

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934For Quarter Ended
SEPTEMBER 30, 2001Commission File Number:
0-21026ROCKY SHOES & BOOTS, INC.

(Exact name of registrant as specified in its charter)

OHIO

(State of Incorporation)

31-1364046

(IRS Employer Identification Number)

39 E. CANAL STREET
NELSONVILLE, OHIO 45764

(Address of principal executive offices)

(740) 753-1951

(Registrant's telephone number, including area code)

(Former name, former address, and former Fiscal year if changed since last report.)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

Yes No
 --- ---

4,489,215 common shares, no par value, outstanding at November 13, 2001

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES

FORM 10-Q

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PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	September 30, 2001 Unaudited	December 31, 2000	September 30, 2000 Unaudited
<S>	<C>	<C>	<C>
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$2,553,804	\$2,117,994	\$1,925,013
Trade receivables - net	34,716,895	18,055,881	39,366,729
Other receivables	2,351,058	2,956,900	3,852,011
Inventories	37,899,594	32,035,237	42,162,237
Deferred income taxes	502,722	536,012	1,017,331
Prepaid expenses	1,498,935	1,295,287	1,816,021
Total current assets	79,523,008	56,997,311	90,139,342
FIXED ASSETS - net	21,541,734	24,330,319	25,379,126
OTHER ASSETS	4,602,196	4,723,542	2,512,903
TOTAL ASSETS	\$105,666,938	\$86,051,172	\$118,031,371
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	\$3,538,230	\$3,502,296	\$13,062,373
Current maturities - long term debt	17,845,423	1,070,374	12,595,188
Accrued taxes - other	683,637	560,537	609,112
Accrued salaries and wages	1,360,540	369,925	968,209
Accrued restructuring charge	1,300,000		
Accrued other	1,481,547	1,293,214	955,871
Total current liabilities	26,209,377	6,796,346	28,190,753
LONG TERM DEBT - less current maturities	26,095,736	26,445,276	38,146,201
DEFERRED LIABILITIES	1,760,214	2,483,878	1,474,595
TOTAL LIABILITIES	54,065,327	35,725,500	67,811,549
SHAREHOLDERS' EQUITY:			
Common stock, no par value;			
10,000,000 shares authorized; issued and			
outstanding September 30, 2001,			
December 31, 2000,			
and September 30, 2000 - 4,489,215	35,284,159	35,284,159	35,284,159
Retained earnings	16,317,452	15,041,513	14,935,663

Total shareholders' equity	51,601,611	50,325,672	50,219,822
	-----	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$105,666,938	\$86,051,172	\$118,031,371
	=====	=====	=====

</TABLE>

See notes to the interim unaudited condensed consolidated financial statements.

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ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
NET SALES	\$38,490,267	\$37,230,069	\$76,560,294	\$75,475,202
COST OF GOODS SOLD	28,685,843	28,485,904	57,436,667	57,726,628
	-----	-----	-----	-----
GROSS MARGIN	9,804,424	8,744,165	19,123,627	17,748,574
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,723,654	5,893,851	14,424,135	15,757,878
RESTRUCTURING CHARGE	1,300,000	--	1,300,000	--
	-----	-----	-----	-----
INCOME FROM OPERATIONS	2,780,770	2,850,314	3,399,492	1,990,696
OTHER INCOME AND (EXPENSES):				
Interest expense	(764,539)	(1,197,902)	(1,976,321)	(2,329,623)
Other - net	50,097	146,060	330,124	326,119
	-----	-----	-----	-----
Total other - net	(714,442)	(1,051,842)	(1,646,197)	(2,003,504)
INCOME (LOSS) BEFORE INCOME TAXES	2,066,328	1,798,472	1,753,295	(12,808)
INCOME TAX (BENEFIT) EXPENSE	586,634	535,500	477,356	(3,500)
	-----	-----	-----	-----
NET INCOME (LOSS)	\$1,479,694	\$1,262,972	\$1,275,939	\$ (9,308)
	=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE				
Basic	\$0.33	\$0.28	\$0.28	\$ (0.00)
	=====	=====	=====	=====
Diluted	\$0.32	\$0.28	\$0.28	\$ (0.00)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	4,489,215	4,489,215	4,489,215	4,489,215
	=====	=====	=====	=====
Diluted	4,564,929	4,489,921	4,540,675	4,489,215
	=====	=====	=====	=====

</TABLE>

See notes to the interim unaudited condensed consolidated financial statements.

