

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

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

For Quarter Ended
September 30, 2002

Commission File Number:
0-21026

ROCKY SHOES & BOOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State of Incorporation)

31-1364046
(IRS Employer Identification Number)

39 E. Canal Street
Nelsonville, Ohio 45764
(Address of principal executive offices)

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

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

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

Yes No

4,505,465 common shares, no par value, outstanding at November 13, 2002

Rocky Shoes & Boots, Inc. and Subsidiaries

Form 10-Q

INDEX

	PAGE NUMBER
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets September 30, 2002 and 2001 (Unaudited) and December 31, 2001	3
Unaudited Condensed Consolidated Statements of Income For the Three Months and Nine Months Ended September 30, 2002 and 2001	4
Unaudited Condensed Consolidated Statements of Cash Flows For the Nine Months Ended September 30, 2002 and 2001	5
Notes to Interim Unaudited Condensed Consolidated Financial Statements	6 – 9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10 – 16
Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
Item 4. Controls and Procedures	16
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 2. Changes in Securities and Use of Proceeds	17
Item 3. Defaults Upon Senior Securities	17
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 5. Other Information	17
Item 6. Exhibits and Reports on Form 8-K	17
SIGNATURE	18
CERTIFICATIONS	19 – 20

PART 1 - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS

Rocky Shoes & Boots, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	September 30, 2002 Unaudited	December 31, 2001	September 30, 2001 Unaudited
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,893,242	\$ 2,954,935	\$ 2,553,804
Trade receivables – net	29,104,380	15,091,100	34,716,895
Other receivables	1,747,279	2,225,498	2,351,058
Inventories	30,253,309	27,713,664	37,899,594
Deferred income taxes	615,609	615,609	502,722
Prepaid expenses	1,321,298	1,053,192	1,498,935
Total current assets	<u>64,935,117</u>	<u>49,653,998</u>	<u>79,523,008</u>
FIXED ASSETS – net	19,212,820	20,766,094	21,541,734
DEFERRED PENSION ASSET	2,493,590	1,802,922	2,526,603
DEFERRED INCOME TAXES	295,784	295,784	-
OTHER ASSETS	2,230,565	2,141,016	2,075,593
TOTAL ASSETS	<u><u>\$ 89,167,876</u></u>	<u><u>\$ 74,659,814</u></u>	<u><u>\$ 105,666,938</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	\$ 4,068,998	\$ 1,559,444	\$ 3,538,230
Current maturities - long term debt	484,200	469,143	17,845,423
Accrued taxes - other	457,225	991,295	683,637
Accrued salaries and wages	1,029,411	985,992	1,360,540
Accrued plant closing costs	270,499	903,291	1,300,000
Accrued other	1,257,086	477,938	1,481,547
Total current liabilities	<u>7,567,419</u>	<u>5,387,103</u>	<u>26,209,377</u>
LONG TERM DEBT-less current maturities	29,055,129	16,976,023	26,095,736
DEFERRED LIABILITIES	152,500	1,253,355	1,760,214
TOTAL LIABILITIES	<u>36,775,048</u>	<u>23,616,481</u>	<u>54,065,327</u>
SHAREHOLDERS' EQUITY:			
Common stock, no par value; 10,000,000 shares authorized; issued and outstanding September 30, 2002 - 4,505,465; December 31, 2001 - 4,492,215; September 30, 2001 - 4,489,215	35,373,578	35,302,159	35,284,159
Accumulated other comprehensive loss	(831,161)	(831,161)	-
Retained earnings	17,850,411	16,572,335	16,317,452
Total shareholders' equity	<u>52,392,828</u>	<u>51,043,333</u>	<u>51,601,611</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 89,167,876</u></u>	<u><u>\$ 74,659,814</u></u>	<u><u>\$ 105,666,938</u></u>

See notes to the interim unaudited condensed consolidated financial statements.

