ROCKY SHOES & BOOTS INC
Form 8-K/A
June 27, 2003

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

FORM 8-K/A NO. 1

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

DATE OF REPORT: APRIL 15, 2003

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

Ohio	0-21026	31-1364046
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(COMMISSION FILE NO.)	(IRS EMPLOYER IDENTIFICATION NUMBER)

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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)

Not Applicable
(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On April 15, 2003, Rocky Shoes & Boots, Inc., an Ohio corporation

("Rocky") completed the purchase of certain assets from Gates-Mills, Inc. ("Gates") pursuant to an Asset Purchase Agreement by and among Rocky as Buyer, Gates as Seller, and Robert Gates and Elizabeth Gates Camarra, as shareholders of Gates (the "Asset Purchase Agreement"). Under the terms of the Asset Purchase Agreement, Rocky acquired all of the intellectual property of Gates, including ownership of the Gates(R) trademark, selected raw material and finished goods inventory, and certain records in connection with the Gates business in exchange for $3,510,070 plus a deferred purchased price if sales by Rocky related to the Gates product line from date of the purchase through December 31, 2003 reach certain targets.

The transaction was accomplished through arms-length negotiations between Rocky's management and Gates's management. There was no material relationship between the stockholders of Gates and Rocky or any of the Rocky's affiliates, any of Rocky's directors or officers, or any associate of any such Rocky director or officer, prior to this transaction.

This Form 8-K/A amends Item 7 of the Current Report on Form 8-K dated April 15, 2003, filed with the Securities and Exchange Commission on April 30, 2003, to include financial statements that were not available at the time of filing of the Form 8-K. As a result of the above-described acquisition, Item 7 of Form 8-K and Rule 3-05 of Regulation S-X require that Rocky provide audited financial information for Gates for 2001 and 2002, unaudited financial information for Gates for the quarter ended March 31, 2003, and certain pro forma financial information based upon the Gates financial information so provided. Rocky has requested and Gates has been unable to provide audited financial statements for 2002 due to the fact that Gates wound down its operations in early 2003 during the 2002 audit. Furthermore, for this same reason, Rocky is unable to obtain the unaudited financial statements for the quarter ended March 31, 2003. Gates does have 2001 audited financial statements, but Gates' independent public accountant will not give its consent to use of the audited 2001 financial statements in this Form 8-K/A due to substantial payments owed to it by Gates. Because Gates is no longer operational, Rocky is unable to obtain the required audited 2001 and 2002 financial information and the unaudited March 31, 2003 financial information without unreasonable effort and expense. Therefore, pursuant to Rule 12b-21 of the Securities Exchange Act of 1934, as amended, Rocky is presenting in this Form 8-K/A the unaudited financial information for 2001 and 2002 for Gates and the pro forma financial information based upon the same. The unaudited 2001 and 2002 financial statements have been derived from information furnished to Rocky in connection with its acquisition of Gates. No financial statement information for Gates for 2003 has been furnished to Rocky.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(A) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED.

The following is a list of the financial information for Gates filed with this report:

(B) PRO FORMA FINANCIAL INFORMATION.

The following is a list of the pro forma financial information for Rocky and Gates filed with this report:

(C) EXHIBITS.

EXHIBIT NO.	DESCRIPTION
2(a)	Asset Purchase Agreement by and among Rocky Shoes & Boots, Inc. as Buyer, Gates-Mills, Inc. as Seller, Robert Gates and Elizabeth Gates Camarra as Shareholders of Seller (incorporated by reference to Exhibit 2(a) to Current Report on Form 8-K dated April 15, 2000, filed with the Securities and Exchange Commission on April 30, 2003).

SIGNATURES

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

ROCKY SHOES & BOOTS, INC.

