PINK OTC MARKETS QUARTERLY REPORT

Phoenix Footwear Group, Inc.

(Report prepared on November 5, 2014 for the 39-week period ended September 27, 2014)

All information contained in this Quarterly Report has been compiled to fulfill the OTC Pink Basic Disclosure Guidelines to qualify for the OTC Pink Current Information tier.

1) Name of the Issuer and its predecessors (if any).

Phoenix Footwear Group, Inc., (herein referred to as the "Issuer" or "Company") incorporated in the State of Delaware.

2) Address of the Issuer's principal executive offices:

Company Headquarters
5937 Darwin Court, Suite 109
Carlsbad, CA 92008
Telephone: (760) 602-9688
Facsimile: (760) 602-9619
www.phoenixfootwear.com
www.softwalkshoes.com
www.trotters.com

Investor relations Contact:
Greg W. Slack
5937 Darwin Court, Suite 109
Carlsbad, CA 92008
(760) 602-9688
E-mail: gslack@phxg.com

3) Security Information

Trading Symbol: PXFG
Exact title and class of securities outstanding: Phoenix Footwear Group, Inc. common stock
CUSIP: 71903M209
Par or stated value: $0.01 per share
Total shares authorized: 50,000,000 common shares, and 500,000 preferred shares as of October 31, 2013
Total shares outstanding: 8,358,362 common shares, and 0 preferred shares as of October 31, 2013

Transfer Agent
Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078
(877) 282-1168

Is the Transfer Agent registered under the Exchange Act? Yes: X No: __

List any restrictions on the transfer of security: The Company's common stock is generally subject to securities laws restrictions on transfer. As described below under section "4) Issuance History", the Notes (defined below) issued by the Company to the Greenwood Investors (defined below), and the underlying shares, are restricted from transfer, and contain a customary restrictive legend. In addition, in accordance with the 2011 Plan (defined below), the Company issued restricted stock to its non-employee directors which contains a customary restrictive legend and are restricted from transfer subject to compliance with securities laws.

Describe any trading suspension orders issued by the SEC in the past 12 months: None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the last 12 months: None

4) Issuance History

For the previous two fiscal years ended December 28, 2013 and December 29, 2012, and for the nine months of fiscal of 2014 ended September 27, 2014 to the filing of this Quarterly Report, there have been the following events that resulted or could have resulted in changes in total shares outstanding by the issuer:

On April 1, 2014, the Company issued an aggregate of 60,000 shares of restricted common stock to three non-employee directors, Steven DePerrior, Stephanie Pianka and Frederick Port, in transactions exempt from registration pursuant to Rule 701 under the Securities Act of 1933, as amended (the "Securities Act"), pursuant to awards granted under the 2011 Long-Term Incentive Plan of Phoenix Footwear Group, Inc. (the "2011 Plan"), upon the satisfaction of vesting criteria which required that the recipients maintain continued membership on the Company's Board of Directors through March 31, 2014. The shares are restricted from transfer unless in compliance with applicable securities laws and the certificates representing the shares contain a customary restrictive legend.

On April 1, 2013, the Company issued an aggregate of 60,000 shares of restricted common stock to three non-employee directors, Steven DePerrior, Stephanie Pianka and Frederick Port, in transactions exempt from registration pursuant to Rule 701 under the Securities Act, pursuant to awards granted under the 2011 Plan, upon the satisfaction of vesting criteria which required that the recipients maintain continued membership on the Company's Board of Directors through March 31, 2013. The shares are restricted from transfer unless in compliance with applicable securities laws and the certificates representing the shares contain a customary restrictive legend.

