UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-21026

ROCKY SHOES & BOOTS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

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

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

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

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to the filing requirements for at least the past 90 days. YES [X] 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. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES [X] NO [ ]

The aggregate market value of the Registrant's Common Stock held by non-affiliates of the Registrant was approximately $95,775,838 on June 30, 2004.

There were 5,200,021 shares of the Registrant's Common Stock outstanding on March 1, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2005 Annual Meeting of Shareholders are incorporated by reference in Part III.

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

PART I

ITEM 1. BUSINESS.

At December 31, 2004, Rocky Shoes & Boots, Inc. had three subsidiaries: Five Star Enterprises Ltd. ("Five Star"), a Cayman Islands corporation, which operates a manufacturing facility in La Vega, Dominican Republic; Lifestyle Footwear, Inc. ("Lifestyle"), a Delaware corporation, which operates a manufacturing facility in Moca, Puerto Rico; and Rocky Canada, Inc., an Ontario corporation, a sales and distribution operation in Waterloo, Ontario. Unless the context otherwise requires, all references to "Rocky" or the "Company" include Rocky Shoes & Boots, Inc. and its subsidiaries.

On December 6, 2004, the Company announced a definitive agreement to acquire EJ Footwear Group, consisting of three subsidiaries, EJ Footwear LLC, Georgia Boot LLC, and HM Lehigh Safety Shoe Co. LLC. EJ Footwear Group and its subsidiaries were owned by SILLC Holdings LLC. The Company announced the completion of this acquisition on January 6, 2005. (See Note 2 "Acquisitions" in the financial statements).

OVERVIEW

The Company is the successor to the business of The Wm. Brooks Shoe Company, a company established in 1932 by William Brooks, who was later joined by F. M. Brooks, the grandfather of the Company's current Chairman and Chief Executive Officer, Mike Brooks. The business was sold in 1959 to a company headquartered in Lancaster, Ohio. John W. Brooks, the father of Mike Brooks, remained as an employee of the business when it was sold. In 1975, John W. Brooks formed John W. Brooks, Inc. (later known as Rocky Shoes & Boots Co. ("Rocky Co.")) as an Ohio corporation, reacquired the Nelsonville, Ohio operating assets of the original company and moved the business's principal executive offices back to Nelsonville, Ohio. In 1993, the Company, Rocky Co., Lifestyle and Five Star were parties to reorganization prior to the Company's initial public offering. In 1996, Rocky Co. was merged with and into the Company, and in 2003 Rocky Canada, Inc. was established resulting in the Company's present corporate structure. In April 2003, the Company acquired certain assets of Gates-Mills, Inc., including the Gates brand name.

In January 2005 the Company acquired EJ Footwear Group, consisting of three subsidiaries, EJ Footwear LLC, Georgia Boot LLC, and HM Lehigh Safety Shoe Co. LLC. EJ Footwear Group is also a licensee of the Dickies and John Deere brands for footwear. This acquisition expanded the Company's portfolio of branded products, and is expected to further strengthen its market position in footwear and related apparel and accessories. The total purchase price, including a closing date working capital adjustment, for 100% of the equity was $91.2 million in cash plus 484,261 shares of Rocky Common Stock value at $11,573,000 (valued at $10 million in the definitive agreement). Effective with the closing of this transaction, Rocky entered into agreements with GMAC Commercial Finance LLC and American Capital Strategies, Ltd. for credit facilities totaling $148 million to fund the acquisition and replace its existing revolving credit facility.

In the past, the Company has benefited from a relatively low effective tax rate. Rocky and Lifestyle are subject to U.S. Federal income taxes. 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. In 2003, as a result of the formation of Rocky Canada, Inc., the Company is now subject to Canadian income tax. At December 31, 2004, a provision of $157,000 has been made for U.S. taxes on the repatriation of $3,000,000 of accumulated undistributed earnings of Five Star through December 31, 2004. At December 31, 2004, after the planned repatriation above, approximately $6,839,000 is remaining that would become taxable upon repatriation to the United States. During 2005, the Company will complete its evaluation of foreign earnings and may repatriate up to an additional $5,000,000 of accumulated undistributed earnings, which could result in up to $260,000 of additional tax.

The Company operates in one financial reporting segment, footwear and related apparel and accessories. Financial information, including revenues, pre-tax income, and assets are included in the consolidated financial statements.

ROCKY(R), GATES(R), DURANGO(R), GEORGIA BOOT(R), AND LEHIGH(R) are federally registered trademarks of Rocky Shoes & Boots, Inc. This report also refers to trademarks of corporations other than the Company. See "Business - Patents, Trademarks and Trade Names."

STRATEGY

The Company's objective is to design, supply and market innovative, high performance, branded footwear and related apparel and accessories that enhance shareholder value while improving the quality of life of our employees, customers and the communities in which we operate. Key elements of the Company's strategy are as follows:

Leverage the portfolio of brands. The Company believes the ROCKY, GATES, DURANGO, GEORGIA BOOT and LEHIGH SAFETY SHOES brands are recognizable and established names for performance and quality conscious consumers in the rugged outdoor and occupational segments of the men's footwear market. Additionally, the Company is a licensee of the Dickies and John Deere brands. The Company plans to continue leveraging these brands with emphasis on the rugged outdoor and occupational shoe markets, including recent product introductions in the western work boot segment of the occupational market, and complementary apparel and accessories in an effort to extend these brands.

Build customer and consumer relationships. The Company plans to improve customer and consumer relationships through innovative sales and marketing methods. These enhanced relationships will enable the Company to better understand and satisfy its customers' and consumers' needs.

Maximize benefit of current infrastructure. The Company plans to more extensively utilize significant investments made in distribution and information systems. These systems will enable the Company to better service its customers in a more cost efficient manner.

Focus future investment. The Company plans to continue as the leader in design and engineering of new and innovative products, especially for the rugged outdoor and occupational markets, and to focus future investments on achieving this goal.

Expand product sourcing. The Company plans to emphasize product sourcing over its own manufacturing as it grows. The Company's sourced products represented approximately 63% of net sales in 2004. EJ Footwear Group, which was acquired in January 2005, is expected to double the Company's 2004 business and sources 100% of its products. The Company plans to source products which are manufactured to its specifications by independent manufacturers in the Far East. This enables the Company to offer products for sale at price points that cannot generally be achieved with products manufactured in its own plants in Puerto Rico and the Dominican Republic.

PRODUCT LINES

The Company's product lines in 2004 consisted of rugged outdoor, occupational, military and casual footwear and outdoor apparel and Gates gloves. ROCKY branded products emphasize quality, patented materials, such as GORE-TEX waterproof breathable fabric, CORDURA nylon fabric, CAMBRELLE cushioned lining and THINSULATE thermal insulation. DURANGO and GEORGIA BOOT, acquired in January 2005 through the acquisition of EJ Footwear Group, include some of the same quality materials as well as Comfort Core(R) Insole Technology and SPR(R) leather.

The following table summarizes the Company's product lines:

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PRODUCT LINE	TARGET MARKET	SUGGESTED RETAIL PRICE	DISTRIBUTION CHANNELS
<S>	<C>	<C>	<C>
RUGGED OUTDOOR	Hunters and outdoorsmen	$59 - $259	Sporting goods stores, outdoor specialty stores, mail order catalogs, independent retail stores and mass merchandisers
OCCUPATIONAL	Law enforcement and military personnel, security guards, work western, postal workers, paramedics, industrial workers and construction workers	$69 - $179	Retail uniform stores, mail order catalogs, specialty safety stores, shoemobiles and farm stores.
MILITARY	U. S. Government	NA	U.S. government supply chain
CASUAL	Retail customers of premium casual wear	$69 - $189	Independent retail stores, sporting goods stores, mail order catalogs and sporting goods stores
APPAREL	Hunters, outdoorsmen and occupational workers	$7 - $200	Sporting goods stores, outdoor specialty stores, mail order catalogs, independent retail stores and mass merchandisers
GATES	Skiers, hunters and outdoorsmen and retail customers of premium casual wear	$7 - $70	Sporting goods stores, outdoor specialty stores, mail order catalogs, independent retail stores and mass merchandisers

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Rugged Outdoor Footwear. Rugged outdoor footwear, the Company's largest product line in Fiscal 2004, had net sales of $46.6 million, or 35.3%, of total net sales. Warm weather conditions in the Company's markets during the fall and winter months of Fiscal 2004 adversely impacted sales for the year. The Company's rugged outdoor footwear line consists of all season sport/hunting boots that are typically waterproof and insulated and a line of rubber footwear. These products are designed to keep outdoorsmen comfortable in extreme conditions. Most of the Company's rugged outdoor footwear styles have outsoles which are designed to provide excellent cushioning and traction. Although Rocky's rugged outdoor footwear is regularly updated to incorporate new camouflage patterns, the Company believes its products in this category are relatively insensitive to changing fashion trends.

Occupational Footwear. Occupational footwear, the Company's second largest product line in Fiscal 2004, had sales of $40.8 million, or 30.9%, of net sales. The growth in occupational footwear sales is attributable to solid gains in the work category, especially work western boots. All occupational footwear styles are designed to be comfortable, flexible, lightweight, slip resistant and durable and are typically worn by people who are required to spend a majority of their time at work on their feet. This product category includes work/steel toe footwear designed for industrial, construction and manufacturing workers who demand leather work boots that are durable, flexible and comfortable, work western, and black duty footwear sold to security guards and law enforcement agents.

Military Footwear. Sales of military footwear were $18.5 million in Fiscal 2004, representing 14.0% of net sales. These sales were attributable to two subcontracts to produce boots for the U.S. military that were awarded in September 2003 and March 2004.

Casual Footwear. Sales of the Company's casual footwear were $2.4 million in Fiscal 2004, representing 1.8% of net sales. The Company's casual products target the upscale segment of the market and include well-styled, comfortable leather shoes of a variety of constructions, including traditional hand sewn. Most of the Company's footwear in this segment is waterproof and highly functional for outdoor activity.

Apparel. Sales of apparel products were $8.9 million in Fiscal 2004,

representing 6.7% of net sales. The Company began marketing outdoor gear consisting of hunting apparel in 2002 and extended this product line to the occupational market in February 2004. Apparel is currently marketed through the Company's rugged outdoor footwear and occupational channels, respectively, and is designed to leverage the Company's reputation within these lines by offering products directly complementary to the specific needs of hunters, outdoorsmen, and occupational workers.

Gates gloves. In April 2003 the Company acquired certain assets of Gates-Mills, Inc., including the Gates brand name. Sales of Gates branded products were $9.6 million in Fiscal 2004, representing 7.3% of net sales. Gates branded products are primarily hunting, ski and dress gloves.

Factory outlet stores. The Company's factory outlet stores had $4.0 million in sales for Fiscal 2004, representing 3.0% of net sales. These stores operate in Nelsonville, Ohio and Edgefield, South Carolina. The Edgefield, South Carolina store was opened in August 2002. The outlet stores primarily sell first quality products, factory damaged goods and close-outs from the Company and Rocky licensed products. Related products from other manufacturers are also sold in these stores. Fiscal 2004 net sales were adversely impacted by warm weather in the fall and winter months.

Other. Sales of other products were $1.4 million in Fiscal 2004, representing 1.0% of net sales. The Company manufactures and/or markets a variety of accessories, including innersole support systems, foot warmers, laces and foot powder.

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

	FISCAL 2004	FISCAL 2003	FISCAL 2002
Rugged outdoor	35.3%	45.3%	46.7%
Occupational	30.9	32.6	33.3
Military	14.0	0.4	7.2
Casual	1.8	2.4	2.6
Apparel	6.7	4.2	3.1
Gates gloves	7.3	9.6	--
Factory outlet stores	3.0	4.3	4.6
Other	1.0	1.2	2.5
	100.0%	100.0%	100.0%

PRODUCT DESIGN AND DEVELOPMENT

Product design and development are initiated both internally by the Company's development staff and externally by customers and suppliers. The Company's product development personnel, marketing personnel and sales representatives work closely together to identify opportunities for new styles, camouflage patterns, design improvements and the incorporation of new materials. These opportunities are reported to the Company's development staff which oversees the development and testing of the new products. The Company strives to develop products which respond to the changing needs and tastes of consumers.

SALES, MARKETING AND ADVERTISING

The Company has developed comprehensive marketing and advertising programs to gain national exposure and create brand awareness for its portfolio of branded products in target markets. By creating strong brand awareness, the Company seeks to increase the general level of retail demand for its products, expand the customer base and increase brand loyalty. The Company's footwear and apparel is sold by more than 3,000 retail and mail order companies in the United States and Canada. One customer, which represented sales of military footwear, accounted for 14% of the Company's revenues in Fiscal 2004. The Company believes the loss of any single customer would not have a material adverse effect on the Company's financial position.

The Company's sales and marketing personnel are responsible for developing and implementing all aspects of advertising and promotion of the Company's products. In addition, the Company maintains a network of sales representatives who sell the Company's products throughout the United States and Canada. During Fiscal 2004, these representatives were either independent representatives who carried ROCKY and GATES branded products as well as other non-competing products or company employees who carried the ROCKY and GATES branded products

exclusively.

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

The Company believes its long-term reputation for quality has increased awareness of its portfolio of brands. To further increase the strength of its brands, the Company has targeted the majority of its advertising efforts toward consumers. A key component of this strategy includes advertising through cost-effective cable broadcasts and national print publications aimed at audiences which share the demographic profile of the Company's typical customers. The Company's print advertisements and television commercials emphasize the waterproof nature of the Company's products as well as its high quality, comfort, functionality and durability. Management believes that by continuing to target consumers, its portfolio of brands will become more recognizable and establish the Company as an overall leader in the industry leading to greater retail demand for the product.

MANUFACTURING AND SOURCING

The Company manufactures footwear in the Company's facilities located in the Dominican Republic and Puerto Rico, and sources footwear, apparel and accessories from factories in the Far East.

Approximately 37% of the Company's Fiscal 2004 net sales were attributable to products produced in its own facilities in the Dominican Republic and Puerto Rico. The Company also sources products from manufacturers in the Far East, primarily China, which accounted for approximately 63% of net sales in Fiscal 2004. A greater portion of the Company's products are expected to be sourced in the future following the acquisition of EJ Footwear Group in January 2005 because substantially all EJ Footwear Group's products are sourced. The Company can generally achieve higher initial gross margins on sourced products. The Company sources products from manufacturers who have demonstrated the intent and ability to maintain the high quality that has become associated with its portfolio of brands.

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

compressed air and submerging it in water to verify that it is waterproof. Quality control personnel at the finished goods distribution facility located near Logan, Ohio conduct quality control testing on incoming sourced finished goods and raw materials and inspect random samples from the finished goods inventory from each of the Company's manufacturing facilities to ensure that all items meet the Company's high quality standards. A portion of the manufacturing employees' compensation is based on the level of product quality of their work group.

As part of the Company's quality control process, the Company uses employees in its China office to visit foreign factories to conduct quality control reviews of raw materials, work in process inventory, and finished goods. In addition, upon arrival at the Company's Ohio distribution center, another inspection of sourced products is conducted by the Director of Quality Control. The Company does not use hedging instruments with respect to foreign sourced products.

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

The Company's products are distributed nationwide and in Canada from the Company's finished goods distribution facilities located near Logan, Ohio and Waterloo, Ontario, respectively. With the acquisition of EJ Footwear Group, the Company's products are also distributed nationwide from an outsourced distribution facility in Tunkhannock, Pennsylvania.

SUPPLIERS

The Company purchases raw materials from a number of domestic and foreign sources. The Company does not have any long-term supply contracts for the

purchase of its raw materials, except for limited blanket orders on leather to protect wholesale selling prices for an extended period of time. The principal raw materials used in the production of the Company's products, in terms of dollar value, are leather, GORE-TEX waterproof breathable fabric, CORDURA nylon fabric and soling materials. The Company believes that these materials will continue to be available from its current suppliers and, with the possible exception of GORE-TEX waterproof breathable fabric, there are acceptable alternatives to these suppliers and materials.

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

Under the Company's licensing agreement with Gore, a prototype or sample of each style of ROCKY shoe or boot designed and produced by the Company that incorporates GORE-TEX waterproof breathable fabric must be tested and approved by Gore before the Company is permitted to manufacture or sell commercial quantities of that style of footwear. Gore's testing involves immersing the Company's footwear prototype for days in a water exclusion tester and flexing the prototype 500,000 times, simulating a 500-mile march through several inches of water. The prototype is then placed in a sweat absorption and transmission tester to measure "breathability," which is the amount of perspiration that can escape from the footwear.

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

SEASONALITY AND WEATHER

The Company has historically experienced significant seasonal fluctuations in the sale of rugged outdoor footwear, apparel and accessories. A majority of orders are placed in January through April for delivery in July through October. In order to meet demand, the Company must manufacture rugged outdoor footwear year round to be in a position to ship

advance orders for these products during the last two quarters of each calendar year. Accordingly, average inventory levels have been highest during the second and third quarters of each calendar year and sales have been highest in the last two quarters of each calendar year. Because of seasonal fluctuations, there can be no assurance that the results for any particular interim period will be indicative of results for the full year or for future interim periods.

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

Retailers in general have begun placing orders closer to the rugged outdoor selling season. This historically increased the Company's business risk because it had to produce and carry inventories for relatively longer periods. In addition, the later placement of orders could change the historical pattern of orders and sales and increase the seasonal fluctuations in the Company's business. There can be no assurance that the results for any particular interim period or year will be indicative of results for the full year or for any future interim period or year. The acquisition of EJ Footwear Group in January 2005 is expected to double the Company's Fiscal 2004 business and is expected to significantly increase sales of occupational products. As a result, the Company's risk to seasonality and weather is expected to decline beginning in Fiscal 2005 since occupational footwear is sold throughout the year.

BACKLOG

At December 31, 2004, backlog was $8.7 million, including approximately $3.3 million related to a military contract. At December 31, 2003, backlog was $11.4 million, including approximately $5.7 million related to a military

contract. 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. The Company's contracts to produce boots for delivery to the U.S. military generally include specific quantities and intervals for shipment.

PATENTS, TRADEMARKS AND TRADE NAMES

The Company owns numerous design and utility patents for footwear and footwear components (such as insoles and outsoles) in the United States and in foreign countries including Canada, Mexico, People's Republic of China, and Taiwan. 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 and Design(R) (which claims a ram's head Design as part of the mark), ROCKY and Design(R) (which claim a ram's head Design as part of the mark), ROCKY and Design(R) (which claims a mountain range and ram's head inside a triangle), ADIRONDACK COLLECTION(R), ADVANTA-FLEX(R), ALPHA FORCE(R), AOG(R), AQUA GUARD(R), ARCTIC TOE(R), ASTRO(R), BARCLAY(R), BARNSTORMERS and Design(R) (which claims an airplane on a path through the word), BEACON STRATEGIC RESOURCING(R), BEAR CLAW(R), BOOTS UNLIMITED(R), CAMO-TEK(R), CHIEFTAN(R), COMFORT CORE(R), COOL NOTES(R), CORNSTALKERS(R), D-TECH(R), DURANGO(R), DURANGO and Design(R) (which claims the fanciful head of a cowboy), DURANGO and Design(R) (which claims a footprint), EJ and Design (which claims the stylized letters "EJ" inside of a square)(R), FARM & RANCH(R), FARM MASTERS(R), FIRSTMED(R), FIT FOR SAFETY(R), FIT FOR WORK(R), FLX-POINT(R), GATES(R), GATES GLOVES(R), GATES LIGHT (Stylized)(R), GATES ULTRA LITE(R), GEORGIA BOOT(R), GEORGIA BOOT and Design(R) (which claims a large male character with the mark in the body), INDUSTRY WORKS IN LEHIGH SAFETY SHOES(R), L and Design(R) (which claims the letter "L" inside a diamond), LEHIGH(R), LEHIGH FOOTSHIELDS(R) (in stylized letters), LOCKRIM(R). LONGBEARD(R), LSR(R) (in stylized letters), MIRA-LUG(R), MUD DOG(R) (in stylized letters), NORTHLAKE(R), NUGUARD 75(R), PARACORD(R), PARACREPE(R), PONDEROSA(R), PROHUNTER(R), PROMISE PLUS(R), ROCKY and Design(R) for cigars, ROCKY ELIMINATOR(R), ROCKY 911 SERIES and Design(R), SAWBLADE(R), SHADES OF THE OLD WEST(R), SHIELD TOE(R), SIGNATURE TOUR QUALITY FOOTWEAR(R), SILENTHUNTER(R), SNAKE RIVER(R), SNOW STALKER(R), SPORTSET(R), STALKERS(R), SWAMPERS(R), TAC-TEAM(R), TORQUE SUSPENSION SYSTEM(R), TRAIL KING(R), TRIAD(R), US*1 and Design(R) (which claims "US*1" in the upper left corner of a flag), X-10 ULTRASOLE(R) and WILD WOLF(R).

Additional mark variations for ROCKY(TM) and Design (which claims a ram's head Design as part of the mark), BIG MOUNTAIN(TM), CLIMATRAC(TM), CONSTRUX(TM), G and Design(TM), GATES(TM), GATES SMART GLOVE(TM), GEORGIA GIANT(TM), MUD LITE(TM), MUD MASTER(TM), PRO-HIKER(TM), PROTECH(TM), SMART GLOVE BY GATES(R), and WHATEVER IT TAKES(TM), are the subject of pending United States federal applications for registration.

In addition, the Company uses and has common law rights in the marks ROCKY(R) MOUNTAIN STALKERS(R), and other ROCKY(R) marks.

With the acquisition of EJ Footwear Group, the Company has increased distribution of its goods in several foreign countries, including individual countries in Western Europe (as well as the European Union), Canada, Japan, People's Republic of China, Taiwan, and Australia. The Company has received trademark registrations of its marks COMFORT CORE(R), DURANGO(R), FARM & RANCH(R), FIT FOR SAFETY(R), FIT FOR WORK(R), GEORGIA BOOT(R), LEHIGH(R), NORTHLAKE(R), PROMISE PLUS(R), and ROCKY(R) in certain of these countries.

The Company also uses in its advertising and in other documents the following trademarks owned by corporations other than the Company: GORE-TEX(R) and CROSSTECH(R) are registered trademarks of W.L. Gore & Associates, Inc.; CORDURA(R) is a registered trademark of E.I. DuPont de Nemours and Company; THINSULATE(R) is a registered trademark of Minnesota Mining and Manufacturing Company; and CAMBRELLE(R) is a trademark of Koppers Industries, Inc. As part of the acquisition of EJ Footwear Group, the Company acquired a license to use various trademarks owned by Deere & Company, including JOHN DEERE(R) and NOTHING RUNS LIKE A DEERE(R). Also as part of the acquisition of EJ Footwear Group, the Company acquired a license to use various trademarks owned by Williamson-Dickie Manufacturing Company, including DICKIES(R) and DICKIES THE BRAND THAT WORKS!(R). The Company is not aware of any material conflicts concerning its marks or its use of marks owned by other corporations.

COMPETITION

The Company operates in a very competitive environment. Product function, design, comfort, quality, technological improvements, brand awareness, timeliness of product delivery and pricing are all important elements of

competition in the markets for the Company's products. The Company believes that, based on these factors, it competes favorably in the rugged outdoor and occupational footwear and apparel market niches. The Company competes in markets against competitors with greater financial, distribution and marketing resources. These competitors have strong brand name recognition in the markets they serve.

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

EMPLOYEES

At December 31, 2004, the Company had approximately 1,079 full-time employees and 12 part-time employees. Approximately 913 of these full-time employees are in the Dominican Republic and Puerto Rico. The Company has approximately 825 employees engaged in production and the balance in managerial and administrative positions. EJ Footwear Group, acquired in January 2005, added 438 full-time and 54 part-time employees. The Company considers its relations with all of its employees to be good.

BUSINESS RISKS

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). In addition to the other information in this report, readers should carefully consider that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause the Company's actual consolidated results of operations for Fiscal 2005 and beyond, to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependence on Sales Forecasts. The Company's investments in infrastructure and product inventory are based on sales forecasts and are necessarily made in advance of actual sales. The markets in which the Company does business are highly competitive, and the Company's business is affected by a variety of factors, including brand awareness, changing consumer preferences, product innovations, susceptibility to fashion trends, retail market conditions, weather conditions and economic and other factors. One of management's principal challenges is to improve its ability to predict these factors, in order to enable the Company to better match production with demand. In addition, the Company's growth over the years has created the need to increase the investment in infrastructure and product inventory and to enhance the Company's systems. To the extent sales forecasts are not achieved, costs associated with the infrastructure and carrying costs of product inventory would represent a higher percentage of revenue, which would adversely affect the Company's financial performance.

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

Seasonality. The Company has historically experienced significant seasonal fluctuations in the sale of its products. The Company's operating results have varied significantly in the past, partly due to such seasonal fluctuations. A majority of the orders for the Company's rugged outdoor footwear have historically been placed in January through April for delivery in July through October. To meet demand, the Company must manufacture its products year-round. Accordingly, average inventory levels have been highest during the second and third quarters of each calendar year, and sales have been highest in the last two quarters of each calendar year. EJ Footwear Group was acquired in January 2005. This acquisition is expected to reduce the Company's exposure to seasonality beginning in 2005 since most of the EJ Footwear Group's brands are occupational products that are sold throughout the year. Additionally, the Company does not have long-term contracts with its customers. There is no assurance that the results for any particular quarter will be indicative of results for the full year or for the future. The Company believes that comparisons of its interim results of operations are not necessarily meaningful

and should not be relied upon as indications of future performance. Due to the factors mentioned above as well as factors discussed elsewhere in this Form 10-K, it is possible that in some future quarter the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock will likely be adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- Seasonality and Weather."

Impact of Weather. Many of the Company's products, particularly its rugged outdoor footwear and apparel lines, have historically been used primarily in cold or wet weather. Mild or dry weather has in the past and may in the future have a material adverse effect on sales of the Company's products, particularly if mild or dry weather conditions occur in broad geographical areas during late fall or early winter. Also, due to variations in weather conditions from year to year, results for any single quarter or year may not be indicative of results for any future period. EJ Footwear Group was acquired in January 2005. This acquisition is expected to reduce the Company's exposure to seasonality beginning in 2005 since most of the EJ Footwear Group's brands are occupational products that are sold throughout the year. See "Business -- Seasonality and Weather."

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

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

The Company is currently one of the largest customers of GORE-TEX waterproof fabric for use in footwear. The Company's licensing agreement with W.L. Gore & Associates, Inc. may be terminated by either party upon advance written notice to the other party by October 1 of the current year of the agreement that the agreement will terminate, effective December 31 of that same year. Although other waterproofing techniques and materials are available, the Company places a high value on its GORE-TEX waterproof breathable fabric license because GORE-TEX has high brand name recognition and the GORE-TEX waterproof fabric used in the manufacture of ROCKY and GEORGIA BOOT footwear has a reputation for quality and proven performance. Even though the Company does not believe that its supply of GORE-TEX waterproof breathable fabric will be interrupted in the future, no assurance can be given in this regard. The Company's loss of its license to use GORE-TEX waterproof breathable fabric could have a material adverse effect on the Company's competitive position, which could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Suppliers."

Changing Retailing Trends. A continued shift in the marketplace from traditional independent retailers to large discount mass merchandisers has increased the pressure on many footwear manufacturers to sell products to large discount mass merchandisers at less favorable margins. Because of competition from large discount mass merchandisers, a number of small retailing customers of the Company have gone out of business, and in the future more of these customers may go out of business, which could have a material adverse effect on the Company's business, financial condition and results of operations. Although progressive independent retailers have attempted to improve their competitive position by joining buying groups, stressing personal service and stocking more products that address specific local needs, a continued shift to discount mass merchandisers could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Sales, Marketing and Advertising."

Reliance on Key Personnel. The development of the Company's business has been, and will continue to be, highly dependent upon Mike Brooks, Chairman and Chief Executive Officer, David Sharp, President and Chief Operating Officer, and James McDonald, Executive Vice President, Chief Financial Officer and Treasurer. Mr. Brooks has an at-will employment agreement with the Company. The employment agreement provides that in the event of termination of employment with the Company, he will receive a severance benefit and may not compete with the Company for a period of one year. The loss of the services of any of these officers could have a material adverse effect upon the Company's business, financial condition and results of operations.

Reliance on Foreign Manufacturing. A majority of the Company's products are produced in the Dominican Republic and Far East, primarily the People's Republic of China. Therefore, the Company's business is subject to the risks of doing business offshore, such as: the imposition of additional United States legislation and regulations relating to imports, including quotas, duties, taxes or other charges or restrictions; weather conditions in the Dominican Republic and Far East; foreign governmental regulation and taxation; fluctuations in foreign exchange rates; changes in economic conditions; changes in the political stability of the these countries; and changes in relationships between the United States and these countries. If any such factors were to render the conduct of business in these countries undesirable or impracticable, the Company would have to source its products elsewhere. There can be no assurance that additional sources or products would be available to the Company or, if available, that such sources could be relied on to provide product at terms favorable to the Company. Such a development would have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Manufacturing and Sourcing."

Changes in Tax Rates. In past years, the Company's effective tax rate typically has been substantially below the United States federal statutory rates. The Company has paid minimal income taxes on income earned by its subsidiary in Puerto Rico due to tax credits afforded the Company under Section 936 of the Internal Revenue Code and local tax abatements. However, Section 936 of the Internal Revenue Code has been repealed such that future tax credits available to the Company are capped beginning in 2002 and terminate in 2006. In addition, the Company's local tax abatements in Puerto Rico are scheduled to expire in 2009. In 2004, the Company elected to repatriate $3,000,000 of earnings and accrued $157,000 of related taxes under the provisions of the American Jobs Creation Act of 2004. No income taxes are provided on the approximately $6,839,000 of remaining undistributed earnings. During 2005, the Company will complete its evaluation of foreign earnings and may repatriate up to an additional $5,000,000 of accumulated undistributed earnings, which could result in up to $260,000 of additional tax. As a result of the January 2005 acquisition of EJ Footwear Group, the Company's effective tax rate for Fiscal 2005 is expected to increase compared to Fiscal 2004 as a higher percentage of profits will be taxed at U. S. tax rates.

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 cannot anticipate future changes in such laws. Increases in effective tax rates or changes in tax laws may have a material adverse effect on the Company's business, financial condition and results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Manufacturing. The Company currently plans to retain its internal manufacturing capability in order to continue benefiting from expertise the Company has gained with respect to footwear manufacturing methods conducted at its manufacturing facilities. The Company continues to evaluate its manufacturing facilities and independent manufacturing alternatives in order to determine the appropriate size and scope of its manufacturing facilities. There can be no assurance that the costs of products that continue to be manufactured by the Company can remain competitive with sourced products.

Certain Corporate Governance Measures. The Company has adopted certain corporate governance measures which, individually or collectively, could delay or frustrate the removal of incumbent directors and could make a merger, tender offer or proxy contest involving the Company, more difficult, even if such events might be deemed by certain shareholders to be beneficial to the interest of the shareholders.