Date: June 27, 2003 By: /s/ James E. McDonald

James E. McDonald, Vice President and
Chief Financial Officer

EXHIBIT INDEX

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GATES-MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001

ASSETS	2002	2001
CURRENT ASSETS:		
Cash	$ 407,462	$ 432,355
Accounts receivable	4,888,507	3,900,499
Inventory	4,625,352	7,292,449
Income taxes receivable	773,485	
Deferred income taxes	192,916	575,548
Other current assets	153,135	124,357
Total current assets	11,040,857	12,325,208
PROPERTY, PLANT AND EQUIPMENT--Net	1,612,723	1,392,355
CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES	8,243	333,218
OTHER ASSETS	80,000	33,957
TOTAL ASSETS	$ 12,741,823	$ 14,084,738
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 200,268	$ 78,712
Current portion of non-qualified pension liabilities	32,865	9,716
Current portion of obligations under capital lease	95,864	
Bank acceptances payable	2,767,315	3,920,760
Note payable--line of credit	3,098,000	1,105,000
Accounts payable	1,163,298	1,117,214
Accrued expenses and other liabilities	675,511	315,930
Income taxes payable	85,980	727,895
Due to Montgomery Leather Corporation	234,262	294,833
Total current liabilities	8,353,363	7,570,060
LONG-TERM LIABILITIES:		
Long-term debt	976,753	147,646
Long-term portion of non-qualified pension liabilities	720,060	191,549
Long-term portion of obligations under capital lease	158,677	
Total long-term liabilities	1,855,490	339,195

Total liabilities	10,208,853	7,909,255
SHAREHOLDERS' EQUITY:		
Common stock	220,000	220,000
Additional paid-in capital	20,000	20,000
Retained earnings	2,624,453	6,267,397
Accumulated other comprehensive loss	(17,280)	(17,711
Total	2,847,173	6,489,686
Treasury stock--at cost	(314,203)	(314,203
Total shareholders' equity	2,532,970	6,175,483
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,741,823	$ 14,084,738

See notes to consolidated financial statements.

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GATES-MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
SALES	$ 23,600,706	$ 24,005,521
LESS: Discounts, returns and allowances	3,711,901	2,647,208
NET SALES	19,888,805	21,358,313
COST OF SALES	15,015,825	14,803,851
GROSS PROFIT	4,872,980	6,554,462
LOSS ON ADJUSTMENT OF INVENTORY TO MARKET VALUE	1,482,307	
GROSS PROFIT LESS ADJUSTMENT OF INVENTORY	3,390,673	6,554,462
OPERATING EXPENSES:		
Selling	2,623,577	2,224,187
General and administrative	2,405,814	1,380,647
Distribution	1,961,011	1,866,333
Depreciation	128,597	96,218
Total operating expenses	7,118,999	5,567,385
INCOME (LOSS) FROM OPERATIONS	(3,728,326)	987,077
OTHER EXPENSES:		
Interest	460,563	650,498
Non-operating	625,842	188,000

Total other expenses	1,086,405	838,498
INCOME (LOSS) BEFORE INCOME TAXES	(4,814,731)	148,579
INCOME TAX (BENEFITS)	(1,171,787)	(37,470)
NET INCOME (LOSS)	$ (3,642,944)	$ 186,049

See notes to consolidated financial statements.

GATES-MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEAR ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
NET INCOME (LOSS)	$(3,642,944)	$186,049
OTHER COMPREHENSIVE INCOME (LOSS)--		
Foreign currency translation adjustment	431	(9,914)
COMPREHENSIVE INCOME (LOSS)	$(3,642,513)	$176,135

See notes to consolidated financial statements.

GATES-MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002	2001
RETAINED EARNINGS--Beginning of year	$ 6,267,397	$ 6,081,348
Net income (loss) for the year	(3,642,944)	186,049
RETAINED EARNINGS--End of year	$ 2,624,453	$ 6,267,397
ACCUMULATED OTHER COMPREHENSIVE LOSS-- Beginning of year	$ (17,711)	$ (7,797)
Other comprehensive income (loss) for the year	431	(9,914)
ACCUMULATED OTHER COMPREHENSIVE LOSS-- End of year	$ (17,280)	$ (17,711)

See notes to consolidated financial statements.