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ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

Nine Months Ended
September 30,
2001 2000

	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income (loss)	\$1,275,939	\$ (9,308)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,381,738	3,492,468
Deferred income taxes and liabilities	(690,374)	163,005
Loss on sale of fixed assets	123,040	667
Change in assets and liabilities:		
Receivables	(16,055,172)	(19,278,758)
Inventories	(5,864,357)	(9,589,170)
Prepaid expenses	(203,648)	(593,107)
Other assets	90,972	(419,282)
Accounts payable	45,275	10,870,452
Accrued and other liabilities	2,602,048	645,485
	-----	-----
Net cash used in operating activities	(15,294,539)	(14,717,548)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(701,658)	(2,692,107)
Proceeds from sale of fixed assets	6,498	39,770
	-----	-----
Net cash used in investing activities	(695,160)	(2,652,337)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	76,046,760	81,725,969
Payments on long term debt	(59,621,251)	(64,761,395)
	-----	-----
Net cash provided by financing activities	16,425,509	16,964,574
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	435,810	(405,311)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,117,994	2,330,324
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$2,553,804	\$1,925,013
	=====	=====

</TABLE>

See notes to the interim unaudited condensed consolidated financial statements.

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ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL REPORTING

In the opinion of management, the accompanying interim unaudited condensed consolidated financial statements reflect all adjustments, which are necessary for a fair presentation of the financial results. All such adjustments reflected in the interim unaudited condensed consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the nine-month periods ended September 30, 2001 and 2000 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report to the Shareholders on Form 10-K for the year ended December 31, 2000.

Certain reclassifications have been made to the prior year amounts in order to conform to the current year presentation.

2. INVENTORIES

Inventories are comprised of the following:

<TABLE>
<CAPTION>

	September 30, 2001 ----	December 31, 2000 ----	September 30, 2000 ----
<S>	<C>	<C>	<C>
Raw materials	\$5,504,761	\$5,043,839	\$6,794,388
Work-in Process	2,335,945	1,288,960	2,202,892
Finished goods	27,640,253	23,604,593	30,037,034
Factory outlet finished goods	2,579,635	2,438,398	3,468,476
Reserve for obsolescence or lower of cost or market	(161,000)	(340,553)	(340,553)
	-----	-----	-----
Total	\$37,899,594	\$32,035,237	\$42,162,237
	=====	=====	=====

</TABLE>

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3. SUPPLEMENTAL CASH FLOW INFORMATION

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

<TABLE>
<CAPTION>

	Nine Months Ended September 30,	
	2001	2000
<S>	<C>	<C>
Interest	\$2,001,117	\$2,386,016
	=====	=====
Federal, state and local income taxes (refund)	\$77,348	\$(2,020,726)
	=====	=====

</TABLE>

Accounts payable at September 30, 2001 and December 31, 2000 include a total of \$2,757 and \$12,098, respectively, relating to the purchase of fixed assets.

4. RESTRUCTURING CHARGE

On September 17, 2001, the Company announced a Board of Directors approved strategic restructuring of the Company's manufacturing operations resulting in a charge of \$1,300,000. The restructuring charge is an estimate and final amount could differ from the estimate. As a result, the Company will close its Nelsonville, Ohio manufacturing facility and move the production capacity to its subsidiary operation in Puerto Rico. The restructuring activities are expected to be predominately completed during fourth quarter 2001 and first quarter 2002.

