

ROCKY SHOES & BOOTS INC

Form S-3

September 15, 2005

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**As filed with the Securities and Exchange Commission on September 15, 2005
Registration No. 333-**

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

**FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**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.)
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39 East Canal Street
Nelsonville, Ohio 45764
(740) 753-1951
(Address, including zip code, and telephone number, including
area code, of Registrant's principal executive offices)

Mike Brooks
Chairman and Chief Executive Officer
Rocky Shoes & Boots, Inc.
39 East Canal Street
Nelsonville, Ohio 45764
(740) 753-1951
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this
Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the box.

If any of the securities being registered on this Form are offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than the securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of this prospectus is expected to be made pursuant to Rule 434, please check the following box.

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share⁽¹⁾	Proposed Maximum Aggregate Offering Price⁽¹⁾	Amount of the Registration Fee
Common Stock, without par value	2,990,000	\$30.25	\$90,447,500	\$10,646.00

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c), based on the average high and low prices of the Common Stock as reported on the Nasdaq National Market on September 9, 2005.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated September 15, 2005

2,600,000 Shares

ROCKY SHOES & BOOTS, INC.

Common Stock

\$ per share

Rocky Shoes & Boots, Inc. is offering 2,000,000 shares and selling shareholders are offering 600,000 shares. We will not receive any proceeds from the sale of our shares by selling shareholders.

The last reported sale price of our common stock on September 14, 2005 was \$31.53 per share.

Trading symbol: Nasdaq National Market RCKY

This investment involves risk. See Risk Factors beginning on page 6.

	Per Share	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Rocky Shoes & Boots, Inc.	\$	\$
Proceeds, before expenses, to the selling shareholders	\$	\$

The underwriters have a 30-day option to purchase up to 390,000 additional shares of common stock from us to cover over-allotments, if any.

Neither the Securities and Exchange Commission nor any state securities commission has approved of anyone's investment in these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Piper Jaffray

Wachovia Securities

BB&T Capital Markets

D.A. Davidson & Co.

Ryan Beck & Co.

The date of this prospectus is , 2005

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations, Business and Consolidated Financial Statements have been revised to reflect the changes in our reporting segments for the years ended December 31, 2002, 2003 and 2004 not previously included in our Annual Report on Form 10-K for the year ended December 31, 2004.

Rocky, Rocky Outdoor Gear, Georgia Boot, Durango and Lehigh and our other marks mentioned or used in this prospectus are our registered trademarks and service marks. This prospectus also contains trademarks and service marks belonging to other entities.

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SUMMARY

The items in the following summary are described in more detail later in this prospectus. This summary provides an overview of selected information and does not contain all the information you should consider. Therefore, you should also read the more detailed information set out in this prospectus, the financial statements and the other information incorporated by reference into this prospectus.

Rocky Shoes & Boots, Inc.

We are a leading designer, manufacturer and marketer of premium quality footwear marketed under a portfolio of well recognized brand names including Rocky Outdoor Gear, Georgia Boot, Durango, Lehigh and Dickies. Our brands have a long history of representing high quality, comfortable, functional and durable footwear and our products are organized around four target markets: outdoor, work, duty and western. Our footwear products incorporate varying features and are positioned across a range of suggested retail price points from \$29.95 for our value priced products to \$249.95 for our premium products. In addition, as part of our strategy of outfitting consumers from head-to-toe, we market complementary branded apparel and accessories that we believe leverage the strength and positioning of each of our brands.

Our products are distributed through three distinct business segments: wholesale, retail and military. In our wholesale business, we distribute our products through a wide range of distribution channels representing over 10,000 retail store locations in the U.S. and Canada. Our wholesale channels vary by product line and include sporting goods stores, outdoor retailers, independent shoe retailers, hardware stores, catalogs, mass merchants, uniform stores, farm store chains, specialty safety stores and other specialty retailers. Our retail business includes direct sales of our products to consumers through our Lehigh Safety Shoes mobile and retail stores (including a fleet of 78 trucks, supported by 38 small warehouses that include retail stores, which we refer to as mini-stores), our two Rocky outlet stores and our websites. We also sell footwear under the Rocky label to the U.S. military.