Rocky Shoes & Boots, Inc. and Subsidiaries
Condensed Consolidated Statements of Income
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
NET SALES	\$ 30,453,543	\$ 38,490,267	\$ 63,397,202	\$ 76,560,294
COST OF GOODS SOLD	<u>21,601,185</u>	<u>28,685,843</u>	<u>47,266,558</u>	<u>57,436,667</u>
GROSS MARGIN	8,852,358	9,804,424	16,130,644	19,123,627
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,119,050	5,723,654	13,535,584	14,424,135
PLANT CLOSING COSTS	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
INCOME FROM OPERATIONS	3,733,308	2,780,770	2,595,060	3,399,492
OTHER INCOME AND (EXPENSES):				
Interest expense	(422,366)	(764,539)	(1,038,434)	(1,976,321)
Other – net	<u>102,168</u>	<u>50,097</u>	<u>269,197</u>	<u>330,124</u>
Total other - net	<u>(320,198)</u>	<u>(714,442)</u>	<u>(769,237)</u>	<u>(1,646,197)</u>
INCOME BEFORE INCOME TAXES	3,413,110	2,066,328	1,825,823	1,753,295
INCOME TAX EXPENSE	<u>1,024,933</u>	<u>586,634</u>	<u>547,747</u>	<u>477,356</u>
NET INCOME	<u>\$ 2,388,177</u>	<u>\$ 1,479,694</u>	<u>\$ 1,278,076</u>	<u>\$ 1,275,939</u>
NET INCOME PER SHARE				
Basic	<u>\$ 0.53</u>	<u>\$ 0.33</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.32</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	<u>4,505,465</u>	<u>4,489,215</u>	<u>4,500,675</u>	<u>4,489,215</u>
Diluted	<u>4,555,208</u>	<u>4,564,929</u>	<u>4,613,994</u>	<u>4,540,675</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,	
	<u>2002</u>	<u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,278,076	\$ 1,275,939
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,073,782	3,381,738
Deferred income taxes and liabilities	(1,791,524)	(690,374)
Loss on sale of fixed assets	9,583	123,040
Change in assets and liabilities:		
Receivables	(13,535,061)	(16,055,172)
Inventories	(2,539,645)	(5,864,357)
Prepaid expenses	(268,106)	(203,648)
Other assets	(109,325)	90,972
Accounts payable	2,495,946	45,275
Accrued and other liabilities	(344,295)	2,602,048
	<u>(11,730,569)</u>	<u>(15,294,539)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(1,509,457)	(701,658)
Proceeds from sale of fixed assets	12,750	6,498
	<u>(1,496,707)</u>	<u>(695,160)</u>
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	64,882,869	76,046,760
Payments on long term debt	(52,788,705)	(59,621,251)
Proceeds from exercise of stock options	71,419	
	<u>12,165,583</u>	<u>16,425,509</u>
Net cash provided by financing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,061,693)	435,810
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>2,954,935</u>	<u>2,117,994</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 1,893,242</u>	<u>\$ 2,553,804</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 Periods Ended September 30, 2002 and 2001**

1. INTERIM FINANCIAL REPORTING

In the opinion of management, the accompanying interim unaudited condensed consolidated financial statements reflect all adjustments, which are necessary for a fair presentation of the financial results. All such adjustments reflected in the interim unaudited condensed consolidated financial statements are considered to be of a normal and recurring nature. The results of the operations for the nine-month periods ended September 30, 2002 and 2001 are not necessarily indicative of the results to be expected for the whole year. Accordingly, these interim unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report to the Shareholders on Form 10-K for the year ended December 31, 2001.

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

2. 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 principally completed in fourth quarter 2001.

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

A reconciliation of the plant closing costs and accrual for the quarter ended September 30, 2002 is as follows:

	2001 Total Expenses	Accrued Balance Dec. 31, 2001	First Quarter 2002 Payments	Second Quarter 2002 Payments	Third Quarter 2002 Payments	Accrued Balance Sept. 30, 2002
Severance						
Non-union	\$ 71,668	\$ 71,668	\$ 20,483	\$ 5,091		\$ 46,094
Union	292,653					
Curtailment of pension plan benefits	690,000	690,000			500,000	190,000
Employee benefits	34,223	33,000	6,808	22,739	1,000	2,453
Factory lease	90,000	85,000	13,000	9,000	9,000	54,000
Equipment and relocation costs	260,626	5,000				5,000
Legal and other costs	60,830	18,623	11,825	33,846		(27,048)
Total	<u>\$ 1,500,000</u>	<u>\$ 903,291</u>	<u>\$ 52,116</u>	<u>\$ 70,676</u>	<u>\$ 510,000</u>	<u>\$ 270,499</u>

3. INVENTORIES

Inventories are comprised of the following:

	September 30, <u>2002</u>	December 31, <u>2001</u>	September 30, <u>2001</u>
Raw materials	4,855,657	\$ 4,537,865	\$ 5,504,761
Work-in Process	2,299,573	1,578,107	2,335,945
Finished goods	21,527,293	20,077,999	27,640,253
Factory outlet finished goods	1,731,786	1,680,693	2,579,635
Reserve for obsolescence or lower of cost or market	<u>(161,000)</u>	<u>(161,000)</u>	<u>(161,000)</u>
Total	<u>30,253,309</u>	<u>\$ 27,713,664</u>	<u>\$ 37,899,594</u>

4. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine Months Ended September 30,	
	<u>2002</u>	<u>2001</u>
Interest	<u>\$ 1,015,141</u>	<u>\$ 2,001,117</u>
Federal, state and local income taxes	<u>\$ 75,000</u>	<u>\$ 77,348</u>

Accounts payable at September 30, 2002 and December 31, 2001 include a total of \$18,918 and \$5,310, respectively, relating to the purchase of fixed assets.

5. PER SHARE INFORMATION

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

A reconciliation of the shares used in the basic and diluted income per common share computation for the three months and nine months ended September 30, 2002 and 2001 is as follows:

	September 30,		September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Basic Weighted average shares outstanding	4,505,465	4,489,215	4,500,675	4,489,215
Diluted securities: Stock options	<u>49,743</u>	<u>75,714</u>	<u>113,319</u>	<u>51,460</u>
Diluted Weighted average shares outstanding	<u>4,555,208</u>	<u>4,564,929</u>	<u>4,613,994</u>	<u>4,540,675</u>

6. RECENTLY ADOPTED FINANCIAL ACCOUNTING STANDARDS

Effective January 1, 2002, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The adoption of this statement did not have a material impact on its consolidated financial statements. SFAS No. 142 changes the accounting for goodwill and certain other intangible assets from an amortization method to an impairment only approach. The Company has no goodwill recorded. However, the total net book value of indefinite-lived intangible assets at September 30, 2002 was \$413,869. Indefinite-lived intangible assets represent the cost of acquiring the licensing rights to ROCKY(R) Kids from Philip's Kids, LLC. These rights have previously been determined to have an indefinite useful life and accordingly are not subject to amortization. In addition, the Company has intangible assets consisting of patents and trademarks totaling approximately \$500,000 at September 30, 2002 that are being amortized over 15 years. Amortization expense related to these intangible assets in the first nine months of fiscal 2002 and 2001 was \$23,569 and \$30,374 respectively.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The adoption of this statement, as of January 1, 2002, did not have an impact on the Company's Consolidated Financial Statements.

As previously reported, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" in April 2002. It is effective for the first quarter in the year ended December 31, 2003. The Company does not believe the adoption of SFAS No. 145 will have a significant impact on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities included in restructurings. This Statement eliminates the definition and requirements for recognition of exit costs as defined in EITF Issue 94-3, and requires that liabilities for exit activities be recognized when incurred instead of at the exit activity commitment date. This Statement is effective for exit or disposal activities initiated after December 31, 2002.

7. NEW CREDIT FACILITY

The Company announced a two-year extension to its credit facility on October 23, 2002. This new agreement replaced the previous \$50 million credit facility and includes terms more favorable to the Company, lower interest rates, and, to a lesser extent, reduced administrative fees. It expires on September 30, 2005. The Company's new line of credit provides for advances based on a percentage of eligible accounts receivable and inventory with maximum borrowings under the line of credit of \$45,000,000. As of September 30, 2002, the Company had borrowed \$23,445,043 against its currently available line of credit of \$32,693,673.

8. SHARE REPURCHASE PROGRAM

On September 30, 2002, the Company announced that its Board of Directors had authorized the repurchase of up to 500,000 common shares outstanding in open market or privately negotiated transactions through December 31, 2003. Purchases of stock under this program will be funded from the Company's operating cash flow.