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

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

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

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

Limited Protection of Intellectual Property. The Company regards certain of its footwear designs as proprietary and relies on patents to protect those designs. The Company believes that the ownership of the patents is a significant factor in its business. Existing intellectual property laws afford only limited protection of the Company's proprietary rights, and it may be possible for unauthorized third parties to copy certain of the Company's footwear designs or to reverse engineer or otherwise obtain and use information that the Company regards as proprietary. The Company believes its patents provide a measure of security against competition, and the Company intends to enforce its patents against infringement by third parties. However, if the Company's patents are found to be invalid, to the extent they have served, or would in the future serve, as a barrier to entry to the Company's competitors, such invalidity could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company owns United States federal registrations for a number of its trademarks, trade names and designs. Additional trademarks, trade names and designs are the subject of pending federal applications for registration. The Company also uses and has common law rights in certain trademarks. During 1994, the Company began to increase distribution of its goods in several foreign countries. Accordingly, the Company has applied for trademark registrations in a number of these countries. The Company intends to enforce its trademarks and trade names against unauthorized use by third parties. See "Business -- Patents, Trademarks and Trade Names."

Integration of EJ Footwear Group. In light of the Company's recent acquisition of EJ Footwear Group, the Company's success will depend in part on its ability to integrate the operations and personnel of EJ Footwear Group along

with the Company into a single organizational structure. There can be no assurance that the Company will be able to effectively integrate the existing operations of the Company with the newly-acquired EJ Footwear Group. Integration of these operations could also place additional pressures on the Company's management as well as on its key resources. The failure to successfully manage this integration could have a material adverse effect on the Company.

Risks Associated with Forward Looking Statements. This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which are intended to be covered by the safe harbors created thereby. Those statements include, but may not be limited to, all statements regarding the intent, belief and expectations of the Company and its management, such as statements concerning the Company's future profitability and its operating and growth strategy. Investors are cautioned that all forward-looking statements involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business Risks" in this Annual Report on Form 10-K and other factors detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included in this Annual Report on Form 10-K will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company does not assume any obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

ITEM 2. PROPERTIES.

The Company owns, subject to a mortgage, executive offices which are located in Nelsonville, Ohio in a two-story 25,000 square foot building. The second floor of this building houses the Company's executive offices. The first floor will house additional executive offices in the future.

The Company owns a 5,000 square foot office building in Nelsonville, Ohio, subject to a mortgage, which is currently under lease to an unrelated entity.

The Company owns, subject to a mortgage, a 98,000 square foot distribution warehouse in Nelsonville, Ohio. This facility is currently under lease to an

unrelated entity.

In 2004 the Company leased a 41,000 square foot facility in Nelsonville, Ohio. Until January 2005, the facility was leased from the William Brooks Real Estate Company, which is 25% owned by Mike Brooks, Chairman and CEO of the Company. In January 2005, the Company purchased the facility for $505,000. This building was previously used for manufacturing and presently houses the Company's factory outlet store.

Lifestyle leases two manufacturing facilities, one of which contains 44,978 square feet and the other which contains 39,581 square feet in Moca, Puerto Rico. These buildings are leased from the Puerto Rico Industrial Development Company under a net operating lease which expires in 2009.

Five Star's manufacturing facility, consisting of three connected buildings and a stand-alone building, is located in a tax-free trade zone in the Dominican Republic. Five Star leases 82,000 square feet of this facility from the Dominican Republic Corporation for Industrial Development (the "DRCID") under a Consolidation of Lease Contract, dated as of February 1997, the term of which expires on June 1, 2009. Five Star leases an additional stand-alone 37,000 square foot building from the DRCID under a lease that expires March 1, 2008.

The Company owns, subject to a mortgage, a finished goods distribution facility near Logan, Ohio. The building contains 192,000 square feet and is situated on 17.9 acres of land. The finished goods distribution facility became fully operational in the first quarter of 2000.

Rocky Canada leases an approximately 5,000 square foot facility in Waterloo, Ontario, from Marshland Centre Limited. The facility is used for distribution of certain of the Company's products in Canada. The lease expires on July 31, 2006 with an option for a five-year extension.

EJ Footwear Group leases two offices in Franklin, TN and one office in Vestal, NY. The Franklin, TN offices are approximately 13,400 and 22,500 square foot facilities and the leases expire on August 30, 2005 and April 10, 2007, respectively. The Vestal, NY office is an approximately 24,000 square foot facility and the lease expires on June 30, 2005.

ITEM 3. LEGAL PROCEEDINGS.

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

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

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

MARKET INFORMATION

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

QUARTER ENDED	HIGH	LOW
March 31, 2003..........	$ 7.30	$ 4.77
June 30, 2003...........	$ 9.54	$ 6.50
September 30, 2003......	$ 11.72	$ 9.10
December 31, 2003.......	$ 26.01	$ 11.12
March 31, 2004..........	$ 31.95	$ 17.75
June 30, 2004...........	$ 29.25	$ 17.96
September 30, 2004......	$ 23.70	$ 15.79
December 31, 2004.......	$ 29.93	$ 17.00

On March 1, 2005, the last reported sales price of the Common Stock on the NASDAQ National Market was $31.56 per share. As of March 1, 2005, there were 114 shareholders of record of the Common Stock.

The Company presently intends to retain its earnings to finance the growth

and development of its business and does not anticipate paying any cash dividends in the foreseeable future. Future dividend policy will depend upon the earnings and financial condition of the Company, the Company's need for funds and other factors. Presently, the Company's credit facility restricts the payment of dividends on the Common Stock. At December 31, 2004, the Company had no retained earnings available for distribution.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA
(in thousands, except for per share data)

<TABLE>
<CAPTION>

	FIVE YEAR FINANCIAL SUMMARY				
	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA					
Net sales	$ 132,249	$ 106,165	$ 88,959	$ 103,320	$ 103,229
Gross margin (% of sales)	29.2%	30.9%	26.3%	22.5%	23.8%
Net income	$ 8,594	6,039	$ 2,843	$ 1,531	$ 96
PER SHARE					
Net income					
Basic	$ 1.89	1.44	$ 0.63	$ 0.34	$ 0.02
Diluted	$ 1.74	1.32	$ 0.62	$ 0.34	$ 0.02
Weighted average number of common shares outstanding					
Basic	4,557	4,190	4,500	4,489	4,489
Diluted	4,954	4,561	4,590	4,549	4,493
BALANCE SHEET DATA					
Inventories	$ 32,959	38,068	$ 23,182	$ 27,714	$ 32,035
Total assets	$ 96,706	86,175	$ 68,417	$ 74,660	$ 86,051
Working capital	$ 55,612	54,210	$ 41,751	$ 44,267	$ 50,201
Long-term debt, less current maturities	$ 10,045	17,515	$ 10,488	$ 16,976	$ 26,445
Shareholders' equity	$ 71,371	58,385	$ 52,393	$ 51,043	$ 50,326

</TABLE>

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

This Management's Discussion and Analysis of Financial Condition and Result of Operations ("MD&A") describes the matters that we consider to be important to understanding the results of our operations for each of the three years in the period ended December 31, 2004, and our capital resources and liquidity as of December 31, 2004 and 2003. Use of the terms "Rocky", the "Company", "we", "us" and "our" in this discussion refer to Rocky Shoes & Boots, Inc. and subsidiaries. Our fiscal year begins on January 1 and ends on December 31. We analyze the results of our operations for the last three years, including the trends in the overall business followed by a discussion of our cash flows and liquidity, our credit facility, and contractual commitments. We then provide a review of the critical accounting judgments and estimates that we have made which we believe are most important to an understanding of our MD&A and our consolidated financial statements. We conclude our MD&A with information on recent accounting pronouncements which we adopted during the year, as well as those not yet adopted that are expected to have an impact on our financial accounting practices.

The following discussion should be read in conjunction with the "Selected Consolidated Financial Data" and our consolidated financial statements and the notes thereto, all included elsewhere herein. The forward-looking statements in this section and other parts of this document involve risks and uncertainties including statements regarding our plans, objectives, goals, strategies, and financial performance. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of factors set forth under the caption "Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995" below. The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of the Company.

We have one reportable segment: the design, manufacture and distribution of high quality men's and women's footwear and related apparel and accessories. We sell our products primarily to large and small retailers throughout the United States of America and Canada.

2004 OVERVIEW

The Company continued to implement its growth strategy in 2004 through key line extensions in footwear and outdoor apparel. This strategy was initially focused on leveraging the ROCKY brand in the rugged outdoor segment, and has been expanded to include footwear and apparel in the occupational segment as well as accessories.

HIGHLIGHTS OF OUR 2004 FINANCIAL PERFORMANCE INCLUDE THE FOLLOWING:

- Net sales, led by increases of approximately $18.1 million of boots produced for delivery to the U.S. military and $7.9 million of higher branded sales, rose to $132.2 million from $106.2 million in 2003.

- The Company's gross profit increased to $38.6 million from $32.8 million the prior year. Gross profit margin was 29.2% versus 30.9% in 2003, primarily due to substantially higher shipments of boots to the U.S. military during 2004.

- Net income rose to $8.6 million compared to $6.0 million the prior year. Diluted earnings per common share rose 32% to $1.74 in 2004 versus $1.32 per diluted share in 2003.

- Capital expenditures were $6.0 million in 2004 compared to $2.2 million in 2003. For 2004, capital expenditures included the purchase and renovation of a factory outlet store for $2.2 million and purchase of in-store displays for $1.2 million.

- Net debt (total debt minus cash, cash equivalents, marketable securities and interest-bearing deposits) was $11.5 million or 13.1% of total capitalization at December 31, 2004 compared to $15.9 million or 20.8% of total capitalization at year-end 2003. Total debt was $16.5 million or 18.8% of total capitalization at December 31, 2004 compared to $18.0 million or 23.6% of total capitalization at year-end 2003.

On January 6, 2005, the Company acquired the equity interests in EJ Footwear Group for $91.2 million in cash and 484,261 shares of common stock valued at $11,573,000 (valued at $10,000,000 at the date of the definitive agreement). To fund the acquisition the Company entered into a credit facility with: (1) a five year $100 million revolving credit facility; and (2) a $18 million three year term loan and a $30 million six year term loan.

The Company anticipates further benefits from its growth strategy in 2005 due to increased net sales resulting from broader product lines and increased demand for its portfolio of branded products. Improvement in net sales and profitability is anticipated from the acquisition of EJ Footwear Group, full-year sales of recently introduced line extensions, and a higher level of footwear produced for delivery to the U.S. military than in 2004.

Market conditions were mixed during Fiscal 2004 compared to Fiscal 2003. Sales of the Company's rugged outdoor products were solid during the first half of 2004, but were impacted by warmer seasonal weather during the fall and winter months of the year. These conditions also contributed to a slight reduction in net sales of rugged outdoor footwear compared to the prior year.

Sales in the Company's occupational category, which are sold year-round, achieved substantial growth in Fiscal 2004 compared to 2003 due to new product introductions, especially in work western footwear and work apparel. The Company continues to pursue key line extensions in its work and duty markets.

Sales of boots for delivery to the U.S. military occur from time to time based on competitively bid contracts. The Company entered into a $6.1 million contract with Belleville Shoe Manufacturing Company ("Belleville") in September 2003 for Intermediate Cold Wet Boots ("ICWs"). Initial shipments, $0.4 million, of these ICWs began in the fourth quarter 2003 and the remaining amount of these ICWs, $5.7 million, were shipped by May 2004. On March 9, 2004, the Company announced a $16.4 million contract with Belleville to produce 200,000 pairs of Infantry Combat Boots ("ICBs"). Shipments began in June 2004 and are expected to continue at the rate of 20,000 pairs per 30-day period through April 2005. All of the ICBs are manufactured in the Company's factory in Puerto Rico.

On February 14, 2005, the Company announced a $21.0 million order from the U.S. military to produce ICBs beginning in the second quarter of 2005 with an estimated completion date of December 2005.

PERCENTAGE OF NET SALES

References to 2004, 2003 and 2002 are to years ended December 31 of the respective year.

<TABLE>

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	2004	2003	2002
Net Sales	100.0%	100.0%	100.0%
Costs of goods sold	70.8	69.1	73.7
Gross margin	29.2	30.9	26.3
SG&A expenses	19.4	21.9	20.9
Income from operations	9.8%	9.0%	5.4%

</TABLE>

2004 COMPARED TO 2003

NET SALES

Net sales rose 24.6% to $132.2 million for Fiscal 2004 from $106.2 million the prior year. This was due to an $18.1 million increase in boots produced for delivery to the U.S. military and a $7.9 million increase in the Company's branded sales. Sales of boots to the U.S. military fluctuate based on competitively bid contracts.

Branded footwear sales increases were led by the occupational product line. Sales of rugged outdoor footwear declined 3.1% to $46.6 million for 2004 primarily due to warmer, drier weather during the fall and winter months. These conditions impacted re-orders during the second half of 2004. Sales in the occupational product line, led by solid gains in work, especially work western footwear, increased 18.2% to $40.8 million, benefiting from product line extensions and expanded distribution.

ROCKY branded apparel was initially introduced in the outdoor market in 2002 and the line was extended to the occupational market in February 2004. Customer acceptance of these items remains strong. Net sales in this category increased 96.6% to $8.9 million for 2004 from $4.5 million the prior year.

GATES branded product sales were $9.6 million for 2004 compared to $10.2 million for the nine-month period following the acquisition of certain assets of Gates-Mills, Inc. in April 2003. The decrease in sales was due to the Company's decision to exit the dress glove segment of this business.

Military sales, which occur from time to time, were $18.5 million in 2004 versus $0.4 million in 2003. This represented final shipments of $5.7 million under a contract awarded in September 2003 and $12.8 million of shipments under a contract awarded in March 2004 to produce boots for delivery to the U.S. military. The remaining $3.6 million of military boots under the March 2004 contract award are expected to be shipped by the second quarter of 2005.

Net sales for the Company's factory outlet stores declined 12.3% to $4.0 million in 2004 compared to $4.6 million the prior year. The decline in retail sales resulted from less traditional seasonal cold and wet weather during the fall and winter months of 2004.

Average list prices for the Company's footwear, apparel and accessories were similar in 2004 compared to 2003.

GROSS MARGIN

Gross profit rose to $38.6 million for 2004 from $32.8 million the prior year. Expressed as a percentage of net sales, gross margin declined 170 basis points to 29.2% of net sales in 2004 compared to 30.9% in 2003. The lower gross margin was primarily attributable to higher sales of boots for delivery to the U.S. military, which totaled $18.5 million in 2004 compared to $0.4 million in 2003. These boots traditionally have substantially lower gross margins than the Company's branded products.

The Company has been sourcing footwear from outside the United States since 1993. In 2004, sourced footwear, apparel and accessories declined to 63% of net sales versus 66% in 2003 because of the effect of the military sales. Sales of sourced products are generally higher than for footwear produced in the Company's factories. Sourced product sales are expected to remain a significant percentage of the Company's total net sales.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses rose $2.3 million to $25.6 million for Fiscal 2004. The increase in SG&A expenses for the year ended December 31, 2004 was due to higher commissions paid of $.4 million, $.6 million of additional distribution costs, higher advertising expenses of $.6 million, as well as testing and documentation of internal controls required by the Sarbanes-Oxley Act of 2002 of $.4 million. Most of the Company's SG&A expenses are relatively fixed and changes between periods are generally in response to

increased sales and profitability. As a percent of net sales, SG&A expenses declined to 19.4% for Fiscal 2004 from 21.9% the prior year, due to nominal SG&A expenses associated with military boot sales.

INCOME FROM OPERATIONS

Income from operations improved 37.1% to $13.0 million, or 9.8% of net sales, for Fiscal 2004 from $9.5 million, or 9.0% of net sales, in Fiscal 2003.

INTEREST EXPENSE

Interest expense declined slightly to $1.3 million for Fiscal 2004 from $1.4 million in 2003 because of lower average borrowings in 2004 versus 2003.

The Company's funded debt declined to $16.5 million at December 31, 2004 versus $18.0 million a year ago. This was principally due to inventory reductions during 2004.

INCOME TAXES

Income tax expense was $3.5 million for Fiscal 2004 compared to $2.4 million in 2003. The Company's effective tax rate remained stable between the two years at 28.8% and 28.7%, respectively. This effective rate is lower than the statutory rate of 35.0% due to a portion of income being earned in offshore jurisdictions where effective tax rates are lower than the U.S. effective tax rate. Sourced products are taxed at U.S. effective tax rates. In addition, the provision includes $157,000 related to the Company's decision to repatriate foreign earnings totaling $3,000,000.

2003 COMPARED TO 2002

NET SALES

Net sales rose 19.3% to $106.2 million for the year ended December 31, 2003 from $89.0 million the prior year. This was attributable to a 28% increase in branded product sales, which include ROCKY footwear, apparel and accessories and GATES products. Shipments of boots to the U.S. military for the year ended December 31, 2003 were $6.0 million below the prior year. These sales fluctuate in response to specific competitively bid contracts to produce boots for the U.S. military.

Footwear sales increases were led by the rugged outdoor category, which sales increased 15.7% to $48.1 million for 2003. These sales benefited from increased demand and more seasonal weather conditions in most regions of the U.S. where the Company's rugged outdoor footwear is sold. Initial sell-through and re-orders were particularly strong during the fall and winter season due to the weather conditions which also benefited from increased demand for the ROCKY brand. Occupational footwear increased 16.7% to $34.6 million reflecting product line extensions, particularly a line of western influenced footwear. Casual footwear sales increased $0.2 million to $2.5 million in 2003, consistent with the Company's emphasis on controlled growth within this category through its existing dealer network.

ROCKY branded apparel, particularly for the outdoor market, was introduced in 2002. Net sales in this category increased 67% to $4.5 million for 2003 compared to $2.7 the prior year.

GATES branded product sales were $10.2 million for 2003 due to the acquisition of the Gates brand in April 2003.

Military sales, which occur from time to time, were $0.4 million in 2003 versus $6.4 million in 2002. This represented initial shipments under a $6.1 million contract to produce boots for delivery to the U.S. military. The remaining amount of this contract was completed in the second quarter 2004.

Net sales for the Company's factory outlet stores increased 13% to $4.6 million in 2003 compared with $4.1 million the prior year. The retail sales increase was the result of more traditional seasonal weather, expansion of the Company's Nelsonville store, and refocused merchandising of the retail stores.

Average list prices for the Company's footwear, apparel and accessories were similar in 2003 compared to 2002.

GROSS MARGIN

Gross margin rose to $32.8 million for 2003 from $23.4 million the prior year. Expressed as a percentage of net sales, gross margin increased 460 basis points to 30.9% of net sales in 2003 compared with 26.3% in 2002. This increase in gross margin was attributable to sales mix and a 17 percentage point increase in sourced product sales. The 2003 gross margin benefited from lower shipments of boots to the U.S. military in 2003. Historically, these boots are produced at

gross margins below the Company's overall average.

The Company has been sourcing footwear from outside the United States since 1993. In 2003, sourced footwear, apparel and accessories increased to 66% of net sales from 49% in 2002. The increase in sourced products sales as a percentage of total sales is expected to continue in the future; however, such increase is not expected to be at the same year-over-year growth rate as the Company experienced in 2003.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses were $23.3 million, or 21.9% of net sales, for 2003 versus $18.7 million, or 21.0% of net sales, the prior year. The increase in SG&A expenses for the year ended December 31, 2003 was due to higher commissions paid, additional distribution costs, and higher incentive compensation. All of these factors are attributable to the increase in net sales and profitability compared to the prior year. Most of the Company's SG&A expenses are relatively fixed and changes between periods are generally in response to increased sales and profitability.

INTEREST EXPENSE

Interest expense was $1.4 million for both of the years 2003 and 2002. The Company benefited from generally lower interest rates, which was partially offset by higher average outstanding borrowings.

The Company's funded debt increased to $18.0 million at December 31, 2003 versus $11.0 million a year ago. The increase in funded debt in 2003 was due to the purchase of certain assets of Gates-Mills, Inc., the repurchase of 483,500 shares of common stock, and increased inventory to support sales growth. The Company's investment in capital assets was substantially below depreciation expense for 2003 and 2002.

INCOME TAXES

Income tax expense increased $1.4 million to $2.4 million in 2003 compared to $1.0 million in 2002. The Company's effective tax rate was 28.7% for 2003 compared to 25.1% the previous year. This effective rate is lower than the statutory rate of 35.0% due to a portion of income being earned in offshore jurisdictions where effective tax rates are lower than the U.S. effective tax rate and the Company's decision not to repatriate foreign earnings to the U.S. The increase in the effective tax rate in 2003 over 2002 is due primarily to the increase in sales of sourced products which are taxed at U.S. effective tax rates.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The Company principally funds its working capital requirements and capital expenditures through income from operations, borrowings under its credit facility and other indebtedness. During 2004, the Company primarily relied upon cash provided from operating activities. 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 May through October of each year. The Company's working capital increased to $55.6 million and $54.2 million at December 31, 2004 and 2003, respectively.

Inventory was $33.0 million at December 31, 2004 compared to $38.1 million at year-end 2003. This decline was due to efforts initiated during Fiscal 2004 to reduce the Company's overall inventory. The funds provided by the inventory reduction were used for increased receivables from higher sales in the second half of 2004.

Capital expenditures were $5.5 million for 2004 versus $2.2 million for 2003. The Fiscal 2004 expenditures included projects for the Company's purchase and renovation of a factory outlet store for $2.2 million and the purchase of in-store displays for $1.2 million. Capital expenditures for the year 2005 are anticipated to be approximately $6.0 million.

Total debt outstanding declined to $16.5 million or 18.8% of total capitalization at December 31, 2004 compared to $18.0 million or 23.6% of total capitalization at year-end 2003. This improvement was attributable to improved cash flow and strong inventory management.

In conjunction with completion of the acquisition of EJ Footwear Group, the Company entered into agreements with GMAC Commercial Finance LLC and American Capital Strategies, Ltd. for credit facilities totaling $148 million. The agreements include a $100 million revolving credit facility and term loans totaling $48 million with maturities between 3-6 years to fund the acquisition of EJ Footwear Group and replace the Company's $45 million revolving credit

facility. Under the terms of the agreement, the interest rates and repayment terms are: (1) a revolving credit facility with an interest rate of LIBOR plus two and a half percent (2.5%) or prime plus one percent (1.0%); (2) a $18 million term loan with an interest rate of LIBOR plus three and a quarter percent (3.25%) or prime plus one and three quarters percent (1.75%) and payable equally over three years; and (3) a $30 million term loan with an interest rate of LIBOR plus eight percent (8.0%) and payable equally over years four through six. We believe that our existing credit facilities coupled with our available cash generated from operations will provide sufficient liquidity to fund our operations in 2005. Our continued liquidity, however, is contingent upon future operating performance, cash flows, and our ability to meet financial covenants in the credit facilities.

CASH FLOWS

<TABLE>
<CAPTION>

Cash Flow Summary	2004	2003	2002
		$ in million	
<S>	<C>	<C>	<C>
Cash provided by (used in):			
Operating activities	$ 7.6	$ (1.6)	$ 10.1
Investing activities	(5.5)	(7.0)	(2.3)
Financing activities	.8	6.5	(6.5)
Net change in cash and cash equivalents	$ 2.9	$ (2.1)	$ 1.3

</TABLE>

Operating Activities. Net cash provided by operating activities totaled $7.6 million for Fiscal 2004 compared to net cash used by operating activities of $1.6 million in 2003, and net cash provided by operations of $10.1 million in 2002. Principal uses of net cash compared to the prior year included a $7.6 million increase in accounts receivable-trade during 2004, which was partially offset by a $5.1 million reduction in inventory. The principal uses of net cash in 2003 included $14.9 million in increased inventory to support the Company's growth and a $4.2 million increase in accounts receivable-trade related to the Company's sales growth. For 2002, the Company had $10.1 million of net cash provided by operating activities, which benefited from a $4.5 million reduction in inventories, as well as reductions in deferred compensation and pension and accrued expenses of $1.6 million and $1.5 million, respectively.

Investing Activities. Net cash used in investing activities was $5.5 million in Fiscal 2004 versus $7.0 million of net cash used in investing activities in 2003. The principal uses of cash in 2004 were for the purchase of fixed assets. The principal uses of cash in 2003 were for the purchase of fixed assets ($2.2 million), and the acquisition of certain assets of Gates-Mills, Inc. ($4.9 million). For 2002, the Company purchased $2.3 million of fixed assets.

Financing Activities. The Company's financing activity during 2004 was $.8 million. This included proceeds from the exercise of stock options ($2.2 million), which was offset by a reduction in borrowings ($1.5 million). The Company's financing activity during 2003 totaled $6.5 million, which included the repurchase of common stock ($3.1 million) which was partially offset by proceeds from the exercise of stock options ($2.5 million), and increased borrowings ($7.0 million) to support sales growth as well as inventory acquired in conjunction with the acquisition of Gates-Mills, Inc. For the year 2002, cash provided in financing activities was $6.5 million due to a reduction in total debt outstanding.

BORROWINGS AND EXTERNAL SOURCES OF FUNDS

The Company's borrowings and external sources of funds were as follows at December 31, 2004 and 2003:

<TABLE>
<CAPTION>

	December 31,	
	2004	2003
	$ in millions	
<S>	<C>	<C>
Bank - revolving credit facility	$ 11.5	$ 12.5
Equipment and other obligations	0.1	0.3
Real estate obligations	4.9	5.2
Total debt	16.5	18.0
Less current maturities	6.5	0.5
Net long-term debt	$ 10.0	$ 17.5

</TABLE>

Our real estate obligations were $4.9 million at December 31, 2004. The mortgage financing, completed in the year 2000, includes three of the Company's facilities, with monthly payments of approximately $0.1 million through 2014.

We lease certain machinery and manufacturing facilities under operating leases that generally provide for renewal options. Future minimum lease payments under non-cancelable operating leases are $0.7 million, $0.6 million, $0.3 million and $0.3 million for years 2005 through 2008, respectively, and $0.3 million for all years after 2008, or approximately $2.2 million in total. We continually evaluate our external credit arrangements in light of our growth strategy and new opportunities. We anticipate no further changes in our credit arrangements in 2005 beyond the $148 credit facilities announced on January 6, 2005, to fund the acquisition of EJ Footwear Group and to replace our $45 million revolving credit facility.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes our contractual obligations at December 31, 2004 resulting from financial contracts and commitments. We have not included information on our recurring purchases of materials for use in our manufacturing operations. These amounts are generally consistent from year to year, closely reflect our levels of production, and are not long-term in nature (less than three months).

Contractual Obligations at December 31, 2004:

	PAYMENTS DUE BY YEAR $ MILLIONS				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	OVER 5 YEARS
Long-term debt, adjusted for the January 2005 refinancing	$ 111.3	$ 6.5	$ 12.8	$ 21.0	$ 71.0
Pension benefits (1)	4.1	0.3	0.6	0.7	2.5
Minimum operating lease commitments	2.2	0.7	0.9	0.6	-
Expected cash requirements for interest(2)	36.3	7.8	14.7	12.8	1.0
Building purchase obligation	0.5	0.5	-	-	-
Total contractual obligations	$ 154.4	$ 15.8	$ 29.0	$ 35.1	$ 74.5

(1) Assumes no plan termination and includes estimated pension plan contributions.

(2) Assumes the following interest rates: (1) 6.0% on the $58.4 million revolving credit facility; (2) 5.65% on the $18 million three year term loan; (3) 10.4% on the $30 million six year term loan; and (4) 8.275% on the $4.9 million mortgage loans.

From time to time we enter into purchase commitments with our suppliers under customary purchase order terms. Any significant losses implicit in these contracts would be recognized in accordance with generally accepted accounting principles. At December 31, 2004, no such losses existed.

The Company's ongoing business activities continue to be subject to compliance with various laws, rules and regulations as may be issued and enforced by various federal, state and local agencies. With respect to environmental matters, costs are incurred pertaining to regulatory compliance. Such costs have not been, and are not anticipated to become, material.

The Company is contingently liable with respect to lawsuits, taxes and various other matters that routinely arise in the normal course of business. The Company does not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "Variable Interest Entities." Additionally, the Company does not have any related party transactions that materially affect the result of operations, cash flow or financial condition.

INFLATION

The Company's financial performance is influenced by factors such as higher raw material costs as well as higher salaries and employee benefits. Management attempts to minimize or offset the effects of inflation through increased selling prices, productivity improvements, and cost reductions. The Company was able to mitigate the effects of inflation during 2004 due to these factors. It is anticipated that inflationary pressures during 2005 will be offset through increases in sales and profitability, due to improved operating leverage in the Company's business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. A summary of our significant accounting policies is included in the Notes to Consolidated Financial Statements included in this Annual Report.

Management regularly reviews its accounting policies to make certain they are current and also provide readers of the consolidated financial statements with useful and reliable information about our operating results and financial condition. These include, but are not limited to, matters related to accounts receivable, inventories, pension benefits, and income taxes. Implementation of these accounting policies includes estimates and judgments by management based on historical experience and other factors believed to be reasonable. This may include judgments about the carrying value of assets and liabilities based on considerations that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies are most important to the portrayal of the Company's financial condition and results of operations, and require more significant judgments and estimates in the preparation of its consolidated financial statements.

Revenue recognition:

Customer sales are recognized when revenue is realized and earned. The Company recognizes revenue when the risk and title passes to the customer, generally at the time of shipment. Customer sales are recorded net of allowances for estimated returns, trade promotions and other discounts, which are recognized as a deduction from sales at the time of sale.

Accounts receivable allowances:

Management maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Management also records estimates for customer returns and discounts offered to customers. Should a greater proportion of customers return goods and take advantage of discounts than estimated by the Company, additional allowances may be required.

Sales returns and allowances:

Revenue principally consists of sales to customers. Revenue is recognized upon shipment of product to customers, while license fees are recognized when earned. The Company records a reduction to gross sales based on estimated customer returns and allowances. These reductions are influenced by historical experience, based on customer returns and allowances. The actual amount of sales returns and allowances realized may differ from the Company's estimates. If the Company determines that sales returns or allowances should be either increased or decreased, then the adjustment would be made to net sales in the period in which such a determination is made.

Inventories:

Management identifies slow moving or obsolete inventories and estimates appropriate loss provisions related to these inventories. Historically, these loss provisions have not been significant as the vast majority of the Company's inventories are considered saleable and the Company has been able to liquidate slow moving or obsolete inventories through the Company's factory outlet stores or through various discounts to customers. Should management encounter difficulties liquidating slow moving or obsolete inventories, additional provisions may be necessary. Management regularly reviews the adequacy of its inventory reserves and makes adjustments to them as required.

Intangible assets:

The Company had $4.1 million of intangible assets at December 31, 2004. Goodwill, trademarks and patents are tested for impairment at least annually by comparing the fair value of the reporting units to their carrying values. Fair values are estimated using discounted cash flow methodologies that are based on projections of the amounts and timing of future revenues and cash flows. Based on this testing, none of our goodwill, trademarks or patents were impaired as of December 31, 2004.

