBER 31, 1994	FISCAL YEARS 1995
		(UNAUDITED)			(UNAUDITED)
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
Net Sales	100.0%	100.0%	100.0%	100.0%	100.0%
100.0%					
Cost of Goods Sold	75.3	81.7	80.0	78.2	80.3
81.8					

Gross Margin	24.7	18.3	20.0	21.8	19.7
18.2					
Selling, General and Administrative Expenses	16.9	17.5	19.0	13.2	14.3
12.9					

Income from Operations	7.8%	0.8%	1.0%	8.6%	5.4%
5.3%					
=====					
=====					

</TABLE>

YEAR ENDED DECEMBER 31, 1996 COMPARED TO TWELVE MONTHS ENDED DECEMBER 31, 1995

NET SALES. Net sales for the year ended December 31, 1996 rose \$12,764,160, or 21.1 percent, to \$73,147,821 from \$60,383,661 for 1995. The Company's sales of rugged outdoor footwear increased 15.9%. Net sales also benefited to a lesser extent from increases in occupational footwear sales by 14.9%, factory outlet store sales by 17.0%, and handsewn casual footwear sales by 50.0%. Additionally, net sales increased in 1996 due to further diversification of the customer base including increased penetration in certain geographic markets, the addition of many smaller customers and substantial re-orders. The Company also entered new retail sales channels through regional and national department stores. Sales prices were approximately 3% higher in 1996 than 1995.

GROSS MARGIN. The Company's gross margin increased \$6,995,405, or 63.3%, to \$18,044,243 for the year ended December 31, 1996 from \$11,048,838 for the same period in 1995. As a percentage of net sales, gross margin rose to 24.7% for 1996 versus 18.3% for the prior year. The increase in gross margin was due to improved factory utilization in all of the Company's manufacturing facilities to support higher level of orders and re-orders by a growing number of customers. In addition, increased sales of ROCKY(R) branded handsewn casual footwear contributed to the improved gross margin for 1996.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased \$1,762,695 or 16.7% to \$12,332,519 for 1996 versus \$10,569,824 in the prior year. As a percentage of net sales, selling, general and administrative expenses declined to 16.9% in 1996 from 17.5% a year ago. The decrease as a percentage of net sales was due to increased sales volume with no increase in the fixed cost component of expenses combined with a decrease in advertising expenses. In 1995, the Company implemented specific marketing initiatives including increased advertising and additional sales personnel. The impact of such initiatives resulted in greater sales volumes in 1996 with minimal additional costs. Advertising expense in future periods will continue to be based on market conditions and targeted programs for specific customers. The Company anticipates its advertising expense will increase to approximately \$2,000,000 to \$2,500,000 for 1997.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

INTEREST EXPENSE AND OTHER. Interest expense increased \$3,187, or 0.2%, to \$2,103,556 for the period ended December 31, 1996 versus \$2,100,369 last year. Interest expense remained relatively constant due to improved cash flow in 1996, similar average balances outstanding on the Company's revolving credit facility, and generally stable interest rates during 1996 and 1995.

INCOME TAXES. Income taxes for the year ended December 31, 1996 were \$918,154 versus a benefit of \$988,395 the previous year. The Company's relatively low effective tax rate of 24.7% for 1996 resulted from favorable income tax treatment afforded under the Internal Revenue Code for income earned by the Company's subsidiary in Puerto Rico and local tax abatements available to the Company's subsidiary in Puerto Rico. In addition, during the first three quarters of 1996, the Company provided no income taxes on the earnings of its Dominican Republic subsidiary as the Company intends to reinvest such earnings in that subsidiary on a long-term basis.

In the fourth quarter of 1996, the Company determined that it would repatriate future earnings from its subsidiary in the Dominican Republic and, accordingly, began to provide appropriate income taxes on such earnings. In future years, the Company will pay a higher effective tax rate since the repatriation of earnings from its subsidiary in the Dominican Republic is subject to Federal income tax, but is exempt from state and local taxation.

The high effective tax benefit rate in 1995 64.8% was due to the reasons cited for 1996 and to losses incurred domestically for which a full tax benefit is obtained versus earnings in its Puerto Rican and Dominican Republic subsidiaries for which the related tax effect was minimal.

RESULTS OF OPERATIONS - TRANSITION PERIOD

The Company's operations are seasonal in nature with sales of footwear generally higher in the summer and fall months (June through October) than the balance of the year. Because of this seasonality, results of the six month Transition Period should not be annualized and compared with the results of 1996, Fiscal 1995 and Fiscal 1994.

NET SALES. Net sales increased \$156,834, or 0.4%, to \$36,123,862 for the Transition Period versus \$35,967,028 for the same period in 1994. The Company's sales of rugged outdoor footwear increased 8.5%, sales of occupational footwear increased 5.1%, and sales in the factory outlet store increased 20.4%. This was offset by a decline in sales of handsewn footwear of 73.7% as a result of the discontinuation of private label sales to a major customer. Prices were approximately 3% higher in the Transition Period, versus the same period in 1994.