PART 1 - FINANCIAL INFORMATION
ITEM 2

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Results of Operations

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

	Percentage of Net Sales			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Goods Sold	<u>70.9%</u>	<u>74.5%</u>	<u>74.6%</u>	<u>75.0%</u>
Gross Margin	29.1%	25.5%	25.4%	25.0%
SG&A expenses (including plant closing costs in 2001)	<u>16.8%</u>	<u>18.2%</u>	<u>21.4%</u>	<u>20.5%</u>
Income from Operations	<u><u>12.3%</u></u>	<u><u>7.3%</u></u>	<u><u>4.0%</u></u>	<u><u>4.5%</u></u>

Reported SG&A expenses were 18.2% and 20.5% of net sales, respectively, for the three months and nine months ended September 30, 2001. Excluding the \$1,300,000 third quarter 2001 plant closing costs, SG&A expenses were 14.9% and 18.8% of net sales, respectively, for the same periods last year. Reported income from operations for the third quarter 2001 year-to-date periods were 7.3% and 4.5%, respectively. Excluding the third quarter 2001 plant closing costs, income from operations was 10.6% and 6.2%, respectively, for three months and nine months ended September 30, 2001.

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

Net Sales

Net Sales decreased \$8,036,724, or 20.9%, to \$30,453,543 for the quarter ended September 30, 2002 compared to \$38,490,267 for the same period a year ago. The decline was due to lower sales of rugged outdoor footwear and no military boot sales. This shortfall was partially offset by increased sales of occupational footwear and other sales, which includes ROCKY® Gear clothing and accessories. The Company's prices are slightly higher than the previous year. This was due principally to the growing strength of the ROCKY brand and raw material price increases.

Gross Margin

Gross margin improved to 29.1% of net sales, or \$8,852,358, for third quarter 2002 compared with 25.5%, or \$9,804,424, for the same period last year. This was primarily due to no shipments of military footwear in third quarter 2002, which were produced during third quarter 2001 at substantially lower margins than the Company's overall gross margin under a previous contract with the U.S. government. Results for the most recent quarter also benefited from the restructuring of manufacturing operations announced during third quarter 2001, and an increase in sourced products that represented 57.8% of net sales for third quarter 2002 versus 46.9% the prior year. To date, the Company has not been affected materially by the recent West Coast port shutdown or the impact of any alleged slowdowns.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses decreased \$604,604, or 10.6%, to \$5,119,050 for the quarter ended September 30, 2002 compared to \$5,723,654 for the same period a year ago. Cost reduction programs implemented during 2001 continue to favorably impact SG&A expenses in terms of absolute dollars savings. As a percentage of net sales, SG&A expenses increased to 16.8% for third quarter 2002 from 14.9% a year ago. This is primarily the result of reduced net sales and the fixed charges associated with SG&A expenses.

Interest Expense

Interest expense decreased \$342,173, or 44.8%, to \$422,366 in the quarter ended September 30, 2002 compared to \$764,539 the prior year. The Company benefited from both lower outstanding balances and interest rates during third quarter 2002.

Funded debt was \$29,539,329 at September 30, 2002 versus \$43,941,159 on the same date in 2001. The \$14,401,830 or 32.8% reduction in funded debt was primarily due to substantially lower inventory during third quarter 2002 compared to last year.

Income Taxes

Income taxes increased to \$1,024,933 for the three months ended September 30, 2002 compared to \$586,634 for the same period a year ago. The Company's effective tax rate of 30.0% for the three months ended September 30, 2002 compares with an effective tax rate of 28.3% for the same period last year, which reflected lower tax rates for the Company's operations in Puerto Rico.

Nine Months Ended September 30, 2002 compared to the Nine Months Ended September 30, 2001

Net Sales

Net sales for the nine months ended September 30, 2002 decreased \$13,163,092 or 17.2% to \$63,397,202 versus \$76,560,294 for the same period a year ago. Generally weak retail conditions in the Company's markets especially impacted initial orders of rugged outdoor footwear. Higher sales of military boots as well as other sales, which include ROCKY® Gear clothing and accessories partially offset the decline. The Company's prices are slightly higher than the previous year. This is due principally to the growing strength of the ROCKY brand and raw material price increases.

Gross Margin

Gross margin for the nine months ended September 30, 2002 decreased \$2,992,983 to \$16,130,644 versus \$19,123,627 for the same period last year. As a percentage of net sales, gross margin was 25.4% for the first nine months of 2002 versus 25.0% for the same period a year ago. Among the factors contributing to the increase in gross margin as a percentage of net sales were generally higher selling prices and additional sales of higher margin sourced footwear. Sourced footwear sales increased to 47.0% of net sales for the first nine months of 2002 from 40.9% last year. Additionally, positive contributions are being realized from the manufacturing realignment announced during third quarter 2001 and incremental benefits are expected in future periods. The change in product mix, with military boots representing a higher percentage of net sales in the first nine months of 2002, negatively impacted gross margin in 2002. Military boots are produced at lower gross margin than footwear in the Company's other categories.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses for the nine months ended September 30, 2002 were \$13,535,584 compared with \$14,424,135 for the same period a year ago. As a percentage of net sales, SG&A expenses were 21.4% for the first nine months of September 30, 2002 versus 18.8% for the same period in 2001. Cost reduction programs implemented during 2001 continue to favorably impact SG&A expenses in terms of absolute dollars savings.

