

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-21026

ROCKY SHOES & BOOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or Other Jurisdiction of
Incorporation or Organization)

31-1364046
(I.R.S. Employer
Identification No.)

39 E. Canal Street, Nelsonville, Ohio 45764
(Address of Principal Executive Offices, Including Zip Code)

(740) 753-1951
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. YES NO

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,319,595 shares of Common Stock, no par value, were outstanding at October 24, 2005.

FORM 10-Q

ROCKY SHOES & BOOTS, INC.

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PART 1 — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2005 Unaudited	December 31, 2004	September 30, 2004 Unaudited
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 2,050,120	\$ 5,060,859	\$ 780,739
Trade receivables — net	83,711,308	27,182,198	45,522,136
Other receivables	1,629,606	1,114,959	782,285
Inventories	77,322,005	32,959,124	38,738,153
Deferred income taxes	1,297,850	230,151	959,810
Income tax receivable		2,264,531	
Prepaid expenses	1,339,103	588,618	809,482
Total current assets	167,349,992	69,400,440	87,592,605
FIXED ASSETS — net	23,690,488	20,179,486	20,091,910
DEFERRED PENSION ASSET	1,347,824	1,347,824	2,499,524
IDENTIFIED INTANGIBLES	47,116,646	2,561,427	2,708,179
GOODWILL	20,620,543	1,557,861	1,557,861
OTHER ASSETS	4,072,999	1,658,616	587,942
TOTAL ASSETS	\$ 264,198,492	\$ 96,705,654	\$ 115,038,021
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	\$ 13,242,936	\$ 4,349,248	\$ 6,704,676
Current maturities — long term debt	6,389,559	6,492,020	525,596
Accrued expenses:			
Income taxes	3,222,774		2,354,207
Taxes — other	596,460	422,692	382,846
Salaries and wages	2,656,279	1,295,722	2,270,769
Other	2,717,026	1,228,708	1,328,492
Total current liabilities	28,825,034	13,788,390	13,566,586
LONG TERM DEBT — less current maturities	121,111,944	10,044,544	32,388,913
DEFERRED INCOME TAXES	18,527,196	1,205,814	262,907
DEFERRED LIABILITIES	1,472,442	296,108	2,232,671
TOTAL LIABILITIES	169,936,616	25,334,856	48,451,077
SHAREHOLDERS' EQUITY:			
Common stock, no par value; 10,000,000 shares authorized; issued and outstanding			
September 30, 2005 — 5,295,845; December 31, 2004 — 4,694,670; September 30, 2004 — 4,620,170	50,694,385	38,399,114	36,674,834
Accumulated other comprehensive loss	(889,564)	(1,077,586)	(1,950,400)
Retained earnings	44,457,055	34,049,270	31,862,510
Total shareholders' equity	94,261,876	71,370,798	66,586,944
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 264,198,492	\$ 96,705,654	\$ 115,038,021

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
NET SALES	\$ 94,087,786	\$ 50,052,894	\$ 221,105,507	\$ 99,368,970
COST OF GOODS SOLD	<u>60,014,309</u>	<u>34,056,404</u>	<u>137,100,919</u>	<u>69,977,667</u>
GROSS MARGIN	34,073,477	15,996,490	84,004,588	29,391,303
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>21,820,251</u>	<u>8,323,464</u>	<u>61,966,723</u>	<u>19,047,531</u>
INCOME FROM OPERATIONS	12,253,226	7,673,026	22,037,865	10,343,772
OTHER INCOME AND (EXPENSES):				
Interest expense	(2,523,143)	(422,120)	(6,517,313)	(955,561)
Other — net	<u>130,958</u>	<u>(54,404)</u>	<u>248,597</u>	<u>43,984</u>
Total other — net	(2,392,185)	(476,524)	(6,268,716)	(911,577)
INCOME BEFORE INCOME TAXES	9,861,041	7,196,502	15,769,149	9,432,195
INCOME TAX EXPENSE	<u>3,352,605</u>	<u>2,309,143</u>	<u>5,361,364</u>	<u>3,024,563</u>
NET INCOME	<u>\$ 6,508,436</u>	<u>\$ 4,887,359</u>	<u>\$ 10,407,785</u>	<u>\$ 6,407,632</u>
NET INCOME PER SHARE				
Basic	\$ 1.23	\$ 1.06	\$ 1.99	\$ 1.41
Diluted	\$ 1.15	\$ 0.98	\$ 1.86	\$ 1.30
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	<u>5,289,736</u>	<u>4,605,800</u>	<u>5,232,964</u>	<u>4,530,867</u>
Diluted	<u>5,646,161</u>	<u>4,992,319</u>	<u>5,585,224</u>	<u>4,943,929</u>

See notes to the interim unaudited condensed consolidated financial statements.

ROCKY SHOES & BOOTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,407,785	\$ 6,407,632
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,772,572	2,464,937
Deferred compensation and pension	773,226	(394,922)
Deferred income taxes	(16,118)	
Loss on disposal of fixed assets	16,790	
Stock issued as directors' compensation	60,000	66,885
Change in assets and liabilities, (net of effect of acquisition):		
Receivables	(27,611,537)	(25,942,003)
Inventories	(9,689,337)	(669,966)
Other current assets	2,239,986	235,756
Other assets	142,171	(402,958)
Accounts payable	3,337,976	3,940,097
Accrued and other liabilities	1,325,009	760,740
	<u>(15,241,477)</u>	<u>(13,533,802)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(4,268,847)	(4,467,840)
Acquisition of business	<u>(92,916,237)</u>	
	<u>(97,185,084)</u>	<u>(4,467,840)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	263,128,948	91,920,037
Repayment of revolving credit facility	(194,567,038)	(76,772,448)
Proceeds from long-term debt	48,000,000	
Repayments of long-term debt	(5,596,971)	(252,008)
Debt financing costs	(2,310,550)	
Proceeds from exercise of stock options	761,433	1,727,750
	<u>109,415,822</u>	<u>16,623,331</u>
Net cash provided by financing activities		
DECREASE IN CASH AND CASH EQUIVALENTS	(3,010,739)	(1,378,311)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>5,060,859</u>	<u>2,159,050</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,050,120</u>	<u>\$ 780,739</u>

See notes to the interim unaudited condensed consolidated financial statements.