In 2001, we undertook a number of strategic initiatives designed to increase our sales and improve our margins while mitigating the seasonality and weather related risk of our outdoor product lines. These strategic initiatives included:

- extending our lines of footwear into additional markets with the introduction of footwear models for the work and western markets;

- expanding our product offerings into complementary apparel to leverage the strength of our Rocky Outdoor Gear brand and offer our consumers a broader, head-to-toe product assortment; and

- closing our continental U.S. manufacturing facility and sourcing a greater portion of our products from third party facilities overseas.

As a result of these initiatives, we increased our sales and profitability, diversified our business and created additional opportunities for growth. We increased our sales from \$89.0 million in 2002 to \$132.2 million in 2004, representing a compound annual growth rate of 21.9%. Over the same period, our earnings per share increased from \$0.62 to \$1.74, representing a compound annual growth rate of 67.5%.

Acquisition of EJ Footwear Group

In January 2005, to further support our strategic objectives, we acquired EJ Footwear Group, a leading designer and developer of branded footwear products marketed under a collection of well recognized brands in the work, western and outdoor markets, including Georgia Boot, Durango and Lehigh. EJ Footwear was also the exclusive licensee of the Dickies brand for most footwear products. The acquisition was part of our strategy to expand our portfolio of leading brands and strengthen our market position in the work and western footwear markets, and to extend our product offerings to include brands positioned

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across multiple feature sets and price points. The EJ Footwear acquisition also expanded our distribution channels and diversified our retailer base.

We believe the EJ Footwear acquisition offers us multiple opportunities to expand and strengthen our combined business. We intend to extend certain of these brands into additional markets, such as outdoor, work and duty, where we believe the brand image is consistent with the target market. We also believe that the strength of each of these brands in their respective markets will allow us to introduce complementary apparel and accessories, similar to our head-to-toe strategy for Rocky Outdoor Gear.

Competitive Strengths

Our competitive strengths include:

Strong portfolio of brands. We believe the Rocky Outdoor Gear, Georgia Boot, Durango, Lehigh and Dickies brands are well recognized and established names that have a reputation for performance, quality and comfort in the markets they serve: outdoor, work, duty and western. We plan to continue strengthening these brands through product innovation in existing footwear markets, by extending certain of these brands into our other target markets and by introducing complementary apparel and accessories under our owned brands.

Commitment to product innovation. We believe a critical component of our success in the marketplace has been a result of our continued commitment to product innovation. Our consumers demand high quality, durable products that incorporate the highest level of comfort and the most advanced technical features and designs. We have a dedicated group of product design and development professionals, including well recognized experts in the footwear and apparel industries, who continually interact with consumers to better understand their needs and are committed to ensuring our products reflect the most advanced designs, features and materials available in the marketplace.

Long-term retailer relationships. We believe that our long history of designing, manufacturing and marketing premium quality, branded footwear has enabled us to develop strong relationships with our retailers in each of our distribution channels. We intend to reinforce these relationships by continuing to offer innovative footwear products, by continuing to meet the individual needs of each of our retailers and by working with our retailers to improve the visual merchandising of our products in their stores. We believe that strengthening our relationships with retailers will allow us to increase our presence through additional store locations and expanded shelf space, improve our market position in a consolidating retail environment and enable us to better understand and meet the evolving needs of both our retailers and consumers.

Diverse product sourcing and manufacturing capabilities. We believe our strategy of utilizing both company operated and third party facilities for the sourcing of our products offers several advantages. Operating our own facilities significantly improves our knowledge of the entire production process which allows us to more efficiently source product from third parties that is of the highest quality and at the lowest cost available. Over time, we intend to source a higher proportion of our products from third party manufacturers, which we believe will enable us to obtain high quality products at lower costs per unit.