GROSS MARGIN. The Company's gross margin declined \$595,652, or 7.6%, to \$7,237,307 in the Transition Period versus \$7,832,959 for the same period in the prior year. As a percentage of net sales, gross margin declined to 20.0% in the Transition Period from 21.8% in the prior year. The decline was due to lower absorption of the Company's fixed component of manufacturing overhead. Due to limited sales growth and a desire to lower the Company's inventory, the Company significantly reduced its production schedules in all three of its manufacturing facilities during the latter part of 1995. This strategy negatively affected operating results in the Transition Period.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES. Selling, general, and administrative expenses increased \$2,107,638, or 44.3%, to \$6,863,623, for the Transition Period versus \$4,755,985 for the same period in the prior year. As a percentage of net sales, selling, general, and administrative expenses were 19.0% for the Transition Period versus 13.2% the same period in the prior year. The increased expense was primarily a result of increased advertising expense as well as increased sales management salaries and to a lesser extent increased professional fees due to its

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES

change of fiscal year. Experiencing a weak retail environment for most of 1995, the Company elected to increase its advertising budget substantially during the Transition Period in an effort to maintain market share. The Company also expanded its in-house sales force to secure sales growth in 1996. As a percentage of net sales, these expenses increased substantially due to the expenditures for increased advertising and additional sales and marketing personnel in advance of higher expected sales which did not occur during the Transition Period.

INTEREST EXPENSE. Interest expense decreased \$6,580, or 0.5%, to \$1,211,646 for the Transition Period versus \$1,218,226 for the same period a year ago. The Company's outstanding balances and interest rates were relatively the same in the Transition Period as in the similar period in 1994.

INCOME TAXES. Income taxes for the Transition Period resulted in a net benefit of \$333,185 as compared to an expense of \$458,770 for the same period in the

prior year. The Company's effective tax rate was 40.5% for the Transition Period versus 23.4% for the same period in the prior year. The change in the effective tax rate was due to nearly break-even operations for the Company's subsidiaries in Puerto Rico and the Dominican Republic and a loss from domestic operations during the Transition Period. A larger portion of the Company's income was earned by the subsidiaries in Puerto Rico and the Dominican Republic for the same period in the prior year, for which minimal or no income taxes were recorded based on the Company's intent to reinvest such earnings on a long term basis.

FISCAL YEAR ENDED JUNE 30, 1995, COMPARED TO FISCAL YEAR ENDED JUNE 30, 1994

NET SALES. Net sales for Fiscal 1995, increased \$7,332,061, or 13.9%, to \$60,226,827 from \$52,894,766 for Fiscal 1994. Net sales growth was primarily attributable to 21.8% and 6.2% sales increases in rugged outdoor footwear and occupational footwear, respectively. This sales growth was due in part to the addition of over 350 additional customer accounts in Fiscal 1995 as well as to a 3% increase in the average selling price over Fiscal 1994. In addition, the Company's factory outlet store was expanded and sales increased 76.2% over Fiscal 1994. Net sales for Fiscal 1995 included \$4,319,041 to The Rockport Company of private label handsewn casual footwear. The Company discontinued all Rockport production late in Fiscal 1995.

GROSS MARGIN. Gross margin rose \$2,236,704, or 23.2%, to \$11,860,451 in Fiscal 1995 compared to \$9,623,747 for Fiscal 1994. As a percentage of net sales, gross margin was 19.7% in Fiscal 1995 versus 18.2% in Fiscal 1994. The increase was primarily attributable to higher selling prices as well as lower direct labor costs per pair resulting from the full implementation of a modular "Team Pass Through" manufacturing system which gives the Company greater flexibility in increasing or decreasing production due to sales needs. In addition, the Fiscal 1994 gross margin was negatively impacted by the production shut down and training associated with the conversion to the modular manufacturing system. The labor efficiencies were offset by higher manufacturing overhead rates due to a decrease in the Company's production schedule in the last six months of the fiscal year to reduce inventory levels as a result of lower than expected sales volumes. Sales volumes were lower than expected due to the unusually warm weather conditions in November and December of 1994 which slowed retail sales of cold weather footwear and resulted in higher inventory levels.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES. Selling, general, and administrative expenses increased \$1,814,949, or 26.6%, to \$8,629,172 for Fiscal 1995 compared to \$6,814,223 for Fiscal 1994. Selling, general, and administrative expenses as a percentage of net sales were 14.3% in Fiscal 1995 versus 12.9% for Fiscal 1994. The increased expense was due primarily to increased advertising expense. As a percent of net sales, the expense increased from Fiscal 1994 due to lower than expected sales volumes as discussed above.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

INTEREST EXPENSE. Interest expense increased \$1,220,477, or 138.0%, to \$2,104,787 for Fiscal 1995 versus \$884,310 for Fiscal 1994. The increase in interest expense was a result of increased borrowings and rates of interest on the Company's revolving line of credit to support increased inventory balances during the year as well as increased borrowings to support the significant fixed asset additions made in Fiscal 1995 and Fiscal 1994.

INCOME TAXES. Income taxes decreased \$499,567 to an income tax benefit of \$196,440 in Fiscal 1995 from an income tax expense of \$303,127 for Fiscal 1994. Differences in the effective tax rates from the statutory rates were due to a significant amount of profits being generated in the subsidiaries with low or no income taxes.

LIQUIDITY AND CAPITAL RESOURCES. The Company has principally funded its working capital requirements and capital expenditures through borrowings under its line of credit and other indebtedness. Working capital is 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 April through September. In addition, the Company requires financing to support additions to machinery, equipment, and facilities, as well as the introduction of new footwear styles.