**ROCKY SHOES & BOOTS, INC.
AND SUBSIDIARIES**

NOTES TO THE INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS FOR THE THREE MONTH AND NINE MONTH PERIODS ENDED
SEPTEMBER 30, 2005 AND 2004

1. INTERIM FINANCIAL REPORTING

In the opinion of management, the accompanying interim unaudited condensed consolidated financial statements reflect all adjustments which are necessary for a fair presentation of the financial results. All such adjustments reflected in the unaudited interim consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the three-month periods and nine-month periods ended September 30, 2005 and 2004 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2004.

We account for our stock option plans in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized. Had compensation cost for all stock option plans been determined consistent with the fair value approach described in the SFAS No. 123, "Accounting for Stock Based Compensation," our net income and earnings per share would have resulted in the pro forma amounts as reported below.

	Three Months Ended September 30, 2005	September 30, 2004	Nine Months Ended September 30, 2005	September 30, 2004
Net income as reported	\$ 6,508,436	\$ 4,887,359	\$ 10,407,785	\$ 6,407,632
Deduct: Stock based employee compensation expense determined under fair value based method for all awards, net of tax	<u>273,930</u>	<u>205,125</u>	<u>821,792</u>	<u>634,970</u>
Pro forma net income	<u>\$ 6,234,506</u>	<u>\$ 4,682,234</u>	<u>\$ 9,585,993</u>	<u>\$ 5,772,662</u>
Earnings per share:				
Basic — as reported	\$ 1.23	\$ 1.06	\$ 1.99	\$ 1.41
Basic — pro forma	\$ 1.18	\$ 1.02	\$ 1.83	\$ 1.27
Diluted — as reported	\$ 1.15	\$ 0.98	\$ 1.86	\$ 1.30
Diluted — pro forma	\$ 1.10	\$ 0.94	\$ 1.72	\$ 1.17

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

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2. INVENTORIES

Inventories are comprised of the following:

	<u>September 30, 2005</u>	<u>December 31, 2004</u>	<u>September 30, 2004</u>
Raw materials	\$ 9,766,712	\$ 4,711,014	\$ 6,110,035
Work-in-process	937,712	564,717	1,690,521
Finished goods	65,635,079	26,565,240	29,166,558
Factory outlet finished goods	1,697,725	1,268,153	1,996,039
Reserve for obsolescence or lower of cost or market	<u>(715,223)</u>	<u>(150,000)</u>	<u>(225,000)</u>
Total	<u>\$ 77,322,005</u>	<u>\$ 32,959,124</u>	<u>\$ 38,738,153</u>

3. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine Months Ended September 30,	
	<u>2005</u>	<u>2004</u>
Interest	<u>\$ 6,034,000</u>	<u>\$ 877,000</u>
Federal, state and local income taxes	<u>\$ 2,136,000</u>	<u>\$ 2,580,000</u>

We issued 484,261 common shares valued at \$11,473,838, as part of the purchase of the EJ Footwear LLC, Georgia Boot LLC, and HM Lehigh Safety Shoe Co. LLC (the "EJ Footwear Group") from SILLC Holdings LLC.

4. PER SHARE INFORMATION

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

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A reconciliation of the shares used in the basic and diluted income per common share computation for the three months and nine months ended September 30, 2005 and 2004 is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Basic weighted average shares outstanding	5,289,736	4,605,800	5,232,964	4,530,867
Diluted stock options	356,425	386,519	352,260	413,062
Diluted weighted average shares outstanding	<u>5,646,161</u>	<u>4,992,319</u>	<u>5,585,224</u>	<u>4,943,929</u>
Anti-diluted weighted average shares outstanding	<u>0</u>	<u>84,141</u>	<u>0</u>	<u>84,141</u>

5. RECENT FINANCIAL ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”), which is a revision of SFAS No. 123, “Accounting for Stock-Based Compensation.” The statement supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees” and SFAS No. 148, “Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123.” The statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. SFAS 123(R) applies to all awards granted after the required effective date (the beginning of the first annual reporting period that begins after June 15, 2005 in accordance with the Securities and Exchange Commission’s delay of the original effective date of SFAS 123(R)) and to awards modified, repurchased or canceled after that date. As a result, beginning January 1, 2006, we will adopt SFAS 123(R) and begin reflecting the stock option expense determined under fair value based methods in our consolidated statement of operations rather than as pro forma disclosure in the notes to the financial statements.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin Number 107 (“SAB 107”) that provided additional guidance to public companies relating to share-based payment transactions and the implementation of SFAS 123(R), including guidance regarding valuation methods and related assumptions, classification of compensation expense and income tax effects of share-based payment arrangements.

We have not completed our assessment of the impact or method of adoption of SFAS 123(R) and SAB 107.

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In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," a replacement of APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements," which changes the requirements for the accounting and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS No. 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is currently evaluating the impact of adopting this standard in its financial statements.