On July 30, 2012, the Company completed the sale of $350,000 of a subordinated secured 1% convertible note (the "2012 Note") to MGPLA LP ("MGPLA"). The 2012 Note is initially convertible into 1,521,739 shares of the Company's common stock, at the conversion rate of $0.23 per share. The 2012 Note is due October 30, 2015, and bears interest at the rate of 1.0% per annum until July 29, 2014, after which, the rate increases pursuant to the terms of the Company's Loan and Security Agreement (the "Loan Agreement") with AloStar Bank of Commerce, an Alabama bank ("AloStar"), entered into concurrently with the issuance of the 2012 Note. The terms of the Loan Agreement are more fully described in the Company's Financial Statements attached hereto as Exhibit A under Note 6 of the Notes to the Company's Consolidated Financial Statements. The sale of the 2012 Note was made to an accredited investor in a private placement exempt from registration under Rule 506 and Section 4(2) under the Securities Act. Neither the 2012 Note nor the shares issuable upon conversion are currently registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 2012 Note is restricted from transfer unless in compliance with applicable securities laws and contains a customary restrictive legend (1) stating that the shares underlying the 2012 Note have not been registered under the Securities Act and (2) referring to the restrictions on transferability and sale of the Company's shares under the Securities Act. The shares of common stock to be issued upon conversion of the 2012 Note will bear a similar legend.

On May 1, 2012, the Company issued an aggregate of 60,000 shares of restricted common stock to three non-employee directors, Steven DePerrior, Stephanie Pianka and Frederick Port, in transactions exempt from registration pursuant to Rule 701 under the Securities Act, pursuant to awards granted under the 2011 Plan, upon the satisfaction of vesting criteria which required that the recipients maintain continued membership on the Company's Board of Directors through April 30, 2012. The shares are restricted from transfer unless in compliance with applicable securities laws and contained a customary restrictive legend.

With the exception of the offerings and issuances described above, there have been no securities offerings or share issuances of the Company's securities in the previous two fiscal years ended December 28, 2013 and December 29, 2012 or in the interim period following fiscal year ended December 28, 2013 to the date of this Pink OTC Markets Quarterly Report.

5) Financial Statements

The following condensed consolidated financial statements included herein as Exhibit A and management's discussion and analysis as Exhibit B are attached at the end of this Quarterly Report and are hereby incorporated by reference:

1. Condensed Consolidated Balance Sheets as of September 27, 2014, and December 28, 2013.
2. Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the three and nine month periods ended September 27, 2014 and September 28, 2013.

3. Condensed Consolidated Statements of Stockholder's Equity for the three and nine month periods ended September 27, 2014 and the fiscal year ended December 28, 2013.
4. Condensed Consolidated Statements of Cash Flows for the nine months ended September 27, 2014 and September 28, 2013.
5. Notes to the Condensed Consolidated Financial Statements.
6. Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the three and nine months ended September 27, 2014 and September 28, 2013.

6) Describe the Issuer's Business, Products and Services

A. **Description of the Issuer's business operations**;

The Company specializes in quality comfort women's footwear. The Company designs, develops, markets and sells footwear in a wide range of sizes and widths under the brands Trotters® and SoftWalk®. The Company has been engaged in the manufacture or importation and sale of quality footwear since 1882.

Trotters and SoftWalk are the Company's two core brands, which make up its women's footwear business. These products are designed for fit, quality and value for the consumer. The Company specializes in comfort footwear and manufactures each style in a large range of sizes and widths to ensure proper fit. The Company maintains an "open stock" inventory, which provides our customers with the ability to replenish their inventory at retail and support special consumer orders.

B. **Date and State (or Jurisdiction) of Incorporation**: Phoenix Footwear Group, Inc. was incorporated under the laws of the State of Delaware on March 15, 2002.

C. **The Issuer's primary and secondary SIC Codes**: The Company's primary SIC Code is 3140 - Footwear, except rubber

D. **The Issuer's fiscal year end date**; The Company's operating and reporting period is on a 52-53 week fiscal year ending on the Saturday nearest to December 31.

E. **Principal products or services, and their markets**;

The Company's products emphasize quality, fit and comfort with classic styling. These products compete predominately in the moderate-priced categories of the market.

Trotters. Competing primarily in the traditional women's dress, tailored and casual classifications, Trotters provides retail price points from $79 to $129. The broad selection of sizes and widths for this brand fills an important need for the Company's customers by emphasizing quality and fit with the continuity of style from season to season.