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Growth Strategy

We intend to increase our sales through the following strategies:

Expand into new target markets under existing brands. We believe there is significant opportunity to extend certain of our brands into our other target markets. We intend to continue to introduce products across varying feature sets and price points in order to meet the needs of our retailers.

Increase apparel offerings. We believe the long history and authentic heritage of our owned brands provide significant opportunity to extend each of these brands into complementary apparel. We intend to continue to increase our Rocky apparel offerings and believe that similar opportunities exist for our Georgia Boot and Durango brands in their respective markets.

Cross-sell our brands to our retailers. The acquisition of EJ Footwear expanded our distribution channels and diversified our retailer base. We believe that many retailers of our existing and acquired brands target consumers with similar characteristics and, as a result, we believe there is significant opportunity to offer each of our retailers a broader assortment of footwear and apparel that target multiple markets and span a range of feature sets and price points.

Expand our retail sales through Lehigh. We believe that our Lehigh mobile and retail stores offer us an opportunity to significantly expand our direct sales of work-related footwear. We intend to grow our Lehigh business by adding new customers, expanding the portfolio of brands we offer and increasing our footwear and apparel offerings. In addition, over time, we plan to upgrade the locations of some of our mini-stores, as well as expand the breadth of products sold in these stores.

Continue to add new retailers. We believe there is an opportunity to add additional retailers in certain of our distribution channels. We have identified a number of large, national footwear retailers that target consumers whom we believe identify with the Georgia Boot, Durango and Dickies brands.

Acquire or develop new brands. We intend to continue to acquire or develop new brands that are complementary to our portfolio and could leverage our operational infrastructure and distribution network.

Risks Affecting Us

As further described below in Risk Factors, our growth strategy is founded substantially on expanding our brands into new footwear and apparel markets, and if our growth strategy is unsuccessful, our brands may be adversely affected, and we may not achieve our planned sales growth. Achieving market acceptance for new products will likely require us to exert substantial product development and marketing efforts, which may materially increase our expenses and may not be successful. A significant portion of our revenues are derived from outdoor products and are subject to seasonal fluctuations. We recently acquired EJ Footwear and we may encounter difficulties integrating it into our business. We produce a majority of our products outside the U.S. and source materials from a limited number of suppliers, both of which subject us to various risks.

Our Corporate Information

We are an Ohio corporation. Our headquarters is located at 39 East Canal Street, Nelsonville, Ohio 45764, and our telephone number is (740) 753-1951. Our corporate website address is www.rockyboots.com. This is a textual reference only. We do not incorporate the information on our website into this prospectus and you should not consider any information on, or that can be accessed through, our website as part of this prospectus.

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The Offering

Common stock offered:

By Rocky Shoes & Boots, Inc 2,000,000 shares

By selling shareholders 600,000 shares

Total 2,600,000 shares

Common stock outstanding after the offering 7,293,595 shares

Offering Price \$ per share

Use of proceeds We intend to use the net proceeds we receive in this offering to repay amounts under our term loan with GMAC Commercial Finance LLC (\$16.5 million as of June 30, 2005), our term loan with American Capital Strategies, Ltd. (\$30.0 million as of June 30, 2005), and the remainder to pay down our revolving credit facility and for working capital and other general corporate purposes, including the growth and expansion of our business. We will not receive any proceeds from the sale of common stock by the selling shareholders. See Use of Proceeds.

Nasdaq National Market symbol RCKY

The number of shares to be outstanding after this offering is based on 5,293,595 shares outstanding as of September 14, 2005. The number of shares to be outstanding after this offering does not give effect to:

645,351 shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price of \$13.20 per share as of September 14, 2005;

565,935 additional shares reserved for future grants under our stock option plans as of September 14, 2005; or

exercise of the underwriters' over-allotment option to purchase up to 390,000 shares of common stock from us.