Interest Expense

Interest expense for the nine months ended September 30, 2002 decreased \$937,887 or 47.5% to \$1,038,434 versus \$1,976,321 for the same period a year ago. The significant reduction is principally due to lower borrowings, and, to a lesser extent, the decline in interest rates compared with the prior year.

Income Taxes

Income taxes for the nine months ended September 30, 2002 increased \$70,391 to \$547,747 compared to of \$477,356 for the same period a year ago. The Company's effective tax rate of 30.0% for the nine months ended September 30, 2002 compared with an effective tax rate of 27.2% in 2001, which reflected lower tax rates for the Company's operations in Puerto Rico.

Liquidity and Capital Resources

The Company has principally funded working capital requirements and capital expenditures through borrowings under its line of credit and other indebtedness. Working capital is primarily used to support changes in accounts receivable and inventory because of the Company's seasonal business cycle and business expansion. These requirements are generally lowest in the months of January through March of each year and highest during the months of May through October. In addition, the Company requires financing to support additions to machinery, equipment and facilities as well as the introduction of new styles of footwear. At September 30, 2002, the Company had working capital of \$57,367,698 versus \$53,313,631 on the same date last year and \$44,266,895, at December 31, 2001.

The Company announced a two-year extension to its credit facility on October 23, 2002. The new agreement replaced the previous \$50 million credit facility and includes terms more favorable to the Company, lower interest rates, and, to a lesser extent, reduced administrative fees. It expires on September 30, 2005. The Company's new line of credit provides for advances based on a percentage of eligible accounts receivable and inventory with maximum borrowings under the line of credit of \$45,000,000. As of September 30, 2002, the Company had borrowed \$23,445,043 against its currently available line of credit of \$32,693,673.

The Company's cash flow used in operations decreased to \$11,730,569 in the first nine months of 2002 from \$15,294,539 for the same period in the prior year. The period over period comparison reflects a larger increase in accounts payable offsetting reduced increases in accounts receivable and inventories. All of the responsible balance sheet fluctuations reflect the seasonal nature of the Company's business and are normal when consideration is given to the reduction in net sales and the intent of the Company to reduce its investment in inventory.

Inventory declined 20.2% to \$30,253,309 at September 30, 2002 versus \$37,899,594 as of the same date last year and \$27,713,664 at December 31, 2001. Controlled production schedules during the past year combined with improved inventory management contributed to the favorable comparison. The current level of inventory combined with scheduled imports and anticipated production during the fourth quarter is considered sufficient to meet anticipated demand for the remainder of this year.

The principal use of cash flows in investing activities for the first nine months of 2002 and 2001 has been for investment in property, plant, and equipment. In the first nine months of 2002, property, plant, and equipment expenditures were approximately \$1,509,000 versus \$702,000 for the same period in 2001. The increase resulted from investments the Company made in its Puerto Rico factory that enhanced manufacturing capabilities. In addition, projects have been initiated to upgrade sales and customer support capabilities, consolidate domestic operations into 2 locations, and prepare underutilized facilities for lease or sale.

The Company's cash flows from financing activities reflect scheduled repayments of its long-term mortgage facility and increases and decreases in borrowings under its revolving credit facility to finance working capital requirements and other operating capital expenditures.

On September 30, 2002, the Company announced its Board of Directors authorized the repurchase of up to 500,000 common shares outstanding in open market or privately negotiated transactions through December 31, 2003. Purchases of stock under this program will be funded from the Company's operating cash flow.

Inflation

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

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses 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. On an ongoing basis, management evaluates its estimates and judgments, including those related to accounts receivable, inventories, pension benefits, income taxes, and restructuring costs. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities 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, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

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.