Pension benefits:

Accounting for pensions involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee works. To accomplish this, extensive use is made of assumptions about inflation, investment returns, mortality, turnover, medical costs and discount rates. These assumptions are reviewed annually. See Note 9, "Retirement Plans," of this Form 10-K for information on these plans and the assumptions used.

Pension expenses are determined by actuaries using assumptions concerning the discount rate, expected return on plan assets and rate of compensation increase. An actuarial analysis of benefit obligations and plan assets is determined as of September 30 each year. The funded status of the Company's plans and reconciliation of accrued pension cost is determined annually as of December 31. Further discussion of the Company's pension and post-retirement benefit plans and related assumptions is included in Note 9 "Retirement Plans", to the consolidated financial statements included in the Annual Report on Form 10-K. Actual results would be different using other assumptions. Management records an accrual for pension costs associated with the Company sponsored noncontributory defined benefit pension plans covering non-union workers of the Company. A union plan, which was frozen in 2001, was settled in April 2004. Future adverse changes in market conditions or poor operating results of underlying plan assets could result in losses or a higher accrual.

Income taxes:

Currently, management has not recorded a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. The Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, however in the event the Company were to determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination was made. Finally, at December 31, 2004, a provision of $157,000 has been made for U.S. taxes on the repatriation of $3,000,000 of accumulated undistributed earnings of Five Star through December 31, 2004. At December 31, 2004, after the planned repatriation above, approximately $6,839,000 is remaining that would become taxable upon repatriation to the United States. During 2005, the Company will complete its evaluation of foreign earnings and may repatriate up to an additional $5,000,000 of accumulated undistributed earnings, which could result in up to $260,000 of additional tax.

RECENTLY ISSUED FINANCIAL ACCOUNTING PRONOUNCEMENTS

In December 2003, the FASB issued a revision to Interpretation 46 (FIN 46R) to clarify certain provisions of FASB Interpretation No. 46. Variable interests in a variable interest entity are contractual, ownership, or other pecuniary interests in an entity that change with changes in the entity's net asset value. Variable interests are investments or other interests that will

absorb a portion of an entity's expected losses if they occur or receive portions of the entity's expected residual returns if they occur. FIN 46R defers the effective date of FIN 46 for certain entities and makes several other changes to FIN 46. The Company's adoption of FIN 46 or FIN 46R did not have a material impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued revised SFAS No. 123, "Share-Based Payment" which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement, which requires the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. The statement applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." The statement addresses the measurement of exchanges of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring

in fiscal periods beginning after June 15, 2005. The Company is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which provides a practical exception to the SFAS No. 109 requirement to reflect the effect of a new tax law in the period of enactment by allowing additional time beyond the financial reporting period to evaluate the effects on plans for reinvestment or repatriation of unremitted foreign earnings. At December 31, 2004 the Company determined it would repatriate a portion of its foreign earnings and accrued the related taxes. (See Note 8)

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES REFORM ACT OF 1995

This Management's Discussion and Analysis of Financial Conditions and Results of Operations 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 all forward-looking statements involve risk and uncertainties including, without limitations, dependence on sales forecasts, changes in consumer demand, seasonality, impact of weather, competition, reliance on suppliers, changing retail trends, economic changes, as well as other factors set forth under the caption "Business Risks" in this Annual Report on Form 10-K and other factors detailed from time to time in the Company's filings with the Securities and Exchange Commission. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company assumes no obligation to update any forward-looking statements.

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

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

The following three items are market rate sensitive for interest rates for the Company: (1) long-term debt consisting of a credit facility with a balance at December 31, 2004 of $11.5 million, was refinanced by the credit facility described below; (2) equipment and other obligations totaling $0.1 million at December 31, 2004 that bear interest at a variable rate based on prime; and (3) real estate obligations of $4.9 million at December 31, 2004, that bear interest at a fixed rate of 8.275%.

On January 6, 2005, we announced the Company had entered into credit facilities with GMAC Commercial Finance LLC and American Capital Strategies, Ltd. totaling $148 million to fund the acquisition of EJ Footwear Group and to replace our $45 million revolving credit facility. The agreements include a $100 million revolving credit facility and term loans totaling $48 million with maturities between 3-6 years. Under the terms of the agreement, the interest rates and repayment terms are: (1) a revolving credit facility with an interest rate of LIBOR plus two and a half percent (2.5%) or prime plus one percent (1.0%); (2) a $18 million term loan with an interest rate of LIBOR plus three and a quarter percent (3.25%) or prime plus one and three quarters percent (1.75%) and payable equally over three years; and (3) a $30 million term loan with an interest rate of LIBOR plus eight percent (8.0%) and payable equally over years four through six.

The Company does not have any interest rate management agreements as of December 31, 2004.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Company's consolidated balance sheets as of December 31, 2004 and 2003 and the related consolidated statements of income, shareholders' equity, and cash flows for the years ended December 31, 2004, 2003, and 2002, together with the independent auditors' report thereon appear on pages F-1 through F-27 hereof and are incorporated herein by reference.

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

FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, the Company's management carried out an evaluation, with the participation of the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act). Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

As part of the Company's evaluation of the effectiveness of internal controls over financial reporting described below, the Company made certain improvements to its internal controls. However, there were no changes in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of the Company's principal executive officer and principal financial officer, the Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon that evaluation under the framework in Internal Control - Integrated Framework, the Company's management concluded that our internal control over financial reporting was effective as of December 31, 2004.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Rocky Shoes & Boots, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Rocky Shoes & Boots, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with

generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of the Company as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. Our report dated March 15, 2005 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Columbus, Ohio
March 15, 2005

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The information required by this item is included under the captions "ELECTION OF DIRECTORS" and "INFORMATION CONCERNING THE DIRECTORS, EXECUTIVE OFFICERS, AND PRINCIPAL SHAREHOLDERS - EXECUTIVE OFFICERS" and "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE" in the Company's Proxy Statement for the 2005 Annual Meeting of Shareholders (the "Proxy Statement") to be held on May 10, 2005, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to our directors, officers and all employees. The Code of Business Conduct and Ethics is posted on our website at www.rockyboots.com. The Code of Business Conduct and Ethics may be obtained free of charge by writing to Rocky Shoes & Boots, Inc., Attn: Chief Financial Officer, 39 East Canal Street, Nelsonville, Ohio 45764.

ITEM 11. EXECUTIVE COMPENSATION.

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

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

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information required by this item is included under the caption "REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS" in the Company's Proxy Statement, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2004 and 2003	F-2 - F-3

Consolidated Statements of Income for the years ended December 31, 2004, 2003, and 2002	F-4
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2004, 2003, and 2002	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003, and 2002	F-6
Notes to Consolidated Financial Statements for the years ended December 31, 2004, 2003, and 2002	F-7 - F-27

(2) The following financial statement schedule for the years ended December 31, 2004, 2003, and 2002 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.

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule.

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

(3) Exhibits:

EXHIBIT NUMBER	DESCRIPTION
2.1	Purchase and Sale of Equity Interests Agreement by and among Rocky Shoes & Boots, Inc., SILLC Holdings, LLC, a Delaware limited liability company and Strategic Industries, LLC, dated as of December 6, 2004 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated December 6, 2004, filed with the Securities and Exchange Commission on December 8, 2004).
3.1	Second Amended and Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1997).
3.2	Amended and Restated Code of Regulations of the Company (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1, registration number 33-56118 (the "Registration Statement").
4.1	Form of Stock Certificate for the Company (incorporated by reference to Exhibit 4.1 to the Registration Statement).
4.2	Articles Fourth, Fifth, Sixth, Seventh, Eighth, Eleventh, Twelfth, and Thirteenth of the Company's Amended and Restated Articles of Incorporation (see Exhibit 3.1).

4.3	Articles I and II of the Company's Code of Regulations (see Exhibit 3.2).
10.1	Form of Employment Agreement, dated July 1, 1995, for executive officers (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1995 (the "1995 Form 10-K")).
10.2	Information concerning Employment Agreements substantially similar to Exhibit 10.1 (incorporated by reference to Exhibit 10.2 to the 1995 Form 10-K).
10.3	Deferred Compensation Agreement, dated May 1, 1984, between Rocky Shoes & Boots Co. and Mike Brooks (incorporated by reference to Exhibit 10.3 to the Registration Statement).

<TABLE>
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EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
10.4	Information concerning Deferred Compensation Agreements substantially similar to Exhibit 10.3 (incorporated by reference to Exhibit 10.4 to the Registration Statement).
10.5	Form of Company's amended 1992 Stock Option Plan (incorporated by reference to Exhibit 10.5 to the 1995 Form 10-K).
10.6	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.6 to the Registration Statement).
10.7	Indemnification Agreement, dated December 21, 1992, between the Company and Mike Brooks (incorporated by reference to Exhibit 10.10 to the Registration Statement).
10.8	Information concerning Indemnification Agreements substantially similar to Exhibit 10.7 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 (the "1993 Form 10-K")).
10.9	Amended and Restated Lease Agreement, dated March 1, 2002, between Rocky Shoes & Boots Co. and William Brooks Real Estate Company regarding Nelsonville factory (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002).
10.10	Company's Amended and Restated 1995 Stock Option Plan (incorporated by reference to Exhibit 4(a) to the Registration Statement on Form S-8, registration number 333-67357).
10.11	Form of Stock Option Agreement under the 1995 Stock Option Plan (incorporated by reference to Exhibit 10.28 to the 1995 Form 10-K).
10.12	Form of Employment Agreement, dated September 7, 1995, for executive officers (incorporated by reference to Exhibit 10.5 to the September 30, 1995 Form 10-Q).
10.13	Information covering Employment Agreements substantially similar to Exhibit 10.23 (incorporated by reference to Exhibit 10.5 to the September 30, 1995 Form 10-Q).
10.14*	Lease Contract dated December 16, 1999, between Lifestyle Footwear, Inc. and The Puerto Rico Industrial Development Company.
10.15	Promissory Note, dated December 30, 1999, in favor of General Electric Capital Business Asset Funding Corporation in the amount of $1,050,000 (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 (the "June 30, 2000 Form 10-Q")).
10.16	Promissory Note, dated December 30, 1999, in favor of General Electric Capital Business Asset Funding Corporation in the amount of $1,500,000 (incorporated by reference to Exhibit 10.2 to the June 30, 2000 Form 10-Q).
10.17	Promissory Note, dated December 30, 1999, in favor of General Electric Capital Business Asset Funding Corporation in the amount of $3,750,000 (incorporated by reference to Exhibit 10.3 to the June 30, 2000 Form 10-Q).
10.18	Company's Second Amended and Restated 1995 Stock Option Plan (incorporated by reference to the Company's Definitive Proxy

Statement for the 2002 Annual Meeting of Shareholders held on May 15, 2002, filed on April 15, 2002).
</TABLE>

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EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
10.19	Company's 2004 Stock Incentive Plan (incorporated by reference to the Company's Definitive Proxy Statement for the 2004 Annual Meeting of Shareholders, held on May 11, 2004, filed on April 6, 2004).
10.20*	Renewal of Lease Contract, dated June 24, 2004, between Five Star Enterprises Ltd. and the Dominican Republic Corporation for Industrial Development.
10.21	Second Amendment to Lease Agreement, dated as of July 26, 2004, between Rocky Shoes & Boots, Inc. and the William Brooks Real Estate Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).
10.22	Form of Option Award Agreement under the Company's 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated January 3, 2005, filed with the Securities and Exchange Commission on January 7, 2005).
10.23	Form of Restricted Stock Award Agreement relating to the Retainer Shares issued under the Company's 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated January 3, 2005, filed with the Securities and Exchange Commission on January 7, 2005).
10.24	Loan and Security Agreement, dated as of January 6, 2005, by and among Rocky Shoes & Boots, Inc., Lifestyle Footwear, Inc., EJ Footwear LLC, HM Lehigh Safety Shoe Co. LLC, Georgia Boot LLC, Durango Boot Company LLC, Northlake Boot Company LLC, Lehigh Safety Shoe Co. LLC, Georgia Boot Properties LLC, and Lehigh Safety Shoe Properties LLC, as Borrowers, GMAC Commercial Finance LLC, as Agent and as Lender (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated January 6, 2005, filed with the Securities and Exchange Commission on January 12, 2005).
10.25	Note Purchase Agreement, dated as of January 6, 2005, by and among Rocky Shoes & Boots, Inc., Lifestyle Footwear, Inc., EJ Footwear LLC, HM Lehigh Safety Shoe Co. LLC, Georgia Boot LLC, Georgia Boot Properties LLC, Durango Boot Company LLC, Northlake Boot Company LLC, Lehigh Safety Shoe Co. LLC, and Lehigh Safety Shoe Properties LLC, as Loan Parties, American Capital Financial Services, Inc., as Agent, and American Capital Strategies, Ltd., as Purchaser (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K dated January 6, 2005, filed with the Securities and Exchange Commission on January 12, 2005).
10.26	Amendment No. 1 to Loan and Security Agreement and Consent, dated as of January 19, 2005, by and among Rocky Shoes & Boots, Inc., Lifestyle Footwear, Inc., EJ Footwear LLC, HM Lehigh Safety Shoe Co. LLC, Georgia Boot LLC, Durango Boot Company LLC, Northlake Boot Company LLC, Lehigh Safety Shoe Co. LLC, Georgia Boot Properties LLC, and Lehigh Safety Shoe Properties LLC, as Borrowers, GMAC Commercial Finance LLC, as administrative agent and sole lead arranger for the Lenders, Bank of America, N.A., as syndication agent and Royal Bank of Scotland PLC, as documentation agent(incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated January 19, 2005, filed with the Securities and Exchange Commission on January 21, 2005).
21*	Subsidiaries of the Company.
23*	Independent Registered Public Accounting Firm's Consent and Report on Schedules of Deloitte & Touche LLP.
24*	Powers of Attorney.

</TABLE>

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EXHIBIT NUMBER	DESCRIPTION

<S> <C>

31.1*	Rule 13a-14(a) Certification of Principal Executive Officer.
31.2*	Rule 13a-14(a) Certification of Principal Financial Officer.
32**	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer.
99.1*	Independent Registered Public Accounting Firm's Report of Deloitte & Touche LLP on Schedules (incorporated by reference to Exhibit 23).
99.2*	Financial Statement Schedule.

</TABLE>

* Filed with this Annual Report on Form 10-K.

** Furnished with this Annual Report on Form 10-K.

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

(b) EXHIBITS

The exhibits to this report begin immediately following the F- pages.

(c) FINANCIAL STATEMENT SCHEDULES

The Report of the Independent Registered Public Accounting Firm and financial statement schedule are included in the Annual Report on Form 10-K as Exhibit 99.1 and Exhibit 99.2, respectively.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROCKY SHOES & BOOTS, INC.

Date: March 16, 2005

By: /s/ James E. McDonald

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

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

<TABLE>
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SIGNATURE	TITLE	DATE
/s/ Mike Brooks Mike Brooks	Chairman, Chief Executive Officer and Director (Principal Executive Officer)	March 16, 2005
/s/ James E. McDonald James E. McDonald	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 16, 2005
* CURTIS A. LOVELAND Curtis A. Loveland	Secretary and Director	March 16, 2005
* J. PATRICK CAMPBELL J. Patrick Campbell	Director	March 16, 2005
* GLENN E. CORLETT Glenn E. Corlett	Director	March 16, 2005
* MICHAEL L. FINN	Director	March 16, 2005

Micahel L. Finn

* G. COURTNEY HANING - --- G. Courtney Haning	Director	March 16, 2005
* HARLEY E. ROUDA - --- Harley E. Rouda	Director	March 16, 2005
* JAMES L. STEWART - --- James L. Stewart	Director	March 16, 2005

* By: /s/ Mike Brooks
- ---
Mike Brooks, Attorney-in-Fact
</TABLE>

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Statements of Cash Flows for the Years Ended December 31, 2004, 2003 and 2002	F-6
Notes to Consolidated Financial Statements	F-7 - F-27

</TABLE>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Rocky Shoes & Boots, Inc. and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2004. 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 the standards of the Public Company Accounting Oversight Board (United States). 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, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on the criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2005 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting

and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Columbus, Ohio
March 15, 2005

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2004	DECEMBER 31, 2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,060,859	$ 2,159,050
Accounts receivable - trade, net	27,182,198	19,532,287
Other receivables	1,114,959	830,131
Inventories	32,959,124	38,068,187
Deferred income taxes - current	230,151	959,810
Income tax receivable	2,264,531	
Other current assets	588,618	1,045,238
Total current assets	69,400,440	62,594,703
FIXED ASSETS, AT COST:		
Property, plant and equipment	52,732,896	46,790,708
Less accumulated depreciation	(32,553,410)	(29,180,470)
Total fixed assets - net	20,179,486	17,610,238
DEFERRED PENSION ASSET	1,347,824	1,499,524
GOODWILL	1,557,861	1,557,861
OTHER ASSETS	4,220,043	2,912,510
TOTAL ASSETS	$ 96,705,654	$ 86,174,836

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 2004	DECEMBER 31, 2003
CURRENT LIABILITIES:		
Accounts payable	$ 4,349,248	$ 2,810,161
Current maturities - long-term debt	6,492,020	503,934
Accrued expenses:		
Income taxes		1,929,808
Taxes - other	422,692	372,432
Salaries and wages	1,295,722	1,885,896
Plant closing costs		195,500
Co-op advertising	263,000	402,000
Interest	82,904	65,796
Building purchase obligation-related party	505,000	
Other	377,804	219,138
Total current liabilities	13,788,390	8,384,665
LONG-TERM DEBT - Less current maturities	10,044,544	17,514,994
DEFERRED LIABILITIES:		
Compensation	206,913	166,641
Pension	89,195	1,460,952
Income Taxes	1,205,814	262,907

	2004	2003
Total deferred liabilities	1,501,922	1,890,500
Total liabilities	25,334,856	27,790,159
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, Series A, no par value, $.06 stated value; none outstanding 2004 and 2003		
Common stock, no par value; 10,000,000 shares authorized; outstanding 2004 - 4,694,670 and 2003 - 4,360,400	38,399,114	34,880,199
Accumulated other comprehensive loss	(1,077,586)	(1,950,400)
Retained earnings	34,049,270	25,454,878
Total shareholders' equity	71,370,798	58,384,677
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 96,705,654	$ 86,174,836

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
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	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
NET SALES	$ 132,248,963	$106,164,753	$ 88,958,721
COST OF GOODS SOLD	93,606,600	73,383,128	65,528,213
GROSS MARGIN	38,642,363	32,781,625	23,430,508
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	25,617,944	23,278,449	18,661,730
INCOME FROM OPERATIONS	13,024,419	9,503,176	4,768,778
OTHER INCOME AND (EXPENSES):			
Interest expense	(1,335,100)	(1,378,131)	(1,404,496)
Other - net	381,073	348,448	432,018
Total other - net	(954,027)	(1,029,683)	(972,478)
INCOME BEFORE INCOME TAXES	12,070,392	8,473,493	3,796,300
INCOME TAX EXPENSE	3,476,000	2,434,250	953,000
NET INCOME	$ 8,594,392	$ 6,039,243	$ 2,843,300
NET INCOME PER COMMON SHARE:			
Basic	$ 1.89	$ 1.44	$ 0.63
Diluted	$ 1.74	$ 1.32	$ 0.62
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	4,557,283	4,189,794	4,499,741
Diluted	4,953,529	4,560,763	4,590,095

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK		ACCUMULATED OTHER		TOTAL
	SHARES OUTSTANDING	AMOUNT	COMPREHENSIVE LOSS	RETAINED EARNINGS	SHAREHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE - December 31, 2001	4,492,215	$ 35,302,159	$ (831,161)	$ 16,572,335	$ 51,043,333
YEAR ENDED DECEMBER 31, 2002:					
Net income				2,843,300	2,843,300
Minimum pension liability, net of tax benefit of $575,784			(1,480,588)		(1,480,588)

Comprehensive income					1,362,712
Treasury stock purchased and retired	(16,400)	(84,540)			(84,540)
Stock options exercised	13,250	71,419			71,419
	---------	------------	-----------	------------	------------
BALANCE - December 31, 2002	4,489,065	35,289,038	(2,311,749)	19,415,635	52,392,924
YEAR ENDED DECEMBER 31, 2003:					
Net income				6,039,243	6,039,243
Minimum pension liability, net of tax effect of $154,864			361,349		361,349

Comprehensive income					6,400,592
Treasury stock purchased and retired	(483,533)	(3,106,156)			(3,106,156)
Stock issued and options exercised including related tax benefits	354,868	2,697,317			2,697,317
	---------	------------	-----------	------------	------------
BALANCE - December 31, 2003	4,360,400	34,880,199	(1,950,400)	25,454,878	58,384,677
YEAR ENDED DECEMBER 31, 2004:					
Net income				8,594,392	8,594,392
Minimum pension liability, net of tax effect of $356,501			872,814		872,814

Comprehensive income					9,467,206
Stock issued and options exercised including related tax benefits	334,270	3,518,915			3,518,915
	---------	------------	-----------	------------	------------
BALANCE - December 31, 2004	4,694,670	$ 38,399,114	$(1,077,586)	$ 34,049,270	$71,370,798
	=========	============	===========	============	============

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See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
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	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 8,594,392	$ 6,039,243	$ 2,843,300
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,407,790	3,556,544	4,032,442
Deferred income taxes	1,316,065	(113,761)	749,171
Tax benefit related to stock options	1,205,300	150,000	
Deferred compensation and pension - net	49,530	775,166	(1,637,689)
(Gain) loss on sale of fixed assets	2,220	5,943	(15,904)
Stock issued as directors' compensation	66,885	60,000	
Change in assets and liabilities:			
Receivables	(7,934,739)	(3,906,086)	860,266
Inventories	5,109,063	(12,846,128)	4,531,675
Income taxes receivable	(2,264,531)		
Other current assets	456,620	221,859	(213,905)
Other assets	(1,333,747)	95,672	321,088
Accounts payable	1,557,084	1,216,130	85,479
Accrued expenses	(2,628,448)	3,183,675	(1,471,619)
Net cash provided by (used in) operating activities	7,603,484	(1,561,743)	10,084,304
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets	(5,466,041)	(2,154,829)	(2,338,388)
Acquisition of business		(4,880,468)	
Proceeds from sale of fixed assets		53,829	59,609
Net cash used in investing activities	(5,466,041)	(6,981,468)	(2,278,779)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	127,659,452	123,166,498	87,589,294
Payments on long-term debt	(129,141,816)	(116,122,120)	(94,059,911)
Purchase of treasury stock		(3,106,156)	(84,540)
Proceeds from exercise of stock options	2,246,730	2,487,317	71,419
Net cash provided by (used in) financing activities	764,366	6,425,539	(6,483,738)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,901,809	(2,117,672)	1,321,787
CASH AND CASH EQUIVALENTS - Beginning of year	2,159,050	4,276,722	2,954,935
CASH AND CASH EQUIVALENTS - End of year	$ 5,060,859	$ 2,159,050	$ 4,276,722

</TABLE>

See notes to consolidated financial statements.

ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BUSINESS ACTIVITY - The Company designs, manufactures, and markets high quality men's and women's footwear, gloves and related outdoor apparel

primarily under the registered trademarks, ROCKY(R) and GATES(R). The Company maintains a nationwide network of Company sales representatives who sell the Company's products primarily through independent shoe, sporting goods, specialty, uniform stores and catalogs, and through mass merchandisers throughout the United States. The Company had one customer, which represented sales of military footwear under a subcontracting agreement, which accounted for 14% of consolidated net sales in 2004 and did not have any customers that accounted for more than 10% of consolidated net sales in 2003 and 2002.

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

CASH AND 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 uncollectible accounts of approximately $715,000 and $620,000 at December 31, 2004 and 2003, respectively.

CONCENTRATION OF CREDIT RISK - The Company has significant transactions with a large number of customers. Accounts receivable from one customer, which represented sales of military footwear under a subcontracting agreement, represented 11.5% of the Company's total accounts receivable - trade balance as of December 31, 2004. No customer represented 10% of the Company's total accounts receivable - trade balance as of December 31, 2003. The Company's exposure to credit risk is impacted by the economic climate affecting its industry. The Company manages this risk by performing ongoing credit evaluations of its customers and maintains reserves for potential uncollectible accounts.

SUPPLIER AND LABOR CONCENTRATIONS - The Company purchases raw materials from a number of domestic and foreign sources. The Company currently buys the majority of its waterproof fabric, a component used in a significant portion of the Company's shoes and boots, from one supplier

(GORE-TEX(R)). The Company has had a relationship with this supplier for over 20 years and has no reason to believe that such relationship will not continue.

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

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

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

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

<TABLE>
<CAPTION>

<S>	Years <C>
Building and improvements	5-40
Machinery and equipment	3-8
Furniture and fixtures	3-8
Lasts, dies, and patterns	3

</TABLE>

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

LICENSING RIGHTS - On January 4, 2002, the Company re-acquired the licensing rights to ROCKY(R) Kids for approximately $500,000. Additional payments of approximately $30,000, which were conditional on sales in excess of a predetermined amount, were paid during 2003 completing the transaction. The rights to ROCKY(R) Kids were purchased from Philip's Kids, LLC ("Philip's"), an entity owned by a former member of the Company's Board of Directors. These licensing rights are considered indefinite lived intangible assets and are not subject to amortization and are recorded in goodwill.

GOODWILL AND OTHER INTANGIBLES - Goodwill and trademarks are considered indefinite lived assets and are not amortizable. At December 31, 2004, the goodwill is deductible for tax purposes. Patents are amortized over the life the patents and amortization expense related to these assets was approximately $26,200, $25,100, and $19,800 in 2004, 2003 and 2002 respectively. Such amortization expense will be approximately $26,000 per year from 2005 to 2009.

ADVERTISING - The Company expenses advertising costs as incurred. Advertising expense was $2,265,086, $1,776,909, and $1,921,367 for 2004, 2003 and 2002, respectively.

REVENUE RECOGNITION - Revenue and related cost of goods sold are recognized at the time footwear, outdoor apparel and accessories are shipped to the customer and title transfers. Revenue is recorded

net of estimated sales discounts and returns based upon specific customer agreements and historical trends. All sales are final upon shipment.

SHIPPING AND HANDLING COSTS - In accordance with the Emerging Issues Tax Force ("EITF") No. 00-10 "Accounting For Shipping and Handling Fees And Costs," all shipping and handling costs billed to customers have been included in net sales. Shipping and handling costs are included in selling, general and administrative costs and totaled $1,789,194, $1,469,565, and $1,491,259 in 2004, 2003 and 2002, respectively. The Company's gross profit may not be comparable to other entities whose shipping and handling is a component of cost of sales.

PER SHARE INFORMATION - Basic net income per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed similarly but includes the dilutive effect of stock options. A reconciliation of the shares used in the basic and diluted income per share computations is as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
Basic - weighted average shares outstanding	4,557,283	4,189,794	4,499,741
Dilutive securities - stock options	396,246	370,969	90,354
Diluted - weighted average shares outstanding	4,953,529	4,560,763	4,590,095
Anti-Diluted - weighted average shares outstanding	84,000	0	207,587

</TABLE>

ASSET IMPAIRMENTS - Annually, or more frequently if events or circumstances change, a determination is made by management, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, to ascertain whether property and equipment and other long-lived assets have been impaired based on the sum of expected future undiscounted cash flows from operating activities. If the estimated net cash flows are less than the carrying amount of such assets, the Company will recognize an impairment loss in an amount necessary to write down the assets to a fair value as determined from expected future discounted cash flows.

In accordance with SFAS No. 142, the Company tests intangible assets with indefinite lives and goodwill for impairment annually or when conditions indicate an impairment may have occurred.

RECENTLY ADOPTED FINANCIAL ACCOUNTING STANDARDS - In December 2003, the FASB issued a revision to Interpretation 46 (FIN 46R) to clarify certain provisions of FASB Interpretation No. 46. Variable interests in a variable interest entity are contractual, ownership, or other pecuniary interests

in an entity that change with changes in the entity's net asset value. Variable interests are investments or other interests that will absorb a portion of an entity's expected losses if they occur or receive portions of the entity's expected residual returns if they occur. FIN 46R defers the effective date of FIN 46 for certain entities and makes several other changes to FIN 46. The Company's adoption of FIN 46 or FIN 46R did not have a material impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4," which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) and also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued revised SFAS No. 123, "Share-Based Payment" which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." This statement, which requires the cost of all share-based payment transactions be recognized in the financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. The statement applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29." The statement addresses the measurement of exchanges of nonmonetary assets and eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company is currently evaluating the impact of adopting this statement.

In December 2004, the FASB issued FSP No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which provides a practical exception to the SFAS No. 109 requirement to reflect the effect of a new tax law in the period of enactment by allowing additional time beyond the financial reporting period to evaluate the effects on plans for reinvestment or repatriation of unremitted foreign earnings. At December 31, 2004 the Company determined it would repatriate a portion of its foreign earnings and accrued the related taxes. (See Note 8).

PRODUCT GROUP INFORMATION - The Company is managed in one operating segment. Gates Gloves is a product group established in 2003 for reporting sales of GATES(R) branded gloves and accessories. The following is supplemental information on net sales by product group:

<TABLE>
<CAPTION>

<S>	2004 <C>	% OF SALES <C>	2003 <C>	% OF SALES <C>	2002 <C>	% OF SALES <C>
Rugged Outdoor	$ 46,627,583	35.3%	$ 48,100,097	45.3%	$ 41,554,244	46.7%
Occupational	40,838,295	30.9%	34,560,154	32.6%	29,620,876	33.3%
Military	18,542,564	14.0%	408,204	0.4%	6,437,248	7.2%
Casual	2,392,526	1.8%	2,498,089	2.4%	2,306,748	2.6%
Apparel	8,854,804	6.7%	4,502,865	4.2%	2,740,441	3.1%
Gates Gloves	9,622,923	7.3%	10,240,548	9.6%		
Factory Outlet Stores	4,017,359	3.0%	4,582,687	4.3%	4,050,823	4.6%
Other	1,352,909	1.0%	1,272,109	1.2%	2,248,341	2.5%
Total	$ 132,248,963	100.00%	$ 106,164,753	100.0%	$ 88,958,721	100.0%

</TABLE>

Net sales to foreign countries, primarily Canada, represented approximately 2.1% of net sales in 2004, 1.4% of net sales in 2003 and 1.0% of net sales in 2002.

STOCK-BASED COMPENSATION - 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 because the exercise price under the plan is equal to the market

value of this underlying common stock on the date of grant. Had compensation costs for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net income and net income per share would have resulted in the amounts as reported below.