SoftWalk. SoftWalk competes in the women's comfort footwear segment at moderate retail price points from $89 to $159. Utilizing its patented footbed that fundamentally differentiates SoftWalk from its competitors, the Company believes SoftWalk's consumer acceptance and popularity is attributable to its unique combination of comfort and contemporary styling. By molding multiple layers of high density materials together, the Company's patented "egg-crate" technology allows for an insole construction that creates raised cushioning elements of a height, size and spacing so as to be self-adjusting to the foot. These elements combine to create a shoe that provides ultimate comfort and supports the foot similar to a mattress. The Company's patented footbed technology provides the consumer with exceptional comfort without compromising style and is utilized in all of our SoftWalk products.

During the first nine months of fiscal 2014 and the previous two fiscal years ended December 28, 2013 and December 29, 2012, the Company had one reportable segment consisting of its continuing operations of Trotters and SoftWalk.

Distribution methods of Issuer's products

Trotters and SoftWalk products are sold by the Company's own dedicated employee sales force that covers the U.S. market. Beginning in April of 2013, the Company entered into a three year licensing agreement with Touchstone Television Productions, LLC ("ABC Studios"), to design, market, and distribute footwear for the medical community under the Grey's Anatomy brand. Concurrent with the ABC Studios license agreement, the Company entered into a three year joint marketing agreement with Barco Uniforms, Inc. ("Barco"). Under the terms of the joint marketing agreement, footwear produced under the ABC Studios licensing agreement is sold in the U.S. market by Barco's employed sales force. The Company distributes its products in Canada under an exclusive distribution agreement with Canada Shoe Corp, which is the sole importer and distributor of the Company's Trotters and SoftWalk brands in Canada.

During the first nine months of fiscal 2014, the Company's products were carried by approximately 800 customers in over 1307 retail locations throughout the United States. The Company's distribution channels include leading specialty and independent retail stores, mail order catalogues, and internet retailers. The Company also operates its own direct to consumer internet retail business for all of its brands. Ten significant customers represented approximately 58%, 61%, and 54% of net sales from continuing operations for the first nine months ended September 27, 2014 and fiscal years of 2013 and 2012, respectively. For the 39-week period ended September 27, 2014 and 52-week periods of fiscal 2013 and 2012, Zappos.com, accounted for 15.6%, 18.2%, and 15.7% of net sales, respectively.

Consumer Direct

The Company believes its e-commerce web sites complement the Company's existing wholesale business by increasing consumer awareness of the Company's brands. Sales through the Company's internet web sites represented approximately 2.4%, 2.6%, and 2.6% of its net sales for the 39-week period ended September 27, 2014 and the 52-week periods of fiscal 2013 and 2012, respectively. The products marketed through the Company's web sites are sold at their suggested retail price, enabling the Company to maintain the full retail margins on in-line products. The Company's footwear can be purchased at *www.SoftWalkshoes.com* and *www.trotters.com*.

Competitive business conditions, the Issuer's competitive position in the industry, and methods of competition.

The Company faces intense competition in the footwear industry from numerous domestic and foreign designers and marketers. Many of the Company's competitors have greater financial, distribution or marketing resources than the Company, as well as greater brand recognition. Important elements of competition in the footwear industry include:

- anticipating and responding to changing consumer demands in a timely manner;
- maintaining brand reputation and authenticity;
- developing high quality products that appeal to consumers;
- appropriately pricing products;
- providing strong and effective product marketing support;
- ensuring product availability; and
- maintaining and effectively accessing the Company's distribution channels.

Trotters primarily competes with the Naturalizer®, EasySpirit®, Munro America® and Ros Hommerson® brands, as well as with retailers' private label footwear. SoftWalk primarily competes with the Sofft®, Born® and ECCO® brands.

The Company believes that all of its brands are positioned to compete effectively in the footwear industry. By emphasizing traditional style, quality and fit, the Company believes these product lines will continue to maintain a loyal consumer following that is less susceptible to fluctuations resulting from changing fashions and changes in consumer preferences.