6. ACQUISITION

On January 6, 2005, we completed the purchase of 100% of the issued and outstanding voting limited interests of 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, and provide new channels for our existing product lines. The aggregate purchase price for the interests of EJ Footwear Group, including closing date working capital adjustments, was \$91.3 million in cash plus 484,261 shares of our common stock valued at \$11,473,838. Common stock value was based on the average closing share price during the three days preceding and three days subsequent to the date of the acquisition agreement.

On January 6, 2005, to fund the acquisition of EJ Footwear Group, we entered into a loan and security agreement with GMAC Commercial Finance LLC, refinancing our 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, subject to specified exceptions. Also, on January 6, 2005, we 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 Senior Secured Term B Notes will be senior indebtedness, secured by essentially the same collateral as the Credit Facility, (ii) such note facility will be "last out" in the event of liquidation of us and our subsidiaries, and (iii) principal payments on such note facility will begin in the fourth year of such note facility.

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We have allocated the purchase price to the tangible and intangible assets and liabilities acquired based upon the fair values and income tax basis determined with the assistance of independent appraisals. Goodwill resulting from the transaction can not practicably be allocated between business segments and will not be tax deductible. The purchase price has been allocated as follows:

Purchase price allocation:

Cash	\$ 91,298,435
Common shares — 484,261 shares	11,473,838
Transaction costs	<u>1,617,802</u>
	<u>\$ 104,390,075</u>
Allocated to:	
Current assets	\$ 65,899,403
Fixed assets and other assets	3,032,740
Identified intangibles	44,800,000
Goodwill	19,062,682
Liabilities	(11,067,250)
Deferred taxes — long term	<u>(17,337,500)</u>
	<u>\$ 104,390,075</u>

Estimated amounts of identified intangibles and goodwill and the related allocation by segment are subject to final allocation based on independent appraisals of fair value of assets acquired and final determination of income tax basis of assets and liabilities. During the second quarter of 2005, the Company paid the final adjustment of purchase price of \$1,795,435.

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A schedule of intangible assets is as follows:

	Gross Amount	Accumulated Amortization	Carrying Amount
September 30, 2005 (Unaudited)			
Trademarks:			
Wholesale	\$ 28,702,080		\$ 28,702,080
Retail	15,100,000		15,100,000
Patents	2,962,460	\$ 497,894	2,464,566
Customer Relationships	1,000,000	150,000	850,000
Goodwill	20,712,414	91,871	20,620,543
Total Intangibles	<u>\$ 68,476,954</u>	<u>\$ 739,765</u>	<u>\$ 67,737,189</u>
December 31, 2004			
Trademarks (Wholesale)			
	\$ 2,225,887		\$ 2,225,887
Patents	467,336	\$ 131,796	335,540
Goodwill	1,649,732	91,871	1,557,861
Total Intangibles	<u>\$ 4,342,955</u>	<u>\$ 223,667</u>	<u>\$ 4,119,288</u>
September 30, 2004 (unaudited)			
Trademarks (Wholesale)			
	\$ 2,225,887		\$ 2,225,887
Patents	607,224	\$ 124,932	482,292
Goodwill	1,649,732	91,871	1,557,861
Total Intangibles	<u>\$ 4,482,843</u>	<u>\$ 216,803</u>	<u>\$ 4,266,040</u>

Amortization expense for intangible assets was \$172,230 and \$6,711 for the three months ended September 30, 2005 and 2004, respectively, and \$516,098 and \$19,350 for the nine months ended September 30, 2005 and 2004, respectively. The weighted average amortization period for patents is six years and for customer relationships is five years.

Estimate of Aggregate Amortization Expense:

Year ending December 31, 2005	\$ 688,000
Year ending December 31, 2006	688,000
Year ending December 31, 2007	688,000
Year ending December 31, 2008	688,000
Year ending December 31, 2009	688,000

The results of operations of EJ Footwear Group are 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.

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The following table reflects the unaudited consolidated results of operations on a pro forma basis had EJ Footwear been included in operating results from January 1, 2004. There are no material non-recurring items in the pro forma results of operations.

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
Net Sales	\$ 96,203,339	\$ 215,881,072
Net Income	\$ 7,732,632	\$ 10,631,959
Net Income Per Share		
Basic	\$ 1.52	\$ 2.11
Diluted	\$ 1.41	\$ 1.96

7. CAPITAL STOCK

On May 11, 2004, the Company's shareholders 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 September 30, 2005, the Company was authorized to issue 565,655 shares under its existing plans.

For the nine months ended September 30, 2005, options for 114,449 shares of the Company's common stock were exercised at an average price of \$6.65. For the nine months ended September 30, 2004, options for 256,200 shares of the Company's common stock were exercised at an average price of \$6.68.

8. RETIREMENT PLANS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Service cost	\$ 130,966	\$ 128,080	\$ 392,898	\$ 384,238
Interest	132,265	90,758	396,795	378,406
Expected return on assets	(170,931)	(86,391)	(512,793)	(386,198)
Amortization of unrecognized net loss	21,404	32,141	64,212	101,327
Amortization of unrecognized transition obligation	4,077	4,076	12,231	12,230
Amortization of unrecognized prior service cost	33,848	33,849	101,544	101,545
Net pension cost	<u>\$ 151,629</u>	<u>\$ 202,513</u>	<u>\$ 454,887</u>	<u>\$ 591,548</u>

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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:

	September 30,	
	2005	2004
Discount rate	5.75%	5.75%
Average rate of increase in compensation levels	3.0%	3.0%
Expected long-term rate of return on plan assets	8.0%	8.0%

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 perspective. Similarly, the Plan's strategic asset allocation is based on this long-term perspective.