GATES-MILLS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2002 AND 2001

	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	$(3,642,944)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:	
Depreciation and amortization	136,851
Loss on adjustment of inventory to market value	1,482,307
Deferred income taxes	383,063
Provision for legal settlement	
Provision for IDA settlement	176,970
Provision for post-employment benefits	818,434
Provision for post-retirement benefits	568,642
Proceeds from life insurance--net	(402,883)
(Increase) decrease in current assets:	
Accounts receivable--net	(988,008)
Inventories	1,184,790
Income taxes receivable	(773,485)
Other current assets	(28,778)
Increase (decrease) in current liabilities:	
Accounts payable	46,084
Accrued expenses and other liabilities	359,581
Income taxes payable	(641,915)
Due to Montgomery Leather	(60,571)
Total adjustments	2,261,082
Net cash provided by (used in) operating activities	(1,381,862)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from life insurance	727,858
Purchase of property, plant and equipment	(357,219)
(Increase) in other assets	(46,043)
(Increase) in cash surrender value of life insurance	
Net cash provided by (used in) investing activities	324,596
CASH FLOWS FROM FINANCING ACTIVITIES:	
Bank acceptances payable	(1,153,445)
Net borrowings (repayments) on line of credit	1,993,000
Proceeds from capital lease obligations	311,050
Payments on long-term debt	(61,723)
Payments on capital lease obligations	(56,509)
Net cash provided by (used in) financing activities	1,032,373
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(24,893)
CASH AND CASH EQUIVALENTS--Beginning of year	432,355

CASH AND CASH EQUIVALENTS--End of year	$ 407,462	$
SUPPLEMENTAL DISCLOSURES OF CASH INFORMATION:		
Cash paid (received) during the year for:		
Interest	$ 261,298	$
Income taxes	$ (146,143)	$
Non-cash financing activities:		
Long-term liability on provision for legal settlement	$ --	$
Long-term liability provision for IDA settlement	$ 176,970	$
Long-term liability for post-employment benefits	$ 818,434	$

See notes to consolidated financial statements.

GATES-MILLS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2002 AND 2001

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION -- The consolidated financial statements include the accounts of Gates-Mills, Inc. and its wholly-owned subsidiaries, The Daniel Hays Company, Inc. and Gates Gloves (Canada), Inc. Inter-company investments, advances and transactions have been eliminated.

NATURE OF OPERATIONS -- The Company is a wholesale distributor of gloves to retailers throughout North America. Substantially, the Company's entire inventory is manufactured in China by independent contractors.

FOREIGN OPERATIONS -- Gates Gloves (Canada), Inc. operates as a wholesale distributor of gloves in Canada. Foreign currency translation adjustments are included as a component of comprehensive income.

CASH -- For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash. The Company maintains cash balances at various banks. The Federal Deposit Insurance Corporation insures deposits at each bank, up to $100,000; any excess is uninsured. At December 31, 2002 and 2001, cash balances in excess of depository insurance were approximately $330,000 and $300,000, respectively.

ACCOUNTS RECEIVABLE -- Accounts receivable are stated net of an allowance for doubtful accounts of $656,680 and $234,298 as of December 31, 2002 and 2001, respectively (see Note 2).

INVENTORIES -- Inventories are stated at the lower of cost or market on a first-in first-out basis (see Note 3).

PROPERTY, PLANT AND EQUIPMENT -- Property, plant and equipment are recorded at cost. Renewals and betterments of property are accounted for as additions to asset accounts. Repairs and maintenance are expensed as incurred. Depreciation is provided using either straight-line or accelerated methods for both financial reporting and income tax purposes. Estimated useful lives vary from 5 to 10 years for machinery, equipment, furniture and fixtures, and from 10 to 40 years for buildings and improvements.

ADVERTISING -- It is the Company's policy to expense advertising costs as incurred. Advertising expenses were $241,916 and $195,222 for the years ended December 31, 2002 and 2001, respectively.

INCOME TAXES -- Income taxes have been provided for all income reported in the financial statements. Financial statement income differs from income reported for taxation purposes mainly due to differences in accounting for bad debts, merchandise returns and inventory capitalization.

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

Management considers past experience and current market conditions when estimating sales returns. Because of the inherent uncertainties in estimating returns, it is at least reasonably possible that the estimates used will change in the near term.

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Management considers past experience and current conditions when estimating allowance for doubtful accounts. Because of the inherent uncertainties in estimating this allowance, it is at least reasonably possible the estimate used will change in the near term.

RECLASSIFICATIONS -- Certain reclassifications of expenses have been made to the prior year's financial statements in order to enhance comparability with the current year. These reclassifications have no effect on net income or retained earnings.