At December 31, 1996, the Company had working capital of \$30,608,581 versus \$25,454,094 on that same date in 1995. The Company has a revolving line of credit with its bank which provides for advances based on a percentage of eligible accounts receivable and inventory with maximum borrowings of \$35,000,000 until January 28, 1997 and the same amount from June 1, 1997 to January 1, 1998. The line of credit decreases to \$25,000,000 between January 29, 1997 and May 31, 1997 and on January 1, 1998. The line of credit expires on April 30, 1998. Changes in the line of credit during each calendar year match the Company's seasonal requirements for working capital. As of December 31, 1996, the Company had borrowed \$19,820,000 against its available line of credit

of \$23,258,000 based upon the criteria previously discussed.

Cash paid for capital expenditures during the twelve months ended December 31, 1996 totaled \$3,302,761 and were funded through operating cash flows and long-term debt financing. Capital expenditures for 1997 are anticipated to be \$2,500,000, and will be primarily for lasts, dies, and patterns for new styles of footwear, retail in-store displays, and replacement machinery and equipment. It is expected that such items will be financed through additional long-term borrowing or operating cash flows. The Company believes it has sufficient manufacturing capacity to handle increased production needs for 1997.

In early 1997, the Company initiated negotiations with its primary lender to refinance fixed asset loans and increase its revolving line of credit. It is anticipated that a new agreement will be completed during the first half of the year to provide the Company with working capital necessary to finance its operations in 1997 and beyond.

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.

Except for the historical information contained herein, the matters discussed in this Annual Report are forward-looking statements which involve risks and uncertainties, including but not limited to, economic and competitive factors affecting the Company's operations, markets, products, prices, and other factors discussed in the Company's prior filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the year ended December 31, 1996.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1996	1995
	<C>	<C>
<S>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 349,637	\$
1,853,974		
Accounts receivable - trade	12,409,920	
9,842,909		
Other receivables	678,293	
1,464,847		
Inventories	25,389,902	
18,336,892		
Deferred income taxes	926,297	
242,684		
Other current assets	706,097	
633,885		
---	-----	-----
Total current assets	40,460,146	
32,375,191		
FIXED ASSETS, AT COST:		
Property, plant and equipment	25,544,360	
22,184,142		
Less - accumulated depreciation	(10,035,763)	
(7,649,966)		
---	-----	-----
Total fixed assets - net	15,508,597	
14,534,176		
DEFERRED PENSION ASSETS	953,211	
804,316		
OTHER ASSETS	1,168,217	
1,366,891		
---	-----	-----

TOTAL ASSETS
\$49,080,574

\$58,090,171

=====
</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1996	1995
	<C>	<C>
CURRENT LIABILITIES:		
Accounts payable	\$3,036,705	
\$1,429,217		
Current maturities - long-term debt	3,609,645	
4,392,341		
Accrued taxes - other	447,203	
388,878		
Accrued income taxes	802,658	
118,812		
Accrued salaries and wages	921,034	
132,027		
Accrued other	1,034,320	
459,822		
---	-----	-----
Total current liabilities	9,851,565	
6,921,097		
LONG-TERM DEBT - Less current maturities	19,520,029	
16,553,890		
DEFERRED LIABILITIES:		
Deferred compensation	246,500	
197,099		
Deferred income taxes	1,344,507	
598,519		
Deferred pension liability	752,481	
1,240,839		
---	-----	-----
Total deferred liabilities	2,343,488	
2,036,457		
---	-----	-----
Total liabilities	31,715,082	
25,511,444		
SHAREHOLDERS' EQUITY:		
Preferred stock, Series A, no par value, \$.06 stated value; 100,000 shares issued	6,000	
6,000		
Common stock, no par value; 10,000,000 shares authorized; 3,782,500 shares issued	14,543,947	
14,543,947		
Stock held in treasury, at cost - 116,952 common shares and 7,143 preferred shares	(1,226,059)	
(1,226,059)		
Retained earnings	13,051,201	
10,245,242		
---	-----	-----
Total shareholders' equity	26,375,089	
23,569,130		
---	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$58,090,171	
\$49,080,574		
=====	=====	

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995	SIX MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED JUNE 30 1995	
1994					
		(UNAUDITED)			
<S>	<C>	<C>	<C>	<C>	<C>
NET SALES	\$73,147,821	\$60,383,661	\$36,123,862	\$60,226,827	
\$52,894,766					
COST OF GOODS SOLD	55,103,578	49,334,823	28,886,555	48,366,376	
43,271,019					
-----	-----	-----	-----	-----	-----
GROSS MARGIN	18,044,243	11,048,838	7,237,307	11,860,451	
9,623,747					
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	12,332,519	10,569,824	6,863,623	8,629,172	
6,814,223					
-----	-----	-----	-----	-----	-----
INCOME FROM OPERATIONS	5,711,724	479,014	373,684	3,231,279	
2,809,524					
-----	-----	-----	-----	-----	-----
OTHER INCOME AND (EXPENSES):					
Interest expense	(2,103,556)	(2,100,369)	(1,211,646)	(2,104,787)	
(884,310)					
Other - net	115,945	95,999	14,523	109,649	
197,910					
-----	-----	-----	-----	-----	-----
Total other net	(1,987,611)	(2,004,370)	(1,197,123)	(1,995,138)	
(686,400)					
-----	-----	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	3,724,113	(1,525,356)	(823,439)	1,236,141	
2,123,124					
INCOME TAX EXPENSE (BENEFIT)	918,154	(988,395)	(333,185)	(196,440)	
303,127					
-----	-----	-----	-----	-----	-----
NET INCOME (LOSS)	\$2,805,959	\$ (536,961)	\$ (490,254)	\$ 1,432,581	\$
1,819,997					
-----	-----	-----	-----	-----	-----
NET INCOME (LOSS) PER SHARE	\$ 0.74	\$ (0.15)	\$ (0.13)	\$ 0.38	\$
0.47					
-----	-----	-----	-----	-----	-----
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING	3,777,200	3,665,548	3,665,548	3,741,388	
3,841,717					
-----	-----	-----	-----	-----	-----