9. SEGMENT INFORMATION

The Company has identified three reportable segments: Wholesale, Retail and Military. Wholesale includes sales of footwear and accessories to several classifications of retailers including sporting goods stores, outdoor specialty stores, mail order catalogs, independent retailers, mass merchants, retail uniform stores, and specialty safety shoe stores. Retail includes all sales from the Company's stores and all sales in the Company's Lehigh division, which includes sales via shoemobiles to individual customers. Military includes sales to the U.S. Military. The following is a summary of segment results for the Wholesale, Retail, and Military segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
NET SALES:				
Wholesale	\$ 70,679,750	\$ 44,185,949	\$ 158,062,947	\$ 84,275,091
Retail	14,016,971	772,215	44,128,066	2,271,546
Military	9,391,065	5,094,730	18,914,494	12,822,333
Total Net Sales	<u>\$ 94,087,786</u>	<u>\$ 50,052,894</u>	<u>\$ 221,105,507</u>	<u>\$ 99,368,970</u>
GROSS MARGIN:				
Wholesale	\$ 25,214,666	\$ 14,610,198	\$ 57,894,147	\$ 26,766,095
Retail	7,288,246	243,306	23,314,518	660,019
Military	1,570,565	1,142,986	2,795,923	1,965,189
Total Gross Margin	<u>\$ 34,073,477</u>	<u>\$ 15,996,490</u>	<u>\$ 84,004,588</u>	<u>\$ 29,391,303</u>

Segment asset information is not prepared or used to assess segment performance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**RESULTS OF OPERATIONS**

The following is a summary of segment operating results for the Wholesale, Retail, and Military segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
NET SALES:				
Wholesale	\$ 70,679,750	\$ 44,185,949	\$ 158,062,947	\$ 84,275,091
Retail	14,016,971	772,215	44,128,066	2,271,546
Military	9,391,065	5,094,730	18,914,494	12,822,333
Total Net Sales	<u>\$ 94,087,786</u>	<u>\$ 50,052,894</u>	<u>\$ 221,105,507</u>	<u>\$ 99,368,970</u>
GROSS MARGIN:				
Wholesale	\$ 25,214,666	\$ 14,610,198	\$ 57,894,147	\$ 26,766,095
Retail	7,288,246	243,306	23,314,518	660,019
Military	1,570,565	1,142,986	2,795,923	1,965,189
Total Gross Margin	<u>\$ 34,073,477</u>	<u>\$ 15,996,490</u>	<u>\$ 84,004,588</u>	<u>\$ 29,391,303</u>

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost Of Goods Sold	63.8%	68.0%	62.0%	70.4%
Gross Margin	36.2%	32.0%	38.0%	29.6%
Selling, General and Administrative Expenses	23.2%	16.6%	28.0%	19.2%
Income From Operations	<u>13.0%</u>	<u>15.4%</u>	<u>10.0%</u>	<u>10.4%</u>

Three Months Ended September 30, 2005 Compared To Three Months Ended September 30, 2004

Net sales. Net sales for the three months ended September 30, 2005 were \$94.1 million compared to \$50.1 million for the same period in 2004. The current year results reflect our acquisition of EJ Footwear in January 2005, which contributed \$43.8 million in sales during the three month period ended September 30, 2005. Wholesale sales for the three months ended September 30, 2005 were \$70.7 million compared to \$44.2 million for the same period in 2004. The increase was primarily due to our acquisition of EJ Footwear, which contributed \$30.6 million in sales during the period. A \$4.1 million decrease in Rocky Outdoor Gear branded wholesale sales was primarily due to lower sales of our outdoor products, which were impacted by unseasonably warm and dry weather. Retail sales for the three months ended September 30, 2005 were \$14.0 million compared to \$0.8 million for the same period in 2004. The increase of \$13.2 million was due to our acquisition of EJ Footwear, specifically its Lehigh division, in 2005. Military segment sales, which occur from time to time, for the three months ended September 30, 2005 were \$9.4 million, compared to \$5.1 million in the same period in 2004. Average list prices for our footwear, apparel and accessories were similar in the 2005 period, compared to the 2004 period.

Gross margin. Gross margin in the three months ended September 30, 2005 increased to \$34.1 million, or 36.2% of net sales, from \$16.0 million, or 32.0% of net sales, in the same period last year. The basis point increase is primarily attributable to higher sales of EJ Footwear work and western products and a higher percentage of our net sales derived from our retail sales, which carry higher gross margins than our wholesale and military sales. Wholesale gross margin for the three months ended September 30, 2005 was \$25.2 million, or 35.7% of net sales, compared to \$14.6 million, or 33.1% of net sales, in the same period last year. The increase reflects sales in 2005 of EJ Footwear products, which carry higher gross margins than Rocky products due to a higher percentage of their sales in the work and western markets. Gross margins in the work and western markets are generally higher than the outdoor and duty markets. Retail gross margin for the three months ended September 30, 2005 was \$7.3 million, or 52.0% of net sales, compared to \$0.2 million, or 31.5% of net sales, for the same period in 2004. The increase in gross margin reflects sales by Lehigh, which carry higher gross margins than our outlet store sales. Military gross margin for the three months ended September 30, 2005 was \$1.6 million, or 16.7% of net sales, compared to \$1.1 million, or 22.4% of net sales, for the same period in 2004.

SG&A expenses. SG&A expenses were \$21.8 million, or 23.2% of net sales, for the three months ended September 30, 2005, compared to \$8.3 million, or 16.6% of net sales, for the same period in 2004. The increase was primarily a result of higher SG&A expenses associated with the EJ Footwear business, particularly higher expenses associated with our Lehigh retail operations.

Interest expense. Interest expense was \$2.6 million in the three months ended September 30, 2005, compared to \$0.4 million for the same period in the prior year. The increase was primarily due to interest on borrowings to finance the EJ Footwear acquisition.

