FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934

| For Quarter Ended | Commission File Number: |
|---|---|
| MARCH 31, 1997 | 0-21026 |

ROCKY SHOES & BOOTS, INC.
(Exact name of registrant as specified in its charter)

| OHIO | 31-1364046 |
|---|---|
| (State of Incorporation) | (IRS Employer Identification Number) |

39 E. CANAL STREET
NELSONVILLE, OHIO 45764
(Address of principal executive offices)

(614) 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 X No

3,707,528 common shares, no par value, outstanding at May 1, 1997.

PART 1 - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

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

<TABLE>
<CAPTION>

| | March 31,1997 (Unaudited) | Dec. 31, 1996 |
|---|---|---|
| <S> | <C> | <C> |
| ASSETS: | | |
| Current Assets: | | |
| Cash and Cash Equivalents | $ 297,725 | $ 349,637 |
| Trade Receivables | 9,266,864 | 12,409,920 |
| Other Receivables | 900,479 | 678,293 |
| Inventories | 34,971,961 | 25,389,902 |
| Other Current Assets | 1,774,054 | 1,632,394 |
| Total Current Assets | 47,211,083 | 40,460,146 |
| Fixed Assets - Net | 15,539,912 | 15,508,597 |
| Other Assets | 2,126,984 | 2,121,428 |
| Total Assets | $64,877,979 | $58,090,171 |
| LIABILITIES AND SHAREHOLDERS' EQUITY: | | |
| Current Liabilities: | | |
| Accounts Payable | $10,583,111 | $ 3,036,705 |
| Current Maturities - Long Term Debt | 1,603,644 | 3,609,645 |

| | | |
|---|---|---|
| Accrued Liabilities | 1,853,557 | 3,205,215 |
| Total Current Liabilities | 14,040,312 | 9,851,565 |
| Long-Term Debt-less current maturities | 21,492,760 | 19,520,029 |
| Deferred Liabilities | 2,419,061 | 2,343,488 |
| Total Liabilities | 37,952,133 | 31,715,082 |
| Shareholders' Equity: | | |
| Preferred Stock, Series A, no par value; 100,000 shares issued and 92,857 shares outstanding | 6,000 | 6,000 |
| Common Stock, no par value; 10,000,000 shares authorized; issued 1997-3,822,605 shares; 1996-3,782,500 shares and outstanding 1997-3,705,653 shares; 1996-3,665,548 shares | 14,905,725 | 14,543,947 |
| Common Stock in Treasury, at cost | (1,226,059) | (1,226,059) |
| Retained Earnings | 13,240,180 | 13,051,201 |
| Total Shareholders' Equity | 26,925,846 | 26,375,089 |
| Total Liabilities and Shareholders' Equity | $64,877,979 | $58,090,171 |

</TABLE>

The accompanying notes are an integral part of the financial statements.



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

<TABLE>
<CAPTION>

| | Three Months Ended March 31, 1997 | Three Months Ended March 31, 1996 |
|---|---|---|
| <S> | <C> | <C> |
| Net Sales | $12,262,073 | $10,260,665 |
| Cost of Goods Sold | 8,985,198 | 7,434,072 |
| Gross Margin | 3,276,875 | 2,826,593 |
| Selling, General and Administrative Expense | 2,576,538 | 2,616,115 |
| Income From Operations | 700,337 | 210,478 |
| Other Income And (Expenses): | | |
| Interest Expense | (465,267) | (345,517) |
| Other - net | 14,431 | (115,204) |
| Total other - net | (450,836) | (460,721) |
| Income (Loss) Before Income Taxes | 249,501 | (250,243) |
| Income Taxes (Benefit) | 60,522 | (50,048) |
| Net Income (Loss) | $ 188,979 | ($200,195) |

| | | |
|---|---|---|
| Net Income (Loss) Per Share | $ 0.05 | ($0.05) |
| Weighted Average Number of Common Shares and Equivalents Outstanding | 3,908,378 | 3,665,548 |

</TABLE>

The accompanying notes are an integral part of the financial statements



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

<TABLE>
<CAPTION>

| | Three Months Ended March 31, 1997 | 1996 |
|---|---|---|
| <S> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income (Loss) | $ 188,979 | $ (200,195) |
| Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By Operating Activities: | | |
| Depreciation and Amortization | 684,260 | 575,057 |
| Loss on Sale of Fixed Assets | | 89,414 |
| Deferred Taxes and Other | 75,573 | (801,033) |
| Change in Assets and Liabilities: | | |
| Receivables | 2,920,870 | 2,712,689 |
| Inventories | (9,582,059) | (4,983,033) |
| Other current assets | (141,660) | |
| Other Assets | (5,556) | (114,034) |
| Accounts Payable | 7,362,659 | 5,175,785 |
| Accrued and Other Liabilities | (1,351,658) | (123,791) |
| Net Cash Provided By Operating Activities | 151,408 | 2,330,859 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of Fixed Assets | (531,828) | (683,326) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from Long Term Debt | 5,960,000 | 2,033,395 |
| Payments on Long Term Debt | (5,993,270) | (5,199,787) |
| Proceeds from exercise of stock options including related income tax effect | 361,778 | |
| Net Cash Provided By (Used In) Financing Activities | 328,508 | (3,176,392) |
| DECREASE IN CASH AND CASH EQUIVALENTS | (51,912) | (1,528,859) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 349,637 | 1,853,974 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 297,725 | $ 325,115 |

</TABLE>

The accompanying notes are an integral part of the financial statements

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. INTERIM FINANCIAL REPORTING

In the opinion of management, the unaudited financial statements include all normal recurring adjustments the Company considers necessary for a fair presentation of such financial statements in accordance with generally accepted accounting principles.