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The summary financial data presented below under the heading **Income Statement Data** for the years ended December 31, 2002, 2003 and 2004, which have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, have been derived from, and are qualified by reference to, our consolidated financial statements included elsewhere in this prospectus. The summary financial data presented below under the headings

Income Statement Data for the six months ended June 30, 2004 and 2005 and **Balance Sheet Data** as of June 30, 2005 are unaudited, have been derived from our unaudited condensed consolidated financial statements that are included elsewhere in this prospectus and have been prepared on the same basis as our consolidated financial statements. In the opinion of management, the unaudited summary financial data presented below under the headings **Income Statement Data** and **Balance Sheet Data** reflect all adjustments, which include only normal and recurring adjustments, necessary to present fairly our results of operations for and as of the periods presented. Historical results are not necessarily indicative of the results of operations to be expected for future periods. Quarterly results are not necessarily indicative of full year results. See **Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Weather**. You should read the summary consolidated financial data in conjunction with **Management's Discussion and Analysis of Financial Condition and Results of Operations** and with our consolidated financial statements and related notes included in this prospectus.

	Year Ended December 31,			Six Months Ended June 30,	
	2002	2003	2004	2004	2005(1)
(In thousands, except per share amounts)					
Income Statement Data					
Net sales	\$ 88,959	\$ 106,165	\$ 132,249	\$ 49,316	\$ 127,018
Cost of goods sold	65,528	73,383	93,607	35,921	77,087
Gross margin	23,431	32,782	38,642	13,395	49,931
Selling, general and administrative expenses	18,662	23,279	25,618	10,724	40,146
Income from operations	4,769	9,503	13,024	2,671	9,785
Interest expense	(1,405)	(1,378)	(1,335)	(534)	(3,994)
Other net	432	348	381	98	117
Income before income taxes	3,796	8,473	12,070	2,235	5,908
Income tax expense	953	2,434	3,476	715	2,009
Net income	\$ 2,843	\$ 6,039	\$ 8,594	\$ 1,520	\$ 3,899
Net income per common share:					
Basic	\$ 0.63	\$ 1.44	\$ 1.89	\$ 0.34	\$ 0.75
Diluted	\$ 0.62	\$ 1.32	\$ 1.74	\$ 0.31	\$ 0.70
Weighted average common shares outstanding:					
Basic	4,500	4,190	4,557	4,493	5,204
Diluted	4,590	4,561	4,954	4,950	5,590

As of June 30, 2005

	Actual(1)	As Adjusted(2)
(In thousands)		
Balance Sheet Data		
Cash and cash equivalents	\$ 1,016	\$ 1,016
Working capital	115,428	121,862
Total assets	243,719	242,513
Long-term debt, less current maturities	104,337	51,220
Shareholders' equity	87,682	146,027

(1) Includes our acquisition of EJ Footwear in January 2005.

(2) The as adjusted balance sheet data reflect our sale of 2,000,000 shares of common stock in this offering at an assumed public offering price of \$31.53 per share (the last sale price on September 14, 2005) and the application of the estimated net proceeds of such sale after deducting underwriting discounts and estimated offering expenses as described in Use of Proceeds.

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RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below, together with all of the other information included in this prospectus, before making an investment decision. If any of the following risks actually occurs, our business, financial condition or results of operations could suffer. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Relating to Rocky Shoes & Boots, Inc.

Expanding our brands into new footwear and apparel markets may be difficult and expensive, and if we are unable to successfully continue such expansion, our brands may be adversely affected, and we may not achieve our planned sales growth.

Our growth strategy is founded substantially on the expansion of our brands into new footwear and apparel markets. New products that we introduce may not be successful with consumers or one or more of our brands may fall out of favor with consumers. If we are unable to anticipate, identify or react appropriately to changes in consumer preferences, we may not grow as fast as we plan to grow or our sales may decline, and our brand image and operating performance may suffer.