Income taxes. Income tax expense for the three months ended September 30, 2005 was \$3.4 million, compared to \$2.3 million for the same period a year ago. Our effective tax rate was 34.0% for the three months ended September 30, 2005, versus 32.1% for the same period in 2004. The increase in our effective tax rate in 2005 was due primarily to income from EJ Footwear, which is subject to the U.S. effective tax rate. A portion of our income is subject to lower taxes in foreign countries.

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

Net sales. Net sales for the nine months ended September 30, 2005 were \$221.1 million compared to \$99.4 million for the same period in 2004. The current year results reflect our acquisition of EJ Footwear in January 2005, which contributed \$121.6 million in sales during the nine month period ended September 30, 2005. Wholesale sales for the first nine months of 2005 were \$158.1 million compared to \$84.3 million for the same period in 2004. The increase was primarily due to our acquisition of EJ Footwear, which contributed \$79.7 million in sales during the period. A \$5.9 million decrease in Rocky Outdoor Gear branded wholesale sales was primarily due to lower sales of our outdoor products, which were impacted by unseasonably warm and dry weather. Retail sales for the first nine months of 2005 were \$44.1 million compared to \$2.3 million for the same period in 2004. The increase of \$41.9 million was due to our acquisition of EJ Footwear, specifically its Lehigh division, in 2005. Military segment sales, which occur from time to time, for the first nine months of 2005, were \$18.9 million, compared to \$12.8 million in the same period in 2004. Average list prices for our footwear, apparel and accessories were similar in the 2005 period, compared to the 2004 period.

Gross margin. Gross margin in the first nine months of 2005 increased to \$84.0 million, or 38.0% of net sales, from \$29.4 million, or 29.6% of net sales, in the same period last year. The basis point increase is primarily attributable to higher sales of EJ Footwear work and western products and a higher percentage of our net sales derived from our retail sales, which carry higher gross margins than our wholesale and military sales. Wholesale gross margin for the first nine months of 2005 was \$57.9 million, or 36.6% of net sales, compared to \$26.8 million, or 31.8% of net sales, in the same period last year. The increase reflects sales in 2005 of EJ Footwear products, which carry higher gross margins than Rocky products due to a higher percentage of their sales in the work and western markets. Gross margins in the work and western markets are generally higher than the outdoor and duty markets. Retail gross margin for the first nine months of 2005 was \$23.3 million, or 52.8% of net sales, compared to \$0.7 million, or 29.1% of net sales, for the same period in 2004. The increase in gross margin reflects sales by Lehigh, which carry higher gross margins than our outlet store sales. Military gross margin for the first nine months of 2005 was \$2.8 million, or 14.8% of net sales, compared to \$2.0 million, or 15.3% of net sales, for the same period in 2004.

SG&A expenses. SG&A expenses were \$62.0 million, or 28.0% of net sales, for the first nine months of 2005, compared to \$19.0 million, or 19.2% of net sales, for the same period in 2004. The increase was primarily a result of higher SG&A expenses associated with the EJ Footwear business, particularly higher expenses associated with our Lehigh retail operations.

Interest expense. Interest expense was \$6.5 million in the nine months ended September 30, 2005, compared to \$1.0 million for the same period in the prior year. The increase was primarily due to interest on borrowings to finance the EJ Footwear acquisition.

Income taxes. Income tax expense for the nine months ended September 30, 2005 was \$5.4 million, compared to \$3.0 million for the same period a year ago. Our effective tax rate was 34.0% for the nine months ended September 30, 2005, versus 32.1% for the same period in 2004. The increase in our effective tax rate in 2005 was due primarily to income from EJ Footwear, which is subject to the U.S. effective tax rate. A portion of our income is subject to lower taxes in foreign countries.

Liquidity and Capital Resources

Our principal sources of liquidity have been our income from operations, borrowings under our credit facility and other indebtedness. In January 2005, we incurred additional indebtedness to fund our acquisition of EJ Footwear as described below. During 2004, we relied primarily on cash provided from operating activities to fund our operations.

Over the last several years our principal uses of cash have been for our acquisitions of EJ Footwear and certain assets of Gates-Mills, as well for working capital and capital expenditures to support our growth. Our working capital consists primarily of trade receivables and inventory, offset by accounts payable and accrued expenses. Our working capital fluctuates throughout the year as a result of our seasonal business cycle and business expansion and is generally lowest in the months of January through March of each year and highest during the months of May through October of each year. We typically utilize our revolving credit facility to fund our seasonal working capital requirements. As a result, balances on our revolving credit facility will fluctuate significantly throughout the year. Our capital expenditures relate primarily to projects relating to our property, merchandising fixtures, molds and equipment associated with our manufacturing operations and for information technology. Capital expenditures were \$4.3 million for the first nine months of 2005, compared to \$4.5 million for the same period in 2004. Capital expenditures for all of 2005 are anticipated to be approximately \$6.0 million.