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 any slow moving or obsolete inventories through the Company's factory clearance center or through various discounts to customers. Should management encounter difficulties liquidating slow moving or obsolete inventories, additional provisions may be required.

Pension benefits

Management records an accrual for pension costs associated with the Company sponsored noncontributory defined benefit pension plans covering the union and non-union workers of the Company's operations. 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 the 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. Likewise, should the Company determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax assets would increase income in the period such determination was made.

Plant Closing Costs

As disclosed in Note 2 of Notes to the Interim Unaudited Condensed Consolidated Financial Statements, in third quarter 2001 management established an accrual for estimated restructuring and realignment costs associated with the closing of its Nelsonville manufacturing facility. The Company expects no additional restructuring and realignment costs associated with this plan, however should the Company incur additional costs related to the closing of the manufacturing facility, additional accruals may be required.

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

The foregoing Management's Discussion and Analysis of Financial Condition 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 intent, beliefs, expectations, projections, forecasts, and plans of the Company and its management, and include any statements regarding the sufficiency of inventory to meet anticipated demand (paragraph 17). Investors are cautioned that such statements involve risks and uncertainties, including, but not limited to, changes in consumer demand, seasonal fluctuations, impact of weather, competition, reliance on suppliers, changing retailing trends, reliance on foreign manufacturing, changes in tax rates, capital expenditures, limited protection of proprietary technology, and other risks, uncertainties and factors described in the Company's most recent Annual Report on Form 10-K and other filings from time to time with the Securities and Exchange Commission. One or more of these factors have affected, and in the future could affect the Company's business and financial results and cause actual results to differ materially from plans and projections. Although the Company and its management believe that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate. Therefore, there can be no assurance that the forward-looking statements included herein will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements contained herein, the inclusion of such information should not be regarded as a representation by the Company, its management or any other person that the Company's objectives and plans will be achieved. All forward-looking statements made herein are based on information presently available to the management of the Company. The Company undertakes no obligation to publicly update or revise any forward-looking statements.

PART 1 - FINANCIAL INFORMATION

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes since December 31, 2001.

ITEM 4 – CONTROLS AND PROCEDURES

Within the 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer along with our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon this evaluation, our Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC reports. 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.

Since the date of our evaluation to the filing date of this Quarterly Report on Form 10-Q, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 2. Changes in Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

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

None

Item 5. Other Information.

None

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

(a) Exhibits.

Exhibit 10.1	Sixth Amendment to Loan and Security Agreement, dated as of August 6, 2002, among Rocky Shoes & Boots, Inc., Lifestyle Footwear, Inc., and GMAC Business Credit, LLC.
Exhibit 10.2	Seventh Amendment to Loan and Security Agreement, dated as of September 30, 2002, among Rocky Shoes & Boots, Inc., Lifestyle Footwear, Inc., and GMAC Business Credit, LLC.
Exhibit 99.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002.
Exhibit 99.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant To Section 906 Of The Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

None

SIGNATURE

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

ROCKY SHOES & BOOTS, INC.

Date: November 14, 2002

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

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

Certification by 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Mike Brooks
Mike Brooks
Chief Executive Officer

Certification by 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; 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; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ James E. McDonald
James E. McDonald
Chief Financial Officer

SIXTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Sixth Amendment to Loan and Security Agreement (the “Amendment”) is made on August 6, 2002 by GMAC Business “Credit, LLC (“Lender”) and ROCKY SHOES & BOOTS, INC. and LIFESTYLE FOOTWEAR,

RECITALS

A. Borrowers and Lender entered into a Loan and Security Agreement dated September 18, 2000 (as amended from time to time, including by this Amendment, the Capitalized terms used in this Amendment shall have the meanings set forth in the Loan Agreement unless otherwise defined in this Amendment.

B. Borrowers and Lender wish to amend the Loan Agreement as set forth below.

THEREFORE, In consideration of the mutual promises and agreements of the parties hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which Is acknowledged, the parties agree as follows:

TERMS AND CONDITIONS

1. The definition of “Availability Reserve” in Section 2 of the Loan Agreement is amended to read as follows: “Availability Reserve” means \$1,000,000.

2. Except as amended by this Amendment, all the terms and conditions in the Loan Agreement remain in full force and effect.

3. This Amendment constitutes the entire agreement of the Parties in connection with the subject matter of this Amendment and cannot be changed or terminated orally. All prior agreements, understandings, representations, warranties and negotiations regarding the subject matter hereof, if any, are merged into this Amendment.