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>

<CAPTION>

TOTAL	COMMON	PREFERRED	RETAINED	TREASURY
SHAREHOLDERS'	STOCK	STOCK	EARNINGS	STOCK
<S>	<C>	<C>	<C>	<C>
YEAR ENDED JUNE 30, 1994:				
Balance, June 30, 1993	\$14,105,447	\$6,000	\$ 7,482,918	
\$21,594,365				
Net income			1,819,997	
1,819,997				
Purchase of treasury shares				\$(1,226,059)
(1,226,059)				
Stock options exercised	332,500			
332,500				
Tax benefit related to stock options	106,000			
106,000				

BALANCE, JUNE 30, 1994	14,543,947	6,000	9,302,915	(1,226,059)
22,626,803				
YEAR ENDED JUNE 30, 1995 - Net income			1,432,581	
1,432,581				

BALANCE, JUNE 30, 1995	14,543,947	6,000	10,735,496	(1,226,059)
24,059,384				
SIX MONTHS ENDED DECEMBER 31, 1995 - Net loss			(490,254)	
(490,254)				

BALANCE, DECEMBER 31, 1995	14,543,947	6,000	10,245,242	(1,226,059)
23,569,130				
YEAR ENDED DECEMBER 31, 1996 - Net income			2,805,959	
2,805,959				

BALANCE, DECEMBER 31, 1996	\$14,543,947	\$6,000	\$13,051,201	\$(1,226,059)
\$26,375,089				
=====				

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEAR ENDED	TWELVE MONTHS	SIX MONTHS	YEAR ENDED JUNE
30	DECEMBER 31,	ENDED	ENDED	-----
1994	1996	DECEMBER 31,	DECEMBER 31,	1995
		1995	1995	
<S>	<C>	(UNAUDITED)	<C>	<C>
CASH FLOWS FROM OPERATING				
ACTIVITIES:				
Net income (loss)	\$ 2,805,959	\$ (536,961)	\$ (490,254)	\$ 1,432,581
1,819,997				
Adjustments to reconcile net income (loss)				
to net cash provided by (used in)				
operating activities:				
Depreciation and amortization	2,392,716	2,053,338	1,039,829	1,815,624
1,195,695				
Deferred income taxes	62,375	(701,200)	(572,335)	34,587
(149,673)				
Deferred compensation and pension - net	(587,852)	132,525	189,288	(56,763)

132,628				
Loss on sale of fixed assets	94,614			
Change in assets and liabilities:				
Receivables	(1,780,457)	(2,330,912)	2,871,466	144,463
(5,699,619)				
Inventories	(7,053,010)	4,777,807	8,854,652	(1,809,282)
(8,073,067)				
Other current assets	(72,212)	915,979	1,287,108	(1,403,781)
10,892				
Other assets	198,674	(789,528)	(751,521)	(18,538)
(88,274)				
Accounts payable	1,665,330	(1,467,104)	(5,336,585)	3,159,331
(417,039)				
Accrued liabilities	2,105,676	(173,688)	(443,705)	(232,169)
593,884				
Net cash provided by (used in)				
operating activities	(168,187)	1,880,256	6,647,943	3,066,053
(10,674,576)				
-----	-----	-----	-----	-----
CASH FLOWS FROM INVESTING				
ACTIVITIES - Purchase of fixed assets	(3,302,761)	(2,695,732)	(683,542)	(6,546,127)
(5,533,918)				
-----	-----	-----	-----	-----
CASH FLOWS FROM FINANCING				
ACTIVITIES:				
Proceeds from long-term debt	34,913,394	22,734,117	13,370,000	20,799,547
16,772,204				
Payments on long-term debt	(32,946,783)	(21,693,655)	(17,658,248)	(17,393,407)
(5,523,027)				
Proceeds from exercise of stock				
options, net of tax benefit				
438,500				
Acquisition of treasury stock				
(306,515)				
-----	-----	-----	-----	-----
Net cash provided by (used in)	1,966,611	1,040,462	(4,288,248)	3,406,140
11,381,162				
financing activities				
-----	-----	-----	-----	-----
INCREASE (DECREASE) IN CASH AND				
CASH EQUIVALENTS	(1,504,337)	224,986	1,676,153	(73,934)
(4,827,332)				
CASH AND CASH EQUIVALENTS,				
BEGINNING OF PERIOD	1,853,974	1,628,988	177,821	251,755
5,079,087				
-----	-----	-----	-----	-----
CASH AND CASH EQUIVALENTS, END				
OF PERIOD	\$ 349,637	\$ 1,853,974	\$ 1,853,974	\$ 177,821
251,755				
=====	=====	=====	=====	=====

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1996, THE SIX MONTHS
ENDED DECEMBER 31, 1995 AND THE YEARS ENDED JUNE 30, 1995 AND 1994

1. 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 Footware, Inc. ("Lifestyle") and Five Star Enterprises Ltd. ("Five Star"), collectively referred to as the "Company." All significant intercompany transactions have been eliminated.