Product Development

The Company has a team of development specialists who commercialize product designs and procure footwear that adheres to the Company's fit, quality and constructions standards. The Company closely manages the production and quality processes with its independent manufacturers in China to ensure timely delivery of goods to the marketplace. The

development and commercialization of new product designs include capital outlays for the tooling of dies, molds and lasts, the cost of which is amortized into cost of goods sold over a twelve month period beginning in the season the new design is first distributed. The Company incurred product design and development costs of approximately $203,000, $255,000 and $228,000 during the first nine months of fiscal 2014 and fiscal years of 2013 and 2012, respectively.

Sources and availability of raw materials and the names of principal suppliers.

Factories. The Company's footwear is produced by independent contract manufacturers located in China. The Company does not own or operate any manufacturing facilities. The Company believes that the use of independent manufacturers increases its production flexibility and capacity while substantially reducing capital expenditures and avoiding the costs of managing a large production work force.

In an effort to ensure continuity of product quality and fit, as well as control of production costs, the Company uses manufacturers the Company has previous experience with when possible. The Company attempts to ensure that no one manufacturer is responsible for a disproportionate amount of its merchandise and allocates production between factories to achieve a balance between quality, cost and capability. The Company does not have any long-term contracts with any of its manufacturers; however, the Company has long-standing relationships with its manufacturers and believes its relationships are good.

Production Oversight. To maintain product quality and consistency, the Company oversees the key steps of production from manufacturing of initial prototypes to final manufacturing runs. Monitoring of all production is performed by the Company's in-house production team in the U.S., with closer inspection from our staff located in China. The Company believes this local presence allows it to negotiate supplier and manufacturer arrangements more effectively, decrease product turnaround time, manage quality control and ensure prompt delivery of finished footwear.

Quality Control. Quality control is an important and effective means of maintaining the high standards and reputation of the Company's products. The Company's staff in China performs multiple inspection procedures at various stages of the production process. These include examining key raw materials prior to manufacture, samples and materials at various stages of production and final products prior to shipment. The Company's staff is often on site at each of its manufacturers to oversee production.

Third party manufacturers located in China have produced 100% of the Company's footwear products over the last three fiscal years and through the first nine months of fiscal 2014. The Company depends on the ability of these manufacturers to finance the production of goods ordered, maintain adequate manufacturing capacity and meet the Company's quality standards. The Company competes with other companies for the production capacity of these third party manufacturers, and the Company does not exert direct control over the manufacturers' operations. As such, the Company has experienced at times, delays or inabilities to fulfill customer demand and orders. The Company cannot guarantee that any third party manufacturer will have sufficient production capacity, meet the Company's production deadlines or meet its quality standards.

In addition, from time to time, these manufactures may and have terminated their relationship with the Company. As a result, the Company is not always assured of an uninterrupted supply of products of an acceptable quality and price from its third party manufacturers. Any disruption in the supply of products from the Company's third party manufacturers may harm its business and could result in a loss of sales and an increase in production costs, which would adversely affect the Company's results of operations.

The Issuer's dependence on one or a few major customers.

Ten significant customers represented approximately 58%, 61% and 54% of net sales from continuing operations for the 39-week period ended September 27, 2014, 52-week period of fiscal 2013 and 2012, respectively. Zappos.com accounted for 15.6%, 18.2% and 15.7% of net sales in the 39-week period ended September 27, 2014 and 52-week periods of fiscal 2013 and 2012.

Although the Company has enjoyed long-term relationships with many of its customers, the Company's customers do not have a contractual obligation to purchase its products. The Company cannot be certain that it will be able to retain its existing major customers. The retail industry can be uncertain due to changing customer buying patterns and consumer

preferences. These factors could cause the Company to lose one or more of these customers, which could adversely affect its business.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts.