Furthermore, achieving market acceptance for new products will likely require us to exert substantial product development and marketing efforts, which could result in a material increase in our selling, general and administrative, or SG&A, expenses, and there can be no assurance that we will have the resources necessary to undertake such efforts. Material increases in our SG&A expenses could adversely impact our results of operations. We may also encounter difficulties in producing new products that we did not anticipate during the development stage. Our development schedules for new products are difficult to predict and are subject to change as a result of shifting priorities in response to consumer preferences and competing products. If we are not able to efficiently manufacture newly-developed products in quantities sufficient to support retail distribution, we may not be able to recoup our investment in the development of new products. Even if we develop and manufacture new products that consumers find appealing, the ultimate success of a new model may depend on our product pricing. Failure to gain market acceptance for new products that we introduce could impede our growth, reduce our profits, adversely affect the image of our brands, erode our competitive position and result in long term harm to our business.

We may not successfully integrate EJ Footwear Group, which we recently acquired.

In light of our recent acquisition of EJ Footwear, our success will depend in part on our ability to complete the integration of the operations, systems and personnel of EJ Footwear with our company into a single organizational structure. There can be no assurance that we will be able to effectively integrate the existing operations of our company with the newly-acquired EJ Footwear. Integration of these operations could also place additional pressures on our management as well as on our key resources. The failure to successfully manage this integration could have a material adverse effect on us.

A majority of our products are produced outside the U.S. where we are subject to the risks of international commerce.

A majority of our products are produced in the Dominican Republic and China. Therefore, our business is subject to the following risks of doing business offshore:

the imposition of additional United States legislation and regulations relating to imports, including quotas, duties, taxes or other charges or restrictions;

foreign governmental regulation and taxation;

fluctuations in foreign exchange rates;

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changes in economic conditions;

transportation conditions and costs in the Pacific and Caribbean;

changes in the political stability of these countries; and

changes in relationships between the United States and these countries.

If any of these factors were to render the conduct of business in these countries undesirable or impracticable, we would have to manufacture or source our products elsewhere. There can be no assurance that additional sources or products would be available to us or, if available, that these sources could be relied on to provide product at terms favorable to us. The occurrence of any of these developments would have a material adverse effect on our business, financial condition and results of operations.

Our success depends on our ability to anticipate consumer trends.

Demand for our products may be adversely affected by changing consumer trends. Our future success will depend upon our ability to anticipate and respond to changing consumer preferences and technical design or material developments in a timely manner. The failure to adequately anticipate or respond to these changes could have a material adverse effect on our business, financial condition and results of operations.

Loss of services of our key personnel could adversely affect our business.

The development of our business has been, and will continue to be, highly dependent upon Mike Brooks, Chairman and Chief Executive Officer, David Sharp, President and Chief Operating Officer, and James McDonald, Executive Vice President, Chief Financial Officer and Treasurer. Mr. Brooks has an at-will employment agreement with us. The employment agreement provides that in the event of termination of employment, he will receive a severance benefit and may not compete with us for a period of one year. None of our other executive officers and key employees have an employment agreement with our company. The loss of the services of any of these officers could have a material adverse effect on our business, financial condition and results of operations.

We depend on a limited number of suppliers for key production materials, and any disruption in the supply of such materials could interrupt product manufacturing and increase product costs.

We purchase raw materials from a number of domestic and foreign sources. We do not have any long-term supply contracts for the purchase of our raw materials, except for limited blanket orders on leather. The principal raw materials used in the production of our footwear, in terms of dollar value, are leather, Gore-Tex waterproof breathable fabric, Cordura nylon fabric and soling materials. Availability or change in the prices of our raw materials could have a material adverse effect on our business, financial condition and results of operations.

We currently have a licensing agreement for the use of Gore-Tex waterproof breathable fabric, and any termination of this licensing agreement could impact our sales of waterproof products.