4. Borrowers and the signatory noted below represent that all necessary corporate action to authorize Borrowers to enter into this Amendment has been taken, including, without limitation, board of directors approval and resolutions necessary to authorize Borrowers' execution of this Amendment.

5. This Amendment may be executed in counterparts, each of which when so executed and delivered shall be deemed an original, and all of such counterparts together shall constitute but one and the same agreement.

6. This Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of Michigan.

GMAC BUSINESS CREDIT, LLC

ROCKY SHOES & BOOTS, INC.

By: /s/ Kathryn Williams
Kathryn Williams
Vice President

By: /s/ James E. McDonald
James E. McDonald
Vice President and
Chief Financial Officer

LIFESTYLE FOOTWEAR, INC.

By: /s/ James E. McDonald
James E. McDonald
Vice President and
Chief Financial Officer

SEVENTH AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Seventh Amendment to Loan and Security Agreement (the "Amendment") is made on September 30, 2002 by GMAC Business Credit, LLC ("Lender") and ROCKY SHOES & BOOTS, INC. and LIFESTYLE FOOTWEAR, INC. ("Borrowers").

RECITALS

A. Borrowers and Lender entered into a Loan and Security Agreement dated September 18, 2000 (as amended from time to time, including by this Amendment, the "Loan Agreement"). Capitalized terms used in this Amendment shall have the meanings set forth in the Loan Agreement unless otherwise defined in this Amendment.

B. Borrowers and Lender wish to amend the Loan Agreement as set forth below.

THEREFORE, in consideration of the mutual promises and agreements of the parties hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

TERMS AND CONDITIONS

1. Notwithstanding Section 7.5 of the Loan Agreement or any other provisions of the Loan Agreement that prohibit the redemption of stock, Parent may redeem shares of its stock through December 31, 2003 if the following conditions are satisfied:

(a) Borrower has Excess Availability of \$5,000,000 after making any redemption;

(b) the aggregate redemption price of all redeemed shares does not exceed \$3 million:

(c) no Event of Default has occurred and is continuing;

(d) as of the month ending 2 months prior to month any stock is redeemed, Borrowers have a Trailing Twelve Month Operating Cash Flow of at least \$4 million.

(e) Borrowers have provided GMAC/BC at least 1 day written notice of any proposed stock redemption.

For purposes of this Amendment, the term “Trailing Twelve Month Operating Cash Flow” means EBITDA for the 12 months ended on the measurement date plus the amount of Capital Expenditures during the 12 month period that were not financed by third parties.

2. Except as amended by this Amendment, all the terms and conditions in the Loan Agreement remain in full force and effect.

3. This Amendment constitutes the entire agreement of the parties in connection with the subject matter of this Amendment and cannot be changed or terminated orally. All prior agreements, understandings, representations, warranties and negotiations regarding the subject matter hereof, if any, are merged into this Amendment.

4. Borrowers and the signatory noted below represent that all necessary corporate action to authorize Borrowers to enter into this Amendment has been taken, including, without limitation, board of directors approval and resolutions necessary to authorize Borrowers' execution of this Amendment.

5. This Amendment may be executed in counterparts, each of which when so executed and delivered shall be deemed an original, and all of such counterparts together shall constitute but one and the same agreement.

6. This Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of Michigan.

GMAC BUSINESS CREDIT, LLC

ROCKY SHOES & BOOTS, INC

By: /s/ Venkat Venkatesan
Venkat Venkatesan
Vice President

By: /s/ Mike Brooks
Michael Brooks
President/Chief Executive Officer

LIFESTYLE FOOTWEAR, INC.

By: /s/ Mike Brooks
Michael Brooks
President/Chief Executive Officer

ROCKY SHOES & BOOTS, INC.

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

In connection with the Quarterly Report of Rocky Shoes & Boots, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mike Brooks, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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 result of operations of the Company.

/s/ Mike Brooks
Mike Brooks, President and Chief Executive
Officer
November 14, 2002

ROCKY SHOES & BOOTS, INC.

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

In connection with the Quarterly Report of Rocky Shoes & Boots, Inc. (the “Company”) on Form 10-Q for the period ending September 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James E. McDonald, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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 result of operations of the Company.

/s/ James E. McDonald
James E. McDonald, Vice President and
Chief Financial Officer
November 14, 2002