The following table summarizes the pretax restructuring charge recorded in the condensed consolidated statement of operations for the three month and nine month periods ended September 30, 2001:

<TABLE>
<CAPTION>

<S>	<C>
Employee termination:	
Severance and related charges	\$425,000
Curtailment of pension liability for terminated employees	300,000
Fixed asset impairment	310,000
Unexpired lease obligation	90,000
Other non-recurring expenses	175,000

Total restructuring charge	\$1,300,000
	=====

</TABLE>

Fixed asset impairment charges consist of write-down to fair market value less costs to sell machinery and equipment and leasehold improvements that will not be held in service after the plant closing. The unexpired lease obligation consists of the remaining term on the lease of the Nelsonville, Ohio manufacturing facility.

Other non-recurring expenses include legal, accounting, and actuarial costs, costs to

disassemble bottoming machinery, and the cost to ship raw material inventory from Nelsonville, Ohio to Puerto Rico.

The restructuring charge (\$845,000 after tax) resulted in a reduction of \$0.18 per share for the three-month and nine-month periods ended September 30, 2001.

As of September 30, 2001, the workforce terminations related to the Nelsonville plant closing are scheduled for November 2001.

5. PER SHARE INFORMATION

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

A reconciliation of the shares used in the basic and diluted income per common share computation for the three months and nine months ended September 30, 2001 and 2000 is as follows:

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Basic Weighted average shares outstanding	4,489,215	4,489,215	4,489,215	4,489,215
Diluted securities:				
Stock options	75,714	706	51,460	--
	-----	-----	-----	-----
Diluted Weighted average shares outstanding	<u>4,564,929</u>	<u>4,489,921</u>	<u>4,540,675</u>	<u>4,489,215</u>

</TABLE>

6. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations," to establish accounting and reporting requirements for business combinations. Previously, the purchase method or the pooling method of accounting for business combinations was acceptable depending on certain criteria being met. This new standard requires the use of the purchase method of accounting for all business combinations. This statement is effective for the Company beginning June 20, 2001. The Company is currently assessing the impact of SFAS No. 141, and does not anticipate this statement to have a material effect on its results of operations or financial position.

Additionally the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" in July 2001. This statement applies to intangibles and goodwill acquired after June 30, 2001, as well as goodwill and intangibles previously acquired. Under this statement, goodwill, as well as other intangibles determined to have an infinite life, will no longer be amortized; however, these assets will be reviewed for impairment on a periodic basis.

This statement is effective for the Company for the fiscal year beginning after December 15, 2001. The Company is currently assessing the impact of SFAS No. 142, and the Company does not anticipate this statement to have a material effect on its results of operations or financial position.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Under this Statement, obligations that meet the definition of a liability will be recognized consistently with the retirement of the tangible long-lived assets. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company is currently assessing the impact of SFAS No. 143 and does not anticipate this

statement will have a material effect on its results of operations and financial position.

In August 2001, the FASB issued SFAS no. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Because SFAS No. 121 did not address the accounting for a segment of a business accounted for as a discontinued operation under APB Opinion No. 30, two accounting models existed for long-lived assets to be disposed of. The Board decided to establish a single accounting model based on the framework established in Statement 121, for long-lived assets to be disposed of by sale. This Statement is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company is currently assessing the impact of SFAS No. 144, and does not anticipate this statement will have a material effect on its results of operations and financial position.

7. SUBSEQUENT EVENT

In November 2001, the Company obtained a preliminary estimate of its pension liability for both of its defined benefit pension plans covering union and non union employees in Ohio and Puerto Rico. SFAS No. 87, "Employees 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 addition, if the additional minimum liability required to be recognized exceeds the unrecognized prior service cost, the excess shall be recorded as a reduction of Shareholders' Equity. The Company will record approximately \$850,000 net of taxes in fourth quarter 2001 as a reduction in equity due primarily to the lower than expected investment returns from the assets of the Company's pension plans.

PART 1 - FINANCIAL INFORMATION
ITEM 2

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

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, information derived from the Company's Interim Unaudited Condensed Consolidated Financial Statements, expressed as a percentage of net sales. The discussion that follows the table should be read in conjunction with the Interim Unaudited Condensed Consolidated Financial Statements of the Company.