We are currently one of the largest customers of Gore-Tex waterproof breathable fabric for use in footwear. Our licensing agreement with W.L. Gore & Associates, Inc. may be terminated by either party upon advance written notice to the other party by October 1 for termination effective December 31 of that same year. Although other waterproofing techniques and materials are available, we place a high value on our Gore-Tex waterproof breathable fabric license because Gore-Tex has high brand name recognition with our customers. The loss of our license to use Gore-Tex waterproof breathable fabric could have a material adverse effect on our competitive position, which could have a material adverse effect on our business, financial condition and results of operations.

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We currently have a licensing agreement for the use of the Dickies trademark, and any termination of this licensing agreement could impact our sales and growth strategy.

We have an exclusive license through December 31, 2007 to use the Dickies brand on all footwear products, except nursing shoes. The Dickies brand is well recognized by consumers and we plan to introduce value priced Dickies footwear targeting additional markets, including outdoor, duty and western. Our license with Dickies may be terminated by Dickies prior to December 31, 2007 if we do not achieve certain minimum net shipments in a particular year. Furthermore, it is not certain whether we will be able to renew our license to use the Dickies brand after the expiration or termination of the current license. The loss of our license to use the Dickies brand could have a material adverse effect on our competitive position and growth strategy, which could have a material adverse effect on our business, financial condition and results of operations.

Our outdoor products are seasonal.

We have historically experienced significant seasonal fluctuations in our business because we derive a significant portion of our revenues from sales of our outdoor products. Many of our outdoor products are used by consumers in cold or wet weather. As a result, a majority of orders for these products are placed by our retailers in January through April for delivery in July through October. In order to meet demand, we must manufacture and source outdoor footwear year round to be in a position to ship advance orders for these products during the last two quarters of each year. Accordingly, average inventory levels have been highest during the second and third quarters of each year and sales have been highest in the last two quarters of each year. There is no assurance that we will have either sufficient inventory to satisfy demand in any particular quarter or have sufficient demand to sell substantially all of our inventory without significant markdowns.

Our outdoor products are sensitive to weather conditions.

Historically, our outdoor products have been used primarily in cold or wet weather. Mild or dry weather has in the past and may in the future have a material adverse effect on sales of our products, particularly if mild or dry weather conditions occur in broad geographical areas during late fall or early winter. For example, an unseasonably warm and dry winter in late 2004 and early 2005 throughout the Midwest significantly decreased demand for our outdoor products. Also, due to variations in weather conditions from year to year, results for any single quarter or year may not be indicative of results for any future period.

Our business could suffer if our third party manufacturers violate labor laws or fail to conform to generally accepted ethical standards.

We require our third party manufacturers to meet our standards for working conditions and other matters before we are willing to place business with them. As a result, we may not always obtain the lowest cost production. Moreover, we do not control our third party manufacturers or their respective labor practices. If one of our third party manufacturers violates generally accepted labor standards by, for example, using forced or indentured labor or child labor, failing to pay compensation in accordance with local law, failing to operate its factories in compliance with local safety regulations or diverging from other labor practices generally accepted as ethical, we likely would cease dealing with that manufacturer, and we could suffer an interruption in our product supply. In addition, such a manufacturer's actions could result in negative publicity and may damage our reputation and the value of our brand and discourage retail customers and consumers from buying our products.

Our future tax rates may not be as favorable as our historical tax rates.

In past years, our effective tax rate typically has been substantially below the United States federal statutory rates. We have paid minimal income taxes on income earned by our subsidiary in Puerto Rico due to tax credits afforded us under Section 936 of the Internal Revenue Code and local tax abatements.