	YEARS ENDED DECEMBER 31, 2004	2003	2002
Net income, as reported	$ 8,594,392	$ 6,039,243	$ 2,843,300
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,003,446	454,299	405,854
Pro forma net income	$ 7,590,946	$ 5,584,944	$ 2,437,446
Earnings per share:			
Basic--as reported	$ 1.89	$ 1.44	$ 0.63
Basic--pro forma	$ 1.67	$ 1.33	$ 0.54
Diluted--as reported	$ 1.74	$ 1.32	$ 0.62
Diluted--pro forma	$ 1.53	$ 1.24	$ 0.54

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

COMPREHENSIVE INCOME - Comprehensive income includes changes in equity that result from transactions and economic events from non-owner sources. Comprehensive income is composed of two subsets - net income and other comprehensive income (loss). Included in other comprehensive income (loss) for the Company is a minimum pension liability adjustment, which is recorded net of a related tax effect. This adjustment is accumulated within the Consolidated Statements of Shareholders' Equity under the caption Accumulated Other Comprehensive Loss.

2. ACQUISITIONS

On April 15, 2003, the Company completed the purchase of certain assets from Gates-Mills, Inc. ("Gates"). Under the terms of the purchase agreement, Rocky acquired all of the intellectual property of Gates, including ownership of the Gates(R) trademark, selected raw material and finished goods inventory, and certain records in connection with the Gates business in exchange for $3,510,070 plus a deferred purchase price if sales by the Company related to the Gates product line from the date of purchase through December 31, 2003 reach certain performance targets. The Company recorded an additional purchase price of $1,324,400 because net sales of the product line have exceeded the performance targets established for 2003. No additional payments are required. The acquisition was accounted for under the purchase method and results of operations of the Gates business have been included in the Company's results of operations since the date of acquisition. The following unaudited pro-forma information presents results as if the acquisition had occurred on January 1, 2002: net sales ($108,847,526); net loss ($395,462); and net loss per diluted share ($0.09). Unaudited pro-forma results of operations for the year ended December 31, 2003 are not presented due to the unavailability of information from Gates-Mills, Inc. Final allocation of the purchase price is follows:

Inventory	$ 2,040,070
Goodwill	1,032,400
Trademarks	1,762,000
Total acquisition cost	$ 4,834,470
Transaction costs	91,580
Total	$ 4,926,050

On January 6, 2005, the Company completed the purchase of 100% of the issued and outstanding voting limited liability interests of EJ Footwear LLC, Georgia Boot LLC, and HM Lehigh Safety Shoe Co. LLC (the "EJ Footwear

Group") from SILLC Holdings LLC. The EJ Footwear Group was acquired to expand the Company's branded product lines, principally occupational products. The aggregate purchase price for the interests of EJ Footwear Group was $91.2 million in cash plus 484,261 shares of the Company's common stock valued at $11,573,000 (valued at $10,000,000 in the definitive agreement). Common stock value is based on the share price at the date of the agreement. To fund the transaction the Company refinanced its existing credit agreement and entered into an additional note agreement. (See Note 6).

The results of operations of EJ Footwear Group will be included in the results of operations of the Company effective January 1, 2005, as management determined that results of operations were not significant and no material transactions occurred during the period from January 1, 2005 to January 6, 2005.

The purchase price, which includes $1.6 million in transaction cost, will be allocated to the Company's tangible and intangible assets and liabilities based upon estimated fair values as of the date of the acquisition. The Company is in the process of obtaining appraisals of all tangible and intangible assets and liabilities to establish the fair values and determining a final working capital adjustment. As the purchase price allocation has not been completed, the amounts and lives assigned to finite and indefinite life intangibles, and the related amortizations periods have been estimated. Goodwill resulting from the transaction will not be tax deductible. The purchase price is preliminarily allocated, based on management's estimates, as follows:

<TABLE>

<S>	<C>
Current assets	$ 64,736,890
Fixed assets and other assets	3,109,170
Identifiable intangibles	47,000,000
Goodwill	16,378,518
Liabilities	(8,900,005)
Deferred Taxes - long term	(17,935,223)
Purchase price	$ 104,389,350

</TABLE>

The following unaudited pro-forma information presents results as if the acquisition had occurred on January 1, 2004:

<TABLE>

<S>	<C>
Net sales	$ 279,051,000
Net income	12,782,000
Earning per share:	
Basic	$ 2.54
Diluted	$ 2.35

</TABLE>

3. INVENTORIES

Inventories are comprised of the following:

<TABLE>
<CAPTION>

	DECEMBER 31, 2004	2003
<S>	<C>	<C>
Raw Materials	$ 4,711,014	$ 5,087,468
Work-in-progress	564,717	878,091
Finished goods	26,565,240	31,168,371
Factory outlet finished goods	1,268,153	1,299,257
Less reserve for obsolescence or lower of cost or market	(150,000)	(365,000)
Total	$ 32,959,124	$ 38,068,187

</TABLE>

4. OTHER ASSETS

Intangible assets are recorded in other assets and consist of the following:

<TABLE>
<CAPTION>

	DECEMBER 31, 2004	DECEMBER 31, 2003
Trademarks	2,225,887	2,149,694
Patents - net of amortization	335,540	310,071
Deferred Acquisition Costs	933,502	
Other	725,114	452,745
Total	$4,220,043	$2,912,510

5. FIXED ASSETS

Fixed assets are comprised of the following:

	DECEMBER 31, 2004	DECEMBER 31, 2003
Land	$ 572,838	$ 572,838
Building and improvements	15,484,035	13,112,334
Machinery and equipment	22,730,530	21,949,160
Furniture and fixtures	3,472,210	2,110,909
Lasts, dies and patterns	9,911,316	8,958,470
Construction work-in-progress	561,967	86,997
Total	52,732,896	46,790,708
Less - accumulated depreciation	(32,553,410)	(29,180,470)
Net fixed assets	$ 20,179,486	$ 17,610,238

6. LONG-TERM DEBT

Long-term debt is comprised of the following:

	DECEMBER 31, 2004	DECEMBER 31, 2003
Bank - revolving credit facility	$ 11,552,109	$ 12,530,539
Equipment and other obligations	123,300	287,700
Real estate obligations	4,861,155	5,200,689
Total debt	16,536,564	18,018,928
Less current maturities	6,492,020	503,934
Net long-term debt	$ 10,044,544	$ 17,514,994

On September 18, 2000, the Company entered into a three-year loan and security agreement with GMAC Business Credit, LLC (GMAC) refinancing its former bank revolving line of credit based on the collateral value of its accounts receivable and inventory. On October 21, 2002, the Company extended the agreement two years. This loan and security agreement permits a borrowing base to a maximum of $45,000,000. Interest on the revolving credit facility is payable monthly at GMAC's prime rate, and the entire principal is due September 17, 2005. Under terms of the agreement, the Company has the option to borrow up to seventy five percent (75%) of its outstanding obligation at LIBOR plus two and three-eights percent (2.375%) or prime. The interest rate for the outstanding balance at December 31, 2004 was 5.25% (4.00% at December 31, 2003).

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

The loan and security agreement contains certain restrictive covenants, which among other things, requires the Company to maintain a certain level

of net worth, and fixed charge coverage. As of December 31, 2004, the Company is in compliance with the loan covenants. Presently, the line of credit restricts the payment of dividends on common stock.

Equipment and other obligations at December 31, 2004 bear interest at a variable rate of prime and are payable in monthly installments to 2005. The equipment is held as collateral against the outstanding obligations.

In January 2000, the Company completed a mortgage financing facility with GE Capital Corp. for three of its facilities totaling $6,300,000. The facility bears interest at 8.275%, with total monthly principal and interest payments of $63,100 to 2014. The proceeds of the financing were used to pay down borrowings under a former revolving credit facility.

At December 31, 2004 and 2003, the Company has no interest rate management agreements.

The estimated fair value of the Company's long-term obligations approximated their carrying amount at December 31, 2004 and 2003, based on current market prices for the same or similar issues or on debt available to the Company with similar rates and maturities.

On January 6, 2005, to fund the acquisition of EJ Footwear Group, the Company entered into a loan and security agreement with GMAC Commercial Finance LLC, refinancing its former $45,000,000 revolving line of credit, for certain extensions of credit (the "Credit Facility"). The Credit Facility is comprised of (i) a five-year revolving credit facility up to a principal amount of $100,000,000 with an interest rate of LIBOR plus two and a half percent (2.5%) or prime plus one percent (1.0%) and (ii) a three-year term loan in the principal amount of $18,000,000 with an interest rate of LIBOR plus three and a quarter percent (3.25%) or prime plus one and three quarters percent (1.75%). The Credit Facility is secured by a first priority perfected security interest in all presently owned and hereafter acquired domestic personal property of the Borrowers, subject to specified exceptions. The credit facility restricts the payment of dividends. At December 31, 2004, the Company has no retained earnings available for distribution.

Also on January 6, 2005, the Company entered into a note agreement (the "Note Purchase Agreement") with American Capital Financial Services, Inc., as agent, and American Capital Strategies, Ltd., as lender (collectively, "ACAS"), regarding $30,000,000 in six-year Senior Secured Term B Notes with an interest rate of LIBOR plus eight percent (8.0%). The Note Purchase Agreement provides, among other terms, that (i) the ACAS Second Lien Term Loan will be senior indebtedness of the Company, secured by essentially the same collateral as the Credit Facility, (ii) such note facility will be "last out" in the event of liquidation of the Company and its subsidiaries, and (iii) principal payments on such note facility will begin in the fourth year of such note facility.

Long-term debt maturities, adjusted for the January 2005 refinancing, are as follows for the years ended December 31:

<TABLE>

<S>	<C>
2005	$ 6,492,020
2006	6,400,416
2007	6,434,837
2008	10,472,216
2009	10,512,809

</TABLE>

7. OPERATING LEASES

The Company leases certain machinery and manufacturing facilities under operating leases that generally provide for renewal options. The Company incurred approximately $918,000, $793,000 and $799,000 in rent expense under operating lease arrangements for 2004, 2003 and 2002, respectively.

Included in total rent expense above are monthly payments of $5,000 for 2004, 2003 and 2002 for the Company's former Ohio manufacturing and clearance center facility leased from an entity in which the owners are also shareholders of the Company. The Company purchased the facility in January 2005 and relocated its factory outlet store in Nelsonville, Ohio to this location.

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

<TABLE>
<S> <C>

2005	$ 742,000
2006	616,000
2007	294,000
2008	294,000
2009	258,000
Total	$ 2,204,000

</TABLE>

8. 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. Rocky Canada began operations in July 2003 and is subject to Canadian income taxes.

At December 31, 2004, a provision of $157,000 has been made for U.S. taxes on the repatriation of $3,000,000 of accumulated undistributed earnings of Five Star through December 31, 2004. At December 31, 2004, after the planned repatriation above, approximately $6,839,000 is remaining that would become taxable upon repatriation to the United States. During 2005, the Company will complete its evaluation of foreign earnings and may repatriate up to an additional $5,000,000 of accumulated undistributed earnings, which could result in up to $260,000 of additional tax. In addition the Company has provided Puerto Rico tollgate taxes on approximately $3,684,000 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. 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 $2,394,000 and $379,000, respectively. In 2001, the Company received abatement for Puerto Rico tollgate taxes on all earnings subsequent to June 30, 1994. This resulted in the Company reducing its deferred tax liability by $408,000. The Company recognized a tax benefit for the exercise of its stock options in the amount of $1,205,300 for the year ended December 31, 2004.

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 2004	2003	2002
Federal:			
Current	$ 1,836,232	$ 2,308,011	$ 200,134
Deferred	1,173,870	(93,011)	683,867
Total Federal	3,010,102	2,215,000	884,001
State and local:			
Current	146,858	229,000	3,695
Deferred	142,195	(20,750)	65,304
Total state and local	289,053	208,250	68,999
Foreign-current	176,845	11,000	
Total	$ 3,476,000	$ 2,434,250	$ 953,000

</TABLE>

A reconciliation of recorded Federal income tax expense (benefit) to the expected expense (benefit) computed by applying the Federal statutory rate of 35% for 2004 and 34% for all periods to income before income taxes follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
Expected expense at statutory rate	$ 4,224,637	$ 2,880,988	$ 1,290,742
Increase (decrease) in income taxes resulting from:			
Exempt (income) from operations in Puerto Rico, net of tollgate taxes	(560,000)		
Exempt (income) from Dominican Republic operations	(580,009)	(545,792)	(430,416)
Tax on repatriated earnings from Dominican Republic operations	157,000		
State and local income taxes	187,884	132,796	45,539
Other--net	46,488	(33,742)	47,135
Total	$ 3,476,000	$ 2,434,250	$ 953,000

</TABLE>

Deferred income taxes recorded in the consolidated balance sheets at December 31, 2004 and 2003 consist of the following:

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2004	2003
<S>	<C>	<C>
Deferred tax assets:		
Asset valuation allowances and accrued expenses	$ 580,503	$ 809,023
Pension and deferred compensation		759,341
Plant closing costs		74,290
Inventories	275,397	373,721
State and local income taxes	50,256	
Total deferred tax assets	906,156	2,016,375
Deferred tax liabilities:		
Fixed assets	(806,642)	(858,175)
State and local income taxes		(51,372)
Prepaid assets	(210,525)	(41,490)
Pension and deferred compensation	(485,381)	
Tollgate tax on Lifestyle earnings	(379,271)	(368,435)
Total deferred tax liabilities	(1,881,819)	(1,319,472)
Net deferred tax asset	$ (975,663)	$ 696,903

</TABLE>

9. RETIREMENT PLANS

The Company sponsors a noncontributory defined benefit pension plan covering non-union workers of the Company's Ohio and Puerto Rico operations. 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.

The Company sponsored a non-contributory defined benefit plan for certain union employees. The plan was frozen in September 2001 and terminated March 2004. The settlement of the plan resulted in a gain of $63,228 in 2004.

The funded status of the Company's plans and reconciliation of accrued pension cost at December 31, 2004 and 2003 is presented below (information with respect to benefit obligations and plan assets is as of September 30):

<TABLE>
<CAPTION>

	DECEMBER 31,	
	2004	2003
<S>	<C>	<C>
Change in benefit obligation:		
Projected benefit obligation at beginning of the year	$ 11,121,263	$ 9,225,682
Service cost	512,317	387,693
Interest cost	646,052	603,481

Actuarial loss	152,722	1,230,283
Exchange loss	352,612	297,293
Benefits paid	(403,330)	(623,169)
Settlement	(2,752,605)	
Projected benefit obligation at end of year	$ 9,629,031	$ 11,121,263
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 8,791,904	$ 7,150,990
Actual gain on plan assets	1,953,062	2,264,083
Employer contribution	1,120,000	
Benefits paid	(403,330)	(623,169)
Settlement	(2,752,605)	
Fair value of plan assets at end of year	$ 8,709,031	$ 8,791,904
Funded Status:		
Unfunded deficit	$ (920,000)	$ (2,329,359)
Remaining unrecognized benefit obligation existing at transition	57,073	73,380
Unrecognized prior service costs due to plan amendments	1,290,751	1,426,144
Unrecognized net loss	2,296,041	3,372,387
Adjustment required to recognize minimum liability	(2,813,060)	(4,194,074)
Curtailment charge included in plant closing costs		190,570
Accrued pension liability	$ (89,195)	$ (1,460,952)
Amounts recognized in the consolidated financial statements:		
Deferred pension asset	$ (1,347,824)	$ (1,499,524)
Deferred pension liability and curtailment liability	2,723,865	2,733,122
Accumulated other comprehensive loss	(1,465,236)	(2,694,550)
Net amount recognized	$ (89,195)	$ (1,460,952)
Accumulated benefit obligation	$ 8,798,226	$ 10,443,426

</TABLE>

SFAS No. 87, "Employers' Accounting for Pensions," generally requires the Company to recognize a minimum liability in instances in which a plan's accumulated benefit obligation exceeds the fair value of plan assets. In accordance with the statement, the Company has recorded in the

accompanying consolidated financial statements a non-current deferred pension asset of $1,347,824 and $1,499,524 as of December 31, 2004 and 2003, respectively. In addition, under SFAS No. 87, if the minimum liability exceeds the unrecognized prior service cost and the remaining unrecognized benefit obligation at transition, the excess is reported in other comprehensive income of $872,814 net of a deferred tax of $356,501 for 2004 and $361,349 net of a deferred tax of $154,864 for 2003.

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
Service cost	$ 512,317	$ 387,692	$ 269,715
Interest	646,052	603,481	580,032
Expected return on assets	(684,297)	(552,988)	(456,422)
A mortization of unrecognized net loss	141,642	178,641	51,850
A mortization of unrecognized transition obligation	16,306	16,306	16,306
A mortization of unrecognized prior service cost	135,393	135,393	135,393
Net pension cost	$ 767,413	$ 768,525	$ 596,874

</TABLE>

The Company's unrecognized benefit obligations existing at the date of transition for the non-union plan is being amortized over 21 years. Actuarial assumptions used in the accounting for the plans were as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 2004	DECEMBER 31, 2003
<S>	<C>	<C>
Discount rate	5.75%	5.75%
Average rate of increase in compensation levels (non-union only)	3.0%	3.0%
Expected long-term rate of return on plan assets	8.0%	8.0%

</TABLE>

The Company's pension plans weighted-average asset allocations at December 31, 2004 and 2003 by asset category are:

<TABLE>
<CAPTION>

	DECEMBER 31, 2004	DECEMBER 31, 2003
<S>	<C>	<C>
Rocky, Inc. common stock	19.3%	17.2%
Other equity securities	61.2%	65.5%
Debt securities	6.2%	14.7%
Other	13.3%	2.6%
	-----	-----
Total	100.0%	100.0%
	=====	=====

</TABLE>

The Company's investment objectives are (1) to maintain the purchasing power of the current assets and all future contributions; (2) to maximize return within reasonable and prudent levels of risk; (3) to maintain an appropriate asset allocation policy (80% equity securities and 20% debt securities) that is compatible with the actuarial assumptions, while still having the potential to produce positive returns; and (4) to control costs of administering the plan and managing the investments.

The expected benefit payments for pensions are as follows for the years ended December 31:

<TABLE>

<S>	<C>
2005	$ 297,000
2006	294,000
2007	331,000
2008	346,000
2009	356,000
Thereafter	2,504,000

Total	$ 4,128,000
	==============

</TABLE>

The Company anticipates making a contribution of approximately $800,000 to the pension plan in 2005.

The Company's desired investment result is a long-term rate of return on assets that is at least 8%. The target rate of return for the plans have been based upon the assumption that returns will approximate the long-term rates of return experienced for each asset class in the Company's investment policy. The Company's investment guidelines are based upon an investment horizon of greater than five years, so that interim fluctuations should be viewed with appropriate prospective. Similarly, the Plan's strategic asset allocation is based on this long-term perspective.

The Company also sponsors a 401(k) savings plan for substantially all of its employees. The Company provides contributions to the plan only on a discretionary basis. No Company contribution was made for 2004, 2003 and 2002.

10. COMMITMENTS AND CONTINGENCIES

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.

11. CAPITAL STOCK

The Company has authorized 250,000 shares of voting preferred stock

without par value. No shares are issued or outstanding. Also, the Company has authorized 250,000 shares of non-voting preferred stock without par value. Of these, 125,000 shares have been designated Series A non-voting convertible preferred stock with a stated value of $.06 per share, of which no shares are issued and none are outstanding at December 31, 2004 and 2003, respectively.

In November 1997, the Company's Board of Directors adopted a Rights Agreement, which provides for one preferred share purchase right to be associated with each share of the Company's outstanding common stock. Shareholders exercising these rights would become entitled to purchase shares of Series B Junior Participating Cumulative Preferred Stock. The rights may be exercised after the time when a person or group of persons without the approval of the Board of Directors acquire beneficial ownership of 20 percent or more of the Company's common stock or announce the initiation of a tender or exchange offer which if successful would cause such person or group to beneficially own 20 percent or more of the common stock. Such exercise may ultimately entitle the holders of the rights to purchase for $80 per right, common stock of the Company having a market value of $160. The person or groups effecting such 20 percent acquisition or undertaking such tender offer will not be entitled to exercise any rights. These rights expire November 2007 unless earlier redeemed by the Company under circumstances permitted by the Rights Agreement.

In September 2002, the Company's Board of Directors authorized the repurchase of up to 500,000 common shares outstanding in open market or privately negotiated transactions through December 31, 2004. Purchases of stock under this program were funded with borrowings from the Company's credit facility. There were 16,400 shares repurchased and retired in 2002 for $84,540. The Company completed the repurchase program during the first quarter 2003 and retired the remaining shares. There were 483,533 shares repurchased and retired in 2003 for $3,106,153.

On October 11, 1995, the Company adopted the 1995 Stock Option Plan which provides for the issuance of options to purchase up to an additional 400,000 common shares of the Company. In May 1998, the Company adopted the Amended and Restated 1995 Stock Option Plan which provides for the issuance of options to purchase up to an additional 500,000 common shares of the Company. In addition in May 2002, the Board of Directors approved the issuance of a total of 400,000 additional common shares of the Company under the 1995 Stock Option Plan. All employees, officers, directors, consultants and advisors providing services to the Company are eligible to receive options under the Plans. On May 11, 2004 shareholders of the Company approved the 2004 Stock Incentive Plan. This Stock Incentive Plan includes 750,000 of the Company's common shares that may be granted for stock options and restricted stock awards. As of December 31, 2004, the Company is authorized to issue 663,935 options under the 2004 Stock Incentive Plan.

The plans generally provide for grants with the exercise price equal to fair value on the date of grant, graduated vesting periods of up to 5 years, and lives not exceeding 10 years. The following summarizes all stock option transactions from January 1, 2002 through December 31, 2004:

<TABLE>
<CAPTION>

<S>	SHARES <C>	WEIGHTED AVERAGE EXERCISE PRICE <C>
Outstanding at January 1, 2002	912,000	$ 7.27
Issued	194,000	5.79
Exercised	(13,250)	5.39
Forfeited	(69,750)	8.63
Outstanding at December 31, 2002	1,023,000	6.92
Issued	224,000	6.59
Exercised	(334,500)	7.46
Forfeited	(61,000)	6.80
Outstanding at December 31, 2003	851,500	6.63
Issued	175,000	20.78
Exercised	(330,700)	6.79
Forfeited	(16,250)	7.57
Outstanding at December 31, 2004	679,550	$ 10.03

	=========	==========
Options exercisable at December 31:		
2002	721,625	$ 7.67
2003	515,250	$ 6.97
2004	402,926	$ 7.07
Fair value of options granted during the year:		
2002		$ 2.40
2003		$ 2.79
2004		$ 8.97

</TABLE>

The following table summarizes information about options outstanding at December 31, 2004:

<TABLE>
<CAPTION>

OPTIONS OUTSTANDING				OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER	AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED-AVERAGE EXERCISE PRICE
<S>	<C>	<C>	<C>	<C>	<C>
$3.875 - $5.00	111,300	3.9	$ 4.12	105,363	$ 4.09
$5.01 - $5.75	110,500	5.6	$ 5.24	62,750	$ 5.24
$5.76 - $6.50	178,000	4.2	$ 5.87	138,500	$ 5.83
$6.51 - $8.875	40,750	3.5	$ 7.40	34,188	$ 7.51
$8.89 - $15.25	72,000	3.8	$ 13.33	46,125	$ 14.41
$15.26 - $27.25	167,000	6.8	$ 20.78	16,000	$ 22.39
	-------			-------	
	679,550		$ 10.03	402,926	$ 7.07
	=======			=======	

</TABLE>

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 2004, 2003 and 2002, respectively; dividend yield of 0%; expected volatility of 51%, 44% and 44 %; risk-free interest rates of 3.28%, 2.80% and 2.83% and expected life of 4 years, 6 years and 6 years.

12. COMPREHENSIVE INCOME

Comprehensive income represents net income plus the results of certain non-shareholders' equity changes not reflected in the Consolidated Statements of Income. The components of comprehensive income, net of tax, are as follows:

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	2004	2003	2002
<S>	<C>	<C>	<C>
Net income	$ 8,594,392	$ 6,039,243	$ 2,843,300
Minimum pension liability, net of tax effect	872,814	361,349	(1,480,588)
	------------	------------	--------------
Comprehensive income	$ 9,467,206	$ 6,400,592	$ 1,362,712
	============	============	==============

</TABLE>

The 2004, 2003 and 2002 minimum pension liability is net of a deferred tax (expense) benefit of $(356,501), ($154,864) and $575,784, respectively.

13. CLOSURE OF MANUFACTURING OPERATIONS

In September 2001, the Board of Directors approved a restructuring plan to consolidate and realign the Company's footwear manufacturing operations. Under this plan, the Company moved the footwear manufacturing operations at its Nelsonville, Ohio factory to the Company's factory in Puerto Rico. The restructuring plan was completed in the fourth quarter of 2001.

The execution of this plan, which started in September 2001, resulted in the elimination of 67 employees at the Company's Nelsonville, Ohio facility, and a transfer of a significant amount of machinery and equipment located at the Nelsonville facility to the Moca, Puerto Rico facility.

A reconciliation of the plant closing costs and accrual is as follows:

<TABLE>
<CAPTION>

	Accrued Balance Dec. 31, 2001	2002 Payments	2002 Expense Adjustments to Original Estimate	Accrued Balance Dec. 31, 2002	2003 Payments	Accrued Balance Dec. 31, 2003	2004 Payments	2004 Expense Adjustments to Original Estimate
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Severance:								
Non-union	$ 71,668	$ 25,574	$ 26,094	$ 20,000	$ 14,500	$ 5,500	$	$ 5,500
Union								
Curtailment of pension plan benefits	690,000	500,000		190,000		190,000	132,272	57,728
Employee benefits	33,000	31,047	1,953					
Factory lease	85,000	40,000	45,000					
Equipment and relocation costs	5,000		5,000					
Legal and other costs	18,623	53,667	(35,044)					
Total	$ 903,291	$650,288	$ 43,003	$ 210,000	$ 14,500	$ 195,500	$132,272	$ 63,228

</TABLE>

The Company expects no additional restructuring and realignment costs associated with this plan and therefore recognized $63,228 of income in 2004.

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 2004	2003	2002
<S>	<C>	<C>	<C>
Interest	$ 1,317,991	$ 1,402,743	$ 1,435,505
Federal, state and local income taxes - net of refunds	$ 5,126,694	$ 206,232	$ 68,066

</TABLE>

Accounts payable at December 31, 2004, 2003 and 2002 include a total of $522,997, $45,582 and $2,693, respectively, relating to the additional goodwill accrued in the acquisition of certain assets

of Gates-Mills, Inc. in 2003 and the purchase of fixed assets. In 2004, the Company agreed to purchase a building for $505,000 from a partnership 25% owned by the Company's Chairman and CEO.

15. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2004 and 2003:

<TABLE>
<CAPTION>

2004	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total Year
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$21,882,089	$27,433,987	$50,052,894	$32,879,993	$132,248,963
Gross margin	5,618,604	7,776,209	15,996,490	9,251,060	38,642,363
Net income	72,451	1,447,822	4,887,359	2,186,760	8,594,392
Net income per common share:					
Basic	$ 0.02	$ 0.32	$ 1.06	$ 0.47	$ 1.89
Diluted	$ 0.01	$ 0.29	$ 0.98	$ 0.43	$ 1.74

2003

Net sales	$13,754,941	$21,863,148	$41,349,824	$29,196,840	$106,164,753
Gross margin	3,465,528	6,734,984	13,085,792	9,495,321	32,781,625
Net income (loss)	(622,569)	1,095,819	3,467,595	2,098,398	6,039,243
Net income (loss) per common share:					
Basic	$ (0.14)	$ 0.27	$ 0.84	$ 0.50	$ 1.44
Diluted	$ (0.14)	$ 0.25	$ 0.77	$ 0.44	$ 1.32

</TABLE>

No cash dividends were paid during 2004 and 2003.

EXHIBIT 10.14

GOVERNMENT OF PUERTO RICO
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
P.O. BOX 362350 SAN JUAN,
PUERTO RICO 00936-2350

LEASE AGREEMENT (BASIC PLANT)

BETWEEN

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY

AS LANDLORD

AND

LIFESTYLE FOOTWEAR, INC.

AS TENANT

PROJECT NO.: T-1236-0-87
LOCATION: MOCA, PUERTO RICO

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(b) Tenant's Trade Name

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ARTICLE I

BASIC TERMS OF LEASE

The following sections set forth basic information referred to in this Lease Agreement and, where appropriate. constitute definitions of the terms hereinafter listed.

1.01 LANDLORD: Puerto Rico Industrial Development Company (PRIDCO).

1.02 (a) LANDLORD'S POSTAL ADDRESS: P.O. Box 362350
San Juan, P.R. 00936-2350
Attn.: Real Estate Office

(b) LANDLORD'S PHYSICAL ADDRESS: 355 F.D. Roosevelt Avenue
Hato Rey, Puerto Rico 00918
Telephone: (787) 758-4747
Fax: (787)764-3791

1.03 (a) TENANT: LIFESTYLE FOOTWEAR, INC.

(b) TENANT'S TRADE NAME: LIFESTYLE FOOTWEAR, INC.

1.04 (a) TENANT'S POSTAL ADDRESS: P.O. BOX 448, RAMEY, PUERTO RICO 00604, Phone: (787) 882-3900.

(b) TENANT'S HEADQUARTERS ADDRESS: ROCKY SHOES & BOOTS 194, Harder St., Nelsonville, Ohio.

1.05 TENANT'S EMPLOYER IDENTIFICATION NO. 66-0448782

1.06 LEASED PREMISES: Project No. T-1236-0-87; as described in Attachment A to this Lease Agreement, consisting of a parcel of land and a building thereon having a gross construction area of 44.977.75 sq. ft. (the "Building'") located in Moca, Puerto Rico. The Leased Premises include the special facilities, if any, described in Attachment A. For purposes of this Lease Agreement, the Building's gross construction area includes, without limitation, bathrooms, ramps, access stairs, loading docks, exterior shelters, corridors between buildings or structures and other roofed structures on the parcel of land, as described in Attachment A.

1.07 PERMITTED USE: The Leased Premises shall be used exclusively for: the manufacture of leather footwear and boots. SIC Number: 03143

1.08 CAPITALIZATION, INVESTMENT AND EMPLOYMENT LEVELS: The maximum level of Capitalization, Investment and number of Employees that Tenant is required to

have for its operations at the Leased Premises, u defined in Section 4.02(e) of this Lease Agreement. Tenant will be required to maintain the following levels:

<TABLE>

<S>		<C>
(a)	Capital	$3,500.000.00
(b)	Machinery and Equipment	$ 958,000.00
(c)	Employees	97

</TABLE>

As used in this Lease Agreement, the term "capitalization" includes the stream of total value ("equity") of the owner (preferred stock, common stock and surplus) plus long-term debt Amortization of the long-term debt will not reduce the amount originally established as the minimum capitalization amount.

1.09 LEASE TERM: Ten (10) Years beginning on the Date of Delivery of Possession (the "Initial Term'"), plus one (1) additional renewal period of Ten (10) Years each. Renewals shall take effect automatically upon the expiration of the them in force, unless one of the parties hereto, no later than one hundred eighty (180) days before the expiration of such term, notifies the other party of its intention to terminate the lease upon conclusion of the term then in force.

1.10 YEAR: "Year" shall mean 365 consecutive days unless the year in question is a leap year, in such case the term "Year" shall mean 366 consecutive days.