In conjunction with the completion of our acquisition of EJ Footwear, we entered into agreements with GMAC Commercial Finance and American Capital Strategies for credit facilities totaling \$148 million. The credit facilities were used to fund the acquisition of EJ Footwear and replace our prior \$45 million revolving credit facility. Under the terms of the agreements, the interest rates and repayment terms are: (1) a five year \$100 million revolving credit facility with an interest rate of LIBOR plus 2.5% or prime plus 1.0%; (2) an \$18 million term loan with an interest rate of LIBOR plus 3.25% or prime plus 1.75%, payable in equal quarterly installments over three years beginning in 2005; and (3) a \$30 million term loan with an interest rate of LIBOR plus 8.0%, payable in equal installments from 2008 through 2011. The total amount available on our revolving credit facility is subject to a borrowing base calculation based on various percentages of accounts receivable and inventory. As of September 30, 2005, we had \$80.1 million in borrowings under this facility and total capacity of \$93.8 million. Our credit facilities contain certain restrictive covenants, which among other things, require us to maintain certain minimum EBITDA and certain leverage and fixed charge coverage ratios. As of September 30, 2005, we were in compliance with these loan covenants. Our previous credit facility contained certain restrictive covenants, which, among other things, required us to maintain a certain level of net worth and fixed charge coverage. As of December 31, 2004, we were in compliance with these loan covenants. We believe that our existing credit facilities coupled with cash generated from operations will provide sufficient liquidity to fund our operations for at least the next 12 months. Our continued liquidity, however, is contingent upon future operating performance, cash flows and our ability to meet financial covenants under our credit facilities.

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Operating Activities. Cash used in operating activities totaled \$15.2 million in the first nine months of 2005, compared to \$13.5 million in the same period of 2004. Cash used in operating activities was impacted by an increase in accounts receivable due to large seasonal shipments in the third quarter, and higher finished goods inventory to support the fourth quarter seasonal shipments. This was partially offset by increases in accounts payable and accrued liabilities reflecting the higher inventory purchases.

Investing Activities. Cash used in investing activities was \$97.2 million for the first nine months of 2005, compared to \$4.5 million in 2004. Cash used in investing activities was impacted by our acquisition of EJ Footwear in 2005, and also included investment in property, plant and equipment. In the first nine months of 2005, property, plant and equipment expenditures were \$4.3 million versus \$4.5 million in the same period of 2004. Our 2005 expenditures primarily relate to investments in production equipment and expansion of workspace at our main office building and factory store to accommodate the relocation of the EJ Footwear operations.

Financing Activities. Cash provided by financing activities for the nine months ended September 30, 2005 was \$109.4 million, compared to \$16.6 million in 2004. Cash provided by financing activities for the nine months ended September 30, 2005 was comprised of the cash proceeds from debt financing of \$111.0 million and proceeds from the exercise of stock options of \$0.8 million, offset by debt financing costs of \$2.3 million. The proceeds of the borrowings were primarily used to fund our acquisition of EJ Footwear, and to fund our working capital. Cash provided by financing activities for the nine months ended September 30, 2004 was comprised of the cash proceeds from debt financing of \$15.1 million borrowed under our revolving credit facility and proceeds from the exercise of stock options of \$1.7 million, less repayments of long-term debt of \$0.3 million.

Inflation

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

Critical Accounting Policies and Estimates

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses our interim condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these interim condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed 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 the Annual Report on Form 10-K for the year ended December 31, 2004.

Our management regularly reviews our accounting policies to make certain they are current and also provide readers of the interim condensed 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

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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.

Our management believes the following critical accounting policies are most important to the portrayal of our financial condition and results of operations and require more significant judgments and estimates in the preparation of our interim condensed consolidated financial statements.

Revenue recognition

Revenue principally consists of sales to customers, and, to a lesser extent, license fees. Revenue is recognized when the risk and title passes to the customer, while license fees are recognized when earned. 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 our customers to make required payments. If the financial condition of our 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 us, additional allowances may be required.

Sales returns and allowances

We record 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 our estimates. If we determine 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. Sales returns and allowances for sales returns were approximately 3.5% of sales for 2005 and 2004.

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 our inventories are considered saleable and we have been able to liquidate slow moving or obsolete inventories through our 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 our inventory reserves and makes adjustments to them as required.

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Intangible assets

Intangible assets, including goodwill, trademarks and patents are reviewed for impairment at least at each reporting date. Based upon our review, none of our intangibles were impaired as of September 30, 2005.

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.

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 our plans and reconciliation of accrued pension cost is determined annually as of December 31. Further discussion of our pension plan and related assumptions is included in Note 8, "Retirement Plans," to the consolidated financial statements. Actual results would be different using other assumptions. Management records an accrual for pension costs associated with our sponsored noncontributory defined benefit pension plan covering our non-union workers. Future adverse changes in market conditions or poor operating results of underlying plan assets could result in losses or a higher accrual. A union plan, which was frozen in 2001, was settled in April 2004.

Income taxes

Currently, management believes that deferred tax assets will, more likely than not, be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, however, in the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the deferred tax assets would be charged to income in the period such determination is made. Finally, at December 31, 2004, a provision of \$157,000 has been made for U.S. taxes on the repatriation of \$3.0 million of accumulated undistributed earnings of Five Star through December 31, 2004. At December 31, 2004, after the planned repatriation above, approximately \$6.8 million is remaining that would become taxable upon repatriation to the U.S. During 2005, we will complete our evaluation of foreign earnings and may repatriate up to an additional \$5.0 million of accumulated undistributed earnings, which could result in up to \$260,000 of additional tax.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Except for the historical information contained herein, the matters discussed in this Quarterly Report on Form 10-Q include certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, 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 our and management's intent, belief, expectations, such as statements concerning our future profitability and our operating and growth strategy. Words such as "believe," "anticipate," "expect," "will," "may," "should," "intend," "plan," "estimate," "predict," "potential," "continue," "likely" and similar expressions are intended to identify forward-looking statements. Investors are cautioned that all forward-looking statements contained in this Quarterly Report on Form 10-Q and in other statements we make involve risks and uncertainties including, without limitation, the factors set forth under the caption "Business – Business Risks" included in our Annual Report on Form 10-K for the year ended December 31, 2004, and other factors detailed from time to time in our other filings with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect our businesses and financial results in the future and could cause actual results to differ materially from plans and projections. Although we believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the forward-looking statements included in this Quarterly Report on Form 10-Q 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 us or any other person that our objectives and plans will be achieved. All forward-looking statements made in this Quarterly Report on Form 10-Q are based on information presently available to our management. We assume no obligation to update any forward-looking statements.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since December 31, 2004.