FISCAL YEAR - Effective December 31, 1995, the Company changed its fiscal

year end from June 30 to December 31. The following presents unaudited summarized consolidated financial information, which includes all normal recurring adjustments the Company considers necessary for a fair presentation of such financial information in accordance with generally accepted accounting principles, for the six months ended December 31, 1994:

Net sales	\$35,967,028
Gross margin	7,832,959
Income taxes	458,770
Net income	1,479,288
Net income per share	\$ 0.39

BUSINESS ACTIVITY - The Company designs, manufactures, and markets high quality men's and women's footwear primarily under the registered trademark, ROCKY(R). The Company maintains a nationwide network of independent and Company sales representatives who sell the Company's products primarily through independent shoe, sporting goods, specialty, and uniform stores and catalogs throughout the United States. The Company had one customer that accounted for 14.7% of consolidated net sales for the six months ended December 31, 1995 and 11.9% of consolidated net sales for the year ended June 30, 1995 and two customers that each accounted for 10.5% and 10.1% of consolidated net sales for the year ended June 30, 1994.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles 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 \$291,000, and \$156,000 at December 31, 1996 and 1995, 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. The Company's largest account receivable balance was approximately \$1,300,000 at December 31, 1995.

SUPPLIER AND LABOR CONCENTRATIONS - The Company purchases raw materials from a number of domestic and foreign sources. The Company currently buys all of its waterproof fabric, a component used in a significant portion of the Company's shoes and boots, from one supplier (GORE-TEX). The Company has had a relationship with this supplier for over 16 years and has no reason to believe that such relationship will not continue.

A significant portion of the "uppers" for 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 1989 and is not aware of any governmental or economic restrictions that would alter its current operations.

INVENTORIES - Inventories are valued at the lower of cost, determined on a first-in, first-out (FIFO) basis, or market.

During the fiscal year ended June 30, 1995, the Company exchanged inventory totaling approximately \$1,200,000 for prepaid advertising credits. No gain or loss was recognized on the transaction.

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:

<TABLE>
<CAPTION>

Years

<S>	<C>
Building and improvements	5-40
Machinery and equipment	5-12
Furniture and fixtures	8-12
Lasts, dies, and patterns	7-12

</TABLE>

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

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

ADVERTISING - The Company expenses advertising costs as incurred. Advertising expense was \$1,399,398 for the year ended December 31, 1996, \$1,890,400 for the six months ended December 31, 1995 and \$1,736,617 and \$964,577 in fiscal 1995 and 1994, respectively.

REVENUE RECOGNITION - Revenue is recognized at the time footwear product is shipped to the customer and is recorded net of estimated sales discounts and returns.

PER SHARE INFORMATION - Per share information for all periods is computed based upon the weighted average number of common shares and equivalents (when dilutive) outstanding. Stock options and the Company's Series A preferred stock are deemed to be common stock equivalents for purposes of computing per share amounts.

2. INVENTORIES

Inventories are comprised of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1996	1995
<S>	<C>	<C>
Raw materials	\$ 4,482,381	\$ 3,437,802
Work-in-process	5,192,326	2,359,778
Manufactured finished goods	13,891,772	10,085,634
Factory outlet finished goods	1,823,423	2,453,678
	-----	-----
Total	\$25,389,902	\$18,336,892
	=====	=====

</TABLE>

3. FIXED ASSETS

Fixed assets are comprised of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1996	1995
<S>	<C>	<C>
Land	\$ 218,130	\$ 218,130
Building and improvements	5,060,261	4,816,248
Machinery and equipment	14,432,261	12,607,489
Furniture and fixtures	2,014,616	1,206,935
Lasts, dies and patterns	3,782,250	3,319,135
Construction work-in-progress	36,896	16,205
	-----	-----
Total	25,544,360	22,184,142
Less - accumulated depreciation	(10,035,763)	(7,649,966)
	-----	-----
Net fixed assets	\$15,508,597	\$14,534,176
	=====	=====

</TABLE>

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

4. LONG-TERM DEBT

Long-term debt is comprised of the following:

<TABLE>

<CAPTION>

	DECEMBER 31,	
	1996	1995
<S>	<C>	<C>
Bank - revolving credit facility	\$19,820,000	\$16,850,000
Equipment and other obligations	1,027,952	1,687,606
Real estate obligations	1,596,292	1,710,942
Note payable - shareholder	367,818	551,727
Other	317,612	145,956
	-----	-----
Total long-term debt	23,129,674	20,946,231
Less current maturities	3,609,645	4,392,341
	-----	-----
Net long-term debt	\$19,520,029	\$16,553,890
	=====	=====

</TABLE>

The Company has a loan agreement with a bank that provides for advances based on a percentage of eligible accounts receivable and inventory with maximum borrowings that range from \$25,000,000 to \$35,000,000 through April 30, 1998. Interest on the revolving credit facility is payable monthly as a factor of the bank's prime rate (8.25% at December 31, 1996) and the principal is due April 30, 1998. At December 31, 1996, \$23,258,000 was available under the credit agreement of which \$19,820,000 had been borrowed. At December 31, 1996 and 1995, \$2,820,000 and \$3,350,000, respectively, were classified as current based on the expected reduction in the available line in the subsequent year in accordance with management's projection of eligible accounts receivable and inventory balances.