1.11 DATE OF DELIVERY OF POSSESSION: The date Landlord delivers the keys to the Leased Premises to the Tenant, which date shall be acknowledged by the parties by way ora Certificate of Delivery of Keys (as defined in Section 3.02, see Attachment F).

1.12 RENT COMMENCEMENT DATE: The date on which Tenant's obligation to pay Basic Rent commences. Tenant's obligation to pay Basic Rent hereunder shall commence on the Date of Delivery of Possession.

1.13 BASIC RENT: The Basic Rent to be paid to Landlord shall be based on the gross construction area of the Building as ,follows:

<TABLE>
<CAPTION>

YEAR	RENT PER SO. FT.	ANNUAL BASIC RENT	MONTHLY BASIC RENT
<S>	<C>	<C>	<C>
1 to 5	$2.20	$ 98.951.05	$ 8.245.92
6 to 10	$2.75	$123.688.81	$10.307.40

</TABLE>

Renewal The Basic Rent for a renewal period shall be the prevailing lease rate charged by Landlord at the time of the renewal for similar properties in the zone in which the Leased Premises arc located.

Tenant's obligation to pay Basic Rent shall commence on the date set forth in Section 1.12 of this Lease Agreement.

1.14 SECURITY DEPOSIT: A sum equivalent to the aggregate of (i) the payment(s), below identified as "Reservation Payment", made by Tenant prior to the execution of this Lease Agreement to reserve the Leased Premises and (ii) the amount below identified as the "Security Deposit Balance", which amount is the remaining balance to complete the security deposit required under Section 6.01 of this Lease Agreement.

Total Security Deposit $11,874.13

The Security Deposit Balance payment shall be made with a manager's or official bank check and delivered by Tenant together with this Lease Agreement.

1.15 GUARANTOR: N/A

1.16 EFFECT OF REFERENCE TO A DEFINED TERM IN ARTICLE I. Each of the defined terms used in Article I shall be construed in conjunction with the definition thereof contained in this Lease Agreement. In the event of any conflict between the defined term and the balance of the Lease Agreement, the latter shall prevail.

1.17 ATTACHMENTS. The following marked attachments are incorporated in this Lease Agreement by reference as if set forth at length herein and form an integral part hereof:

[X] Attachment A - Description of Leased Premises and premises's deficiencies

[ ] Attachment B - Lease of Additional Parcel

[ ] Attachment C - Certificate of Delivery of Leased Parcel (Form BRN"()23A)

[ ] Attachment D - Work to be Performed by Tenant

[ ] Attachment E - Notice of Delivery of Possession

[X] Attachment F - Certificate of Delivery of Keys (Form - BRN-033)

ARTICLE II

TITLE, AUTHORITY AND DEMISE

2.01 Title and Authority. Landlord is the owner of the property descried in Attachment A hereto and, in such capacity, has full right and lawful authority to lease said property to Tenant and to grant to Tenant all the rights pertaining thereto, subject to the liens, encumbrances and restrictions which may affect it, if any, and the terms and conditions of this Lease Agreement and of its attachments.

2.02 Demise. Subject to the terms, covenants and conditions of this Lease Agreement, Landlord leases the property described in Attachment A (the "Leased Premises" to Tenant, and Tenant accepts same.

ARTICLE III

LEASE TERM AND POSSESSION

3.01 Term. The term of this Lease Agreement (hereinafter the "Term" shall commence on the Date of Delivery of Possession (as defined in Section

1.11) and shall expire on the last day of the last Year of the term (including any possible extension as per Section 1.09), unless earlier terminated in accordance with the provisions of Article XVIII hereof.

3.02 Delivery of Possession of Leased Premises. The exact date on which the Leased Premises shall be delivered to Tenant shall either be set forth in Section 1.11 of this Lease Agreement or attested to in writing by Landlord and Tenant in a document in form substantially similar to Attachment F of this Lease Agreement (the "Certificate of Delivery of Keys").

ARTICLE IV

USE OF THE LEASED PREMISES, RESTRICTIONS AND OPERATIONAL REQUIREMENTS

4.01 Use of Leased Premises. (a) Authorized Use. Tenant shall use and occupy the Leased Premises solely and exclusively as authorized in Section 01.07 of this Lease Agreement. Any change in the authorized use must be previously approved in writing by Landlord.

(b) Restrictions. Landlord reserves exclusively to itself the air rights over any building or structure forming part of Leased Premises, for any purpose.

4.02 Ongoing Operation: Levels of Capitalization. Investment and Employment.

(a) Tenant acknowledges that this Lease Agreement is entered into in furtherance of the Government of Puerto Rico's economic and industrial development plan. Accordingly, strict compliance with the provisions of this Section 4.02 is a paramount and indispensable requirement of this Lease Agreement.

(b) Interruption of Operations. In accordance with the previous paragraph, Tenant shall make every effort necessary to maintain uninterrupted its operations at the Leased Premises. However, nothing contained in this section shall be deemed to require Tenant to conduct its operations in any other way than in compliance with sound business principles. The temporary shutdown or interruption of operations for reasonable cause shall not constitute a breach of this Lease Agreement if Tenant has satisfied the following conditions:

(i) Tenant shall notify Landlord in writing of any interruption or temporary shutdown of operations at least thirty (30) days prior to the scheduled occurrence thereof, except in the event of an emergency interruption or

shut down, in which case notice shall be given as quickly as possible but not later than the next business day;

(ii) the interruption or temporary shutdown of operations shall not last for more than three (3) consecutive months; and

(iii) during the period of interruption or temporary shutdown of operations, Tenant shall observe and comply with all the terms, conditions and obligations of this Lease Agreement, including. but not limited to, the payment of Rent (Basic and Additional) and the maintenance of the Leased Premises.

(c) Levels of Capitalization. Investment and Employment. Tenant pledges to have on the Date of Delivery of Possession, and maintain during the Term, a minimum level of capitalization equivalent to the sum indicated in item (a) of Section 1.08, which sum shall be verified by audited financial statements at the end of every calendar year. In the same manner and in a period of six (6) months after the Date of Delivery of Possession, Tenant pledges to install manufacturing equipment and machinery (either owned or leased) in the Leased Premises, whose value shall represent an investment of no less than the sum indicated in item (b) of Section 1.08 (this value shall not include the cost of transportation and installation of the equipment and/or machinery, nor its ordinary depreciation after installation). Eighteen (18) months after the Date of Delivery of Possession, Tenant shall have in its employment at least the number of persons indicated in item (c) of Section 1.08 to accomplish the operation of its business at the Leased Premises. Tenant shall maintain the minimum required levels of capitalization, investment and employment set forth in Section 1.08 during the Term of this Lease Agreement including any extensions thereof.

ARTICLE V

RENT

5.01 Basic Rent. As of the Rent Commencement Date set forth in Section 1.12 hereof; Tenant shall pay to Landlord the Basic Rent specified in Section 1.13 of this Lease Agreement. The Basic Rent for any renewal period shall be the prevailing lease rate charged by Landlord at the time of the renewal period for similar properties in the zone in which the Leased Premises arc located; provided, however, that the Basic Rent for a renewal period shall not be less than that of the preceding lease period. Tenant shall pay the Basic Rent in monthly installments in the amount indicated in Section 1.13 in advance on or before the first day of each calendar month (the "Monthly Rent"); provided, however, that if the Rent Commencement Date does not fall on the first day of a calendar. month. the rent for the initial partial month shall be prorated based on a 30 day month and included with the first payment of Monthly Rent due the first day of the first full calendar month following the Rent Commencement Date.

5.02 Additional Rent. Any amount Tenant is obligated to payor reimburse Landlord under this Lease Agreement that is not Basic Rent shall be considered to be Additional Rent.

5.03 Payment Method. The Basic Rent and the Additional Rent (hereinafter collectively, the "Rent") shall be paid in legal currency of the United States of America. Any payment or charge identified in this Lease Agreement as Additional Rent shall be made on or before the first day of the month following the date the request for payment was sent by Landlord to Tenant. All Rent shall be remitted to Landlord, delivered either personally or by mail to the address indicated in Section 1.02 of this Lease Agreement, or to any other address that Landlord may from tin)e to time notify to Tenant, it being Tenant's duty to take the necessary measures and precautions to ensure that the Rent is received by Landlord on or before its due date. The payment of Rent is separate from any other agreement or obligation contained in this Lease Agreement, and shall be paid without the need of previous request or notice by Landlord. without set off. adjustment or abatement of any kind, except as otherwise provided for herein. Landlord may demand at any time that Rent payments be made by a Manager's or official bank check.

ARTICLE VI

SECURITY DEPOSIT

6.01 Security Deposit. Simultaneously with the execution of this Lease Agreement, Tenant shall deliver to Landlord a manager's or official bank check, for the amount specified in Section 1.14 of this Lease Agreement (the "Security Deposit"), to guarantee the faithful performance of each and every one of Tenant's obligations, including, but not limited to, the payment of all the Basic Rent, any other expenditure Tenant is responsible for hereunder, and the surrender of the Leased Premises upon expiration of the Term, or at the termination of this Lease Agreement, in the condition and good order required by Article XIX of this Lease Agreement. Tenant shall not have the right to receive interest on the Security Deposit.

6.02 Use of Security Deposit. Landlord may use all or part of the Security Deposit at any time to cover any payment (including Rent) or expense that, according to the terms and conditions of this Lease Agreement, is Tenant's responsibility. Should it become necessary for Landlord to use the Security Deposit as a result of a default or violation of the Lease Agreement by Tenant, Tenant must replace the amount used by Landlord within fifteen (15) days of a written demand therefor by Landlord.

6.03 Surrender of Security Deposit. Upon termination of this Lease Agreement, Tenant shall request' in writing the Security Deposit (or the remaining balance after use by Landlord to cover any payment (including Rent) or other: allowable expense under this Lease Agreement) after Landlord (i) has inspected the Leased Premises; (ii) confirms that the Leased Premises have been surrendered according to Article XIX and the other pertinent terms and conditions of this Lease Agreement; and (iii) determines that no environmental deficiencies exist which are attributable to or a consequence of the operations of Tenant at the Leased Premises.

6.04 Transfer of Security Deposit. In the event of sale, assignment or transfer of the Leased Premises by Landlord to a third party, Landlord shall be entitled to transfer the Security Deposit to its successor, who shall thereafter be solely and exclusively liable for the return of the Security Deposit, and Landlord shall be released upon said transfer from any claim or liability towards Tenant regarding the Security Deposit or its return upon termination of this Lease Agreement.

ARTICLE VII

ALTERATIONS AND IMPROVEMENTS

7.01 General Provisions. Except for the repairs and improvements, if any, Tenant is to make to the Leased Premises according to Attachment D hereto, Tenant takes possession of the Leased Premises, and the special facilities described in Attachment A, if any, in their present "as is" condition and acknowledges that said property is in good state of repair.

7.02 Alterations and Improvements. Except for the work described in Attachment D, if any, for which Landlord has agreed to reimburse Tenant, all alterations, changes, additions or improvements necessary for the Leased Premises to be used for the purposes set forth in Section 1.07 of this Lease Agreement, shall be paid for by Tenant. Tenant shall make no alterations, changes, additions or improvements without Landlord's prior written consent except for the work described in Attachment D, if any, which Landlord expressly authorizes Tenant to undertake.

7.03 Air Conditioning Electric Power Generator. Tenant may, at its own expense, install an air conditioning system and/or an electric power generator at the Leased Premises, subject to Landlord's previous written approval. Any installations of such equipment shall be made in coordination with Landlord.

7.04 Sprinkler System. Tenant shall implement the necessary security measures to avoid or reduce the risk of fire due to the storage of flammable materials or products. If required by law, Tenant shall install a sprinkler system at its own cost and expense. It shall be Tenant's obligation to obtain the necessary endorsements and/or approvals of the Puerto Rico Fire Department for such installation.

7.05 Floor Load. Tenant acknowledges having been informed by Landlord that the Building's maximum sustainable floor load is one hundred and fifty (150) pounds per square foot. In the event that the type of machinery and/or equipment to be installed, stored and/or utilized by Tenant for its operations in the Building exceeds said maximum floor load limit, Tenant shall, at its own expense, make the necessary improvements to the Building which will allow the Building floor to sustain the maximum load required by Tenant's operations without affecting or damaging the strength or stability of the Building.

7.06 Liens and Encumbrances. (a) Tenant may not create nor allow the filing of any lien against the Leased Premises.

(b) Tenant certifies and guarantees that all materials used in or for any construction or work in the Leased Premises shall be free of liens and encumbrances at the time said materials are incorporated into the Leased Premises. At the time the construction or work begins, Tenant shall certify to Landlord that the materials to be used are free of liens and encumbrances.

(c) Tenant shall immediately notify Landlord regarding any lien or attachment on materials or supplies used in construction or work at the Leased Premises which become incorporated into the Lease Premises. Should an attachment be placed upon the Leased Premises or any other type of lien be created that may directly or indirectly affect the Leased Premises, Tenant will quickly take any action, including payment of the amount claimed, necessary to cancel said attachment or lien and release the Leased Premises from the lien in a term not greater than thirty (30) days from the date that the lien is filed. Should the lien Dot be canceled within the period provided above in addition to any other rights or remedies available to Landlord, Landlord may, but is not obligated to, obtain the cancellation of the lien by making payment of the amount claimed, by posting of a bond for the amount of the lien, or by any other procedure that Landlord deems appropriate; and any expense incurred in said effort, including attorneys' fees incurred by Landlord, shall be paid by Tenant as Additional Rent.

7.07 Ownership or Improvements: Surrender. (a) Upon termination of the Lease Agreement, all alterations, changes, additions, or improvements made by Tenant to the Leased Premises with incentives, credits, or other economic assistance from Landlord shall be deemed incorporated into the Leased Premises and therefore property of Landlord, with no rights of Tenant to any compensation or reimbursement therefor by Landlord. Landlord may require Tenant to remove, at Tenant's expense, any or all such alterations, changes, additions, or improvements upon termination of the Lease Agreement.

(b) Upon termination of the Lease Agreement, Tenant, unless specifically permitted by Landlord, shall remove, at Tenant's expense, those improvements (i) installed by Tenant in the Leased Premises at Tenant's cost and expense, or (ii) installed by a prior tenant and ownership hereof was accepted by Tenant, or (iii) not identified as special facilities on Attachment A.

(c) Tenant, after removal of any alterations, changes, additions or improvements, shall restore the Leased Premises to a condition reasonably similar to their condition when delivered to Tenant.

7.08 Plans and Specifications. Should Tenant request the consent of Landlord to effect any alteration, change, addition, or improvement, Landlord may, at its option and in its discretion, require Tenant to submit to Landlord for approval plans and specifications for the proposed work, including such work, if any, as described in Attachment D. Said plans and specifications must be submitted and approved by the pertinent governmental entities prior to Tenant's commencement of any work.

ARTICLE VIII

MAINTENANCE AND REPAIRS

8.01 Tenant's Duties and Responsibilities. (a) Except for those repairs that according to Section 8.02 are Landlord's responsibility, Tenant shall maintain in good condition, at its own cost and expense, the Leased Premises, with all improvements including, but not limited to, the exterior premises, the Building, the special facilities, stairs, elevators, ramps, sidewalks, curbs, roads, landscaping, the ground and underground of the Leased Premises, and the pipes, lines, cables or ducts and other utility connections that service the Leased Premises. Any repair to the Leased Premises is Tenant's responsibility, unless said repair is necessary as a consequence of the negligence or some intentional act of Landlord, its agents, employees or contractors. As appropriate, Tenant shall (i) repair or replace doors, windows and their frames; the electrical system; the air conditioning and/or ventilation system; the plumbing, sanitary and sewage systems as well as the equipment, machinery, facilities or objects within the Leased Premises or that form part of the Leased Premises with the same type and quality; and (ii) paint the interior and exterior of the Building.

(b) Tenant shall also maintain the Leased Premises and its surroundings free of insects, rodents and pests; (ii) free of garbage, refuse, debris and any other solid waste; and (iii) free from unpleasant or offensive odors. Moreover, Tenant shall maintain the drainage and sewer systems of the Leased Premises free from obstructions.

(c) If Tenant fails to make any repair or if any repair is performed in an unsatisfactory manner, or if equipment is not replaced when necessary, Landlord may, but is not obligated to, undertake any such repair or replacement. Tenant shall reimburse Landlord for all costs incurred in any such repair or replacement plus an additional thirty percent (30%) of the cost of any such repair or replacement in order to cover Landlord's administrative costs. Any such costs reimbursed by Tenant including the additional percentage charge established above shall be considered Additional Rent, and as such, shall be paid within the period provided in Article V of this Lease Agreement. Tenant shall bold Landlord harmless from any damage or inconvenience suffered by Tenant as a consequence of any repairs performed by Landlord as provided in this paragraph, and Tenant shall have no rights of adjustment or reduction in Rent in connection therewith.

(d) Tenant shall perform all maintenance work necessary to ensure that all its equipment and operations fully comply with the applicable fire prevention standards and environmental requirements, legal or regulatory.

(e) The provisions of this Section 8.01 shall not be applicable in. the case of damage or destruction resulting from fire or any other event covered by Article XIII of this Lease Agreement.

8.02 Landlord's Duties and Responsibilities. Landlord shall be solely and exclusively responsible for any necessary repairs or restorations due to defects in the design of the Building or construction defects thereof, not apparent at the moment Tenant inspected the Leased Premises prior to occupancy. Except as provided in this Section 8.02, Landlord shall not be responsible for any repair, replacement or improvement to the Leased Premises or to equipment, machinery, facilities, furniture or any other object within the Leased Premises, all of which shall be the responsibility of Tenant as provided in Section 8.01 of this Lease Agreement.

8.03 Roof Care and Maintenance. Tenant shall not, without the previous written consent of Landlord: (i) place any fixture, equipment or other load on the roof of the Building; (ii) perforate the Building's roof; or (iii) use the roof of the Building for storage. Tenant shall take all necessary measures to maintain the roofs drainage system free from obstructions and in good

and working condition at all times. Prior to undertaking any repairs to the Building's roof, Tenant shall submit in writing to Landlord a detailed description of the work to be performed and provide any other pertinent information related to said repairs Landlord may request.

ARTICLE IX

PUBLIC UTILITIES

9.01 Tenant's Duties and Responsibilities. Tenant shall pay for the cost of electricity, water, gas, telephone and any other utility service to the Leased Premises during the term of this Lease Agreement, including the period of time, if any, between the Date of Delivery of Possession and the Rent Commencement Date. Tenant shall request and coordinate the installation of metering devices and other mechanisms or systems necessary to obtain the various utility services for the Leased Premises, and shall be liable for any deposit and/or installation charge required by the corresponding agency or utility company.

9.02 Service Interruption. Tenant shall not make adjustments to the Rent nor hold Landlord liable for any utility service interruption to the Leased Premises or for damages suffered as a consequence of any interruption.

9.03 Electricity. (a) Electric Power. In the event that the Leased Premises are not connected to the electrical service lines of the Puerto Rico Electric Power Authority (hereinafter "PREPA"), said connection shall be made at the expense of Tenant and in coordination with Landlord, including as to the purchase and installation of any equipment necessary to make the connection, which equipment must meet PREPA's requirements.

(b) Electrical Substation. Tenant, at its own cost and expense and without any right to reimbursement from Landlord, may build or install in coordination with Landlord an electric energy Substation on the Leased Premises and connect it to PREPA's distribution lines, subject to compliance with PREPA's requirements. Under no circumstances shall Tenant install an electrical substation without

Landlord's prior approval as to the capacity and power of said substation, its location within the Leased Premises, and the routing path of the power lines.

(c) Additional Equipment. The Leased Premises are equipped with a basic electrical power system for general lighting and wall outlets connected to a 200 amp meter box designated for a secondary voltage of 120-208 volts. Tenant covenants not to install or use any equipment that will exceed or which reasonably could exceed the capacity of the Leased Premises power lines without Landlord's prior consent. Tenant, at its cost and expense, will upgrade the electrical service lines in accordance with the plans and specifications previously approved in writing by Landlord should Tenant's operations require greater electrical service line capacity.

9.04 Water Supply. (a) Should Tenant require water volume and/or water pressure greater than that existing in the area of the Leased Premises, the construction and/or installation of any improvements (including structures), that are necessary. convenient or required by the Puerto Rico Aqueduct and Sewer Authority (hereinafter "PRASA") to increase said volume and/or pressure, shall be made at Tenant's own expense and coordinated with Landlord, but without any right to reimbursement from Landlord for any such improvements.

(b) Should PRASA require improvements to the Leased Premises' water main connection, Tenant shall perform the corresponding improvements at its own expense, and only after written approval has been given by Landlord.

ARTICLE X

QUIET ENJOYMENT

10.01 Quiet Enjoyment. Upon Tenant's payment of Rent and observance of all other terms, covenants and conditions of this Lease Agreement that arc to be observed and performed by Tenant, Landlord covenants that Tenant may peaceably and quietly enjoy the Leased Premises, during the Term, or until the termination of the Lease Agreement in accordance with Article XVIII.

ARTICLE XI

TAXES, ASSESSMENTS AND DUTIES

11.01 Taxes, Assessments and Duties. Tenant shall be liable for the payment of all taxes, assessments, duties or any other tax levied by any government

entity having taxing authority over real property, personal property and/or the activities directly or indirectly related to Tenant's operations at the Leased Premises, including. but not limited to, personal property taxes on equipment and machinery located at the Leased Premises. Tenant shall pay these taxes, assessments, and duties before their due date.

ARTICLE XII

ENVIRONMENTAL

12.01 Governmental Regulations and Environmental Protection. Tenant shall comply with all laws, roles, regulations, executive orders. administrative orders and requirements of local and federal governmental agencies having jurisdiction over Tenant's operations at the Leased Premises. Upon request by Landlord. Tenant shall submit evidence of said compliance and if any permits, and agency endorsements such as, but not limited to:

(i) the Puerto Rico Fire Department;

(ii) the Puerto Rico Department of Health;

(ii) the U.S. Food and Drug Administration (FDA);

(iii) the Puerto Rico' Occupational Safety and Health Office (PROSHO);

(v) the Puerto Rico Environmental Quality Board (EQB);

(vi) the U.S. Environmental Protection Agency (EPA);

(vii) the Puerto Rico Aqueduct and Sewer Authority (PRASA);

(viii) the Puerto Rico Natural and Environmental Resources Department ("DNER")

(ix) the Regulations and Permits Administration ("ARPE");

(x) the Puerto Rico Planning Board;

(xi) the Solid Waste Administration;

(xii) the pertinent Municipal Government.

Tenant shall maintain the Leased Premises and conduct its operations thereat in compliance with the tenus, conditions, and requirements specified in (i) the Environmental Impact Statement, or any other document prepared for the evaluation of environmental aspects of its operations at the Leased Premises; and (ii) the permits issued by the governmental agencies with jurisdiction over the operations at the Leased Premises.

Tenant, at its own cost and expense, shall install on the Leased Premises the necessary equipment to prevent its operations from affecting adversely the environmental integrity of the Leased Premises, or causing any disturbance to the adjacent properties or to the community in general.

Any improvements or installation of equipment for pollution controls required by any agency or governmental entity having jurisdiction thereof shall be at Tenant's expense and subject to Article VII of this Lease Agreement. Tenant shall also comply with the following permits and regulations, without limitation of any other applicable environmental requirements:

(a) Wells. Landlord will not allow the drilling of a water well at the Leased Premises unless Tenant's operations at the Leased Premises require a volume of water greater than that which PRASA can supply. In such case Tenant will obtain a construction permit and a franchise from the Department of Natural and Environmental Resources to drill such well and to extract water therefrom. For

any other type of well (i.e., monitoring. injection, etc.) Tenant shall obtain the necessary permits and Landlord's written consent.

(b) Noise. Tenant shall not exceed the maximum noise levels allowed by the Noise Pollution Control Regulation of the Puerto Rico Environmental Quality Board.

(c) Air Emissions. Tenant shall obtain all the necessary construction and operational permits necessary to construct, install, and operate any air emissions source or atmospheric pollution source, as. defined by the Regulation for the Control of Atmospheric Pollution

Sources of the Environmental Quality Board and the Federal Regulations. This includes, but is not limited to (i) ventilation systems to disperse atmospheric emissions resulting from Tenant's operations; (ii) electric power generators for emergency use; (iii) storage tanks for flammable gases with a capacity greater than five hundred (500) gallons; and (iv) fuel. storage tanks (gasoline, diesel. kerosene, acetone, alcohol and others) having a capacity of more than ten thousand (10,000 gallons). Tenant, at its own cost and expense, shall establish the necessary measures and shall install the equipment required to maintain the air quality standards established by the existing laws and regulations and any amendments thereto as required by the permits issued by the Environmental Protection Agency and the Environmental Quality Board.

(d) Gas Storage Tanks. Tenant shall obtain a permit from the Public Service Commission to install and/or store flammable gases in aboveground storage tanks.

(e) Underground Storage Tanks. Tenant shall not install underground tanks to store fuels, raw materials or chemical substances. In the event that any such tanks have been previously installed at the Leased Premises and removal thereof would constitute a risk to the Leased Premises or to Tenant's operations, such tanks shall be used only if they comply with federal and state regulations for underground storage tanks.

(f) Aboveground Storage Tanks. Tenant shall prepare and implement a Spill Prevention, Control and Countermeasure Plan ("SPCC Plan") as applicable and required by 40 CPR 112 and the Water Quality Standards Regulation of the Environmental Quality Board for the installation and operation of aboveground storage tanks.

(g) Chemicals. Storage of any chemical substance shall be undertaken in full observance of the, applicable safety measures required by the governmental agencies having jurisdiction thereof so as to prevent any leakage or spillage that may contaminate the Leased Premises or adjacent properties.

(h) QSHA. Tenant shall strictly comply with the rules established by the Occupational Safety and Health Administration ("OSHA") for the storage of dangerous materials (29 CFR 1910.101 to 1910.106) as well as with the Puerto Rico Fire Department Regulations for Fire Prevention.

(i) Industrial and Sanitary Effluents. Tenant shall not discharge its sanitary or industrial effluents into the sewer system nor into any other place until Tenant has obtained the necessary authorization to do so, be it from the Puerto Rico Aqueduct and Sewer Authority, from the Environmental Quality Board, or the Environmental Protection Agency ("EPA"), as applicable. Tenant shall request and obtain the necessary permits and/or endorsements from the Environmental Quality Board or any other local or federal agency with jurisdiction in order to install and operate any treatment or pretreatment plant or system for said effluents. Tenant must obtain Landlord's endorsement and approval to install a treatment or pretreatment plant or system prior to any request for the permits and endorsements of the other pertinent government agencies with jurisdiction. Tenant shall treat its effluents as required prior to discharge, as required by the pertinent governmental agency having jurisdiction.

(j) Septic Tanks and Systems. Should the Leased Premises have a septic tank or system, such facility can be only to discharge sanitary effluents. Therefore, Tenant shall not discharge industrial effluents nor any substance nor material other than sanitary effluent into the septic tank or system. Moreover, Tenant must obtain from the Environmental Quality Board a permit to operate said septic tank or system. Any industrial. effluent that may be generated and that is not discharged into the Aqueduct and Sewer Authority sewer system or through a discharge permit from the National Pollutant Discharge Elimination System ("NPDES"), shall be disposed of by transporting it to an Aqueduct and Sewer Authority treatment plant, with previous authorization, or to another entity authorized to handle such effluents.

(k) NPDES Permit. Tenant shall not discharge any industrial effluent into the ground. Tenant shall obtain an NPDES permit to discharge stormwater or other effluents into a body of water. Tenant shall obtain an NPDES permit, if stormwater run-off is exposed to raw materials, unfinished or finished products, waste, by-products. industrial machinery or

equipment, a materials handling area or a process area. Tenant shall obtain, when applicable, the pertinent industrial discharge permit or pre-treatment permit required by PRASA.

(l) Hazardous Substances. Tenant win not treat, store or dispose of any hazardous substance at the Leased Premises, unless Tenant possesses the necessary permits from the agencies with jurisdiction and such activities are performed in compliance with applicable regulations and the terms and conditions of the permit. Tenant will not generate or store. any hazardous substance or waste at the Leased Premises without first obtaining the necessary permits from the local and federal agencies with jurisdiction. The generation and storage of hazardous substances shall be conducted in compliance with applicable environmental laws, regulations and permits. Also, Tenant shall not store hazardous waste at the Leased Premises, without fm giving notice to Landlord of the location of the storage area and providing evidence of compliance with state and federal

regulations as well with the measures Landlord considers necessary to protect the Leased Premises. At no time shall Tenant dispose of any hazardous substances or waste at the Leased Premises.

(m) Non-hazardous Solid Waste. Non-hazardous solid waste generated from the operations at the Leased Premises shall be stored, handled, transported and disposed of in accordance with the Environmental Quality Board's Hazardous and Non-hazardous Waste Control Regulations. Tenant must obtain a permit from the Environmental Quality Board for a Non-hazardous Waste Generating Activity (DS-3), when it generates more than fifteen (15) cubic yards of non-hazardous solid waste weekly during construction activities. Tenant, at its own cost and expense, shall keep the grounds clean and tree of solid wastes, rubbish, garbage and debris.

(n) Equipment or Materials Containing Polychlorinated Biphenyls ("PCB"). Tenant shall not install or introduce equipment or materials containing PCB's at the Leased Premises.

(o) Reports to Landlord. In addition to any other information or document that may be required hereunder, Tenant shall provide Landlord with the following:

1. Written notice, within forty-eight (48) hours, of any event that requires verbal or written notice to the Environmental Protection Agency, the Environmental Quality Board or any entity designated by them, together with, a copy of any order, communication or report regarding the event. This includes, but is not limited to, any notice required under the provisions of the "Emergency Planning and Community Right to Know Act."

2. Written notice within forty-eight (48) hours of any change to the hazardous materials handled at the Leased Premises, or if Tenant observes or has any knowledge of an environmental problem at the Leased Premises even if such problem is not a result of Tenant's activities.

3. A copy of all the permits mentioned in this Article XII.

(p) Audits and Access to the Property. Landlord reserves the right to inspect the Leased Premises, from time to time, during the Term of this Lease Agreement as deemed necessary, for the purpose of evaluating the environmental condition of the Leased Premises, and as to Tenant's compliance with federal and state environmental regulations and the provisions of this Article XII. Tenant, for this purpose, win provide Landlord with access to all areas or structures on the Leased Premises. Tenant shall provide access to all the books, registers, documents or instruments that Landlord deems necessary to determine the environmental condition of the Leased Premises, or compliance with environmental regulations.

In the event that Landlord believes, based upon any inspection performed on the Leased Premises, that Tenant is in material violation of a federal or local environmental law or regulation, Landlord shall request Tenant to perform, at Tenant's cost, the environmental site assessments necessary to determine the existence and extent of contamination at the Leased Premises, if any and all activities of removal, mitigation and remediation needed to correct any environmental problem caused by the Tenant at the Leased Premises. Tenant, upon Landlord's request, at the termination of this Lease Agreement, shall submit an environmental site assessment, Phase I and/or Phase II, of the environmental condition of the Leased Premises

prepared by an environmental consultant of proven experience. The assessment shall determine whether the activities performed by Tenant affected the conditions of the Building and the lot. The assessment shall be performed following the standards established for preparing such reports by the scientific community ("ASTM"). The assessments shall be signed and certified by an engineer or chemist licensed to practice in Puerto Rico.