The Company regards its proprietary rights as valuable assets and important to its competitive advantage. The Company's trademarks which have been registered in the U.S. and a number of foreign countries include Trotters and SoftWalk. The Company's SoftWalk brand contains a proprietary technology in the footbed of the shoe, for which the Company owns a patent in the U.S. The Company vigorously protects its intellectual property against infringement. The Company's patents expire at various times through August 2020. The Company cannot be sure, however, that its activities do not, and will not, infringe on the proprietary rights of others.

The need for any government approvals of principal products or services.

The Company is subject to various laws, ordinances and regulations, including those relating to the general operation of a business. The Company believes that it is in compliance with all laws, ordinances and regulations which have a material effect on the operation of its business. The Company is currently not aware of any need for government approval of its principal product or services.

7) **Describe the Issuer's Facilities**

The general location, use and approximate size of our principal properties are set forth below:

Facility/Location	Own/Lease	Description	Approximate Square Footage
Carlsbad, California	Lease	Office Space	5,195
Old Town, Maine	Lease	Warehouse	75,000
Dongguan, People's Republic of China	Lease	Office Space	2,000
Dolgeville, New York	Own	Vacant Land	30 acres

The Company leases facilities under operating lease agreements expiring through June 2023. The Company's corporate headquarters are located in Carlsbad, California and consists of approximately 5,195 square feet. The lease expires in April 2016.

The Company believes that its current facilities are in good operating condition and are adequate for its current and foreseeable future operating requirements.

8) Officers, Directors, and Control Persons

A. Names of Officers, Directors, and Control Persons.

The names of each of the Company's executive officers, directors and control persons as of the date of this Quarterly Report are as follows:

Executive Officers:

James R. Riedman, Chairman, President and Chief Executive Officer
Bruce Kaplan, Executive Vice President
Greg W. Slack, Chief Financial Officer, Treasurer and Secretary

Directors:

James R. Riedman
Steve M. DePerrior
Frederick R. Port
Stephanie E. Pianka

Control Persons (defined as beneficial owners of more than five percent of the Company's common stock):

Riedman Corporation and James R. Riedman
Greenwood Investments, Inc. and Steven Tannenbaum
Greenwood Capital LP
MGPLA LP.

For additional information pertaining to the number of shares of common stock beneficially owned by persons known to the Company to beneficially own more than ten percent of the outstanding share of common stock as of October 31, 2014, see the discussion included in section 8) (C) below under the subheading "Beneficial Shareholders".

B. Legal/Disciplinary History

None of the Company's directors, executive officers or control persons were convicted in a criminal proceeding during the past five years or have been named as a defendant in a pending criminal proceeding. Additionally, none of these persons were a party to any judicial, self-regulatory organization, or other administrative proceeding during the past five years that resulted in a judgment, decree or final order barring, enjoining, suspending or otherwise limiting such persons involvement in any type of business, securities, commodities or banking activities or enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities or commodities laws, or a finding of any violation of federal or state securities or commodities laws.

C. Beneficial Shareholders.

The following tables show the number of shares of common stock beneficially owned by persons known to the Company to beneficially own more than ten percent of the outstanding shares of common stock as of October 31, 2014. For the purposes of computing a person's beneficial ownership, shares of common stock issuable upon the exercise of securities exercisable or convertible into Common Stock within 60 days of October 31, 2014 are deemed outstanding for the purposes of computing the share ownership and percentage ownership of the person holding such securities, but are not deemed outstanding for the purposes of computing the percentage ownership of any other person.

Percentage of beneficial ownership is calculated assuming 8,358,362 shares of the Company's common stock (net of treasury shares) were outstanding as of October 31, 2014. Except as otherwise indicated, to our knowledge, the beneficial owners of common stock listed below have sole or shared investment and voting power with respect to such shares.

Beneficial Owners of 10% or More	**Amount and Nature of Beneficial Ownership (1)**	**Percent of Class**
James R. Riedman and Riedman Corporation (2), (3)	9,739,002	67.4%
Greenwood Investments, Inc. and Steven Tannenbaum (3), (4)	9,739,002	67.4%

(1) Unless otherwise noted, and subject to applicable community property laws, each person has sole or shared voting and dispositive power with respect to all shares of common stock beneficially shown as owned by that person.

