ROCKY SHOES & BOOTS INC
Form 10-Q/A
September 13, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(AMENDMENT NO. 1)

(Mark One)

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

For the quarterly period ended March 31, 2005 OR

OR

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

For the transition period from ____________________ to ____________________

Commission file number: 0-21026

ROCKY SHOES & BOOTS, INC.

(Exact name of registrant as specified in its charter)

Ohio	**31-1364046**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

39 E. Canal Street, Nelsonville, Ohio 45764

(Address of Principal Executive Offices, Including Zip Code)

(740) 753-1951

(Registrant s Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 5,226,850 shares of Common Stock, no par value, were outstanding at April 30, 2005.

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Explanatory Note

This Amendment No. 1 on Form 10-Q/A (the Form 10-Q/A) to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2005, initially filed with the Securities and Exchange Commission (the SEC) on May 10, 2005 (the Original Filing), is being filed to reflect an amendment to Part I Item 1 Financial Information. Specifically, Item 1 has been amended to include (1) pro forma information related to the acquisition of EJ Footwear in Note 6 to the condensed consolidated financial statements and (2) to add Note 9 related to segment information. In addition, Part I Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations has been amended to include a table that reflects operating results for each segment and a discussion of the reasons for changes in the operating results of each segment. The determination to amend Items 1 and 2 was made as a result of a request from the SEC to include the pro forma information and provide segment information.

Although this Form 10-Q/A sets forth the Original Filing in its entirety, this Form 10-Q/A only amends and restates Items 1 and 2 of Part I of the Original Filing, and no other information in the Original Filing is amended hereby. Accordingly, the items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events.

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date. In addition, pursuant to the rules of the SEC, Item 6 of Part II has been amended to contain currently dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by sections 302 and 906 of the Sarbanes-Oxley Act of 2002. These updated certifications are attached to this Form 10-Q/A as exhibits 31(a), 31(b), 32(a), and 32(b).

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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2005 Unaudited	December 31, 2004	March 31, 2004 Unaudited
ASSETS:			
CURRENT ASSETS:			
Cash and cash equivalents	$ 1,844,354	$ 5,060,859	$ 1,164,802
Trade receivables net	50,121,610	27,182,198	17,657,161
Other receivables	1,164,271	1,114,959	842,220
Inventories	69,334,020	32,959,124	35,135,584
Deferred income taxes	1,297,850	230,151	959,810
Income tax receivable	2,134,642	2,264,531	
Prepaid expenses	1,053,732	588,618	1,132,264
Total current assets	126,950,479	69,400,440	56,891,841
FIXED ASSETS net	22,563,726	20,179,486	17,325,445
DEFERRED PENSION ASSET	1,347,825	1,347,824	1,499,524
IDENTIFIED INTANGIBLES	47,190,117	2,561,427	2,659,652
GOODWILL	18,637,115	1,557,861	1,557,861
OTHER ASSETS	4,347,912	1,658,616	280,799
TOTAL ASSETS	$ 221,037,174	$ 96,705,654	$ 80,215,122
LIABILITIES AND SHAREHOLDERS EQUITY:			
CURRENT LIABILITIES:			
Accounts payable	$ 11,879,873	$ 4,349,248	$ 2,082,062
Current maturities long term debt	6,376,401	6,492,020	511,006
Accrued expenses:			
Income taxes			380,652
Taxes other	438,624	422,692	451,917
Salaries and wages	2,310,280	1,295,722	644,661
Plant closing costs			75,500
Other	4,285,853	1,228,708	346,083
Total current liabilities	25,291,031	13,788,390	4,491,881
LONG TERM DEBT-less current maturities	91,746,122	10,044,544	13,998,680
DEFERRED INCOME TAXES	18,527,196	1,205,814	262,907
DEFERRED LIABILITIES	1,182,172	296,108	1,794,876
TOTAL LIABILITIES	136,746,521	25,334,856	20,548,344

SHAREHOLDERS EQUITY:						
Common stock, no par value; 10,000,000 shares authorized; issued and outstanding March 31, 2005 - 5,226,850; December 31, 2004 - 4,694,670; March 31, 2004 - 4,532,226		50,224,513		38,399,114		36,089,849
Accumulated other comprehensive loss		(1,077,586)		(1,077,586)		(1,950,400)
Retained earnings		35,143,726		34,049,270		25,527,329
Total shareholders equity		84,290,653		71,370,798		59,666,778
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	221,037,174	$	96,705,654	$	80,215,122

See notes to the interim unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2005	2004
NET SALES	$ 61,498,084	$ 21,882,089
COST OF GOODS SOLD	37,290,212	16,263,485
GROSS MARGIN	24,207,872	5,618,604
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	20,661,683	5,327,691
INCOME FROM OPERATIONS	3,546,189	290,913
OTHER INCOME AND (EXPENSES):		
Interest expense	(1,878,592)	(258,573)
Other net	(9,248)	74,206
Total other net	(1,887,840)	(184,367)
INCOME BEFORE INCOME TAXES	1,658,349	106,546
INCOME TAX EXPENSE	563,895	34,095
NET INCOME	$ 1,094,454	$ 72,451
NET INCOME PER SHARE		
Basic	$ 0.21	$ 0.02
Diluted	$ 0.20	$ 0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	5,163,371	4,428,023
Diluted	5,588,753	4,971,569

See notes to the interim unaudited condensed consolidated financial statements.