2. ACCOUNTS RECEIVABLE

Accounts receivable are uncollateralized customer obligations due within 30 days from the invoice date. Interest is not charged on delinquent accounts. Payments on accounts receivable are allocated to the customer's specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will ultimately not be collected. Management individually reviews all accounts receivable balances that exceed 90 days from invoice date and based on an estimate of current credit worthiness estimates the portion, if any, of the outstanding balance that will not be collected.

Additionally, management reserves 100% of accounts receivable balances less anticipated proceeds from credit insurance, if applicable, for all customers who have declared bankruptcy. Finally, management applies a varying percentage of each 30-day aging increment to estimate a general allowance for uncollectible accounts.

Accounts receivable consist of the following as of December 31, 2002:

Customer receivables	$ 7,145,128
Allowance for estimated returns	(1,600,000)
Allowance for uncollectible accounts	(656,621)
Net	$ 4,888,507

3. INVENTORY

A schedule of inventory as of December 31 is as follows:

	2002	2001
Raw materials	$ 2,323,322	$ 2,638,825
Finished goods--in warehouse or transit	1,262,030	3,125,264
Finished goods--estimated returns	1,040,000	1,528,360
Total	$ 4,625,352	$ 7,292,449

Raw material inventory includes approximately $2,131,000 and $2,030,000 as of December 31, 2002 and 2001, respectively, which is located in China.

Finished goods inventory at December 31, 2002 is shown net of a $1,482,307 adjustment to reduce the value of inventory to its estimated market value less a reasonable gross profit margin allowance.

FINISHED GOODS -- Estimated returns are valued by management at 65% of estimated sales returns.

4. PROPERTY, PLANT AND EQUIPMENT

A schedule of property, plant and equipment as of December 31 is as follows:

	2002	2001

Land	$ 67,400	$ 67,400
Building and improvements	1,902,171	1,902,171
Machinery and equipment	635,902	616,696
Computer equipment	533,485	203,731
Vehicles	10,980	10,980
Total	3,149,938	2,800,978
Less: accumulated depreciation	1,537,215	1,408,623
Property, plant and equipment-net	$1,612,723	$1,392,355

Depreciation expense was $128,597 and $96,218 for the years ended December 31, 2002 and 2001, respectively.

5. CASH SURRENDER VALUE OF LIFE INSURANCE POLICIES

A schedule of net cash surrender value by insured at December 31 is as follows:

INSURED	2002	2001
W. B. Gates	$ --	$324,974
J. D. Gates		7,604
Others	8,243	640
Total	$ 8,243	$333,218

W. B. Gates died during 2002. The Company received $727,858 in proceeds on W. B. Gates' life insurance policies and recognized income of $402,883, net of the cash value of the policies, upon the death of Mr. Gates.

6. OTHER ASSETS

Other assets consist of the following at December 31:

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	2002	2001
Intangible assets-net	$ 23,094	$ 29,451
Deposits	56,906	4,506
Total	$ 80,000	$ 33,957

7. LINE OF CREDIT/BANKERS' ACCEPTANCES

The Company had a $15 million revolving total credit line from Fleet Bank of NY, including notes payable, letters of credit, and bankers' acceptances.

The note bears interest at prime plus 1/4% (4.75% at December 31, 2002) and is secured by the Company's accounts receivable, inventory, chattel paper, contract rights, instruments and general intangibles, and is guaranteed by all subsidiary companies.

The Company purchases a substantial amount of its raw materials from overseas suppliers. These purchases are financed by Fleet Bank through the issuance of bankers' acceptances. These bankers' acceptances are issued for six-month maturities and bear interest at rates ranging from 1.88% to 3.42%.

As of December 31, a breakdown of the Company's short-term indebtedness is as follows:

	2002	2001
Bankers' acceptances	$ 2,767,315	$ 3,920,760
Borrowed on line of credit	3,098,000	1,105,000
Total	$ 5,865,315	$ 5,025,760

During June 2002, the shareholders of the Company gave the bank $5,000,000 in personal guarantees and collateralized $750,000 of their personal assets as additional security for the bank debt.

During January 2003, Fleet Bank notified the Company of its intention to terminate its lending relationships with the Company (see Note 17).