<TABLE>
<CAPTION>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	----	----	----	----
<S>	<C>	<C>	<C>	<C>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	74.5%	76.5%	75.0%	76.5%
	-----	-----	-----	-----
Gross Margin	25.5%	23.5%	25.0%	23.5%
SG&A expenses (including restructuring charge in 2001)	18.3%	15.8%	20.6%	20.9%
	-----	-----	-----	-----
Income from Operations	7.2%	7.7%	4.4%	2.6%
	=====	=====	=====	=====

</TABLE>

Excluding the \$1,300,000 third quarter 2001 restructuring charge, SG&A expenses were 14.9% and 18.8% of net sales, respectively, for the three months and nine months ended September 30, 2001. Income from operations was 10.6% and 6.2%, respectively, for third quarter 2001 and the year-to-date period excluding the restructuring charge.

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED
SEPTEMBER 30, 2000

Net Sales

Net Sales increased \$1,260,198, or 3.4%, to \$38,490,267 for the quarter ended September 30, 2001 compared to \$37,230,069 for the same period a year ago. Net sales for the third quarter 2001 benefited from shipments of Intermediate Cold Wet military boots pursuant to a contract with the U.S. Government. Net sales of

rugged outdoor footwear, and, to a lesser extent, occupational footwear, were below the prior year. The Company's prices are slightly higher than the previous year. This increase was due principally to the growing strength of the ROCKY brand and raw material price increases.

Gross Margin

Gross margin increased \$1,060,259, or 12.1%, to \$9,804,424 for the quarter ended September 30, 2001 compared to \$8,744,165 for the same period in 2000. As a percentage of net sales, gross margin was 25.5% this year compared to 23.5% a year ago. Among the factors

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contributing to the increase in gross margin were generally higher selling prices and additional sales of higher margin sourced footwear. Sourced footwear sales increased to 46.9% of third quarter 2001 net sales from 39.0% of third quarter 2000 net sales. The Company has been improving inventory management and reducing manufacturing costs, which also contributed to the increase in gross margin.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") decreased \$170,197, or 2.9%, to \$5,723,654 for the quarter ended September 30, 2001 compared to \$5,893,851 for the same period a year ago. As a percentage of net sales, SG&A decreased to 14.9% from 15.8% a year ago. SG&A continued to benefit from reductions in many areas of operations including salaries and wages, commissions, and bad debt expenses. This decrease was partially offset by increased advertising, fringe benefits (due to increased accruals for pensions and anticipated performance incentives) and professional services. The Company is realizing increased efficiencies from its finished goods distribution center, which was completed in 2000. Ongoing cost control programs initially implemented in 2000 are expected to generate additional reductions for the remainder of the year.

Restructuring Charge

On September 17, 2001, the Company announced a Board of Directors approved strategic restructuring of its manufacturing operations resulting in a pretax charge of \$1,300,000. The restructuring charge is an estimate and the final amount could differ from the estimate. As a result, the Company will close its Nelsonville, Ohio manufacturing facility and move the production capacity to its subsidiary operation in Puerto Rico. The restructuring activities are expected to be predominately completed during fourth quarter 2001 and first quarter 2002.

The charge for the realignment of manufacturing operations is expected to be offset by anticipated savings, including employee expenses, fixed costs, and inventory carrying costs, within 15 months after manufacturing operations cease at its Nelsonville facility.

The single largest amount of the \$1,300,000 restructuring charge is for employee related costs for the 67 affected associates, as well as certain operating expenses and other costs to complete the shift in manufacturing.

The following table summarizes the pretax restructuring charge recorded in the condensed consolidated statement of operations for the three month and nine month periods ended September 30, 2001:

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<S>	<C>
Employee termination:	
Severance and related charges	\$425,000
Curtailment of pension liability for terminated employees	300,000
Fixed asset impairment	310,000
Unexpired lease obligation	90,000
Other non-recurring expenses	175,000

Total restructuring charge	\$1,300,000
	=====

Employee termination costs include severance, related employment taxes, placement services and pension funding for voluntary and involuntary employee terminations related to 67 employees.