ITEM 4 — CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, our management, with the participation of our chief executive officer and chief financial officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 promulgated under the Exchange Act. Based upon this evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were (1) designed to ensure that material information relating to our company is accumulated and made known to our management, including our chief executive officer and chief financial officer, in a timely manner, particularly during the period in which this report was being prepared and (2) effective, in that they provide reasonable assurance that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Management believes, however, that a controls system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Internal Controls. There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during our fiscal quarter ended September 30, 2005, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The offering of certain units in the Company's Stock Fund (the "Stock Fund") of the Company's 401(k) Plan (the "Retirement Plan") representing approximately 60 shares of the Company's common stock purchased by the trustee of the Retirement Plan on the open market from time to time have not been registered under the Securities Act of 1933, as amended (the "Act"). Participants in the Retirement Plan had the option to invest defined contributions into the Stock Fund. The Company received no consideration for units purchased by participants in the Stock Fund of the Retirement Plan. While the Company cannot predict the possible effect of federal or state regulatory action, the Company does not believe that the failure to register the offering and sale of these units and the shares will have a material adverse effect on the Company's financial position or results of operation.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

None

ITEM 5. OTHER INFORMATION.

None

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ITEM 6. EXHIBITS

EXHIBIT NUMBER	EXHIBIT DESCRIPTION
10(a)*	Amendment No. 2 to Loan and Security Agreement and Consent, dated as of September 12, 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.
31 (a)*	Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Chief Executive Officer.
31 (b)*	Certification pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a) of the Chief Financial Officer.
32 (a)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32 (b)+	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.

* Filed with this report.

+ Furnished with this report.

SIGNATURES

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

ROCKY SHOES & BOOTS, INC.

Date: November 1, 2005

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

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

AMENDMENT NO. 2

TO

LOAN AND SECURITY AGREEMENT

AND CONSENT

THIS AMENDMENT NO. 2 AND CONSENT ("Amendment No. 2 and Consent") is entered into as of September 12, 2005, by and among ROCKY SHOES & BOOTS, INC., a corporation organized and existing under the laws of the State of Ohio ("Rocky"), LIFESTYLE FOOTWEAR, INC., a corporation organized and existing under the laws of the State of Delaware, EJ FOOTWEAR LLC, a limited liability company organized and existing under the laws of the State of Delaware, HM LEHIGH SAFETY SHOE CO. LLC, a limited liability company organized and existing under the laws of the State of Delaware, GEORGIA BOOT LLC, a limited liability company organized and existing under the laws of the State of Delaware, GEORGIA BOOT PROPERTIES LLC, a limited liability company organized and existing under the laws of the State of Delaware, DURANGO BOOT COMPANY LLC, a limited liability company organized and existing under the laws of the State of Delaware, NORTHLAKE BOOT COMPANY LLC, a limited liability company organized and existing under the laws of the State of Delaware, LEHIGH SAFETY SHOE CO. LLC, a limited liability company organized and existing under the laws of the State of Delaware, LEHIGH SAFETY SHOE PROPERTIES LLC, a limited liability company organized and existing under the laws of the State of Delaware (each a "Borrower" and jointly and severally, "Borrowers"), the financial institutions party thereto (each a "Lender" and collectively, the "Lenders"), GMAC COMMERCIAL FINANCE LLC, as administrative agent and sole lead arranger for the Lenders (in such capacities, the "Agent") and BANK OF AMERICA, N.A., as syndication agent (in such capacity, the "Syndication Agent").

BACKGROUND

Borrowers, Agent and Lenders are parties to a Loan and Security Agreement dated as of January 6, 2005 (as amended by Amendment No. 1 and Consent dated as of January 19, 2005, and as further amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement") pursuant to which Agent and Lenders provide Borrowers with certain financial accommodations.

Borrowers have informed Agent and Lenders of the anticipated issuance by Rocky of additional shares of Rocky's common stock, no par value, with the option to issue further additional shares of Rocky's common stock, no par value, in the event that the initial issuance shall be oversubscribed (the "Issuance"). Borrowers have requested that, as the Issuance relates to Sections 2.4(B)(4) and 2.4(E) of the Loan Agreement, Agent and Requisite Lenders consent to the application of the Issuance proceeds thereof (a) \$11,300,000 in full prepayment and satisfaction of Term Loan A, including both principal and interest accrued thereon, (b) \$30,000,000 in full prepayment and satisfaction of Term Loan B (the "Term Loan B Prepayment"), including both principal and interest accrued thereon, (c) in the event any excess proceeds remain following the payment of underwriting fees and other reasonable professional

fees associated with the Issuance, to pay all accrued and unpaid interest on the prepaid principal of Term Loan A and Term Loan B, and any applicable prepayment premiums associated with the prepayment of Term Loan A and Term Loan B and (d) to repay outstanding Revolving Loans, but not as a permanent reduction of the Revolving Loan Commitment. Agent and Requisite Lenders have agreed to consent to the Term Loan B Prepayment, and to otherwise amend the Loan Agreement, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of any loan or advance or grant of credit heretofore or hereafter made to or for the account of Borrowers by Agent and Lenders, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions. All capitalized terms not otherwise defined herein shall have the meanings given to them in the Loan Agreement.

2. Amendment to Loan Agreement. Subject to satisfaction of the conditions precedent set forth in Section 3 below, the Loan Agreement is hereby amended as follows:

(a) Section 1.2 of the Loan Agreement is amended by inserting the following new defined terms in their appropriate alphabetical order:

"Amendment 2" shall mean Amendment No. 2 to this Agreement dated as of September 12, 2005.