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However, Section 936 of the Internal Revenue Code has been repealed so that future tax credits available to us are capped in 2005 and terminate in 2006. In addition, our local tax abatements in Puerto Rico are scheduled to expire in 2009. In 2004, we elected to repatriate \$3.0 million of earnings and accrued \$157,000 of related taxes under the American Jobs Creation Act of 2004. No income taxes are provided on the approximately \$6.8 million of remaining undistributed earnings. 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. As a result of the acquisition of EJ Footwear, our effective tax rate for 2005 is expected to increase compared to 2004, as a higher percentage of profits will be taxed at U.S. tax rates.

Our future tax rate will vary depending on many factors, including the level of relative earnings and tax rates in each jurisdiction in which we operate and the repatriation of any foreign income to the United States. We cannot anticipate future changes in such laws. Increases in effective tax rates or changes in tax laws may have a material adverse effect on our business, financial condition and results of operations.

The growth of our business will be dependent upon the availability of adequate capital.

The growth of our business will depend on the availability of adequate capital, which in turn will depend in large part on cash flow generated by our business and the availability of equity and debt financing. We cannot assure you that our operations will generate positive cash flow or that we will be able to obtain equity or debt financing on acceptable terms or at all. Our revolving credit facility contains provisions that restrict our ability to incur additional indebtedness or make substantial asset sales that might otherwise be used to finance our expansion. Security interests in substantially all of our assets, which may further limit our access to certain capital markets or lending sources, secure our obligations under our revolving credit facility. Moreover, the actual availability of funds under our revolving credit facility is limited to specified percentages of our eligible inventory and accounts receivable. Accordingly, opportunities for increasing our cash on hand through sales of inventory would be partially offset by reduced availability under our revolving credit facility. As a result, we cannot assure you that we will be able to finance our current expansion plans.

We face intense competition, including competition from companies with significantly greater resources than ours, and if we are unable to compete effectively with these companies, our market share may decline and our business could be harmed.

The footwear and apparel industries are intensely competitive, and we expect competition to increase in the future. A number of our competitors have significantly greater financial, technological, engineering, manufacturing, marketing and distribution resources than we do, as well as greater brand awareness in the footwear market. Our ability to succeed depends on our ability to remain competitive with respect to the quality, design, price and timely delivery of products. Competition could materially adversely affect our business, financial condition and results of operations.

We currently manufacture a portion of our products and we may not be able to do so in the future at costs that are competitive with those of competitors who source their goods.

We currently plan to retain our internal manufacturing capability in order to continue benefiting from expertise we have gained with respect to footwear manufacturing methods conducted at our manufacturing facilities. We continue to evaluate our manufacturing facilities and third party manufacturing alternatives in order to determine the appropriate size and scope of our manufacturing facilities. There can be no assurance that the costs of products that continue to be manufactured by us can remain competitive with products sourced from third parties.

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We rely on distribution centers in Logan, Ohio and Tunkhannock, Pennsylvania, and if there is a natural disaster or other serious disruption at any of these facilities, we may be unable to deliver merchandise effectively to our retailers.

We rely on distribution centers in Logan, Ohio and Tunkhannock, Pennsylvania. Any natural disaster or other serious disruption at any of these facilities due to fire, tornado, flood, terrorist attack or any other cause could damage a portion of our inventory or impair our ability to use our distribution center as a docking location for merchandise. Either of these occurrences could impair our ability to adequately supply our retailers and harm our operating results.

We may be subject to certain environmental and other regulations.

Some of our operations use substances regulated under various federal, state, local and international environmental and pollution laws, including those relating to the storage, use, discharge, disposal and labeling of, and human exposure to, hazardous and toxic materials. Compliance with current or future environmental laws and regulations could restrict our ability to expand our facilities or require us to acquire additional expensive equipment, modify our manufacturing processes or incur other significant expenses. In addition, we could incur costs, fines and civil or criminal sanctions, third party property damage or personal injury claims or could be required to incur substantial investigation or remediation costs, if we were to violate or become liable under any environmental laws. Liability under environmental laws can be joint and several and without regard to comparative fault. There can be no assurance that violations of environmental laws or regulations have not occurred in the past and will not occur in the future as a result of our inability to obtain permits, human error, equipment failure or other causes, and any such violations could harm our business and financial condition.