Fixed asset impairment charges consists of write-down to fair market value less

costs to sell of machinery and equipment and leasehold improvements which will not be held in service after the plant closing. The unexpired lease obligation consists of the remaining term on the lease of the Nelsonville, Ohio manufacturing facility.

Other non-recurring expenses include legal, accounting, and actuarial costs, costs to disassemble bottoming machinery, and the cost to ship raw material inventory from Nelsonville, Ohio to Puerto Rico.

The restructuring charge (\$845,000 after tax) resulted in a reduction of \$0.18 per share for the three-month and nine-month periods ended September 30, 2001.

Interest Expense

Interest expense decreased \$433,363, or 36.2%, to \$764,539 in the quarter ended September 30, 2001 compared to \$1,197,902 the prior year. The Company benefited from lower outstanding balances and interest rates during third quarter 2001. The Company's funded debt decreased 13.4% to \$43,941,159 at September 30, 2001 versus \$50,741,389 a year ago due to reductions to inventories, accounts receivable and capital expenditures.

Income Taxes

Income taxes for the three months ended September 30, 2001 increased to \$586,634 compared to \$535,500 for the same period a year ago. The Company's effective tax rate of 28.3% for the three months ended September 30, 2001 compares with an effective tax rate of 29.7% for the same period last year and reflects lower tax rates in Puerto Rico.

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NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2000

Net Sales

Net sales for the nine months ended September 30, 2001 increased \$1,085,092 or 1.4% to \$76,560,294 versus \$75,475,202 for the same period a year ago. Net sales primarily continued to benefit from shipments of Intermediate Cold Wet military boots, pursuant to a contract with the U.S. Government. Partially offsetting the positive effects of this contract were lower sales in the rugged outdoor and occupational footwear categories. The Company's prices are slightly higher than the previous year. This increase was due principally to the growing strength of the ROCKY brand and raw material price increases.

Gross Margin

Gross margin for the nine months ended September 30, 2001 increased \$1,375,053 to \$19,123,627 versus \$17,748,574 for the same period a year ago. As a percentage of net sales, gross margin was 25.0% in the first nine months of 2001 versus 23.5% for the same period a year ago. Factors contributing to the increase in gross margin were generally higher selling prices and additional sales of higher margin sourced footwear. Sourced footwear sales increased to 40.9% of the first nine months 2001 net sales from 35.1% last year. The Company has been improving inventory management and reducing manufacturing costs, which also contributed to the increase in gross margin.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses (SG&A) for the nine months ended September 30, 2001 were \$14,424,135 compared with \$15,757,878 for the same period a year ago. As a percentage of net sales, SG&A was 18.8% through September 30, 2001 versus 20.9% for the same period in 2000. The decrease is attributable to across the board efforts to reduce SG&A expenses, which included significant reductions in commissions, salaries and wages, and bad debts. Partially offsetting these cost reductions were increased expenses relating to advertising, fringe benefits (due to increased accruals for pensions and anticipated performance incentives) and professional fees. The Company is realizing increased efficiencies from its finished goods distribution center, which was completed in 2000. Ongoing cost control programs initiated during 2000 and 2001 are expected to generate additional reductions for the remainder of the year.

Interest Expense

Interest expense for the nine months ended September 30, 2001 decreased \$353,302 or 15.2% to \$1,976,321 versus \$2,329,623 for the same period a year ago. The Company benefited from lower outstanding balances and interest rates during the nine months ended September 30, 2001, which were partially offset by a \$295,000 reduction in second quarter 2000 interest expense due to the termination of an interest rate swap agreement. The Company's funded debt decreased 13.4% to \$43,941,159 at September 30, 2001 versus \$50,741,389 a year ago due to reductions to inventories, accounts receivable and capital expenditures.

Income Taxes

Income taxes for the nine months ended September 30, 2001 increased to \$477,356 compared to an income tax benefit of \$3,500 for the same period a year ago. The Company's effective tax rate of 27.2% for the nine months ended September 30, 2001 compares with an effective tax benefit rate of 27.3% for the same period last year and reflects lower tax rates in Puerto Rico.