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,094,454	$ 72,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,251,883	751,090
Deferred compensation and pension net	205,068	167,283
Loss on disposal of fixed assets	20,266	
Stock issued as directors compensation	60,000	50,000
Change in assets and liabilities, (net of effect of acquisition):		
Receivables	6,443,496	1,863,037
Inventories	(1,701,352)	2,932,603
Other current assets	(19,652)	(87,026)
Other assets	386,199	(34,064)
Accounts payable	1,974,913	(738,652)
Accrued and other liabilities	(366,181)	(3,171,757)
Net cash provided by operating activities	9,349,094	1,804,965
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(969,660)	(449,621)
Acquisition of Business	(91,120,802)	
Net cash used in investing activities	(92,090,462)	(449,621)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long term debt	149,666,062	22,879,008
Payments on long term debt	(68,377,917)	(26,388,250)
Debt financing costs	(2,114,843)	
Proceeds from exercise of stock options	351,561	1,159,650
Net cash provided by (used in) financing activities	79,524,863	(2,349,592)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,216,505)	(994,248)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,060,859	2,159,050
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,844,354	$ 1,164,802

See notes to the interim unaudited condensed consolidated financial statements.

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Rocky Shoes & Boots, Inc.
and Subsidiaries
Notes to the Interim Unaudited Condensed Consolidated Financial Statements
For the Periods Ended March 31, 2005 and 2004

1. INTERIM FINANCIAL REPORTING

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

The Company accounts for its stock option plans in accordance with APB Opinion No. 25, under which no compensation cost has been recognized. Had compensation cost for all stock option plans been determined consistent with the SFAS No. 123, Accounting for Stock Based Compensation, the Company s net income (loss) and earnings (loss) per share would have resulted in the pro forma amounts as reported below.

	Three Months Ended March 31,	
	2005	2004
Net income as reported	$ 1,094,454	$ 72,451
Deduct: Stock based employee compensation expense determined under fair value based method for all awards, net of income taxes	231,708	153,015
Pro forma net income (loss)	$ 862,746	$ (80,564)
Earnings (loss) per share:		
Basic as reported	$ 0.21	$ 0.02
Basic pro forma	$ 0.17	$ (0.02)
Diluted as reported	$ 0.20	$ 0.01
Diluted pro forma	$ 0.15	$ (0.02)

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

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2 . INVENTORIES

Inventories are comprised of the following:

	March 31, 2005	December 31, 2004	March 31, 2004
Raw materials	$ 6,333,803	$ 4,711,014	$ 5,091,278
Work-in Process	955,380	564,717	1,209,715
Finished good	61,572,412	26,565,240	27,338,615
Factory outlet finished goods	1,379,504	1,268,153	1,720,976
Reserve for obsolescence or lower of cost or market	(907,079)	(150,000)	(225,000)
Total	$ 69,334,020	$ 32,959,124	$ 35,135,584

3. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three Months Ended March 31,	
	2005	2004
Interest	$ 1,949,531	$ 241,558
Federal, state and local income taxes	$ 450,000	$ 1,580,000

The Company issued 484,261 common shares valued at $11,473,838, as part of the purchase of the EJ Footwear Group.

4. PER SHARE INFORMATION

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

A reconciliation of the shares used in the basic and diluted income per common share computation for the three months ended March 31, 2005 and 2004 is as follows:

	Three Months Ended March 31,	
	2005	2004
Basic weighted average shares outstanding	5,163,371	4,428,023
Diluted stock options:	425,382	543,546
Diluted weighted average shares outstanding	5,588,753	4,971,569
Anti-diluted weighted average shares outstanding	35,000	3,387

5. RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. The statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. The statement also amends SFAS No. 95, Statement of Cash Flows. The statement requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair value based measurement method in accounting for share-based payment transactions with employees, except for equity instruments held by employee share ownership plans. SFAS 123(R) applies to all awards granted after the required effective date (the beginning of the first annual reporting period that begins after June 15, 2005 in accordance with the Securities and Exchange Commission s delay of the original effective date of SFAS 123(R)) and to awards modified, repurchased or canceled after that date. As a result, beginning January 1, 2006, the Company will adopt SFAS 123(R) and begin reflecting the stock option expense determined under fair value based methods in our income statement rather than as pro forma disclosure in the notes to the financial statements.

In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin Number 107 (SAB 107) that provided additional guidance to public companies relating to share-based payment transactions and the implementation of SFAS 123(R), including guidance regarding valuation methods and related assumptions, classification of compensation expense and income tax effects of share-based payment arrangements. The Company has not completed its assessment of the impact or method of adoption of SFAS 123(R) and SAB 107.

The Company has not completed its assessment of the impact or method of adoption of SFAS 123(R) and SAB 107.