8. LONG-TERM DEBT

As of December 31, long-term debt consists of the following:

	2002		200
	Current	Long-Term	Current
Installment note payable to Fleet Bank in monthly installments of $2,585, including interest at 8.91%. Final payment is due April 2003. Secured by computer equipment	$ 9,664	$ --	$ 28,694
Present value (using a 5% imputed interest rate) of the Company's liability to a former employee for the settlement of a lawsuit. Payable in varying installments of $5,000 to $40,000 per annum. Final payment is due April 2010	34,591	124,584	50,018

Present value (using a 5% imputed interest rate) of the Company's liability to a former shareholder for a non-compete agreement. Payable in 78 monthly installments of $5,000, beginning February 2005. Final payment is due July 2011		300,773	
Present value (using a 5% imputed interest rate) of the Company's liability to a former shareholder for a non-compete agreement. 91 monthly payments of $4,167 remain to be made as of December 31, 2002. Final payment is due July 2010	36,317	280,006	
Present value (assuming a 5% imputed interest rate) of the Company's liability to a former shareholder for a severance agreement. 25 monthly payments of $9,000 remain to be made as of December 31, 2002. Final payment is due January 2005	100,458	113,657	
Present value (assuming a 5% imputed interest rate) of the Company's estimated liability to the Johnstown IDA for prior years' real estate taxes. Payable in 8 annual installments of $20,000, with a final balloon payment of $63,335. Final payment to be made February 2011	19,238	157,733	
Total	$200,268	$976,753	$ 78,712

Maturities of long-term debt as of December 31, 2002 are as follows:

2004	$ 187,432
2005	116,271
2006	116,630
2007	122,598
2008 and thereafter	433,822
Total	$ 976,753

Interest expense on all long-term borrowings was $272,758 and $362,132 for the years ended December 31, 2002 and 2001, respectively.

9. LEASE OBLIGATIONS

OPERATING LEASES -- The Company has a lease on space in New York City used as a sales office. The lease expires in March 2006, and has been accounted for as an operating lease. Future minimum lease payments are as follows:

2003	$ 44,400
2004	44,800
2005	44,800
2006	11,200
Total	$145,200

Rent expense was $51,139 and $56,431 for the years ended December 31, 2002 and 2001, respectively.

CAPITAL LEASES -- The Company is the lessee of computer equipment and software under various capital leases. The asset and related liability under the capital lease are recorded at the present value of the minimum lease payments. The assets are being depreciated over their estimated useful lives of five years. Depreciation of the assets under the capital lease is included in depreciation expense for the year ended December 31, 2002.

Following is a summary of property held under capital leases at December 31, 2002:

Computer equipment	$311,050
Less: accumulated depreciation	33,860
Total	$277,190

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Future minimum payments for assets under capital lease are as follows:

2003	$ 118,429
2004	118,429
2005	53,660
Total	290,518
Less: amount representing imputed interest	35,977
Present value of future minimum lease payments	$ 254,541

Present values of future minimum payments for assets under capital lease are shown as follows:

Current portion of obligations under capital lease	$ 95,864

Long-term portion of obligations under capital lease	158,677
Total	$254,541

10. COMMON STOCK

The details of consolidated common stock are summarized below:

	SHARES AUTHORIZED	SHARES ISSUED	PAR VALUE	TOTAL VALUE
Gates-Mills, Inc.	3,000	2,200*	$ 100	$ 220,000
The Daniel Hays Company, Inc.	500	500	100	50,000
Gates Gloves (Canada), Inc.	100	100	100	10,000
Eliminations	(600)	(600)	(200)	(60,000)
Consolidated	3,000	2,200*	$ 100	$ 220,000

* The consolidated common stock includes 866 shares held as treasury stock recorded at cost. There are 1,334 shares of consolidated common stock outstanding at December 31, 2002 and 2001

11. INCOME TAXES

A summary of the Company's tax provision for the years ended December 31 is as follows:

	2002	2001
Federal and foreign:		
Current	$(1,552,034)	$ 192,995
Deferred	270,321	(203,412)
Total federal	(1,281,713)	(10,417)
State:		
Current	(2,816)	4,321
Deferred	112,742	(70,356)
Total state	109,926	(66,035)
Adjustment of prior period taxes		38,982
Total	$(1,171,787)	$ (37,470)

The adjustment of prior period taxes represents the net differences between taxes accrued for a December 31 year-end and taxes paid for the Company's fiscal year of June 30.