(2) Includes 593,808 shares owned directly or indirectly through CE Capital, LLC, an affiliated entity, and the following shares and shares issuable upon exercise of outstanding stock options of which Mr. Riedman disclaims beneficial ownership: 382,710 shares and 50,000 stock options beneficially owned by Riedman Corporation, of which Mr. Riedman is a director and a shareholder; 87,337 shares owned by his children; and 139,975 shares held by the Company's 401(k) Plan, not including 16,957 shares allocated to his account. Mr. Riedman is a member of the Board's Retirement Plan Committee, which serves as fiduciary for the Company's 401(k) Plan, and through that committee he shares voting control over such shares. The plan's mailing address is c/o Phoenix Footwear Group, Inc., 5937 Darwin Court, Suite 109, Carlsbad, California 92008.

(3) On July 30, 2012, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with MGPLA which provided for the sale of the "2012 Note by the Company to MGPLA and also amended and restated

certain agreements previously executed and delivered in connection with its sale of $1.0 million of subordinated secured 1% convertible notes (the "2011 Notes", and collectively with the 2012 Note, the "Notes") to Greenwood Capital LP (individually, and as the survivor by merger of Greenwood Investors LP with and into Greenwood Capital LP, "Capital" or "Greenwood Capital") and Greenwood Investors LP ("Investors", together with Capital, the "Greenwood Purchasers", and collectively, with MGPLA, the "Greenwood Investors") on July 21, 2011, including, without limitation, the Voting Agreement (the "Voting Agreement"), by and between Steven Tannenbaum, Greenwood Investments, Inc. ("General Partner"), the Greenwood Investors (collectively, the "Greenwood Parties"), and James R. Riedman and Riedman Corporation (collectively the "Riedman Parties"). As a result of the Voting Agreement, and based solely on the information provided in the Schedule 13D jointly filed by the Greenwood Parties with the Securities and Exchange Commission ("SEC") on August 1, 2011, and the Schedule 13D, as amended, jointly filed by the Riedman Parties with the SEC on August 1, 2011, in addition to the shares that are beneficially owned by the Riedman Parties and the Greenwood Parties (i) the Riedman Parties may be deemed to beneficially own 7,481,615 shares (including up to 5,869,565 shares issuable upon conversion of the original aggregate principal amount of the Notes) beneficially owned by the Greenwood Parties and (ii) the Greenwood Parties may be deemed to beneficially own 2,257,387 shares beneficially owned by the Riedman Parties. Both the Riedman Parties and Greenwood Parties expressly disclaim being a member of a Section 13(d)(3) "group" with any of the reporting persons of the other party, and further expressly disclaim any beneficial ownership of the shares of the other. Riedman Corporation acts as its own resident agent and may be contacted at 45 East Avenue, Rochester, New York 14604. The name and address of the General Partner's resident agent is Incorporating Services, Ltd., 3500 S Dupont Hwy, Dover, Delaware, 19901.

(4) As a result of the Voting Agreement, and based solely on the information provided in the Schedule 13D, jointly filed by the Greenwood Parties with the SEC on August 1, 2011, such reporting persons may be deemed to beneficially own 9,739,002 shares (including 5,869,565 shares issuable upon conversion of the original aggregate principal amount of the Notes, and 2,257,387 shares beneficially owned by the Riedman Parties (the "Riedman Shares"), which such beneficial ownership is expressly disclaimed by each of the Greenwood Parties). Mr. Tannenbaum is the President of the General Partner, which is the sole general partner of each of the Greenwood Investors. Excluding the Riedman Shares, the beneficial ownership of the Greenwood Parties is as follows: (i) MGPLA beneficially owns 1,521,739 shares issuable upon the conversion of the original principal amount of the 2012 Note; (ii) Capital beneficially owns 5,959,876 shares (including 2,173,913 shares issuable upon the conversion of $500,000 of the original principal amount of the 2011 Notes issued to Capital and 2,173,913 shares issuable upon the conversion of $500,000 of the original principal amount of the 2011 Note issued to Greenwood Investors LP); and (iii) each of the General Partner, as the sole general partner of each of the Greenwood Investors, and Mr. Tannenbaum, as the president of the General Partner, beneficially owns 7,481,615 shares (including 5,869,565 shares issuable upon conversion of the original aggregate principal amount of the Notes). Each of the Greenwood Investors has the power to vote and dispose of their shares beneficially owned by such entity (as described above). The General Partner, as the sole general partner of each of the Greenwood Investors, has the authority to vote and dispose of all of the shares. Mr. Tannenbaum, by virtue of his position as president of the General Partner, has the authority to vote and dispose of all of the shares of the Greenwood Investors. The Greenwood Parties each have a principal business address at 222 Berkeley Street, 17th Floor, Boston, MA 02116.