In the event that an environmental audit or inspection reveals an environmental deficiency or condition at the Leased Premises, Tenant shall submit an action plan to remedy such situation together with a bond or guarantee to secure payment of the remediation. The plan shall be reviewed and its execution coordinated with Landlord.

(q) Emergency Remediation Response Action. In the event of any hazardous substance spill, leak, or escape or any other occurrence which requires the removal of hazardous substances or environmental remediation, Tenant shall be responsible to remedy it immediately. Tenant shall be responsible for hiring. at its own expense, those companies with proven experience and reputation to perform said' removal activities and/or environmental remediation and shall carry out all the necessary negotiations to accomplish .aid removal and/or remediation. Prior to the formation of any contractual agreement with any company or consultant for the removal and/or, remediation, the company or consultant must be approved by Landlord. The scope of work prepared by the Landlord authorized company shall be submitted to Landlord for its approval. In the event of any violation or contamination of the Leased Premises, Landlord may request Tenant to remain in the Leased Premises and' to continue paying Rent until the Leased Premises are in compliance with local and federal regulations. At all times, Tenant shall be obligated to immediately notify Landlord in writing upon occurrence of any event that requires removal of contaminants or environmental remediation and shall coordinate with Landlord any clean-up, contamination removal, or environmental remediation before commencement thereof provided that if the event which requires removal of contaminants or environmental remediation should occur during non-working periods, in which case (such weekends or holidays) Tenant shall immediately notify Landlord the next working day. The notice to Landlord by Tenant in the event of a spill, leak or escape does not release Tenant of its obligation to notify the pertinent governmental agencies as required by law, regulation, municipal ordinance, judicial order, executive order, administrative order or by any other legal requirement.

Should any environmental mishap occur, such as, but not limited to, a spill, release or leak that poses an imminent danger to human health or to the environment, in addition to taking all such protective measures, responses and notifications as are required by environmental laws, regulations, and permits, Tenant shall cease its operations if Tenant's operations are the direct cause of said environmental mishap until said mishap is controlled and all risk to human life or to the environment is suppressed.

(r) Environmental Conditions Liability. Tenant shall be liable for any environmental damage and the necessary or `remedial action as results from Tenant's operations. Tenant shall indemnify Landlord for any lawsuit, civil or criminal action, administrative action, fine. claim, remedial action and/or clean-up and/or pollutant removal action, toxic or hazardous substance or waste as deemed in local and federal haws and regulations, that may arise as a result of Tenant's operations or during Tenant's occupation of the Leased Premises. The term contaminant includes petroleum and its derivatives, asbestos, and PCB. Tenant shall also be liable and shall indemnify Landlord for any complaint, civil or criminal action, administrative action, fine or claim that arises as a result of any violation of any law, regulation, rule, Administrative Order, Executive Order or environmental requirement of any local or federal governmental entity that arises as a result of Tenant's operations .or during the term Tenant occupied the Leased Premises. Tenant's liability toward Landlord and its obligation to indemnify Landlord shall survive the termination of this Lease Agreement.

ARTICLE XIII

DESTRUCTION OF PREMISES

13.01 Notice of Event. Tenant shall immediately notify Landlord after any fire, explosion, spill of hazardous wastes or pollutants (except as otherwise provided in Article XII and Section 13.06 herein) or any other kind of accident or extraordinary event which causes or threatens damage to the Leased Premises.

13.02 Landlord's Duty to Repair. Should the Leased Premises be damaged by fire, explosion or any other casualty covered by the insurance policies as required by this Lease Agreement, Landlord shall repair or restore the Leased Premises to a condition substantially similar to that before the accident or event, provided that:

(i) Landlord has received the corresponding insurance proceeds from the insurance company; and

(ii) the accident or event causing the damage is not attributable to or did not occur as a consequence of negligence, an omission, or intentional act of Tenant or any of its employees, agents, visitors or representative,;; nor as a result of acts by any of them in violation of a federal, state, or municipal law regulation, order, ordinance, or breach of any obligation or condition under this Lease Agreement.

Tenant recognizes that Landlord's duty to repair damage or destruction to the Leased Premises is limited to those repairs made possible by the proceeds received as a result of the insurance policies required hereunder, and that. Tenant shall be responsible for the deductibles or the amount in excess of the insurance proceeds necessary to cover the costs to repair, reconstruct, or replace the Leased Premises.

13.03 Lease Agreement Termination. Notwithstanding the provisions of Section 13.02, Landlord shall have the option to terminate this Lease Agreement in any of the following circumstances:

(i) should the insurance policy as required by this Lease Agreement not provide coverage for the accident or event which damages the Leased Premises;

(ii) the damage suffered by the Leased Premises is such that it exceeds the cost of replacement; or

(iii) if the Building and other structures of the Leased Premises, in the opinion of Landlord, cannot be repaired in a period of one hundred twenty (120) days from the day the accident or event occurred;

(iv) should the damage to the Building be so extensive that Landlord decides to demolish it; or

(v) should the accident or event occur at any time during the last two (2) years of the term of this Lease Agreement.

In any of the above circumstances Landlord may terminate this Lease Agreement by written notice to Tenant within ninety (90) days from the date the accident or event occurred, in which case both parties are released of any further liability under this Lease Agreement as of the effective. date of termination except for those that survive termination pursuant to Article XII hereof.

13.04 Restoration. Should Landlord have the obligation to repair or restore the Leased premises according to Section 13.02, or should Landlord not terminate this Lease Agreement as provided in Section 13.03, and proceeds to repair or restore the Lease Premises, Tenant shall hold Landlord harmless for the loss of any equipment, machinery or any other property that Tenant had placed, joined, built-in or installed, or kept at the Leased Premises.

13.05 Rent Adjustment. Should the Leased Premises be damaged or destroyed and Landlord elects to. repair (provided that the cause of the fire or accident is not the result of any negligence, omission or any intentional act of Tenant, its employees, agents, guests or representatives, nor the violation by any of them of any federal, state, or municipal law, regulation, order, ordinance, nor the failure to comply with any obligation or condition

under this Lease Agreement), Tenant shall have a right to adjust the Basic Rent in proportion to the total area of the Leased Premises that becomes untenantable during the repair period (i.e., from the date of the accident or event until the date Landlord finishes the repair work). Should Landlord terminate this Lease Agreement due to any of the causes set forth in Section 13.03, the Rent shall be due until the date of the casualty or destruction.

13.06 Damage Report. In the event of a casualty or disaster, Tenant shall complete and deliver to Landlord the form "Disaster Impact Quantification (CD1001)" (Attachment G hereto) within eighteen (18) hours after the occurrence of the event.

ARTICLE XIV

WAIVER OF CLAIMS; INDEMNIFICATION

14.01 Indemnification. Tenant shall defend, `indemnify and hold harmless Landlord, its directors, officers, employees, invitees, representatives, successors and assignees of liability from any loss, claim, fine, penalty, attachment, action or complaint of any type or kind, including any incidental expense or cost (including, but not limited to, defense costs, settlement and attorney fees) in relation to or as a consequence of any damage to a third party (including death), or any damage, loss or destruction of any third party's property, (a) in or around the Leased Premises due to any act or omission of the Tenant or any of its employees (whether or not said act is within the scope of employee's job), agents, authorized persons, visitors, successors or assignees, or caused wholly or in part by any act or omission of any of the former or (b) due to the use or occupation of the Leased Premises by Tenant, its agents, employees, invitees, or visitors; (ii) violation of any federal or state law or regulation, or municipal ordinance, or of any judicial or administrative order, as a direct indirect consequence of the use or occupation of the Leased Premises by Tenant; (iii) or due to breach of any of the obligations under this Lease Agreement. The provisions of this Article XIV shall survive and remain in full force after the expiration of the Term or the termination of this Lease Agreement.

14.02 Waiver of Claims. Landlord shall not be liable, and Tenant releases Landlord and waives any claim against Landlord, for any damage to or loss of any property located at the Leased Premises which belongs to Landlord and/or its agents, employees, invitees and/or visitors, and for any other damage or loss suffered by Tenant, or any damage or loss to Tenant which arises from fire, steam, or smoke; short circuit; water, electricity, gas or other utility failure; rain, storms, hurricanes or other weather conditions; flood or leakage; defects in pipes, cables, appliances, plumbing and/or air conditioning systems, regardless if such damage or inconvenience is the result of the condition or working order of the Leased Premises, or any part of it. Landlord shall not be liable for any damage or loss suffered by Tenant and/or its agents, employees, invitees and visitors as a result of criminal conduct, intentional acts, and/or negligent or intentional acts of a third party or of Tenant, its agents, employees, invitees and/or visitors. Tenant waives and shall be barred from filing any claim against Landlord for any damage or loss at the Leased

Premises or to any person or property within the Leased Premises for any cause other than gross negligence by Landlord.

14.03 Tenant Responsible For Personal Property. Tenant recognizes that Landlord shall not be liable and waives any claim for any damage to personal property in the Leased Premises that belongs to Tenant, or for the theft or misappropriation thereof. Tenant bears all risk for any damage or loss of any personal property of Tenant.

ARTICLE XV

INSURANCE

15.01 Insurance. During the Tenn of this Lease Agreement, Tenant shall maintain in force the following insurance policies:

(a) public liability, including, contractual liability, with limits of not less than $1,000,000 for bodily injury (including death) and $1,000,000 for property damage, per occurrence, which will insure Tenant against any claim for accidents in or around the Leased Premises due to use or occupation of the Leased Premises by Tenant. This insurance shall include Landlord and its agents, officers, directors and employees as additional insureds, and said policy shall include a "fire legal liability" endorsement;

(b) property insurance with "All Risk" coverage, for one hundred percent (100%) real property replacement cost, including foundations, with an extended coverage endorsement, which names Landlord as beneficiary in case of 1088. This insurance shall include coverage for fire, hurricanes, floods, earthquakes. and other events of a similar nature, vandalism and malicious mischief, boilers and machinery (if applicable) in building format and content, including all changes, alterations, extensions and improvements made by Tenant to the Leased Premises;

(c) pollution liability if required by Landlord because of the type of the operations carried on by Tenant; and,

(d) any other insurance over the Leased Premises which provides adequate

coverage for those insurable risks that are common for property similar to the Leased Premises.

The deductibles of the insurance policies herein required shall be Tenant's responsibility and should Landlord undertake any repairs after any loss or damage to the Leased Premises, Tenant shall reimburse Landlord the deductible payable under the insurance policy, together with any amount paid by any insurance provider.

15.02 Insurance During Construction. During any construction period at the Leased Premises, including the work to be performed by Tenant described in Attachment D, if any, Tenant must have in force the following insurance policies:

(i) "builders risk" insurance which provides coverage for all improvements that arc being constructed, equivalent to one hundred percent (100%) of their replacement value;

(ii) if the estimated cost of construction is over five thousand dollars ($5,000), Tenant must, at Tenant's own cost and expense, provide Landlord with a performance bond from a surety company recognized and approved by Landlord, of other satisfactory guarantee acceptable to Landlord, in a sum equal to the estimated cost of said construction to guarantee completion of any construction within a reasonable time. At Landlord's option, instead of Tenant's obtention of a separate bond or guarantee for each project that may be in process at any given time, Tenant shall provide Landlord with one bond or guarantee that covers all alterations, changes, additions or improvements and other construction occurring at the same time; and,

(iii) Workers' Compensation from the State Insurance Fund Corporation in such coverage amounts as required by law.

15.03 Insurance Policy Increase. Tenant will pay any premium increase required by an insurance company to cover additional risks resulting from any alteration, change, addition or improvement made by Tenant to the Leased Premises.

15.04 General Requirements. All insurance policies required of Ten ant under this Article XV must comply in form and substance to Landlord's requirements, and must provide the following: (i) that the insurance coverage may not be reduced, canceled or not renewed by the insurance company without written notice to Landlord and Tenant at least sixty (60) days in advance (unless said cancellation is due to failure to pay premium, in which case notice must be sent at least thirty (30) days in advance); and (ii) that the policy shall be immediately renewed by Tenant on or before its expiration date. Tenant must obtain said policies from insurance companies duly authorized to do business in Puerto Rico, and acceptable to Landlord. Said insurance companies shall have a classification of not less than "A" and a financial rating of "IV" or better, as rated by A.M. Best and Company.

15.05 Insurance Certificates. Before the Date of Delivery of Possession Tenant shall submit to Landlord the policies (or certified copies) of same required under this Article XV with all the mentioned endorsements, and certificates of insurance which evidence the required coverage by Sections 15.01 and 15.02 of this Lease Agreement. Tenant expressly recognizes. Landlord's right not to deliver the Leased Premises to Tenant until two (2) days after the policies (or certified copies) and the insurance certificate. have been submitted to Landlord, as required in this section.

15.06 Evidence of Payment; Renewal of Policies. Tenant must deliver to Landlord satisfactory evidence of payment of the insurance premiums within fifteen (15) days of the respective

renewal dates of the respective policies and at the same time submit the corresponding insurance certificate or certified copy of each renewed policy.

15.07 Claims. Tenant shall cooperate with Landlord in the collection of claims against the corresponding insurance companies in those cases where Landlord handles such claims, including the preparation of damage reports and other documents required to process the claim. In the event Tenent does not provide said documents, Landlord, as Tenant's agent, and attorney-in-fact, shall, in addition to any other remedy available to Landlord, execute and submit any evidence of loss and/or any other document necessary for collection of the claim.

15.08 Periodic Review. Landlord reserves the right to review and demand

periodically increases in the limits of the coverages required in this Lease Agreement as results from the effects of inflation.

15.09 Penalties. Notwithstanding the provisions of Section 22.08, and without affecting the general terms of the matters stipulated therein, should Tenant breach its duty to obtain any of the policies required in Article XV, which as a result renders it necessary for Landlord to obtain said policies, in addition to reimbursement for the premium paid for said policies, Tenant shall pay Landlord a sum equal to twelve percent (12%) of the cost of the policies obtained by Landlord to cover Landlord's administrative costs.

15.10 Waiver of Subrogation. (a) Landlord and Tenant agree that all fire and extended coverage and other property damage insurance carried by either of them in relation to the Leased Premises shall be endorsed with a clause providing that any release from liability or waiver of claim for recovery from the other party entered into in writing by the insured thereunder prior to any loss or damage shall not affect the validity of said policy or the right of the insured to recover thereunder, provided that the insurer waives all rights of subrogation which such insurer might have against the other party. Any release or any waiver of claim shall not be operative in any case where the effect of such release or waiver is to invalidate any insurance coverage or invalidate the right of the insured to recover thereunder. Should any waiver of subrogation result in a premium increase, Tenant shall, within ten (10) days of notice, pay said increase in order to maintain the effectiveness said release or waiver.

(b) Neither Landlord nor Tenant shall be liable to the other or the insurance company that provided the coverage for any loss or damage to any building or structure of the leased Premises for the loss of income either through subrogation or any other form, regardless if such loss or damage be, in whole or in part, caused by a negligent act or omission of the other party, its agents, officers, directors or employees, to the extent that such loss or damage is covered by insurance policy in favor of the affected party.

ARTICLE XVI

LANDLORD'S RIGHTS

16.01 Access to Leased Premises. Landlord shall be entitled to enter the Leased Premises for the purposes of inspection to perform any repairs or work required pursuant to the provisions of this Lease Agreement, or for those repairs or work which Tenant has failed to do despite being responsible therefor under this Lease Agreement, or to show the Leased Premises to persons interested to lease or acquire the same. This right to access is subject to the following conditions: (a) if due to any emergency situation, which Landlord shall determine at its discretion, Landlord shall have full access to the Leased Premises at any time; (b) under any other circumstances Landlord shall have access to the Leased Premises during normal business hours; and (c) Landlord must maintain at a minimum any interruption to Tenant's operations during any exercise of its rights under this Article.

ARTICLE XVII

TENANT BANKRUPTCY

17.01 Lease Agreement Assumption Requirements. The following provisions shall apply upon commencement of a voluntary or involuntary case under Title 11, United States Code, wherein Tenant is a debtor under 11 U.S.C. Sections. 101 et seq. (the "Bankruptcy Code"), and only insofar as the Bankruptcy Code applies or affects the provisions of this Lease Agreement.

(a) Should the trustee or "debtor in possession" not elect to assume this Lease Agreement within a period of sixty (60) days from the commencement of proceedings under the Bankruptcy Code, this Lease Agreement shall be deemed rejected and terminated as provided under Article XVIII of this Lease Agreement (including any provisions as to damages) giving Landlord the immediate right to repossess the Leased Premises.

(b) Any assumption and/or assignment of this Lease shall not take effect unless there is compliance with the following:

(i) all Tenant's defaults have been cured and Landlord has been provided with adequate and reasonably satisfactory assurances of Tenant's future performance; if the Lease Agreement is assigned, Tenant shall provide (1) any guarantee and/or deposit reasonably required, and (2) any other reasonable assurance that there will be sufficient funds and personnel available to operate the Leased Premises in strict compliance with the provisions of this Lease Agreement;

(ii) neither the assumption of this Lease Agreement nor the operation of the Leased Premises after this Lease Agreement has been assumed or assigned, in the reasonable opinion of Landlord, win cause or result in breach or violation of any of its provisions or of any other applicable contract with Landlord;

(iii) the assumption, and if applicable, the assignment of this Lease Agreement fully complies with the provisions of the Bankruptcy Code, including, but not limited to Sections 365(b)(1) and (3) and 365(t)(1) and (2) thereof; and

(iv) the assumption and/or assignment has been ratified and approved through an or~ of the Bankruptcy Court or any other court having jurisdiction.

(c) No assignment of this Lease Agreement by the trustee or the "debtor in possession" shall be valid unless the proposed assignee has also satisfied the conditions provided in paragraphs (b) (i), (ii), (iii) and (iv) of this section, and all other requirements established in this Lease Agreement which further Landlord's public policy of promoting employment and the industrial development of Puerto Rico which is accomplished by observing the capitalization, investment and employment levels stated in Section 1.08 and the continuance of operational requirements set forth in Section 4.02 of this Lease Agreement.

(d) Whenever a "debtor in possession" is required under the Bankruptcy Code to comply with its obligations as Tenant under this Lease Agreement, the Basic Rent and the other charges identified in this Lease Agreement as Additional Rent shall not be subject to adjustment and must be paid in full as provided in the pertinent sections of this Lease Agreement.

(e) Pursuant to Section 22.01 of this Lease Agreement, except where the provisions of the Bankruptcy Code mandates otherwise. the assignment of this Lease Agreement is prohibited.

(f) Unless agreed to by Landlord, under no circumstances will this Lease Agreement be renewed if the Term has expired or the Lease Agreement has terminated according to its provisions. No bankruptcy procedure shall annul, postpone or affect the expiration or termination of the Term of this Lease Agreement as provided in Article XVII, or prevent Landlord from recovering possession of the Leased Premises at the expiration of the Term or upon earlier termination of this Lease Agreement.

ARTICLE XVIII

TERMINATION BY BREACH

18.01 Breach by Tenant as Cause for Termination. In addition to, and separate from, any other cause for termination set forth in this Lease Agreement or available under applicable law, each of the following events or acts shall be considered a breach and constitute cause for termination, which termination will be effective upon written notice to Tenant:

(a) Tenant's failure to pay the Rent to Landlord within the term provided in Section 5.01 of this Lease Agreement, or upon failure to pay any other sum required to be paid hereunder within ten (10) days after its due date;

(b) Tenant's failure to pay the Rent to Landlord on or before the first day of the month, or failure to pay any other amount when due, on two or more occasions within any consecutive twelve (12) month period;

(c) Tenant's abandonment of the Leased Premises (as defined in Section 18.03 of this Lease Agreement), upon certification of such abandonment by the procedure provided in clause (b) of Section 18.03;

(d) if Tenant encumbers; assigns or transfers this Lease Agreement, in whole or in part, except as otherwise provided in this Lease Agreement;

(e) if Tenant makes a general assignment of its assets in benefit of its creditors;

(f) if Tenant fails to take physical possession of the Leased Premises within ten (10) days following the Date of Delivery of Possession;

18.02 Other Causes for Termination. In addition to the causes for termination set forth in Section 18.01, Landlord may terminate this Lease Agreement if Tenant fails to comply with any of Tenant's principal obligations hereunder within fifteen (15) days of receipt of written notice from Landlord requesting performance of any principal obligation. However, if Tenant shall have begun efforts toward performance within said fifteen (15) day period and continues to act diligently and makes every reasonable effort to perform, said period of fifteen (15) days may be extended by Landlord for a maximum period of sixty (60) days, as necessary for Tenant's performance of any principal obligation. Principal obligations under this Lease Agreement include, but are not limited to, the following:

(i) Tenant's compliance with the levels of capitalization, investment, and employment as set forth in Section 1.08 of this Lease Agreement;

(ii) the duty of Tenant to not interrupt operations at the Leased Premises without prior notice to Landlord as provided in Section 4.02(b) of this Lease Agreement and that such interruption will not last for a period in excess of that period notified to Landlord. No interruption shall exceed three (3) months;

(iii) the obligation of Tenant, when required hereunder, to submit any plans for Landlord's approval or any other information in connection with improvements and alterations to be made by Tenant to the Leased Premises;

(iv) the compliance by Tenant of the environmental provisions of Article XII of this Lease Agreement; and

(v) the prohibition to use or allow the Leased Premises or any part thereof to be used for illegal purposes or for a use that is not permitted by Section 1.07.

18.03 Abandonment. Tenant acknowledges that the Puerto Rico Industrial Development Company was established with the public purpose of promoting the creation of jobs and the continuous industrial development of Puerto Rico; that the capitalization, investment and employment levels, as detailed in Section 1.08, and the requirement of continued operations at the Leased Premises, in compliance with the provisions of Section 4.02, serve to that public purpose. In order to continuously and consistently comply with said public purpose, Landlord must maintain as available inventory the largest possible number of industrial facilities for the development of new projects or industries. Acts such as those described in clause (a) below, of this Section 18.03, defeat the purpose of this Lease Agreement, diminish the powers of the Landlord to maintain the largest number of industrial facilities in operation and in turn, impair Landlord's ability to pursue its established purpose. Therefore, Tenant recognizes that the delivery to Landlord of the keys to the Leased Premises constitutes conclusive proof of Tenant's intention to abandon the Leased Premises and any equipment, machinery, furniture or other property found within. Tenant also recognizes the fact that the voluntary abandonment of property at the Leased Premises through the delivery of the keys is incontrovertible evidence of Tenant's decision to forsake such property and renounce ownership thereat giving Landlord the absolute right to dispose of said property, as established in clause (b)(ii) below.

(a) For the purposes of this Lease Agreement Tenant has abandoned the Leased Premises upon the occurrence of any of the following events:

(i) should the Tenant deliver to Landlord the keys to the Leased Premises;

(ii) should the Tenant cease operations and close. down the Leased Premises, notwithstanding that equipment, machinery, furniture or other property remain thereat; and/or

(iii) if Tenant removes or transfers its operations, personnel or equipment at the Leased Premises to another location, without the consent of Landlord.

(b) The following procedure is adopted by the parties hereto to confirm the act of "abandonment" by Tenant under clause (a) of this Section 18.03:

(i) If Tenant has incurred in any act of abandonment described in Section 18.03(a), Landlord will send Tenant, by certified mail, return receipt requested, a notice which will describe the act of abandonment committed by Tenant. From the date of said notice, Tenant shall have fifteen (15) days to

discontinue the abandonment or to dispute in writing the information contained in Landlord's notice. Should the act of abandonment notified by Landlord continue for more than the fifteen (15)

days provided. herein, Landlord shall send a second notice to reconfirm the act of abandonment, which notice will be effective at the time the notice is sent.

(ii) Once the act of abandonment is reconfirmed as provided in clause (b)(i) above, Landlord may declare this Lease Agreement terminated by notice to Tenant and such termination shall be effective as of the date mailed. The notice will contain a request to Tenant to remove within ten (10) days all equipment, machinery furniture or other property remaining at the Leased Premises, and contain a warning to Tenant that if such property is not removed in that time period, Landlord may either remove and store said property, at its own discretion, at the expense and cost of Tenant, or dispose freely of said property as it deems convenient and Tenant will have no right to claim or be compensated for the value of the abandoned property or for any damage or loss caused by such removal by Landlord.

(c) Subject to the performance of the procedure previously described, Tenant waives any claim and releases and holds Landlord harmless from any damage or loss that Tenant may suffer as a consequence of the removal and disposal of the property that Tenant has abandoned at the Leased Premises.

18.04 Termination by Tenant. Tenant may terminate this Lease Agreement, without penalty, should any of the following events occur:

(a) Tenant moves its operations to another of Landlord's premises having greater capacity, for the purpose of augmenting its operations in terms of capitalization, investment, or employment, if at such time Tenant is in compliance with the terms and conditions of this Lease Agreement; provided, however, that all expenses related to or resulting from said relocation shall be Tenant's responsibility; or

(b) should Tenant be denied a tax exemption for the production of one or more eligible manufactured products under the Puerto Rico Industrial Incentives Act, after having applied for said exemption with the Office of Industrial Tax Exemption; provided that the right to termination for this cause may only be exercised within thirty (30) days from the date of notice of denial. No Tenant whose manufacturing process was determined to be non-eligible for a tax exemption prior to entering into this Lease Agreement is eligible to terminate the Lease under this section.

18.05 Landlord's Options. (a) Landlord may terminate this Lease Agreement upon Tenant's breach of any of its obligations hereunder, or upon occurrence of any of the events of termination set forth in Sections 18.01 and 18.02 hereof. Said notice shall be given by certified mail with return receipt requested. The termination of this Lease shall become effective on the date indicated in said notice.

(b) Notwithstanding subsection (a), Landlord may always compel specific performance of the terms and conditions of this Lease Agreement and demand and protect its rights under this Lease Agreement through legal proceedings in law or equity to obtain the faithful performance of the covenants and obligations hereunder, including the payment of all amounts due under this Lease Agreement.

(c) Should any cause for termination arise, Landlord shall have available all the rights and remedies provided herein, which are separate and independent. Landlord's resort to any particular right and/or remedy will not deprive Landlord of any other right or remedy available at law or in equity.

(d) In the event Landlord terminates this Lease Agreement, Tenant's economic and environmental obligations and any other obligations of Tenant hereunder shall survive the termination and remain in effect until they are complied with to Landlord's satisfaction.

18.06 Damages. If Landlord elects to terminate this Lease Agreement in accordance with Section 18.05 hereof Tenant shall be responsible for payment of the following:

(i) all Rent due and unpaid up to the date of termination;

(ii) all losses, damages and costs incurred by Landlord as a consequence of the early termination of this Lease Agreement including, but not limited to expenses related to any notices by Landlord to terminate this Lease Agreement; collection costs; attorneys' fees during the termination process; and the costs of court proceedings, if any; the costs to repair the Leased Premises in order to restore them to the condition in which Tenant would have been obligated to deliver the premises bad an early termination not been effected; and expenses incurred by Landlord to relet the Leased Premises in accordance with Section 18.07 of this Lease Agreement; and

(iii) damages equivalent to the total amount of Basic Rent corresponding to the unexpired portion of the Term (i.e., the Basic Rent for the period between the date of termination and the expiration date of the Term in accordance with Sections 1.09 and 3.01), that Landlord would have received had the Lease Agreement not been terminated.

18.07 Right to Relet. (a) At any time after Landlord recovers possession of the Leased Premises or any portion thereof, whether or not this Lease Agreement is terminated pursuant to Section 18.05, Landlord may, but is not obligated to, relet the Leased Premises or part thereof, in Tenant's name (as a sublease) or in Landlord's own name, as Landlord deems it convenient. The reletting of the Leased Premises, or part thereof, shall be for a term and under conditions as Landlord, in its own discretion, determines advisable; including that the term of any relet may be for a period longer or shorter than the remaining balance of the

Term hereunder. Any relet may include special provisions, such as rent credits, a rent lower than that fixed under this Lease Agreement, or no rent. Tenant acknowledges that the damages formula under Section 18.06 is not subject to adjustments should Landlord elect not to relet the Leased Premises or because the Leased Premises or part thereof is leased to a third party at a rent lower than that of this Lease Agreement.

ARTICLE XIX

RETURN OF LEASED PREMISES

19.01 Surrender of Possession. Upon termination of this Lease Agreement, at the expiration of the Term or otherwise, Tenant must vacate and surrender the Leased Premises to Landlord in good condition, reasonable wear and tear excepted, including all improvements, changes, or alterations made thereto with Landlord's consent and which Landlord does not require to be removed.

19.02 Holding Over. Should Tenant remain in possession of the Leased Premises after the expiration of the Term and does not execute a new lease agreement with Landlord. Landlord at its option may consider the tenancy of the Leased Premises to be on a month-to-month basis, with a Rent equal to one hundred fifty percent (150%) of the last Monthly Rent amount under the Lease Agreement, subject to all other terms and conditions of this Lease Agreement. consistent with a month-to-month term. Tenant shall indemnify Landlord for, and hold Landlord harmless from and against any damages, liabilities or expenses (including attorneys' fees) which result from Tenant's delay in surrendering the Leased Premises, including, without limitation, any claims made by succeeding tenants or third parties with Landlord bad committed the Leased Premises, or part thereof. Acceptance of Rent after termination of this Lease Agreement shall not constitute in itself a renewal or novation of this Lease Agreement None of the foregoing shall be deemed to constitute a waiver by Landlord of its right to recover the Leased Premises or any other right or remedy that Landlord may have under law, equity, or under this Lease Agreement.

19.03 Inspection of Leased Premises. Upon expiration of the Term or termination of this Lease Agreement and prior to Landlord's acceptance of possession, the Leased Premises shall be inspected by Landlord, who shall certify in an inspection report the physical and environmental condition of the Leased Premises. The inspection report shall identify any deficient physical or environmental condition(s) of the Leased Premises that must be corrected, remedied, or repaired at Tenant's cost as a condition precedent to Landlord's acceptance of possession .of the Leased Premises. Should Tenant fail take the corrective action required by the deficient condition of the Leased Premises as indicated in the inspection report within a reasonable time, Landlord may, but is not obligated to, perform the same, and Tenant shall reimburse Landlord for the cost of the corrective action.

19.04 Equipment, Machinery, and Furniture Not Removed. Any equipment, machinery. furniture or other property of Tenant remaining at the Lease Premises after termination of

the Term or the termination of this Lease Agreement may be removed by Landlord and stored in another location, and Tenant will be responsible for the removal and storage costs. In no event shall Landlord be liable for the value, preservation, or care of said property. Any sum that Landlord must payor spend for removal and storage of the property shall be reimbursed by Tenant. Any equipment, machinery, furniture or other property not claimed within a term of thirty (30) days after the expiration or termination of this Lease Agreement, shall be deemed abandoned by Tenant. At Landlord's option, the property deemed abandoned by Tenant shall be transferred to Landlord without any other formality or document, and Landlord shall be entitled to freely dispose of the same without Tenant having any right or claim to any payment or consideration for said property.