Any amounts borrowed under the agreement are secured by the accounts receivable, inventories, and equipment of the Company. The agreement contains restrictive covenants which, among others, require the Company to maintain a certain level of tangible net worth, as defined. At December 31, 1996 approximately \$ 668,000 of retained earnings are available for distribution.

Equipment and other obligations at December 31, 1996 bear interest at fixed and variable rates ranging from 3% to 9.25% and are payable in monthly installments to 2001. The obligations are secured by equipment and are subject to the security agreement and covenants applicable to the revolving credit facility.

Real estate obligations at December 31, 1996 bear interest at variable rates ranging from 7.875% to 8.50% and are payable in monthly installments through 2010. The obligations are secured by real estate and are subject to the security agreement and covenants applicable to the revolving credit facility.

In December 1993, the Company entered into a Stock Purchase and Pledge Agreement with a shareholder of the Company whereby the Company purchased 116,952 shares of its common stock and 7,143 shares of preferred stock for \$1,226,059, including a note for \$919,544. The note bears interest at the prime rate, as defined, plus 2% (total of 10.25% at December 31, 1996) and is payable in five equal annual installments through December 20, 1998.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

At December 31, 1996, essentially all trade accounts receivable, inventories and property are held as collateral for the Company's long-term debt.

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

<TABLE>		<C>
<S>		
1997		\$ 3,609,645
1998		17,729,460
1999		334,071
2000		250,301
2001		244,498
Thereafter		961,699

Total		\$23,129,674
		=====

</TABLE>

The estimated fair value of the Company's long-term obligations approximated their carrying amount at December 31, 1996 and 1995, 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 \$541,000, \$245,000, \$455,000 and \$378,000 in rent expense under operating lease arrangements for the year ended December 31, 1996, the six months ended December 31, 1995 and the years ended June 30, 1995 and 1994, respectively.

Included in total rent expense above are payments of \$6,000 per month 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:

<TABLE>	
<S>	<C>
1997	\$ 338,266
1998	281,759
1999	176,298
2000	96,710
2001	52,900

Total	\$ 945,933
	=====
</TABLE>	

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

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.

At December 31, 1996, a provision has not been made for U.S. taxes on the accumulated undistributed earnings of Five Star through the third quarter of 1996 of approximately \$3,079,000 that would become payable upon repatriation to 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. 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 \$1,047,000 and \$226,000, respectively.

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (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:

<TABLE>				
<CAPTION>				
	YEAR ENDED	SIX MONTHS		
	DECEMBER 31,	ENDED	YEAR ENDED	JUNE 30,
	1996	DECEMBER 31,	1995	1994
	<C>	<C>	<C>	<C>
<S>				
Federal:				
Current	\$ 640,053	\$217,000	\$ (296,827)	\$ 368,000

Deferred	115,883	(635,234)	172,685	(110,661)
-				
Total Federal	755,936	(418,234)	(124,142)	257,339
State and local:				
Current	215,726	22,150	65,800	84,800
Deferred	(53,508)	62,899	(138,098)	(39,012)
-				
Total state and local	162,218	85,049	(72,298)	45,788
-				
Total	\$ 918,154	\$ (333,185)	\$ (196,440)	\$ 303,127

</TABLE>

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

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

Deferred income taxes recorded in the consolidated balance sheets at December 31, 1996 and 1995 consist of the following:

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED JUNE 30, 1995	1994
<S>	<C>	<C>	<C>	<C>
Expected (benefit) expense at statutory rate	\$1,266,198	\$ (279,969)	\$ 420,288	\$ 721,862
Increase (decrease) in income taxes resulting from:				
Exempt income from operations in Puerto Rico, net of tollgate taxes	(279,414)	8,279	(362,540)	(297,975)
Exempt income from Dominican Republic operations	(158,075)	(72,527)	(298,775)	(159,647)
State and local income taxes	(55,154)	(28,917)	24,581	(15,568)
Other - net	(17,619)	(45,100)	92,304	8,667
-				
Total	\$ 755,936	\$ (418,234)	\$ (124,142)	\$ 257,339

</TABLE>

<TABLE>
<CAPTION>

	DECEMBER 31, 1996	1995
<S>	<C>	<C>
Deferred tax assets:		
State and local income taxes	\$ 38,167	\$ 28,802
Asset valuation allowances	600,973	147,767
Pension and deferred compensation	197,673	304,122
Net operating loss carryforwards	359,075	470,000
Inventories	152,423	
Alternative minimum tax		187,000
-		
Total deferred tax assets	1,348,311	1,137,691
-		
Deferred tax liabilities:		
Inventories		(240,404)
Fixed assets	(1,260,837)	(940,800)
Tax on Fivestar earnings	(64,339)	
Tollgate tax on Lifestyle earnings	(441,345)	(312,322)
-		
Total deferred tax liabilities	(1,766,521)	(1,493,526)

Net deferred tax liability

\$ (418,210) \$ (355,835)
 =====

</TABLE>

ROCKY SHOES & BOOTS, INC.
 AND SUBSIDIARIES

At December 31, 1996, the Company has approximately \$1,056,000 of net operating loss carryforwards for Federal income tax purposes with annual utilization limitations over the next five years and expiring in 2010. Effective in fiscal 1994, under the provisions of SFAS No. 109 the Company began to provide for the 10% tollgate tax on the annual earnings of Lifestyle. Effective during 1996 the Company began to provide U.S. income taxes on the earnings of Fivestar based on the Company's intention to repatriate these earnings in the future.