For income tax purposes, the Company has adopted Statement of

Financial Accounting Standards ("SFAS") No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred income taxes reflect the impact of temporary differences between amounts of assets and liabilities for financial statement purposes and such amounts as measured by tax laws and regulations. The principle sources of temporary differences are different methods of recording bad debts, capitalizing overhead costs into inventory, recording credits for sales returns used for financial accounting and tax purposes, and recording liabilities for non-qualified pensions. The Company expects to utilize all of its deferred tax benefit in future years; accordingly, no allowance has been recorded.

12. PENSION PROGRAMS

QUALIFIED PLANS -- The Company participates in a multi-employer pension plan that provides benefits to unionized employees of the Company. Contributions to the Plan amounted to $2,400 and $46,654 for the years ended December 31, 2002 and 2001, respectively.

The Company maintains a defined contribution plan for all non-union employees over 21 years of age with more than one year of service. Contributions are based on an employee's age and years of service and are split between a tax allowance contribution and a bonus. The maximum payment for any employee is $2,000 per year. Contributions were $0 and $26,185 for the years ended December 31, 2002 and 2001, respectively.

NON-QUALIFIED PLANS -- The Company also enters into non-qualified pension agreements with certain key employees providing post-retirement benefits for various terms up to lifetime joint and survivor benefits. During 2002, the Company entered into an agreement with the wife of a former key executive to pay a benefit of $5,000/month until her death. The Company recognized approximately $568,000 expense during 2002; this represents the estimated present value of the post-retirement benefit, assuming a discount rate of 6.75%. The Company's estimated liability, including liabilities previously incurred, is:

Present value of unfunded liability	$ 752,925
Less: Current portion	32,865
Long-term portion	$ 720,060

Non-qualified pension expense was $616,166 and $29,746 for the years ended December 31, 2002 and 2001, respectively.

13. CONTINGENCIES AND COMMITMENTS

The Company was contingently liable for unused letters of credit of $91,706 and $461,264 at December 31, 2002 and 2001, respectively.

The Company has entered into a consulting agreement with a former shareholder. This agreement requires the consultant to assist the Company in computer issues. The compensation to the former shareholder under this agreement is $40,000 per year. The agreement terminates upon the earliest of a material breach of the non-competition agreement, the death of the consultant, or July 2010.

The Company is a defendant in a patent infringement suit that has been decided in the Company's favor by the Federal District Court. The plaintiff's appeal rights have not yet been exhausted. The Company believes it will not experience any loss.

14. CONCENTRATION OF CREDIT

The Company is a manufacturer and distributor of gloves to retailers throughout North America. The Company grants credit to those retailers and generally has a diversified portfolio of trade receivables; however, approximately 42% (22% and 20%) of the Company's sales are derived from two unrelated companies, and approximately 24% of its accounts receivable at December 31, 2002 are from these customers. During 2001, approximately 27% (15% and 12%) of the Company's sales were derived from two unrelated customers and approximately 5% of its accounts receivable at December 31, 2001 were from these customers.

15. RELATED PARTY TRANSACTIONS

The Company's shareholders control, through common ownership, Montgomery Leather Corporation, which provides leather to the Company. Transactions with the related company are as follows:

	2002	2001
Purchases	$ 990,132	$1,536,501
Account payable	$ 234,262	$ 294,833

16. RISKS AND UNCERTAINTIES

The accompanying balance sheet includes assets of approximately $2,131,000 and $2,030,000 located in China at December 31, 2002 and 2001, respectively. In addition, substantially all the Company's production takes place in China through independent contractors. Although China is considered politically and economically stable, it is always possible that unanticipated events in China or the United States could disrupt the Company's ability to obtain gloves.

Substantially all of the Company's non-management and non-administrative employees are covered by a collective bargaining agreement with the Union of Needle Trades Industrial and Textile Employers, AFL-CIO, CLC, Glove Cities/Upper Hudson District. The agreement is scheduled to expire in 2003.