2. INVENTORIES

Inventories are comprised of the following:

<TABLE>
<CAPTION>

| <S> | March 31, 1997 <C> | December 31, 1996 <C> |
|---|---|---|
| Raw materials | $ 7,435,970 | $ 4,482,381 |
| Work-in Process | 5,543,169 | 5,192,326 |
| Manufactured finished good | 19,758,578 | 13,891,772 |
| Factory outlet finished goods | 2,234,244 | 1,823,423 |
| | ----------- | ----------- |
| Total | $34,971,961 | $25,389,902 |
| | =========== | =========== |

</TABLE>

3. SUPPLEMENTAL CASH FLOW INFORMATION

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

<TABLE>
<CAPTION>

| | Three Months Ended March 31, | |
|---|---|---|
| <S> | 1997 <C> | 1996 <C> |
| Interest | $478,266 | $379,291 |
| | ======== | ======== |
| Federal, state and local income taxes | $973,300 | $ 76,500 |
| | ======== | ======== |

</TABLE>

Accounts payable at March 31, 1997 and December 31, 1996 include a total of $226,741 and $42,994, respectively relating to the purchase of fixed assets.



4. In February 1997, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 128, "Earnings per Share," which is effective for periods ending after December 15, 1997. SFAS No. 128 establishes new standards for computing and presenting earnings per share. Under SFAS No. 128 basic and dilutive earnings (loss) per share, as defined therein, for the quarters ended March 31, 1997 and 1996 are as follows:

<TABLE>
<CAPTION>

| | Three Months Ended March 31 | |
|---|---|---|
| <S> | 1997 <C> | 1996 <C> |
| Basic | $0.05 | $(0.05) |
| | ===== | ====== |
| Diluted | $0.05 | $(0.05) |
| | ===== | ====== |

</TABLE>

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 Consolidated Financial Statements, expressed as a percentage of net sales. The discussion that follows the table should be read in conjunction with the Consolidated Financial Statements of the Company.

<TABLE>
<CAPTION>

PERCENTAGE OF NET SALES

| | Three months Ended March 31, | |
|---|---|---|
| | 1997 | 1996 |
| <S> | <C> | <C> |
| Net Sales | 100.0% | 100.0% |
| Cost of Goods Sold | 73.3% | 72.4% |
| Gross Margin | 26.7% | 27.6% |
| Selling, General and Administrative Expenses | 21.0% | 25.5% |
| Income from Operations | 5.7% | 2.1% |

</TABLE>

THREE MONTHS ENDED MARCH 31,1997 COMPARED TO THREE MONTHS ENDED MARCH 31, 1996

Net Sales

Net sales increased $2,001,408 or 19.5% to $12,262,073 for the quarter ended March 31, 1997, from $10,260,665 for the same period a year ago. The increase in net sales was primarily a result of increased shipments of rugged outdoor footwear and handsewn casual footwear. The Company's customer base is becoming more diversified with additional smaller customers and positive results are being achieved regarding increased market penetration. Sales prices were approximately 3% higher in 1997 than 1996.

Gross Margin

Gross margin increased $450,282, or 15.9%, to $3,276,875, for the period ended March 31, 1997, versus $2,826,593 for the same period a year ago. As a percentage of net sales, gross margin was 26.7% for the quarter ended March 31, 1997 compared to 27.6% in 1996. All three



of the Company's manufacturing plants benefited from increased production levels during the first three months of 1997 and 1996, respectively. However, this increase was more than offset by increased sales to customers who receive volume discounts in the first quarter of 1997.

Selling, General and Administrative Expenses

Selling, general and administrative (S,G&A) expense declined in total dollars and as a percentage of net sales for the three months ended March 31, 1997 versus the prior year. S,G&A decreased $39,577, or 1.5 percent, to $2,576,538, or 21.0% of net sales for the quarter ended March 31, 1997, versus $2,616,115, or 25.5% of net sales, for the same period a year ago. The decrease was primarily attributable to lower advertising expenses, which more than offset increased sales commission expense.

The Company plans to increase the general level of advertising expense during the remainder of 1997 to support new product introductions and increased market penetration of its ROCKY(R) branded products. While S,G&A expense may increase in absolute dollars during the remainder of this year, the Company anticipates that S,G&A expense is not expected to increase as a percentage of net sales compared with last year.

Interest Expense

Interest expense rose $119,750 or 34.6 percent, to $465,267 for the three months ended March 31, 1997, versus $345,517 for the same period last year. Interest expense increased due to additional borrowings and higher rates on the Company's revolving line of credit, which is used to finance working capital needs and to support increased sales.