7. RETIREMENT PLANS

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

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

<TABLE>
 <CAPTION>

	YEAR ENDED DECEMBER 31, 1996	SIX MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED JUNE 30, 1995	1994
<S>	<C>	<C>	<C>	<C>
Service cost	\$ 182,955	\$ 86,551	\$130,310	\$152,220
Interest	231,140	111,767	204,551	191,966
Actual return on plan assets	(306,853)	(171,109)	(135,486)	15,129
Amortization and deferral	177,854	126,980	72,263	(69,493)
	-----	-----	-----	-----
Net pension cost	\$ 285,096	\$ 154,189	\$271,638	\$289,822
	=====	=====	=====	=====

</TABLE>

ROCKY SHOES & BOOTS, INC.
 AND SUBSIDIARIES

The funded status of the Company's plans and reconciliation of accrued pension cost at December 31, 1996 and 1995 are presented below (information with respect to benefit obligations and plan assets is as of September 30):

<TABLE>
 <CAPTION>

	DECEMBER 31,	
<S>	1996	1995
	<C>	<C>
Plan assets at fair value	\$ 2,669,944	\$1,877,574
	-----	-----
Actuarial present value of benefit obligations:		
Vested	3,590,876	3,025,959
Nonvested	131,549	92,454
	-----	-----
Accumulated benefit obligation	3,722,425	3,118,413
Effects of salary progression	359,989	306,635
	-----	-----
Projected benefit obligation	4,082,414	3,425,048
	-----	-----
Funded status - excess of projected benefit obligation over plan assets	1,412,470	1,547,474

Remaining unrecognized benefit obligation existing at transition	(343,931)	371,823)
Unrecognized prior service costs due to plan amendments	(610,320)	(467,119)
Unrecognized net loss	(358,949)	(272,009)
Adjustment required to recognize minimum liability	953,211	804,316
Additional contributions (September 30 - December 31)	(300,000)	-----
-		
Accrued pension cost	\$ 752,481	\$1,240,839

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

The assets of the plans consist primarily of common stocks, bonds, and cash equivalents. 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:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	1996	1995
<S>	<C>	<C>
Discount rate	7.0%	7.0%
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%

</TABLE>

Statement of Financial Accounting Standards 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 pension liability and a non-current intangible asset of \$953,211 and \$804,316 as of December 31, 1996 and 1995, respectively.

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 100,000 shares are issued and 92,857 shares are outstanding at December 31, 1996 and 1995. The Series A preferred stock has dividend and liquidation rights essentially identical to those of the Company's common stock. In addition, each share of Series A preferred stock is convertible into one share of the Company's common stock any time after February 3, 1995, with mandatory conversion by February 3, 1998.

On December 21, 1992, the Board of Directors and the sole shareholder of Rocky Inc. adopted the 1992 Stock Option Plan which provides for the issuance of options to purchase up to 400,000 common shares of Rocky Inc. On October 11, 1995, the Board of Directors and the shareholders adopted the 1995 Stock Option Plan which provides for the issuance of options to purchase up to 400,000 common shares of Rocky Inc. 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 3,000 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 8 years.

AND SUBSIDIARIES

The following summarizes all stock option transactions from July 1, 1993 through December 31, 1996:

<TABLE>
<CAPTION>

EXERCISE	SHARES	WEIGHTED AVERAGE PRICE
<S>	<C>	<C>
Outstanding at June 30, 1993	107,500	\$ 9.53
Issued	56,750	\$ 10.83
Exercised	(35,000)	\$ 9.50
Forfeited	(2,000)	\$ 9.75
Outstanding at June 30, 1994	127,250	\$ 10.12
Issued	170,300	\$ 9.79
Forfeited	(9,900)	\$ 9.82
Outstanding at June 30, 1995	287,650	\$ 9.94
Issued	97,250	\$ 7.59
Outstanding at December 31, 1995	384,900	\$ 9.34
Issued	93,000	\$ 6.25
Forfeited	(30,000)	\$ 8.81
Outstanding at December 31, 1996	447,900	\$ 8.74

</TABLE>

At December 31, 1996, the exercise price for options outstanding range from \$5.625 to \$20.00.

The following table summarizes information about options outstanding at December 31, 1996:

<TABLE>
<CAPTION>

OPTIONS OUTSTANDING			OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
\$5.625 - \$6.00	104,000	6.3	\$5.93	14,000	\$5.87
\$7.50 - 8.875	76,250	5.8	\$8.30	22,250	\$8.38
\$9.50 - \$10.125	26,650	3.8	\$9.72	198,003	\$9.71
\$20.00	6,000	2.9	\$20.00	6,000	\$20.00
Total	447,900		\$ 8.74	240,253	\$ 9.62

</TABLE>

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

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 FASB Statement No. 123, the Company's net earnings and net earnings per common share, net of related income tax benefits, 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 the year ended December 31, 1996 and 1995, respectively; dividend yield of 0%; expected volatility of 47%; risk-free interest rates of 6.50%; and expected life of 6 years. The weighted average grant date fair value of options issued

during the year ended December 31, 1996 and the six months ended December 31, 1995 was \$3.39 and \$4.01, respectively.