17. SUBSEQUENT EVENTS

During January 2003, Fleet Bank notified the Company of its intention to terminate its lending relationship with the Company. The Company is currently in the process of negotiating a new lending facility with a finance company. Upon completion of negotiations and closure of the new lending facility, the Fleet Bank debt will be repaid.

The lending facility currently being negotiated is not expected to include financing for raw materials purchased outside of the United States. The Company's current suppliers in China do not have the necessary capital to finance raw materials' purchases. Accordingly, the Company is currently negotiating terms with different manufacturers in China to purchase substantially all of the finished goods necessary to meet anticipated 2003 sales requirements.

18. GOING CONCERN

The Company lost a substantial proportion of its retained earnings during 2002 and the bank withdrew its credit support in January 2003 (see Note 17). Therefore, there is substantial doubt that the Company can continue operating as a going concern through 2003 without replacing the credit facility and finding suppliers who can meet the Company's purchasing requirements (see Note 17).

Management is presently negotiating with both potential new financers and suppliers. Should negotiations fail, it is likely that the Company will cease operations and be forced to liquidate. The estimated liquidation value of the Company's assets has not been determined by management.

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ROCKY SHOES & BOOTS, INC.
PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

On April 15, 2003, Rocky Shoes & Boots, Inc. announced the purchase of substantially all of the assets, consisting primarily of inventory, goodwill and other intangibles of Gates-Mills, Inc. pursuant to the terms of the Purchase Agreement dated April 14, 2003 (the "Purchase Agreement"). The unaudited pro forma consolidated financial statements have been prepared from and should be read in conjunction with the consolidated financial statements and notes thereto for Rocky Shoes & Boots, Inc. for the year ended December 31, 2002, included in Rocky's report on Form 10-K, and the financial statements of Gates-Mills, Inc. as of December 31, 2002 and 2001 and for the years then ended, which are included in this Current Report on Form 8-K.

The pro forma consolidated balance sheet assumes that the acquisition took place on December 31, 2002, and consolidates Rocky's December 31, 2002 consolidated balance sheet and Gates's December 31, 2002 unaudited consolidated balance sheet.

The pro forma consolidated statement of operations assumes that the acquisition took place as of the beginning of the year presented (January 1, 2002). The pro forma consolidated statement of operations for the year ended December 31, 2002 consolidates Rocky's consolidated statement of income for the year ended December 31, 2002 and Gates' unaudited consolidated statement of operations for the year ended December 31, 2002.

In management's opinion, the pro forma results of operations are not indicative of the actual results that would have occurred had the acquisition been consummated at the beginning of the year presented and is not intended to be a projection of future results. Pro forma adjustments that give effect to actions taken by management or other efficiencies expected to be realized as a result of the transactions are not reflected in the following pro forma results of operations. Rocky has not completed the allocation of the purchase price for this acquisition. Rocky is continuing to assess the components, including trademarks, patents and goodwill, of the net intangible assets acquired. Additionally, the transactions expenses are yet to be finalized. Therefore the purchase price allocated based of the fair value of the assets acquired could be adjusted once these items are finalized.

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PRO FORMA CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2002

	ROCKY SHOES AND BOOTS, INC. DECEMBER 31, 2002	GATES-MILLS, INC. DECEMBER 31, 2002 (UNAUDITED)	ADJUST
ASSETS			
Cash and cash equivalents	$ 4,276,722	$ 407,462	$ (407,
Trade receivables - net	15,282,618	4,888,507	(4,888,
Other receivables	1,173,714	773,485	(773,
Inventories	23,181,989	4,625,352	(2,585,
Deferred income taxes	584,511	192,916	(192,
Prepaid expenses & other current assets	1,267,097	153,135	(153,
Total current assets	45,766,651	11,040,857	(9,000,
Fixed assets - net	19,049,287	1,612,723	(1,612,
Deferred pension asset	1,651,222		
Deferred income taxes	153,495		
Other assets	1,796,359	88,243	1,381,
TOTAL ASSETS	$ 68,417,014	$ 12,741,823	$ (9,231,
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES:			
Current Liabilities			
Accounts payable	$ 1,642,306	$ 1,163,298	$ (1,163,
Current maturities - long term debt	486,161	6,161,447	(6,161,
Accrued taxes - other	346,168	85,980	(85,
Accrued salaries and wages	807,611		
Accrued plant closing costs	210,000		
Accrued other	523,118	942,638	(942,
Total current liabilities	4,015,364	8,353,363	(8,353,
Long-term debt - less current maturities	10,488,388	976,753	2,533,