Income Taxes

Income Taxes increased $110,570 to $60,522 for the quarter ended March 31, 1997, versus a tax benefit of ($50,048) the previous year. The Company's relatively low effective tax rate of 24.2% resulted from favorable income tax treatment afforded 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 the fourth quarter of 1996 the Company began to provide for income taxes on profits repatriated from its foreign subsidiary in the Dominican Republic. In future periods, 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.

Liquidity and Capital Resources

The Company has primarily funded its working capital requirements and capital expenditures through borrowings under its line of credit and other indebtedness. Working capital is used primarily 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 January through March of each year and highest in April through September of each year. 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 March 31, 1997, the Company had working capital of $33,170,771 versus $30,608,581, at December 31, 1996. Subsequent to March 31, 1997 the Company negotiated a new 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 $25,000,000, from January 1, 1997, through May 31, 1997. On June 1, 1997, the maximum amount increases to $42,000,000 until January 1, 1998, when the line again decreases to $25,000,000. The changes in the line of credit match the Company's seasonal requirements for working capital. As of March 31, 1997, the Company had borrowed $19,925,000 against its available line of credit of $23,992,624 (based upon the level of eligible accounts receivable and inventory).

Cash paid for capital expenditures during the quarter ended March 31, 1997 was $531,828 which expenditures were funded through operating cash flows and through long-term debt financing. The Company anticipates capital expenditures of less than $3,000,000 for 1997, the majority of which will be for machinery and equipment to build manufacturing capacity to meet increased demand for the Company's products. The Company believes it has sufficient manufacturing and sourcing capacity to handle increased production needs for 1997. Additional capital expenditures for 1997 will include lasts, dies, and patterns for new styles of footwear, and retail in-store displays. The Company believes it will be able to finance such additions through additional long-term borrowings or through operating cash flows as appropriate.

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 in this report , this report includes forward-looking statements that 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 from time to time in the Company's Securities and Exchange Commission filings, including the

Company's Form 10-K for the year ended December 31,1996. Actual results may differ materially from management expectations.



PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 2. Changes in Securities.

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) Exhibits

The exhibits to this report begin at page ___.

(b) Reports on Form 8-K.

None.



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: 5/13/97 /s/ MIKE BROOKS
---------------------------------------------
Mike Brooks, President and Chief Executive Officer
(Principal Executive Officer)

Date: 5/13/97 /s/ DAVID FRAEDRICH
----------------------------------------
David Fraedrich, Executive Vice President,
Treasurer and Chief Financial Officer
(Principal Financial and Accounting Officer)



ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES
FORM 10-Q
EXHIBIT INDEX

<TABLE>
<CAPTION>

| Exhibit Number | Exhibit Description | Page Number |
|---|---|---|
| <S> | <C> | <C> |
| 27 | Financial Data Schedule | -- |

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS FOUND IN THE COMPANY'S FORM 10-Q FOR THE YEAR TO DATE, AND IS QUALIFIED IN ITS ENTIRETY IN REFERENCE TO SUCH FINANCIAL STATEMENTS.
</LEGEND>
<CIK> 0000895456
<NAME> ROCKY SHOES & BOOTS, INC.

| <S> | <C> |
|---|---|
| <PERIOD-TYPE> | 3-MOS |
| <FISCAL-YEAR-END> | DEC-31-1997 |
| <PERIOD-START> | JAN-01-1997 |
| <PERIOD-END> | MAR-31-1997 |
| <CASH> | 297,725 |
| <SECURITIES> | 0 |
| <RECEIVABLES> | 10,903,201 |
| <ALLOWANCES> | 535,858 |
| <INVENTORY> | 34,971,961 |
| <CURRENT-ASSETS> | 47,211,083 |
| <PP&E> | 26,259,935 |
| <DEPRECIATION> | 10,720,023 |
| <TOTAL-ASSETS> | 64,877,979 |
| <CURRENT-LIABILITIES> | 14,040,312 |
| <BONDS> | 21,492,760 |
| <PREFERRED-MANDATORY> | 0 |
| <PREFERRED> | 6,000 |
| <COMMON> | 14,905,725 |
| <OTHER-SE> | 12,014,121 |
| <TOTAL-LIABILITY-AND-EQUITY> | 64,877,979 |
| <SALES> | 12,262,073 |
| <TOTAL-REVENUES> | 12,262,073 |
| <CGS> | 8,985,198 |
| <TOTAL-COSTS> | 8,985,198 |
| <OTHER-EXPENSES> | 0 |
| <LOSS-PROVISION> | 30,528 |
| <INTEREST-EXPENSE> | 465,267 |
| <INCOME-PRETAX> | 249,501 |
| <INCOME-TAX> | 60,522 |
| <INCOME-CONTINUING> | 188,979 |
| <DISCONTINUED> | 0 |
| <EXTRAORDINARY> | 0 |
| <CHANGES> | 0 |
| <NET-INCOME> | 188,979 |
| <EPS-PRIMARY> | .05 |
| <EPS-DILUTED> | .05 |

</TABLE>