19.05 Tenant's Liabilities. Neither the expiration or termination of this Lease Agreement, nor the repossession of the Leased Premises or part thereof, nor the reletting of the Leased Premises or any part thereof, pursuant to the provisions hereof, shall release the Tenant of its financial or other obligations under this Lease Agreement, which obligations shall survive the expiration or termination of this Lease Agreement, as well as repossession or reletting of the Leased Premises.

ARTICLE XX

LEGAL REQUIREMENTS

20.01 Legal and Insurance Compliance. (a) Tenant, at its own cost and expense, shall observe and comply with (i) any requirement or condition under any federal, state or municipal law or regulation (including any executive order or municipal ordinance) applicable now or in the future to the Leased Premises, or to the use of the Leased Premises (including but not limited to any federal, state or local law, regulation or ordinance applicable to air and water quality, toxic or hazardous materials or substances. waste disposal. emissions or any other environmental matter); (ii) all requirements or conditions to obtain, maintain, and when appropriate, renew all permits and endorsements necessary to use the Leased Premises for the purposes allowed by this Lease Agreement and by the use permit issued by ARPE for the Leased Premises; (iii) the requirements of the insurance companies having issued policies .for the Leased Premises as provided by Article XV of this Lease Agreement; (iv) any real estate condition, lien or encumbrance affecting the Leased Premises; (v) all zoning and land use requirements; and (vi) any other requirement imposed by law that compels any duty or obligation with respect to the use or occupation of the Leased Premises.

(b) Tenant's compliance with any requirement described above shall be at Tenant's cost and expense, including, but not limited to. any other expense related to improvements or installations required by any agency or government instrumentality with jurisdiction, as a condition to the issuance or renewal of a permit or endorsement for the operations that Tenant is to carry out at the Leased Premises.

(c) Tenant, upon request of Landlord. shall submit evidence of its compliance with the above requirements or of the validity of permits and endorsements of the administrative agencies Tenant requires for its operations at the Lease Premises.

ARTICLE XXI

ASSIGNMENT AND SUBLEASE

21.01 Assignment and Sublease. Tenant shall not (i) assign this Lease Agreement, sublet the Leased Premises or any part thereof, mortgage its leasehold right over the Leased Premises or otherwise place a lien upon its right or any interest in this Lease Agreement in favor of any person or entity; (ii) allow by operation of law the constitution of any lien over Tenant's leasehold right over the Leased Premises or the transfer of Tenant's leasehold right over the Leased Premises to a third party; (iii) allow the use or occupation of the Leased Premises, or part thereof, by any person or entity that is not Tenant, its agents or employees. Except as provided in Article XVII of this Lease Agreement, under no circumstances may this Lease Agreement be assigned in a voluntary or involuntary bankruptcy proceeding, and under no circumstances shall this Lease Agreement or the rights or privileges granted to Tenant herein constitute an asset of Tenant under a bankruptcy, insolvency or reorganization proceeding.

21.02 Change of Control. The transfer of Tenant's voting stock, a change of control in Tenant or change in the persons or entities having a direct or

indirect interest in a tenant that is not a corporation (any of the foregoing hereinafter a "change of control"), shall be considered as an assignment for purposes of this Article XXI. Nevertheless, the above shall not apply to transfers of shares of voting stock traded in a nationally recognized stock exchange or reported through a national quotation system, provided that those shares transferred remain outstanding in said market or quotation system after the transfer. For purposes of this Section 21.02, a change of control of a corporation shall be deemed to have occurred at any time and as frequently as the persons who hold the majority of voting stock of said corporation as of the date of this Lease Agreement, or who immediately after the date on which any change of control occurs, cease to be owners of the majority of said stock. be it in one or a series of transactions. The term "voting stock" means the stock of a corporation regularly having voting rights in the election of corporate directors. In the case of a partnership, a change of control shall be deemed to have occurred at any time that a change in any of the managing partners of said partnership occurs.

21.03 Permitted Assignments and Subleases. As an exception to the general rule established in Section 21.01 of this Lease Agreement, and subject to Landlord's prior consent, Tenant may assign its rights under this Lease Agreement, or sublease the Leased Premises or a part thereof, to any parent, affiliate, or subsidiary whose operations are compatible with those of Tenant. Landlord's consent to the assignment or sublease will require Tenant to be in full compliance with its obligations under this Lease Agreement, including the payment or Rent.

ARTICLE XXII

GENERAL PROVISIONS

22.01 Signs and Advertisements. Tenant shall not install or permit to be installed or erected any poster, sign or structure of any kind on the roof or exterior walls of the Building or in any other part of the Leased Premises without previous written consent of Landlord.

21.02 Parking. Should the number of parking spaces available at the Leased Premises not satisfy Tenant's requirements, Landlord shall not be responsible for Tenant's parking requirements, and Tenant hereby releases Landlord of any duty or responsibility with respect to parking.

22.03 Attorneys' Fees. Tenant shall pay all of Landlord's charges and expenses, including court costs and attorneys' fees in any action (8) commenced by Landlord in order to obtain Tenant's compliance with any of its obligations and commitments under this Lease Agreement, or said charges and expenses incurred by Landlord in any action filed by Tenant in which Landlord prevails. Tenant shall pay all charges and expenses including court costs and attorneys' fees incurred by Landlord in any litigation, negotiation, or transaction in which Tenant requires Landlord's intervention or participation, where no fault or negligence is claimed against Landlord.

22.04 Successors and Assignees. This Lease Agreement shall bind and inure to the benefit of each of the parties, in their respective capacities as Landlord and Tenant, and their respective successors and assigns; provided, however, should title to the Leased Premises be transferred either voluntarily or by operation of law, the entity or natural person acquiring title shall take title free of all liability to perform this Lease Agreement, unless the entity or natural person expressly assumes and accepts the obligations as Landlord under this Lease Agreement by means of a written instrument in which the new titleholder and Tenant appear.

22.05 Landlord's Obligations to Lease. (a) The mere delivery to Tenant of an unsigned draft of this Lease Agreement for Tenant's review and consideration does not create in Tenant a right of option nor does it bind Landlord in any way to lease the Leased Premises to Tenant. Landlord's obligation to lease under this Lease Agreement shall not be binding until Landlord has executed same upon approval by Landlord's Board of Directors or Landlord's Executive Director, as the case may be.

(b) Tenant shall have thirty (30) days after receipt of the final lease agreement prepared for the Leased Premises to execute same. Should Tenant not execute and return the lease agreement to Landlord within thirty (30) days after receipt, Landlord shall have no obligation to lease, and any rights Tenant possessed in and to the Leased Premises shall be extinguished.

22.06 Definition of the Term "Tenant". The term "Tenant" as used in this Lease Agreement shall be construed as plural if there be more than one person or entity appearing and

executing this Lease Agreement as Tenant. All changes and grammatical adjustments required to make the provisions of this Lease Agreement apply equally to corporations, partnerships or other entities, or individuals shall, in all instances, be construed as incorporated into the text of the document. Whenever Tenant consists of two or more persons or entities each shall be jointly and severally ("solidariamente") bound hereunder.

22.07 Headings. The headings of the articles and sections of this Lease Agreement are for convenience only and do not limit, expand, or define the contents of the articles and sections hereof.

22.08 Late Charges. (a) All payments that Tenant is obligated to make under this Lease Agreement, including without limitation, the Deposit, the Basic Rent, the Additional Rent, and any adjustment thereto, shall bear interest from its due date until payment in full, at a rate of one percent (1%) over the prime rate charged by the principal commercial banks in the city of New York as of the date the payment is due. Should the interest be held as usurious, then interest shall be deemed to have accrued at and continue to accrue at accrue the maximum rate of interest permissible, as established by the Interest Rate and Finance Charges Regulatory Board created by Act No. 1, of October 15, 1973, as amended (P.R. Laws Ann. Tit 10, sec. 998), or any future law or regulation.

(b) Should Tenant fail to make a Rent payment within ten (10) days after its due date, then Tenant shall also pay to Landlord a penalty to recover Landlord, administrative expenses and collection costs equal to (i) one hundred dollars ($100.00) per day, or (ii) for each day the amount owed is past due, one half of one percent (0.05%) of the overdue amount, whichever is greater. Anything contained in this section regarding the payment of overdue amounts shall not constitute an extension of the due date of any amount Tenant is obligated to pay under this Lease Agreement, nor or shall it constitute a waiver of Tenant's obligation to pay such amounts as provided in this Lease Agreement.

22.09 Lease Guaranty. Simultaneously with the execution and delivery of this Lease Agreement, if required by Landlord, Tenant shall deliver the Lease Guaranty to Landlord duly executed by the Guarantor identified in Section 1.15, if any, which Lease Guaranty shall be in form substantially similar to Attachment G hereto.

22.10 Performance. Whenever a requirement, obligation, or liability is imposed upon one of the parties hereto, the concerned party shall comply with or satisfy said requirement, obligation or liability at its own expense, unless specifically provided to the contrary.

22.11 Entire Agreement. This Lease Agreement, along with its attachments contains all the terms, conditions, agreements and covenants between the parties with respect. to the Leased Premises; it substitutes and nullities. any other lease agreement or other agreement, oral or written, between the parties regarding the occupation and use of the Leased Premises by Tenant, including any letter of agreement that governed the relationship between the parties prior to and during the negotiation of this Lease

Agreement. This Lease Agreement shall only be modified, amended, altered, or canceled by a written document subscribed by both parties.

22.12 Force Majeure. In the event that Landlord shall be hindered or delayed in the performance of any of its obligations or commitments under this Lease Agreement by reason of force majeure, the performance of such act shall be excused for the period of time which it is reasonably understood that said act or event hinders its performance. Force majeure is understood as any incident or occurrence beyond Landlord's control, including, but not limited to, lock-outs, strikes, shut downs or labor disputes; inability to obtain necessary materials; riots, acts of war and insubordination; fires, explosions, accidents and acts of sabotage; lack of electricity or fuel; floods, earthquakes, torrential rains and hurricanes; administrative, governmental or court orders or injunctions; federal, state or municipal laws and regulations; the revocation, modification or suspension of a permit, license or other necessary authorization; matters of national security; acts or occurrences directly or indirectly caused by Tenant (its agents, employees, contractors, or invitees); or any other situation or event reasonably beyond Landlord's control. In said situation, the period of time for Landlord to comply with any obligation or commitment shall automatically be extended for a period equivalent to the period of duration of such force majeure.

22.13 Safety Programs. Tenant agrees to cooperate, assist and participate in any program Landlord develops or adopts to address any emergency or occurrence

constituting force majeure.

22.14 Estoppel Certificate. Tenant, upon Landlord's request, shall provide Landlord with an Estoppel Certificate wherein Tenant certifies that (i) this Lease Agreement is unmodified and in full force and effect (or if any modifications, Tenant will specify such modifications and certify that this Lease Agreement as modified is in full force and effect); (ii) the date upon which Tenant began paying Basic Rent and the dates in which all Rent payments were made; (iii) that Landlord is not in default under any provision of this Lease Agreement; (iv) that the work by Landlord to the Leased Premises, was completed as agreed and that Tenant is in possession of the Leased Premises, (iv) Tenant has no claims against Landlord under this Lease Agreement, and (vi) that there is no petition, whether voluntary or otherwise, pending as to Tenant under the bankruptcy laws of the United States.

22.15 Tenant's Duties: Landlord's Rights. All obligations and agreements which Tenant is to perform or carry out under the tenus of this Lease Agreement, shall be done exclusively at Tenant's expense, and without a right to set-off or adjustment against Rent. Should Tenant breach or fail to perform any of the obligations under this Lease Agreement, and said default persists for more than ten (10) days from the delivery by hand or the U.S. Mail of Landlord's notice demanding performance thereof, Landlord shall be entitled, but shall not be obligated, to act as required to remedy said situation, without waiving or releasing Tenant from its liability with respect to said obligation. Any sum paid or expense incurred by Landlord in said efforts shall accrue interest pursuant to the provisions of Section 22.08 and must be paid by Tenant to Landlord upon demand.

22.16 Relationship Between the Parties. The relationship existing between the parties hereto is that Landlord and Tenant exclusively, and nothing provided for in this Lease Agreement shall be interpreted as creating a partnership, joint venture, principal and agent relationship or any other type of relationship between parties.

21.17 Nullity or Partial Invalidity. If any term, clause, section or article of this Lease Agreement, or the application or enforceability thereof, be declared null, invalid or unenforceable by a final order or judgment from a court having jurisdiction, the remainder of the Lease Agreement, or the application of said term, clause, section or article to persons or circumstances other than those against whom the nullity, invalidity or unenforceability was declared, shall not be affected by said order or judgment, and each term and condition in this Lease Agreement shall be valid and enforceable to the extent permitted by law and consistent with said order or judgement.

22.18 Accord and Satisfaction. No payment by Tenant, or the acceptance by Landlord of an amount less than the Rent herein stipulated shall be deemed to be other than a payment toward the stipulated Rent, nor shall any endorsement or statement on any check or any letter or other communication accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other remedy provided in this Lease Agreement or at law or equity.

22.19 Applicable Law. This Lease Agreement is executed, and its terms and conditions shall be construed and enforced, in accordance with the laws of the Commonwealth of Puerto Rico.

22.20 Jurisdiction and Competency. The parties agree that any action, proceeding, claim, counterclaim or any other kind of judicial. action that either of the parties initiates against the other regarding (i) any matter that arises out of or related to this Lease Agreement; (ii) the legal relationship existing between Landlord and Tenant; (iii) the use or occupation of the Leased premises by Tenant; (iv) any claim for damages; and/or (v) any statutory remedy, shall be filed and litigated before the Court of First Review of Puerto Rico.

22.21 Net Lease. Tenant recognizes and admits, without limiting the meaning of any other terms and conditions of this Lease Agreement, and as otherwise provided in this Lease Agreement, that the intentions of the parties in this Lease Agreement are that all Rent to be paid by Tenant to Landlord under this Lease Agreement, must be paid to Landlord, without deduction or setoff of any kind, and that any and all expenses incurred regarding the Leased Premises, or regarding Tenant's operations in the Leased Premises, including any assessments, taxes, municipal operating licenses, charges. special license and permit fees, insurance premiums, electricity, water, gas, telephone bills and other similar services, cost of repair, maintenance and operation of the Leased Premises or Property, together with all such fixtures that are placed on, attached to, installed or

contained in the Leased Premises, shall be paid by Tenant.

22.22 Notices. All notices, claims or communications between the parties referred to or required by this Lease Agreement shall be in writing and sent by certified mail. return receipt requested, or personally delivered, to the addresses of the parties set forth in Sections 1.02 and 1.04 of this Lease Agreement. Any address change shall be notified to the other party in writing not less than thirty (30) days before the effective date of said change.

22.23 Non-Waiver. The failure of either party to demand strict performance of any of the provisions of this Lease Agreement upon default of any provision by the other party shall not constitute nor may it be construed as a waiver of said party's right to demand performance of any provision in the future if the default continues, or if the other party should later repeat the default with respect to the same provision. The receipt or acceptance by Landlord of the Rent or any other amount payable by Tenant under this Lease Agreement, with or without knowledge of Tenant's default on any obligation or condition under this Lease Agreement, shall not be deemed as release by Landlord in favor of Tenant from compliance with said obligation or condition, nor waiver of Landlord's rights or remedies under this Lease Agreement with regard to said default. The consent or approval given by Landlord for any act by Tenant which requires said consent or approval, is solely and exclusively limited to the act or event for which said consent or approval was given, and should not be understood as a waiver of any requirement for prior consent or approval for a similar act by Tenant in the future.

22.24 Cumulative Remedies. The rights and remedies of each of the parties in this Lease Agreement are independent, separate and cumulative. The exercise, or failure to exercise any right or remedy, shall not be interpreted or deemed to exclude or bar the exercise of any other right or remedy of either party under this Lease Agreement or under any law or regulation.

22.25 Brokers. Each party represents and warrants to the other party that it bas not engaged nor used the services of areal estate broker or agent in connection with this lease, and that no real estate agent has participated at any time in the negotiation of this Lease Agreement. Notwithstanding the foregoing, the liability for the payment of any commission or compensation claimed by any real estate professional who may have rendered services to any party with respect to this Lease Agreement shall be borne by the party that engaged said real estate professional, and furthermore said party shall indemnify the other against any damages, liability, expenses and/or attorney's fees, arising from any claim or lawsuit of any real estate professional for any commission allegedly owed for any service rendered.

22.26 Cross Default. Any default by Tenant under any other agreement with Landlord shall be considered a default under this Lease Agreement.

22.27 Representations. Tenant expressly represents that neither Landlord nor its directors, officers, agents, employees or representatives has made any representations or promises with respect to the Leased Premises, except as expressly provided in this Lease Agreement.

22.28 Financial Statements. Upon request of Landlord, Tenant must to submit to Landlord, within ninety (90) days after the expiration of Tenant's fiscal year, a certified financial statement issued by an authorized certified public accountant. The certified financial statement will include: (a) Tenant's capital; (b) Tenant's long-term debts and capitalization; (c) Tenant's investment in machinery and its ability to provide employment; (d) taxes paid by Tenant, including Social Security payments; and (e) any other information that is required by this Lease Agreement. Should Tenant fail to deliver the certified financial statement, Landlord shall obtain this information at Tenant's cost and Tenant shall permit Landlord access to Tenant's books and records at Tenant's main offices in Puerto Rico for this purpose.

22.29 Additional Documents. If Tenant is a corporation, Tenant agrees to submit to Landlord contemporaneously with the execution and delivery of this Lease Agreement (a) evidence of Tenant's registration with the State Department of the Commonwealth of Puerto Rico, including the name and address of its resident agent; and (b) a certificate of corporate resolution of Tenant's Board of Directors which authorizes or ratifies the execution of this Lease Agreement. If Tenant is a partnership, Tenant represents and warrants that this Lease Agreement has been subscribed by all managing partners or administrators representing Tenant. and that the same constitutes a valid and enforceable agreement for the partnership and

each and every one of the partners, and also, that each and every one of Tenant's present and future partners are now and shall remain at all times jointly and severally liable under this Lease Agreement Tenant represents and warrants that the death, resignation or retirement of any partner shall not release said partner from its liability under the terms of this Lease Agreement without Landlord's consent in writing.

22.30 Fiscal Liabilities. (a) Tenant represents and warrants that, at the time of execution of this Lease Agreement (i) it has filed tax returns for the last five (5) years; (ii) that Tenant has no outstanding tax debt with the Government of Puerto Rico nor with the United States Government (if applicable) that is not subject to a payment plan which is current as of the date of execution of this Lease Agreement; (iii) and bas paid its unemployment taxes, disability and social security taxes (as applicable), or is in compliance with a payment plan therefor and in compliance with the terms and conditions thereof.

(b) Tenant expressly recognizes that the compliance with the provisions of this Section 22.30 is an essential condition of this Lease Agreement, and if any representation or warranty is not accurate, in whole or in part, the same shall constitute cause for Landlord to terminate this Lease Agreement.

22.31 Debt Certification. Tenant warrants to Landlord that neither Tenant nor its partners (or if Tenant is a corporation, its directors, officers or stockholders) owe any amount to Landlord or to any agency or instrumentality of the Government of Puerto Rico, either personally or under this or any other corporate or partnership name.

22.32 Non-Conflict Certification. Tenant represents and warrants to Landlord that there is no conflict of interest, neither actual or potential, between Landlord and any of Tenant's

directors, officers, employees, partners and agents, as a result of business, labor, economic, or family relationships, or for any other reason. Tenant hereby covenants that upon Landlord's request Tenant shall deliver to Landlord a sworn statement from any of its directors, officers, employees, and/or agents that will confirm the veracity of Tenant's representation and warranty contained in this provision.

IN WITNESS WHEREOF, the parties subscribe this Lease Agreement on the dates below stated.

LANDLORD:	TENANT:
PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY	LIFESTYLE FOOTWEAR INC.
By: ________________________________	By: /s/ David Fraedrich
Name: ______________________________	Name: David Fraedrich
Title: _____________________________	Title: EVP and CFO
Date: ______________________________	Date: 12/16/99

ATTACHMENT A

DESCRIPTION OF LEASED PREMISES

DESCRIPTION OF BUILDING NO. T-1236-0-87
IN MOCA. PUERTO RICO

This is a pitched roof type building consisting of reinforced concrete foundation, steel columns and girders and 30 feet long steel joists which in turn support 22 gauge standard steel deck covered by one (1) fiberglass insulation and a three (3) plies built-up roofing. Roof ventilators are provided.

The building has a main floor 240'-6" x 180'-6" out to out dimensions with an area of 43,410.25 sq. ft. of manufacturing space; two (2) lean to's provided for sanitary facilities, one of 60'-6" x 12'-6" with an area of 756.25 sq. ft. and the other of 60'-6" x 10'-6" for an area of 635.25 sq. ft. an entrance porch of 22'-0" x 8'-0" with an area of 176 sq. ft. This amounts to a total area of covered floor space of 44,977.75 sq. ft.

The floor consists of a 4" thick reinforced concrete slab with monolithic cement finish, floor slab is designed for a load capacity of 150 pounds p.s.f. Exterior walls arc of concrete blocks plastered and painted on both sides. Interior walls at lean to are plastered and painted. Ceiling is rubbed and painted throughout the building. Windows are miami aluminum louvers throughout the building.

Interior doors are made of plywood, and exterior ones are industrial type metal ones. Rolling doors at leading area arc provided. Clearance in the manufacturing area from finish floor to lowest part of beams at the side's eaves is 12'-2-1/2".

DESCRIPTION OF LAND, LOTS NO. 2, 4 AND 6 (GROUPED). LOCATED AT MOCA INDUSTRIAL AREA MOCAPUERTO RICO SITE OF PROJECT: T-1236-0-78

GENERAL:

Parcel or land, Lot. No. 2,4, and 6 (grouped), located at Moca West Industrial Area ID Moca. PR.

It bounds: by the North, with State Road PR 125; by the South; with Lot No. 8 if the same industrial area; by the East, with access street of the same industrial area; and by the West, with land owned by Ana Sofia Esteves de Camara.

It has a surface of 17,878.83 square meters equivalent of 4.5489 cuerdas.

It is affected by the following rights of ways:

1) A 5'-0" feet wide strip in favor of PREPA, running along the Northern boundary.
2) A 25' -0" feet wide strip in favor of PREPA, running parallel to its Eastern boundary and at an approximate distance of 25 meter from it.

CIVIL SPECIAL FACILITIES OF PROJECT T-1236-0-78 & Ext.

1. Security House

2. Lean-to structure 52T-0" x 63'-0" + 24"-0" x 52'-0" for cafeteria

3. Tool room

4. Warehouse structure

5. Electrical generator structure

6. Paved parking

7. Automatic sprinkler system

8. 200,000 gallons water tank for sprinkler system

9. Electrical substation and emergency power plant

10. Mezzanine at manufacturing area

ELECTRICAL SPECIAL FACILITIES OF PROJECT T-1236-0-78 & 1-78

1) Electrical line of 38 KV

DEFICIENCIES OF THE PREMISES:

Tenant hereby agrees to assume the following deficiencies of the former Tenant of the Premises:

1) Above ground tanks for fuel storage

2) Compressor and suction pumps located outside the building

3) Full chemical containers storage outside the building

4) Electrical transformer

5) Floor vinyl tiles

6) Block wall structure

7) Concrete floor

8) Gypsum board walls

EXHIBIT 10.20

CORPORATION OF INDUSTRIAL PROMOTION OF THE DOMINICAN

REPUBLIC

INDUSTRIAL DUTY-FREE ZONE OF LA VEGA

RENEWAL OF LEASE CONTRACT

WHEREAS: THE CORPORATION OF INDUSTRIAL PROMOTION OF THE DOMINICAN REPUBLIC, autonomous institution of the State, organized in conformity with Law No. 288 of June 30, 1966, with it's main registered office located on the corner formed by the Avenues General Gregorio Luperon and Avenue 27 de Febrero 27, opposite the Plaza of the Dominican Flag, Santo Domingo, Duly represented by its Director Mr. JOSE DE JESUS OVALLE POLANCO, Dominican, of full age, married, Government employee, of this city and residence, bearer of the Identification and Electoral card No. 001-0149997-8, which hereafter will be referred to as " THE CORPORATION "; and of another part, the company FIVE STAR ENTERPRISES, LTD., commercial entity organized in conformity with the laws of the Island of Grand Cayman, with its head offices established in the Industrial Duty-free zone of La Vega, duly represented by its Financial Manager, Mrs. JOSEFINA DEL CARMEN JIMENEZ HERNANDEZ DE FANA, Dominican, of full age, married, resident of La Vega, bearer of the Identification and Electoral card No. 047-0141297-7, which hereafter will be referred to as " THE LESSEE ".

WHEREAS: The " THE CORPORATION " is the owner and administrator of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA, by virtue of the established DECREE NO. 498, dated DECEMBER 23, 1986.

WHEREAS : By means of contract marked with NO. CFI-A-30-2-97, of FEBRUARY 4, 1997, " THE CORPORATION " granted " THE LESSEE ", rent for a term of EIGHTY-EIGHT (88) MONTHS, counted FROM THE 1ST OF FEBRUARY, 1997 to the 1ST OF JUNE, 2004, the buildings and annexes with a superficial joint extension of 81,872.12 SQUARE FEET, located on LOTS NO. 5, 6 AND 7, of BLOCK "C" of the blueprint of THE INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

WHEREAS : which by means of communication " THE LESSEE " requested to " THE CORPORATION " the renewal of the mentioned contract of lease NO CFI-A-30-2-97, dated FEBRUARY 4, 1997.

WHEREAS : The " THE CORPORATION ", after analyzing and considering the proposal from " THE LESSEE ", decided to establish the following conditions of renewal: A) duration of lease for ten (10) years; B) price of monthly rent of US$0.06 per square feet; C) price of maintenance & multiple monthly services of US$0.02 per square feet; D) prepayment of five (5) years of rent and the balance of the Deposit of Guarantee at the moment of signing the contract, and the five (5) remaining years, payable to maturity month per month, as is specified in the memo dated JUNE 4, 2004, which forms an integral part of this act.

WHEREAS : The DIRECTOR'S MEETING of " THE CORPORATION " in its session dated DECEMBER 14, 2000, established that from this date on the negotiations and renewal of contracts of Duty-free zones that the" THE CORPORATION " should formalize would be in U.S. DOLLARS or its equivalent in DOMINICAN PESOS at the official exchange rate in effect in the DOMINICAN REPUBLIC, on the date of the corresponding payment.

WHEREAS: Since the above mentioned clause forms an integral part of the present act, the following has been agreed to:

FIRST ARTICLE : " THE CORPORATION " and "THE LESSEE ", have convened to formally renew, under the terms and conditions agreed in this act, the contract of lease No CFI-A-30-2-97, of FEBRUARY 4, 1997, which protects the real estate described below:

1. A building type A-LV, of one story, with aluzinc ceiling, constructed in concrete and blocks, with an area of construction of 15,668.83 SQUARE FEET, which is located in Lot No. 6, of block "C" of the particular plant of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

2. A building type A-LV, of one story, roofing of aluzinc, constructed in concrete and blocks, with a surface of construction of 13,644.06 SQUARE FEET, which is located on

LOT NO. 5, of BLOCK "C" of the particular plan of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

3. One (1) Annex building type A-LV, of one story, with aluzinc ceiling, constructed in concrete and blocks, with a surface of construction of 5,816.48 SQUARE FEET, located in LOTS NO. 5 AND 6, of BLOCK "C" of the particular plan of

the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

4. A building type A-LV, of one story, with aluzinc ceiling, constructed in concrete and blocks, with a construction surface of 7,542.76 SQUARE FEET, located in LOT NO. 7, of the BLOCK "C" of the particular plan of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

5. An annex building type A-LV, of one story, with aluzinc ceiling, constructed in concrete and blocks, with an area of construction of 30,925.25 SQUARE FEET, located in LOT NO. 5, of BLOCK "C" of the particular plan of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

6. One (1) machinery room, with an area of construction of 349.38 SQUARE FEET, located in LOT NO. 6, of BLOCK "C" of the particular plan of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

7. Three (3) mezzanines, with an area of construction of 4,310 SQUARE FEET, built within the industrial plant located in LOT NO. 5, of BLOCK "C" of the particular plan of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

8. One (1) annex for dining room purposes constructed in concrete, with aluzinc ceiling, with an area of construction of 3,615.36 SQUARE FEET, located between LOTS NO. 5, 6 AND 7, of BLOCK "C" of the particular plan of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA.

PARAGRAPH I: Both parts understand that the electric installations that correspond to the areas of the industrial process, transformers, etc., run at the expense of " THE LESSEE ", of which in case " THE LESSEE " ceases its operations, it will only be able to withdraw the lamps, transformers and fit rails, leaving the building and any improvements which forms part of the fixed asset in favor of " THE CORPORATION, as the landlord and owner of the industrial plant.

PARAGRAPH II: " THE LESSEE " understands that the present lease contract only includes the exact areas expressed under the terms and conditions of the contract, excluded from this contract are the adjacent and nearby areas of which " THE CORPORATION " will be able to make the use it considers suitable.

SECOND ARTICLE: The present contract will have a duration of ten (10) years, counted from the 1ST OF JUNE, 2004 to the 1ST OF JUNE, 2014.

PARAGRAPH: " THE LESSEE " will be able to request extension of this contract, under new terms and conditions, notifying it in writing to " THE CORPORATION " ninety (90) days before the maturity of the term agreed to. By the same means "THE LESSEE" could rescind the present contract before it's maturity by notifying `THE CORPORATION" with ninety (90) days in advance.

THIRD ARTICLE: RENT AMOUNT. The rent price agreed to is for SIX CENTS OF U.S. DOLLARS (US$0.06) per square feet, for monthly total of FOUR THOUSAND NINE HUNDRED TWELVE U.S. DOLLARS WITH 33/100 CENTS (US$4,912.33) or its equivalent in national currency at the rate of exchange of the Banco Central.

PARAGRAPH I: PREPAYMENT OF FIVE (5) YEARS OF RENT. " THE LESSEE " pays " THE CORPORATION ", at the moment of signing this contract, the sum of TWO HUNDRED NINETY-FOUR THOUSAND SEVEN HUNDRED THIRTY-NINE U.S. DOLLARS WITH 80/100 CENTS (US$294,739.80) or its equivalent in national currency at the rate of exchange of the Banco Central, as prepayment of the first five (5) years of rent of this lease as follows:

a. 50% or the amount US$147,369.90 or it's equivalent in Dominican Pesos at the exchange rate established by the Banco Central on the date of signing this contract.

b. The remaining 50% or the amount of US$147,369.90 or it's equivalent in Dominican Pesos at the exchange rate established by the Banco Central on July 15, 2004.