Deferred liabilities	1,520,338	878,737	(878,
Total liabilities	16,024,090	10,208,853	(6,698,
SHAREHOLDERS' EQUITY:			
Common stock - no par value, 10,000,000 shares authorized; issued and outstanding: December 31, 2002 - 4,489,065	35,289,038	220,000	(220,
Additional paid-in capital		20,000	(20,
Accumulated other comprehensive loss	(2,311,749)	(17,280)	17,
Retained earnings	19,415,635	2,624,453	(2,624,
Treasury stock - At cost		(314,203)	314,
Total Shareholders' equity	52,392,924	2,532,970	(2,532,
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 68,417,014	$ 12,741,823	$ (9,231,

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PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2002

	ROCKY SHOES AND BOOTS, INC.	GATES-MILLS, INC. (UNAUDITED)	ADJUSTMENTS
NET SALES	$ 88,958,721	$ 19,888,805	
COST OF SALES	65,528,213	16,498,132	
GROSS MARGIN	23,430,508	3,390,673	--
SELLING, GENERAL AND ADMINISTRATIVE EXPENSE	18,661,730	7,118,999	(128,597)
INCOME (LOSS) BEFORE INTEREST AND TAXES	4,768,778	(3,728,326)	128,597
OTHER INCOME AND (EXPENSES)			
Interest expense	(1,404,496)	(460,563)	324,372
Other - net	432,018	(625,842)	
Total other - net	(972,478)	(1,086,405)	324,372
INCOME (LOSS) BEFORE INCOME TAXES	3,796,300	(4,814,731)	452,969
TOTAL INCOME TAXES (BENEFIT)	953,000	(1,171,787)	48,787
NET INCOME (LOSS)	$ 2,843,300	$ (3,642,944)	$ 404,182
NET INCOME (LOSS) PER SHARE	$ 0.63		
Basic	$ 0.62		
Diluted			
WEIGHTED AVERAGE NUMBER OF COMMON SHARES			

OUTSTANDING	
Basic	4,499,741
Diluted	4,590,095

FOOTNOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

{A} Adjustment to reflect Gates assets not acquired and Gates liabilities not assumed by Rocky Shoes & Boots, Inc. as part of the acquisition.

{B} This adjustment to reflect the cash borrowed of $3,510,070 because the purchase was funded via borrowings under Rocky's revolving credit facility.

{C} Adjustment to reflect the inventory acquired at its estimated fair value.

{D} Adjustment to reflect the excess of acquisition cost over the estimated fair value of the net assets acquired. The purchase price and preliminary purchase price allocation are summarized as follows:

Purchase price		$3,510,0
Estimated fair value of assets and liabilities acquired:		
Inventories	$2,040,070	
Total		$2,040,0
Cost in excess of fair value of net assets acquired (Goodwill)		$1,470,0

*** Subject to final allocation based on an independent appraisal of the fair value of the assets acquired.

{E} Adjustment to reflect the net effect of: 1) eliminating the interest expense reflected on Gates' statement of operations for borrowings which were not assumed by Rocky ($460,563) 2) recording the interest incurred on the debt used to acquire Gates assuming Rocky's weighted average borrowing rate at December 31, 2002 of 3.88% ($137,355).

{F} Adjustment to reflect Rocky's estimated effective tax rate of 30% for 2002 on the pro forma loss before tax benefit.

{G} Adjustment to reflect the net effect of: 1) adjusting depreciation expense due to Rocky not purchasing Gates' property and equipment. Gates recorded all depreciation in Selling, General and Administrative expense 2) adjustment to record the amortization of the cost is excess of fair value of tangible net assets acquired by Rocky as part of the acquisition has not been recorded as Rocky has not completed its assessment of the components of the intangible assets acquired. To the extent amounts are subsequently allocated to items such as trademarks and patents, a resulting amortization would be recorded based on the appropriate estimated life of these assets. In accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other

Intangible Assets" any amount of the intangible asset allocated to goodwill would not be amortized but instead the related asset would be regularly evaluated for impairment.