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31,	SIX MONTHS ENDED DECEMBER
	1996	1995
31,		
<S>	<C>	<C>
Net income (loss):		
As reported	\$2,805,959	\$(490,254)
Pro forma	\$2,561,260	\$(675,838)
Earnings per share:		
As reported	\$ 0.74	\$ (0.13)
Pro forma	\$ 0.68	\$ (0.18)

</TABLE>

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

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

9. SUPPLEMENTAL CASH FLOW INFORMATION

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

<TABLE>
<CAPTION>

	YEAR ENDED DECEMBER 31, 1996	TWELVE MONTHS ENDED DECEMBER 31, 1995	SIX MONTHS ENDED DECEMBER 31, 1995	YEAR ENDED JUNE 30 1995
1994		(UNAUDITED)		
<S>	<C>	<C>	<C>	<C>
Interest	\$ 2,066,365	\$1,956,831	\$1,262,057	\$1,913,000
\$760,000	=====	=====	=====	=====
Federal, state and local income taxes - net of refunds	\$ (813,225)	\$ 22,150	\$ 10,150	\$ 487,000
\$717,000	=====	=====	=====	=====

</TABLE>

During the year ended December 31, 1996 and the six months ended December 31, 1995, the Company entered into capital lease arrangements for certain equipment which had a present value of \$216,832 and \$111,591, respectively. During the year ended June 30, 1994, the Company acquired treasury stock for \$1,226,059, including a note payable of \$919,544. Accounts payable at December 31, 1996 and 1995 include a total of \$42,994, and \$100,836, respectively, relating to the purchase of fixed assets.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

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, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year ended December 31, 1996, the six months ended December 31, 1995, and the years ended June 30, 1995 and 1994. 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 generally accepted auditing standards. 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 at December 31, 1996 and 1995, and the results of their operations and their cash flows for the year ended December 31, 1996, the six months ended December 31, 1995, and the years ended June 30, 1995 and 1994 in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP

Columbus, Ohio
March 11, 1997

Exhibit 21.1

Subsidiaries of the President

Five Star Enterprises Ltd.,
a Cayman Islands corporation

Lifestyle Footwear, Inc.,
a Delaware corporation

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-65052 and 333-4434 of Rocky Shoes & Boots, Inc. on Form S-8 of our reports dated March 11, 1997, appearing in and incorporated by reference in this Annual Report on Form 10-K of Rocky Shoes & Boots, Inc., for the year ended December 31, 1996.

Columbus, Ohio
March 28, 1997

POWER OF ATTORNEY

Each director and officer of Rocky Shoes & Boots, Inc. (the "Corporation") whose signature appears below hereby appoints Mike Brooks and Curtis A. Loveland, or either of them, as his or her attorney-in-fact, to sign, in his or her name and behalf and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission, the Corporation's Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended December 31, 1996, and likewise to sign and file any amendments, including post-effective amendments, to the Annual Report, and the Corporation hereby also appoints such persons as its attorneys-in-fact and each of them as its attorney-in-fact with like authority to sign and file the Annual Report and any amendments thereto in its name and behalf, each such person and the Corporation hereby granting to such attorney-in-fact full power of substitution and revocation, and hereby ratifying all that such attorney-in-fact or his substitute may do by virtue hereof.

IN WITNESS WHEREOF, we have executed this Power of Attorney, in counterparts if necessary, effective as of March 23, 1997.

DIRECTORS/OFFICERS:

<TABLE>

<CAPTION>

Signature -----	Title -----
<S> /s/ Mike Brooks ----- Mike Brooks	<C> Chairman, Chief Executive Officer, and President (principal executive officer)
/s/ David S. Fraedrich ----- David S. Fraedrich	Executive Vice President, Chief Financial Officer, Treasurer and a Director (principal financial and principal accounting officer)
/s/ Curtis A. Loveland ----- Curtis A. Loveland	Secretary and a Director
/s/ Stanley I. Kravetz ----- Stanley I. Kravetz	Director
/s/ Barbara B. Fuller ----- Barbara B. Fuller	Director
/s/ Leonard L. Brown ----- Leonard L. Brown	Director
/s/ Robert D. Stix ----- Robert D. Stix	Director
/s/ James L. Stewart ----- James L. Stewart	Director

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-31-1996
<PERIOD-START>	JAN-01-1996
<PERIOD-END>	DEC-31-1996
<CASH>	349
<SECURITIES>	0
<RECEIVABLES>	13,379
<ALLOWANCES>	291
<INVENTORY>	25,390
<CURRENT-ASSETS>	40,460
<PP&E>	25,544
<DEPRECIATION>	10,036
<TOTAL-ASSETS>	58,090
<CURRENT-LIABILITIES>	9,852
<BONDS>	19,520
<PREFERRED-MANDATORY>	6
<PREFERRED>	0
<COMMON>	14,544
<OTHER-SE>	11,825
<TOTAL-LIABILITY-AND-EQUITY>	26,375
<SALES>	73,148
<TOTAL-REVENUES>	73,366
<CGS>	55,104
<TOTAL-COSTS>	67,436
<OTHER-EXPENSES>	2,205
<LOSS-PROVISION>	385
<INTEREST-EXPENSE>	2,104
<INCOME-PRETAX>	3,724
<INCOME-TAX>	918
<INCOME-CONTINUING>	2,806
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	2,806
<EPS-PRIMARY>	.74
<EPS-DILUTED>	.74

</TABLE>