SECOND PARAGRAPH: APPLICATION. " THE CORPORATION " will use the sum paid by " THE LESSEE ", to cover the first five (5) years of prepaid rent of this lease, that is from the 1ST OF JUNE, 2004 until MAY 31, 2009 in the understanding that the remaining term, or, five (5) years, " THE LESSEE " promises from the 1st of June, 2009 to pay rent on a monthly basis and without any delay in the Office of Administration of the Free Zone.

THIRD PARAGRAPH: INTEREST FOR LATE PAYMENT. In the case of late payment of any monthly rent on the date established in the present contract or any another sum of money established under the same contract is not paid when due, interests will be charged at one and a half per cent (1-1/2 %) monthly and / or for the

fraction of the month. Payment will be required by " THE LESSEE " without further delay.

FOURTH ARTICLE: INSURANCE POLICY. It is understood that " THE LESSEE " is required by the " THE CORPORATION " to hold and sustain an insurance policy with an insurance company accepted by " THE CORPORATION ", and authorized by the SUPERINTENDENCE OF INSURANCE to operate this type of service in The country, which covers the general liability of " THE CORPORATION " and / or "THE LESSEE" for damages caused to third parties by accident or by any other causes, to cover the buildings, its annexes and adjacent properties rented by " THE LESSEE". The above mentioned policy will have to be for a value of TWO MILLION PESOS DOMINICANS (RD$2,000,000.00). In its default, " THE LESSEE

"will be civilly responsible for the repair and / or reconstruction of the building in case it suffers any damages. Likewise, "THE LESSEE" promises to pay "THE CORPORATION" the premium of the policy which covers fire and allied line for the amount of TWENTY-FOUR MILLION FIVE HUNDRED SIXTY ONE THOUSAND SIX HUNDRED THIRTY SIX DOMINICANS PESOS (RD$24,561,636.00), and against the risks of fire, cyclone, earthquake, storm, floods, etc., or any other resulting damages of natural forces and other risks. "THE LESSEE" promises to keep up-to-date payments of the above mentioned insurance policy in favor of "THE CORPORATION".

PARAGRAPH I: It is expressly convened by both parts, that the value of the buildings, as time passes could be re-evaluated by " THE CORPORATION ", and in consequence " THE LESSEE ", will be notified of the results of the new appraisals, binding " THE LESSEE " to pay the increase of the premium, as the value of the insurance policy increases to the real value of the buildings indicated in the contract.

PARAGRAPH II: In case of lack of payment of any sum corresponding to the premium of the policy established in this Article that is not covered to maturity, interests will be charged to " THE LESSEE " at one and a half per cent (1 -1/2 %) monthly and/or for the fraction of month without further delay.

FIFTH ARTICLE: DEPOSIT OF GUARANTEE. " THE LESSEE " pays " THE CORPORATION", as per this contract, the sum of ELEVEN THOUSAND TWO

HUNDRED THIRTY-THREE U.S. DOLLARS WITH 19/100 CENTS (US$11,233.19) or its equivalent in Dominican Pesos at the rate of exchange of the Banco Central, for the concept of balance of Deposit of Guarantee, which added to the quantity of RD$171,931.44, equivalent to US$3,503.80, that " THE CORPORATION " declares to have received as the Deposit of Guarantee of the contract No. CFI-A-30-2-97, dated FEBRUARY 4, 1997, which by this act is renewed, for a total sum of FOURTEEN THOUSAND SEVEN HUNDRED THIRTY-SIX U.S. DOLLARS WITH 99/100 CENTS (US$14,736.99), which will be considered a deposit, which will guarantee the fulfillment on the part of " THE LESSEE " of all its obligations assumed in the present contract, as well as the possible repairs and changes suffered by the buildings and / or extensions at the conclusion of the contract. It is understood that " THE LESSEE " will not have the right to compensate this deposit with the rents paid.

PARAGRAPH: it is expressly agreed, that if this contract was rescinded by common agreement of both parts, the Deposit of Guarantee stated above will be used depending on the report produced by the Management of Engineering of " THE CORPORATION ", regarding the conditions in which they find the facilities. In case it is not necessary to deduct any amounts for repairs of the buildings, the whole amount of the deposit will be reimbursed in conformity with the financial situation of " THE CORPORATION ".

SIXTH ARTICLE: PAYMENT OF SERVICES. " THE CORPORATION " as an operator and administrator of the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA, will give the following services to " THE LESSEE ":

a) - Protection and security for twenty-four (24) hours a the day at the entrance and exit gates of the Free Zone.

b) - Pick up of garbage and wastes on a regular basis and the elimination of industrial wastes generated by the production processes of your company.

c) - Permanent Medical Services of emergency and first aid for the employees reflected on the company payroll.

d) - Permanent service of correspondence (postal services)

e) - Services of maintenance and landscaping of the green common areas.

PARAGRAPH I: it is expressly convened

that " THE CORPORATION " will charge "THE LESSEE" for these services every

month, the sum of TWO CENTS OF U.S. DOLLARS (US$0.02) per square feet, or its equivalent in Dominican pesos at the official rate at the moment of the payment, from the 1ST OF JUNE, 2004, which is accepted by " THE LESSEE ", promising to pay the above mentioned services monthly and without any delay, it is understood that the price of these will be checked by " THE CORPORATION " for purposes of adjustment, by mutual agreement with " THE LESSEE ". Likewise

both parts understand that this payment is a supplement to the payment of the monthly rent expressed in the THIRD ARTICLE of this contract.

PARAGRAPH II: INTEREST FOR LATE PAYMENT. Late payment of these services carry interests of one and a half (1-1/2 %) monthly or for the fraction of a month.

SEVENTH ARTICLE: it is agreed by the parts, that the lease to the present contract remains subject to the condition that " THE LESSEE " keeps the approval of the NATIONAL COUNCIL OF DUTY-FREE ZONES OF EXPORTATION, based on Law No. 8-90, of JANUARY 15, 1990 AND ITS MODIFICATIONS, not being " THE LESSEE " able to use the place leased for another purpose that is not THE MANUFACTURING OF SHOES, for which it will have to maintain its permit from the NATIONAL COUNCIL OF DUTY-FREE ZONES OF EXPORTATION.

PARAGRAPH: it is expressly agreed among the parts, that if in case " THE LESSEE " loses its permit to operate, based on LAW NO. 8-90, of JANUARY 15, 1990 AND ITS MODIFICATIONS, it will be forced to surrender the rented building subject to this contract to " THE CORPORATION " in a term of thirty (30) days starting from the date in which it is denied or from the cancellation of the mentioned permission.

EIGHTH ARTICLE: ALTERATIONS: It is expressly established, that " THE LESSEE " will not be able to alter nor modify the rented properties owned by " THE

CORPORATION ". In case " THE LESSEE " is interested in making any changes to the rented places for the purposes of expanding its industrial activities it will have to request previous authorization in writing by " THE CORPORATION ". "THE LESSEE" must submit the plans and budget proposals for the review and deliberation of the MANAGEMENT OF ENGINEERING of " THE CORPORATION ", which will determine the approval of the changes applied.

PARAGRAPH I: it's been expressly agreed, that " THE CORPORATION " will neither authorize nor recognize any type of investment " THE LESSEE " makes on the building of the present contract if it does not have the previous approval of " THE CORPORATION ". It is understood that any modifications, alterations or construction that does not rely on the authorization of " THE CORPORATION ", previously indicated, the same one will be considered by " THE CORPORATION " for the purposes of payment of lease and multiple services on the part of " THE LESSEE ", adding it to the original area of the rented places; but the above mentioned investment will not be recognized.

PARAGRAPH II: " THE LESSEE " will have the right to withdraw, when the contract expires, the equipments installed in the rented areas, with previous authorization of the Customs Headquarters. The rented property must be left in equal condition as it was, except for the depreciation which results from its normal use. The improvements introduced by "THE LESSEE " will not be compensated and will remain in favor of " THE CORPORATION ".

NINTH ARTICLE: REPAIRS AND MAINTENANCE. " THE LESSEE " will maintain the leased property in good conditions at its own expenses, making both the big and small repairs that are necessary for the up-keep of the buildings, as a way of preserving the rented properties and adjacent areas in good condition . " THE LESSEE " will be in charge of rendering the following services:

a) - The interior and exterior painting of the property;

b) - The repairs of leaks sustained by building roofs;

c) - The repairs of floors and roofs, doors and windows and sanitary facilities; and,

d) - Maintenance of the lots and the green areas.

It is also understood, nevertheless that " THE LESSEE " will not be responsible for the repair of damages resulting from poor construction of the rented properties.

TENTH ARTICLE: it is expressly agreed that " THE LESSEE " will not have authorization to sign any contract that could be used as a mortgage over the rented property or its improvements or any other property belonging to the " THE CORPORATION ". If by any act of " THE LESSEE " any demand, lawsuit or action is brought against " THE CORPORATION " or any of its real estate or assets, " THE

LESSEE " will have to take the necessary measures at its own expense in order for the above mentioned demands, actions or lawsuits to be withdrawn and

charges cancelled, or grant " THE CORPORATION " an insurance policy or a satisfactory deposit which should cover the latter against any resulting risks of the above mentioned demands, actions or charges.

PARAGRAPH: In case any of the above should happen and " THE CORPORATION " suffers damages " THE LESSEE " will be liable for all the costs of the damages that " THE CORPORATION " should suffer including the sums necessary to be reimbursed for the legal expenses and fees incurred.

ELEVENTH ARTICLE: SOME REGULATIONS. " THE LESSEE " promises to comply with the following in favor of " THE CORPORATION " :

1) - It is expressly agreed that the boilers of the industry that " THE LESSEE " will operate will be placed outside the leased buildings, as well as the transformers, electrical generators and compressors, in consequence " THE LESSEE " will have to obtain previous written authorization from " THE CORPORATION " for the construction of areas where the above-mentioned equipments will be located.

2) - Any additional service of security to be required by " THE LESSEE " will have to be duly authorized by " THE CORPORATION " except the protection and security measures needed inside of the rented buildings.

3) - " THE LESSEE " agrees to respect all the parking and traffic signs placed by " THE CORPORATION " in the above-mentioned Zone and will make sure that all its

personnel obeys all the rules as well. The ramps for loading and unloading will only be constructed in the places chosen by " THE CORPORATION ".

4) - " THE LESSEE " will not store materials, supplies or products, nor will it allow these in the areas located out of the permanent structure, without the written consent of " THE CORPORATION ". The approvals for exterior storage will be granted only when the area of storage is out of sight. The containers or trucks for shipments will only be allowed to park on the ramps designated for loading and unloading or on the parking lot foreseen by " THE CORPORATION " for such purposes but never on the streets or where it is prohibited. It is understood that the above mentioned trucks or containers will only remain on the ramps when they are giving the service of loading or unloading.

5) - " THE LESSEE " will not install or put up signs in the Zone, except those that indicate the name of the company or the types of products manufactured by it. The design, dimension and colors of any sign will be submitted and approved by " THE CORPORATION " before its installation.

6) - " THE LESSEE " promises that the garbage or wastes piled in the exterior areas designated for these purposes will not be seen from the streets and adjacent lots.

7) - " THE CORPORATION " will be in charge of the gardening, planting and maintenance of the green areas and landscaping in general, and, " THE LESSEE "

will not make any changes or plant trees without the previous written authorization from " THE CORPORATION ".

8) - " THE LESSEE " will join the Association of the Industrial Free Zone, comply with its rules and regulations and pay any reasonable fee that is established for its members.

9) - " THE LESSEE " will not allow the preparation of food inside the buildings. The food will have to be prepared out of the Zone and delivered to the individual buildings in suitable containers. The workers will be able to take their own food to the work place. In case there are no companies that provide these services outside the zone for delivery to the Industrial free zone, the preparation of the food inside the buildings will only be allowed if the same is prepared within specific standards of hygiene and of sanitation that " THE CORPORATION " would for these purpose approve.

10) - " THE LESSEE " agrees to report on a permanent basis to " THE CORPORATION " in writing, the names, telephone numbers and postal addresses of the principal executives responsible for its operations in the Zone and its Superiors, whether they are in the local offices or in the offices of its parent company located outside of the Dominican Republic. Any change in the names, telephone numbers and postal addresses of such executives and their superiors will also be promptly informed in writing to " THE CORPORATION ".

11) - The present contract of lease and the industrial operations will be subject to all the legal present and future administrative dispositions of the industrial duty-free zones that come from the Law or from related Departments of the Dominican Government. " THE LESSEE " will not be able to claim ignorance of the above mentioned laws or administrative dispositions, and its non compliance will give place to the termination of this contract.

12) - " THE LESSEE " agrees to provide the company with an exclusive area for dining which will not be able to be used for a different purpose that the one for which it will be constructed. " THE LESSEE " will instruct its personnel in the use of this facility, and therefore it will be prohibited to eat in other places of the zone, as well as food consumption in open air.

13) It is understood that in case " THE LESSEE " leaves behind personal property or objects at the end of the present contract, " THE CORPORATION ", after the period of thirty (30) days counted from the date `THE LESSEE" leaves the building whether by rescinding or at the end the present contract, has the right to dispose of the objects as it sees fit.

TWELVE ARTICLE: TOTAL OR PARTIAL DESTRUCTION OF THE BUILDING. In case the rented buildings suffer partial or complete destruction, no matter the cause of the disaster, " THE LESSEE " will have to report it immediately to " THE CORPORATION " in order for the latter to present the corresponding claim to the insurance companies.

If a disaster of this sort ever happened " THE CORPORATION " will have the right or option to reconstruct the buildings or to rescind this contract. In this case "THE LESSEE " would not be forced to pay any more rent than the fraction corresponding to the time in which it had the use of the building.

If the total or partial destruction of the building were caused by an act of negligence or by direct effect of " THE LESSEE ", the latter will be responsible for the damages caused in the measure in which these are not covered by the insurance.

ARTICLE THIRTEEN: INSPECTION OF THE BUILDING. " THE LESSEE " will allow the access of official personnel of " THE CORPORATION " and / or personnel that this one designates when it finds it suitable to visit the rented properties in order to render an inspection of these and to verify that its use adheres to the laws and regulations, as well as to the terms and conditions stipulated in the present contract.

FOURTEENTH ARTICLE: BANKRUPTCY OF " THE LESSEE ". " THE LESSEE " vows to inform " THE CORPORATION " of any demand, lawsuits or judicial act which could put it in risk of bankruptcy whichever the country in which the demand or lawsuit is filed against `THE LESSEE". The above mentioned notice will have to be done in writing within twenty (20) days after being notified or served of such act.

In this case, " THE CORPORATION " will be able to, under its discretion, rescind the present contract, without this affecting its right to intervene in the process of bankruptcy.

FIFTEENTH ARTICLE: SERVICE OF WATER, ELECTRICITY, TELEPHONE, SEWAGE AND PAYMENT OF PREMIUM OF INSURANCE. The payments for concept of water, electricity, telephone and sewage system, from the lessees drainage or street residual waters will be at the expense of " THE LESSEE ". In case the latter will not pay all or any of these services, except for the ones offered by " THE CORPORATION ", or the premiums on insurance at the expense of " THE LESSEE " in conformity with the terms of this contract on the due dates, " THE CORPORATION " has the right, if it considers it suitable, of warning " THE LESSEE " on such an irregularity, which should be corrected or solved or taken the actions to solve it, in a time frame of no longer than FIFTEEN (15) DAYS, counted from the notification served by "THE CORPORATION".

SIXTEENTH ARTICLE: BREACH OF CONTRACT OR NON-COMPLIANCE. The breach of any of the Clauses and conditions of this contract on the part of " THE LESSEE " will give `THE CORPORATION" the right to rescind this contract only after ten days after having served "THE LESSEE" a notice to this effect. If within the period indicated "THE LESSEE " does not remedy the non-compliance of the said clause and condition " THE CORPORATION " will repossess the properties rented without the need of judicial procedure of any sort, ten (10) days after a notice of eviction of the rented property is served. In this event " THE

CORPORATION " has the right to demand by any means necessary, the total amount of the rent stipulated in the Third Article, as well as any amounts owed for the services established in the Sixth Article of the present contract.

SEVENTEENTH ARTICLE: PAYMENT OF LEGAL FEES. "THE LESSEE " will pay the legal costs and honorary expenses of this lease contract and vows to pay the legal costs and the expenses in which " THE CORPORATION " incurs in the process of collecting overdue fees or any other legal proceedings derived from the present contract.

EIGHTEENTH ARTICLE: TERMINATION OF THE CONTRACT. The parties agree that the present contract will not be renewed by tacit understanding. In case " THE LESSEE " wishes to renew the present contract for more years it will have to do it in the form described in the SECOND ARTICLE of this document. In case this contract is not renewed, " THE LESSEE " will have to surrender the property rented from " THE CORPORATION " with a previous inspection by the latter in a term of twenty (20) days after a simple notification is served by an Officer's act required by " THE CORPORATION. " THE LESSEE " pledges to pay "THE CORPORATION " the remainder of time of the lease stipulated in the SECOND ARTICLE of this contract or the due balances at the moment in which it decided to put an end to the present contract, or if the same is ended by reasons of non-compliance by " THE LESSEE ".

NINETEENTH ARTICLE: It is understood that any changes or modifications that " THE LESSEE " wishes to make on the buildings, will have to make it known to " THE CORPORATION " after signing this contract and that the costs of such changes will run at the expense of " THE LESSEE ".

TWENTIETH ARTICLE: TRANSFER OF CONTRACT. It is expressly understood that " THE CORPORATION ", as the owner of the rented property will be able to transfer the rights it possesses by virtue of the present contract. Likewise it can only been agreed that " THE LESSEE " will not be able to grant or transfer the rights that it possesses by virtue of the present contract to sublet parts or the entire property rented without the previous written consent of " THE CORPORATION ", by which cause it can lose the rights expressed in this contract.

PARAGRAPH I: In case " THE LESSEE ", such and as it is specified in the same article, does not obtain the previous authorization in writing to transfer this contract, and such transaction were to take place without the contractual requirements established by this act, the present contract will be declared void and invalid without the need of judicial intervention.

PARAGRAPH II: In case " THE CORPORATION " grants the corresponding authorization, the terms and conditions of the new contract will be those that are in effect for new leases at the moment of signing a new contract. Likewise, in case of sale and / or change of company name and / or change of shareholders by " THE LESSEE " the new prices applied will be the ones in effect at the moment that the

above mentioned authorization is formalized. The company granted the new contract will have to be authorized to operate in the INDUSTRIAL DUTY-FREE ZONE OF THE VEGA and to possess the corresponding permits in conformity with LAW NO. 8-90 of JANUARY 15, 1990 and its modifications, previously indicated in the same act. It is understood that " THE LESSEE " will not be able to claim any rights on the buildings after such transfer.

TWENTY FIRST ARTICLE: ENVIRONMENTAL POLLUTION. " THE LESSEE " pledges to provide the company that it will install in the rented buildings the equipments and technical procedures necessary to avoid polluting the atmosphere of dust, impurities, excessive noises, etc., that contaminate the environment and or harm, disturb, obstruct or in any form impede the good functioning of other companies located in the INDUSTRIAL DUTY-FREE ZONE OF LA VEGA. In case " THE LESSEE " does not comply with this obligation, " THE CORPORATION " will cancel the present contract and will repossess the leased properties at once. Likewise, " THE LESSEE " will not disturb the ecological balance, according to the laws and regulations that for these purposes exist in the present or are created in the future.

TWENTY SECOND ARTICLE: SUSPENSION OF ACTIVITIES. It is understood that the industrial operations of " THE LESSEE " will be constant and therefore any temporary suspension of over SEVEN (7) WORKING DAYS, would have to be notified in writing to " THE CORPORATION " within TWENTY-FOUR (24) hours after the above mentioned suspension. " THE CORPORATION " will have the right to put an end to

the present lease contract without responsibility in case " THE LESSEE " suspends its industrial operations in a period that in the course of ONE (1) calendar year sums sixty (60) DAYS or in a period of THIRTY (30) CONSECUTIVE DAYS, (except that the above mentioned suspension of operations should exclusively be for reasons out of the control of " THE LESSEE ") a simple notification to the " THE LESSEE ", on the part of " THE CORPORATION " would suffice without need of any legal intervention.

TWENTY THIRD ARTICLE : COMPETENT COURTS. Both parties understand that in case

any difference between them should arise or in case of litigation between them in reference to the present contract, they would submit it to the Dominican Courts, and not resort to any other courts that by any reason could be empowered of the above mentioned litigations or differences. Likewise they understand that anything that is not foreseen in this contract will be governed by the laws of the Dominican Republic.

TWENTY FOURTH ARTICLE : CHOICE OF LOCATION. For all purposes and consequences of the present contract, both parts choose residence or choice of location as follows:

" THE CORPORATION ": Its offices are located on the corner formed by the AVENUES GENERAL GREGORIO LUPERON AND AVENUE 27 DE FEBRERO, OPPOSITE THE PLAZA OF THE DOMINICAN FLAG, SANTO DOMINGO, DOMINICAN REPUBLIC; and

" THE LESSEE ": In the offices of the Law Firm of DR. JOSE MIGUEL DE LA CRUZ MENDOZA located on AVENIDA JOSE HORACIO RODRIGUEZ NO.4, ON THE CORNER OF CAONABO LORA, IN LA VEGA, DOMINICAN REPUBLIC, as well as in the building rented as the object of the present contract.

PARAGRAPH: In case the rented buildings are closed with no employees attending it, " THE LESSEE " chooses domicile in the office of the SECRETARIAT OF THE COURT OF PEACE OF THE SECOND CIRCUMSCRIPTION OF THE MUNICIPALITY OF THE VEGA. It is therefore understood, that by virtue of the choice of domicile chosen, both parts can notify the other of any demand or lawsuits, claim or any other act, be judicial or not, whichever its nature and these notifications or acts will be valid and of full effect when they are notified in the chosen domicile.

TWENTY FIFTH ARTICLE: it is has been agreed by both parts that the residues or wastes of paper, carton and related produced by " THE LESSEE " as a result of his its industrial activities in the INDUSTRIAL DUTY-FREE ZONE OF THE VEGA, will be of the exclusive property of the TRIPARTITE COMMITTEE of the Duty-free zone, established by the Regulations that complement LAW NO. 8-90, of JANUARY 15TH, 1990 and its modifications of which " THE CORPORATION " is a part of; for which the COMMITTEE of this Duty-free zone will be able to dispose and use as it seems suitable. Any non-compliance on the part of " THE LESSEE " of this clause will be a reason for rescission of the present contract of lease, without responsibility for " THE CORPORATION ".

TWENTY SIXTH ARTICLE: " THE LESSEE " pledges to deposit in the Legal Offices of " THE CORPORATION " the documents that support and sustain its existence and constitution as a moral entity; it also vows to deposit any future documentation that sustains and supports any variation or change in conformity with the Social Bylaws of " THE LESSEE " that gave it is origin and social constitution.

The above mentioned deposit of documents would take effect at the moment "THE LESSEE " signs the present contract, in respect to the legal documents of constitution and for any changes regarding its legal status and social constitution in the future, will have to submit effective the THIRTY (30) DAYS after the date in which the change has been formalized. It is understood that the " THE LESSEE " should submit these documents without the need of previous notification on the part of " THE CORPORATION ".

TWENTY SEVENTH : " THE LESSEE " declares that it knows and accepts the MANUAL THAT GOVERNS THE RECOGNITION OF INVESTMENT AS PREPAID RENT in favor of the lessees established in the Duty-free zones property of " THE CORPORATION" which forms an integral part of the present contract.

TWENTY EIGHTH ARTICLE: SPECIAL CLAUSE: OPTION TO PURCHASE. Its been agreed by the parts, that " THE LESSEE " has full knowledge the industrial building that it occupies by means of the present contract is for sale by " THE CORPORATION ". THE CORPORATION " grants " THE LESSEE " the option to

purchase the property which will to take place during the term that " THE CORPORATION " establishes for the above mentioned purposes.

PARAGRAPH I: It is understood that, if the term established by " THE CORPORATION " expires without " THE LESSEE " having exercised the option to purchase granted by " THE CORPORATION " then " THE CORPORATION will have the power to sell the building to another investor and "THE LESSEE " would lose the right to purchase, once " THE CORPORATION " has rescinded the lease contract, according to the clause established in the sixteenth Article.

PARAGRAPH II: Likewise, " THE LESSEE " will remain under the terms and conditions of the signed contract until the end of its term even if `THE CORPORATION" sells the property under the contract. In which case `THE LESSEE" would negotiate the new terms and conditions with it property's new owner when the contract expires.

PARAGRAPH III: " THE LESSEE ", by means of the present contract, vows to allow the " THE CORPORATION " to show the property and building under this lease contract to the new investors interested, and " THE LESSEE " promises to allow the investors or interested parties to examine the property, without any type of objection or impediment, as well as allowing any authorized persons " THE CORPORATION " should send to inspect or examine by means of this present contract, providing that such inspections are realized within a prudent schedule, preferably during working hours.

TWENTY NINTH ARTICLE: SUBSTITUTION OF CONTRACT. This contract substitutes in all its parts and clauses the contract marked as No. CFI-A-30-2-97, dated FEBRUARY 4, 1997, signed by both parts; in case of any pending debt or commitment of payment still due " THE LESSEE " vows to " THE CORPORATION " that such pending debts or fees due will be transferred to the present contract as an obligation of payment on the part of " THE LESSEE " to " THE CORPORATION".

THIRTIETH ARTICLE: For which is not foreseen or stated in this contract the parties shall abide by the provisions of the law of the Dominican Republic and choose domicile as previously indicated.

DONE AND SIGNED in two (2) originals of the same tenor and effect, one for each of the parts, in the city of SANTO DOMINGO, DOMINICAN REPUBLIC, on the TWENTY FOURTH (24) day of JUNE of the year TWO THOUSAND FOUR (2004).

FOR THE CORPORATION OF INDUSTRIAL PROMOTION

"THE CORPORATION"

LIC. JOSE DE JESUS OVALLE POLANCO

GENERAL DIRECTOR

FOR FIVE STAR ENTERPRISES, LTD.

" THE LESSEE "

JOSEFINA DEL CARMEN JIMENEZ HERNANDEZ DE FANA

FINANCIAL MANAGER

I CERTIFY AND GIVE OATH: That the gentlemen MR. JOSE DE JESUS OVALLE POLANCO AND JOSEFINA DEL CARMEN JIMENEZ HERNANDEZ DE FANA, of the personal information above indicated, whom I know as the persons who executed the preceding instrument, personally appeared before me to sign voluntarily an in my presence this contract and who certify that these are the signatures used by both parties.

In the city of SANTO DOMINGO, DOMINICAN REPUBLIC, on the TWENTY FOURTH (24) day of JUNE of the year TWO THOUSAND FOUR (2004).

NOTARY PUBLIC

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Five Star Enterprises Ltd.,
a Cayman Islands corporation

Lifestyle Footwear, Inc.,
a Delaware corporation

Rocky Canada, Inc.,
an Ontario corporation

EJ Footwear LLC,
a Delaware limited liability company

HM Lehigh Safety Shoe Co. LLC,
a Delaware limited liability company

Georgia Boot LLC,
a Delaware limited liability company

Georgia Boot Properties LLC,
a Delaware limited liability company

Durango Boot Company LLC,
a Delaware limited liability company

Northlake Boot Company LLC,
a Delaware limited liability company

Lehigh Safety Shoe Co. LLC,
a Delaware limited liability company

Lehigh Safety Shoe Properties LLC,
a Delaware limited liability company

EJ Asia Limited,
a Hong Kong corporation

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING
FIRM AND REPORT ON SCHEDULES

We consent to the use in this Registration Statements No. 33-65052, 333-4434, 333-67357 and 333-121756 on Form S-8 of our report dated March 15, 2005, relating to the financial statements of Rocky Shoes & Boots, Inc. and management's report on the effectiveness of internal control over financial reporting, appearing in the Annual Report on Form 10-K for year ended December 31, 2004.

Our audits of the financial statements referred to in our aforementioned report also included the financial statement schedules of Rocky Shoes & Boots, Inc., listed in Item 15. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, and the information set forth therein.

/s/ Deloitte & Touche LLP

Columbus, Ohio
March 15, 2005

EXHIBIT 24

POWER OF ATTORNEY

Each director and officer of Rocky Shoes & Boots, Inc., an Ohio corporation (the "Company"), whose signature appears below hereby appoints Mike Brooks and Curtis A. Loveland, or either of them, as his attorney-in-fact, to sign, in his name and behalf and in any and all capacities stated below, and to cause to be filed with the Securities and Exchange Commission, the Company's Annual Report on Form 10-K (the "Annual Report") for the fiscal year ended December 31, 2004, and likewise to sign and file any amendments, including post-effective amendments, to the Annual Report, and the Company 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 Company 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 10, 2005.

DIRECTORS/OFFICERS:

Signature	Title
/s/ Mike Brooks Mike Brooks	Chairman, Chief Executive Officer, and a Director (Principal Executive Officer)
/s/ James E. McDonald James E. McDonald	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Curtis A. Loveland Curtis A. Loveland	Secretary and a Director
/s/ J. Patrick Campbell J. Patrick Campbell	Director
/s/ Glenn E. Corlett Glenn E. Corlett	Director
/s/ Michael L. Finn Michael L. Finn	Director
/s/ G. Courtney Haning G. Courtney Haning	Director
/s/ Harley E. Rouda Harley E. Rouda	Director
/s/ James L. Stewart James L. Stewart	Director

EXHIBIT 31.1

CERTIFICATION

I, Mike Brooks, certify that:

1. I have reviewed this annual report on Form 10-K of Rocky Shoes & Boots, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/s/ Mike Brooks

Mike Brooks
Chairman and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, James E. McDonald, certify that:

1. I have reviewed this annual report on Form 10-K of Rocky Shoes & Boots, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2005

/s/ James E. McDonald

James E. McDonald
Executive Vice President and Chief Financial Officer

EXHIBIT 32

CERTIFICATION PURSUANT TO RULE 13a - 14(b) AND SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Rocky Shoes & Boots, Inc. (the "Company") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned hereby certifies, pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mike Brooks

Mike Brooks
Chief Executive Officer
March 16, 2005

/s/ James E. McDonald

James E. McDonald
Executive Vice President and Chief Financial Officer
March 16, 2005

This certification is being furnished as required by Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code, and shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of that Section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except as otherwise stated in such filing.

EXHIBIT 99.2

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES

SCHEDULE II

CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS FOR THE YEARS DECEMBER 31, 2004, 2003 AND 2002

DESCRIPTION	Balance at Beginning of Period	Additions Charged To Costs and Expenses	Deductions	Balance at End of Period
ALLOWANCE FOR DOUBTFUL ACCOUNTS				
Year ended December 31, 2004	$ 620,000	$ 76,189	$ 18,811 (1)	$ 715,000
Year ended December 31, 2003	$ 365,000	$ 456,140	$ (201,140) (1)	$ 620,000
Year ended December 31, 2002	$ 345,000	$ 243,680	$ (223,680) (1)	$ 365,000

(1) Amount charged off, net of recoveries