6. ACQUISITION

On January 6, 2005, the Company completed the purchase of 100% of the issued and outstanding voting limited interests of EJ Footwear LLC, Georgia Boot LLC, and HM Lehigh Safety Shoe Co. LLC (the EJ Footwear Group) from SILLC Holdings LLC. The EJ Footwear Group was acquired to expand the Company s branded product lines,

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principally occupational products. The aggregate purchase price for the interests of EJ Footwear Group, including an initial closing date working capital adjustment, was $91.1 million in cash plus 484,261 shares of the Company s common stock valued at $11,473,838. Common stock value is based on the average closing share price during the three days preceding and three days subsequent to the date of the agreement.

On January 6, 2005, to fund the acquisition of EJ Footwear Group, the Company entered into a loan and security agreement with GMAC Commercial Finance LLC, refinancing its former $45,000,000 revolving line of credit, for certain extensions of credit (the Credit Facility). The Credit Facility is comprised of (i) a five-year revolving credit facility up to a principal amount of $100,000,000 with an interest rate of LIBOR plus two and a half percent (2.5%) or prime plus one percent (1.0%) and (ii) a three-year term loan in the principal amount of $18,000,000 with an interest rate of LIBOR plus three and a quarter percent (3.25%) or prime plus one and three quarters percent (1.75%). The Credit Facility is secured by a first priority perfected security interest in all presently owned and hereafter acquired domestic personal property of the Borrowers, subject to specified exceptions. Also on January 6, 2005, the Company entered into a note agreement (the Note Purchase Agreement) with American Capital Financial Services, Inc., as agent, and American Capital Strategies, Ltd., as lender (collectively, ACAS), regarding $30,000,000 in six-year Senior Secured Term B Notes with an interest rate of LIBOR plus eight percent (8.0%). The Note Purchase Agreement provides, among other terms, that (i) the ACAS Second Lien Term Loan will be senior indebtedness of the Company, secured by essentially the same collateral as the Credit Facility, (ii) such note facility will be last out in the event of liquidation of the Company and its subsidiaries, and (iii) principal payments on such note facility will begin in the fourth year of such note facility.

The purchase price will be allocated to the Company s tangible and intangible assets and liabilities based upon estimated fair values as of the date of the acquisition. The Company is in the process of obtaining appraisals of all tangible and intangible assets and liabilities to establish the fair values and determining the income tax basis of assets and liabilities acquired. As the purchase price allocation has not been completed, the amounts assigned to finite and indefinite life intangibles, and the related amortizations periods and the related deferred taxes have not been determined. Goodwill resulting from the transaction will not be tax deductible. The purchase price is preliminarily allocated, based on management s estimates, as follows:

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Purchase price allocation	
Cash	$ 89,503,000
Common shares 484,261	11,473,838
Transaction costs	1,617,802
Total	$ 102,594,640

Allocated to	
Current assets	$ 65,899,403
Fixed assets and other assets	3,220,733
Identified intangibles	44,800,000
Goodwill	17,079,254
Liabilities	(11,067,250)
Deferred taxes long term	(17,337,500)
	$ 102,594,640

Cash purchase price is subject to an additional final working capital payment of approximately $1.8 million. Estimated amounts are subject to final allocation based on independent appraisal of the fair value of assets acquired and final determination of income tax basis of assets and liabilities. The Company also incurred $0.9 million of transaction costs related to securing the financing for the transaction and will amortize the costs over an average of five years.

December 31, 2004	Gross Amount	Additions	Accumulated Amortization	Carrying Amount
Trademarks	$ 2,225,887			$ 2,225,887
Patents	467,336		$ 131,796	335,540
Goodwill	1,649,732		91,871	1,557,861
Total Intangibles	$ 4,342,955	$	$ 223,667	$ 4,119,288

March 31, 2005 (Unaudited)	Gross Amount	Additions	Accumulated Amortization	Carrying Amount
Trademarks	$ 2,225,887	$ 41,500,000		$ 43,725,887
Patents	467,336	2,300,000	$ 253,106	2,514,230
Customer Relationships		1,000,000	50,000	950,000
Goodwill	1,649,732	17,079,254	91,871	18,637,115
Total Intangibles	$ 4,342,955	$ 61,879,254	$ 394,977	$ 65,827,232

Estimate of Aggregate Amortization Expense:	
Year ending December 31, 2005	$ 686,000
Year ending December 31, 2006	686,000
Year ending December 31, 2007	686,000
Year ending December 31, 2008	686,000

Year ending December 31, 2009	686,000

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

The following table reflects the unaudited consolidated results of operations on a pro

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forma basis had EJ Footwear been included in operating results from January 1, 2004. There are no material non-recurring items in the pro forma results of operations.

	Three Months Ended March 31, 2004
Net Sales	$ 59,285,452
Operating Income	3,723,398
Net Income	$ 962,412
Net Income Per Share	
Basic	$ 0.20
Diluted	$ 0.18

7. CAPITAL STOCK

On May 11, 2004, shareholders of the Company approved the 2004 Stock Incentive Plan. This Stock Incentive Plan includes 750,000 of the Company s common shares that may be granted for stock options and restricted stock awards. As of March 31, 2005, the Company was authorized to issue 528,935 sha