If our efforts to establish and protect our trademarks, patents and other intellectual property are unsuccessful, the value of our brands could suffer.

We regard certain of our footwear designs as proprietary and rely on patents to protect those designs. We believe that the ownership of patents is a significant factor in our business. Existing intellectual property laws afford only limited protection of our proprietary rights, and it may be possible for unauthorized third parties to copy certain of our footwear designs or to reverse engineer or otherwise obtain and use information that we regard as proprietary. If our patents are found to be invalid, however, to the extent they have served, or would in the future serve, as a barrier to entry to our competitors, such invalidity could have a material adverse effect on our business, financial condition and results of operations.

We own U.S. registrations for a number of our trademarks, trade names and designs, including such marks as Rocky, Rocky Outdoor Gear, Georgia Boot, Durango and Lehigh. Additional trademarks, trade names and designs are the subject of pending federal applications for registration. We also use and have common law rights in certain trademarks. Over time, we have increased distribution of our goods in several foreign countries. Accordingly, we have applied for trademark registrations in a number of these countries. We intend to enforce our trademarks and trade names against unauthorized use by third parties.

Our success depends on our ability to forecast sales.

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

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Risks Related to Our Industry

Because the footwear market is sensitive to decreased consumer spending and slow economic cycles, if general economic conditions deteriorate, many of our customers may significantly reduce their purchases from us or may not be able to pay for our products in a timely manner.

The footwear industry has been subject to cyclical variation and decline in performance when consumer spending decreases or softness appears in the retail market. Many factors affect the level of consumer spending in the footwear industry, including:

general business conditions;

interest rates;

the availability of consumer credit;

weather;

increases in prices of nondiscretionary goods;

taxation; and

consumer confidence in future economic conditions.

Consumer purchases of discretionary items, including our products, may decline during recessionary periods and also may decline at other times when disposable income is lower. A downturn in regional economies where we sell products also reduces sales.

The continued shift in the marketplace from traditional independent retailers to large discount mass merchandisers may result in decreased margins.

A continued shift in the marketplace from traditional independent retailers to large discount mass merchandisers has increased the pressure on many footwear manufacturers to sell products to these mass merchandisers at less favorable margins. Because of competition from large discount mass merchandisers, a number of our small retailing customers have gone out of business, and in the future more of these customers may go out of business, which could have a material adverse effect on our business, financial condition and results of operations. Although progressive independent retailers have attempted to improve their competitive position by joining buying groups, a continued shift to discount mass merchandisers could have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Common Stock and this Offering

Our management will have broad discretion over the use of net proceeds of this offering, and you may not agree with the way they are used.

While we currently intend to use the net proceeds of this offering for repayment of our indebtedness, working capital and other general corporate purposes, we may subsequently choose to use the net offering proceeds for different purposes or not at all. The effect of this offering will be to increase capital resources available to management, and our management may allocate these resources as it deems necessary. You will be relying on the judgment of our management with regard to the use of the net proceeds of this offering and management may choose to allocate the net proceeds differently than you would.

Our common stock price has been volatile, which could result in a substantial loss for shareholders.

Our common stock is traded on the Nasdaq National Market. While our average daily trading volume for the 52-week period ended September 9, 2005 was approximately 40,824 shares, we have experienced more limited volume in the past and may experience it in the future. The trading price of our common stock has been and may continue to be volatile. The closing sale prices of our common stock, as reported by the Nasdaq National Market, have ranged from \$35.20 to \$15.81 for the 52-week period ended September 9,

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2005. The trading price of our common stock could be affected by a number of factors, including, but not limited to the following:

changes in expectations of our future performance;

changes in estimates by securities analysts (or failure to meet such estimates);

quarterly fluctuations in our sales and financial results;

limited trading volume;

broad market fluctuations in volume and price; and

a variety of risk factors,