"Amendment 2 Closing Date" shall mean the date upon

which all of the conditions precedent to the effectiveness of Amendment 2 have been satisfied.

(b) By deleting the third sentence of Section 2.1(B) in its entirety and by substituting in lieu thereof the following:

"Term Loan A shall be repaid in full on the Amendment 2 Closing Date."

(c) By deleting the final sentence of Section 2.1(B) and the related Schedule in its entirety.

3. Consent to Term Loan B Prepayment. Effective as of the Amendment No. 2 Closing Date, Agent, and each of the Requisite Lenders, hereby consents to the Term Loan B Prepayment.

4. Conditions of Effectiveness. This Amendment No. 2 and Consent shall become effective upon satisfaction of the following conditions precedent:

(a) Agent shall have received eight (8) copies of this Amendment No. 2 and Consent duly executed by each Borrower and each of the Requisite Lenders;

(b) Agent shall have received the sum of \$11,300,000 representing prepayment in full of Term Loan A;

(c) Agent shall have received such other certificates, instruments, documents, agreements and opinions of counsel as may be required by Agent or its counsel relating to the transactions contemplated in this Amendment No. 2 and Consent; and

(d) The Issuance shall have occurred on or before December 31, 2005.

5. Representations and Warranties. Each Borrower hereby represents and warrants as follows:

(a) This Amendment No. 2 and Consent and the Loan Agreement, as amended hereby, constitute legal, valid and binding obligations of Borrowers and are enforceable against each Borrower in accordance with their respective terms.

(b) Upon the effectiveness of this Amendment No. 2 and Consent, each Borrower hereby reaffirms all covenants, representations and warranties made in the Loan Agreement to the extent the same are not amended hereby, and agrees that all such covenants, representations and warranties shall be deemed to have been remade as of the effective date of this Amendment No. 2 and Consent, except to the extent any such representation or warranty expressly relates to an earlier date.

(c) No Event of Default or Default has occurred and is continuing or would exist after giving effect to this Amendment No. 2 and Consent.

(d) No Borrower has any defense, counterclaim or offset with respect to the Loan Agreement.

(e) The Issuance is permitted pursuant to all applicable law and all material agreements, documents and instruments to which any Loan Party is a party or by which any of their respective properties or assets are bound.

6. Effect on the Loan Agreement.

(a) Upon the effectiveness of Section 2 hereof, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement as amended hereby.

(b) Except as specifically amended herein, the Loan Agreement, and all other documents, instruments and agreements executed and/or delivered in connection therewith, shall remain in full force and effect, and are hereby ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment No. 2 and Consent shall not operate as a waiver of any right, power or remedy of Agent or Lenders, nor constitute a waiver of any provision of the Loan Agreement, or any other documents, instruments or agreements executed and/or delivered under or in connection therewith.

7. Governing Law. This Amendment No. 2 and Consent shall be binding upon and inure to the benefit of the parties hereto and their respective

successors and assigns and shall be governed by and construed in accordance with the laws of the State of New York.

8. Headings. Section headings in this Amendment No. 2 and Consent are included herein for convenience of reference only and shall not constitute a part of this Amendment No. 2 and Consent for any other purpose.

9. Counterparts; Facsimile. This Amendment No. 2 and Consent may be executed by the parties hereto in one or more counterparts, each of which shall be deemed an original and all of which when taken together shall constitute one and the same agreement. Any signature delivered by a party by facsimile transmission shall be deemed to be an original signature hereto.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, this Amendment No. 2 and Consent has been duly executed as of the day and year first written above.

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
LEHIGH SAFETY SHOE PROPERTIES LLC

By: /s/ James E. McDonald

Name: James E. McDonald
Title: Chief Financial Officer
of each of the foregoing Borrowers

GMAC COMMERCIAL FINANCE LLC

By: /s/ Thomas Brent

Name: Thomas Brent
Title: Director

BANK OF AMERICA, N.A.

By: /s/ William J. Wilson

Name: William J. Wilson
Title: Vice President

CHARTER ONE BANK, N.A.

By: /s/ Sean P. McCauley

Name: Sean P. McCauley
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Peter Redington

Name: Peter Redington
Title: A.V.P.

COMERICA BANK

By: /s/ Harold Dalton

Name: Harold Dalton
Title: V.P.

Exhibit 31(a)

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
OF THE CHIEF EXECUTIVE OFFICER

I, Mike Brooks, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 officer(s) 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 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 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 officer 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 function):
 - 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 controls over financial reporting.

Date: November 1, 2005

/s/ Mike Brooks

Mike Brooks
Chairman and Chief Executive Officer

Exhibit 31(b)

CERTIFICATION PURSUANT TO EXCHANGE ACT RULES 13A-14(A) AND 15D-14(A)
OF THE CHIEF FINANCIAL OFFICER

I, James E. McDonald, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 officer(s) 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 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 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 officer 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 function):
 - 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 controls over financial reporting.

Date: November 1, 2005

/s/ James E. McDonald

James E. McDonald
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, OF THE CHIEF
EXECUTIVE OFFICER

In connection with the Quarterly Report of Rocky Shoes & Boots, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mike Brooks, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, 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) or 15(d) 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, Chairman and Chief Executive Officer

November 1, 2005

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, OF THE CHIEF
FINANCIAL OFFICER

In connection with the Quarterly Report of Rocky Shoes & Boots, Inc. (the "Company") on Form 10-Q for the fiscal quarter ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. McDonald, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, 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) or 15(d) 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/ James E. McDonald

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

November 1, 2005

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.