Liquidity and Capital Resources

The Company has principally funded working capital requirements and capital expenditures through borrowings under its line of credit and other indebtedness. Working capital is primarily used to support changes in accounts receivable and inventory because of the Company's seasonal business cycle and business expansion. These requirements are generally lowest in the months of January through March of each year and highest during the months of May through October. In addition, the Company requires financing to support additions to machinery, equipment and facilities as well as the introduction of new styles of footwear. At September 30, 2001, the Company had working capital of \$53,313,631 versus \$50,200,965, at December 31, 2000.

The Company's line of credit provides for advances based on a percentage of eligible accounts receivable and inventory with maximum borrowings under the line of credit of \$50,000,000. As of September 30, 2001, the Company had borrowed \$37,359,458 against its currently available line of credit of \$43,534,129.

The Company's cash flow used in operations increased to \$15,294,539 in the first nine months of 2001 from \$14,717,548 for the same period in the prior year. The period over period comparison reflects net income of \$1,275,939 this year versus a net loss \$9,308 last year, and a smaller increase in accounts payable. These amounts were substantially offset by higher accounts receivable and inventories. All of the responsible balance sheet fluctuations are normal and reflect the seasonal nature of the Company's business.

Inventory declined 10.1% to \$37,899,594 on September 30, 2001 versus \$42,162,237 as of the same date last year. Controlled production schedules during the past year combined with improved inventory management contributed to the favorable comparison. The current level of inventory combined with anticipated production during the fourth quarter is considered sufficient to meet anticipated demand for the remainder of the year.

The principal use of cash flows in investing activities for the first nine months of 2001 and 2000 has been for investment in property, plant, and equipment. In the first nine months of 2001, property, plant, and equipment expenditures were approximately \$702,000 versus \$2,692,000 for the same period in 2000. The reduction resulted from decreased needs for capital expenditures due to completion of the Company's finished goods distribution center in January 2000 and increased production of sourced footwear from the Far East. It is anticipated that capital expenditures for fiscal 2001 will not exceed \$1.2 million compared with \$3.1 million last year. The Company's capital expenditure requirements for the foreseeable future are expected to remain below prior years due to the recent completion of all currently planned capital expansion projects and the continuing trend toward increased sales of sourced footwear as a percentage of the Company's total net sales.

The Company's cash flows from financing activities reflect the increases and decreases in borrowings under its revolving credit facility and long-term mortgage facility to finance working

capital requirements and other operating capital expenditures.

The Company believes it will be able to finance such future capital requirements and meet operating expenditure requirements in 2001 through available cash on hand, additional long-term borrowings under its existing bank agreements, and operating cash flows.

The majority of expenditures planned for 2001 are costs associated with production or sourcing of new styles of footwear and replacement of machinery, equipment, and in-store displays.

Inflation

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

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding the intent, belief and expectations of the Company and its management. Investors are cautioned that such statements involve risks and uncertainties, including, but not limited to, changes in consumer demand, seasonality, impact of weather, competition, reliance on suppliers, changing retailing trends, reliance on foreign manufacturing, changes in tax rates, limited protection of proprietary technology, and other risks, uncertainties and factors described in the Company's most recent Annual Report on Form 10-K and other filings from time to time with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect the Company's business and financial results and cause actual results to differ materially from plans and projections. Although the Company and its management believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements contained herein, the inclusion of such information should not be regarded as a representation by the Company, its management or any other person that the Company's objectives and plans will be achieved. All forward-looking statements made in this Form 10-Q are based on information presently available to the management of the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

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PART 1 - FINANCIAL INFORMATION

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since December 31, 2000.

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PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 2. Changes in Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Reports on Form 8-K.

None.

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SIGNATURES

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

ROCKY SHOES & BOOTS, INC.

Date: November 14, 2001

/s/ James E. McDonald

James E. McDonald, Vice President and
Chief Financial Officer*

* In his capacity as Vice President and Chief Financial Officer, Mr. McDonald is duly authorized to sign this report on behalf of the Registrant.