9) Third Party Providers

There are no outside providers that advise the issuer on matters relating to the operations or business development of the Company.

Legal Counsel:

Woods Oviatt Gilman LLP
700 Crossroads Building
2 State Street
Rochester, NY 14614
(585) 987-2800
administrator@woodsoviatt.com

Woods Oviatt Gilman, LLP has been engaged by the Company to review certain legal matters in connection with management's preparation of this disclosure statement.

Accountant:	Mayer Hoffman McCann P.C. 10616 Scripps Summit Court San Diego, CA 92131 (858) 795-2017 Stuart Starr, Engagement Partner sstarr@cbiz.com

Mayer Hoffman McCann P.C. ("MHM") is an independent registered public accounting firm who has audited the Company's books and accounts for fiscal 2012 and 2013, which were prepared by the Company's management, including its Chief Financial Officer. MHM's audits are conducted in accordance with auditing standards generally accepted in the United States of America. Those standards require MHM to plan and perform their audit to obtain reasonable assurance about whether the Company's financial statements are free of material misstatements. MHM's audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements including assessing the accounting principles used and significant estimates made by the Company, as well as evaluating the overall financial statement presentation. The preparation of the consolidated financial statements, financial schedules and footnotes are the responsibility of the Company.

Except as noted above, there are no other outside advisors that assisted, advised, prepared or provided information with respect to this disclosure statement.

10) Issuer Certifications

I, James R. Riedman, President and Chief Executive Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Phoenix Footwear Group, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 5, 2014

/s/ James R. Riedman
President and Chief Executive Officer

I, Gregory W. Slack, Chief Financial Officer, Secretary and Treasurer, certify that:

1. I have reviewed this quarterly disclosure statement of Phoenix Footwear Group, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

November 5, 2014

/s/ Gregory W. Slack
Chief Financial Officer, Secretary and Treasurer

Exhibit A

PHOENIX FOOTWEAR GROUP, INC.

FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS OF FISCAL 2014 ENDED SEPTEMBER 27, 2014

Financial Statements

Condensed Consolidated Balance Sheets
As of September 27, 2014 and December 28, 2013

Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss)
For the three and nine month periods ended September 27, 2014 and September 28, 2013

Condensed Consolidated Statements of Stockholders Equity
For the three and nine month periods ended September 27, 2014 and the fiscal year ended December 28, 2013

Condensed Consolidated Statements of Cash Flows
For the nine months ended September 27, 2014 and September 28, 2013

Notes to the Condensed Consolidated Financial Statements

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PHOENIX FOOTWEAR GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for per share data)

	(Unaudited) September 27, 2014	December 28, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 186	$ 141
Accounts receivable (less allowances of $1,111 and $1,024 in 2014 and 2013, respectively)	4,785	2,671
Inventories (less provision of $307 and $344 in 2014 and 2013, respectively)	8,626	7,646
Other current assets	493	753
Income tax receivable	30	30
Total current assets	14,120	11,241
PROPERTY, PLANT AND EQUIPMENT, net	77	73
Capital Lease Asset	543	589
OTHER ASSETS	—	75
TOTAL ASSETS	$ 14,740	$ 11,978
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit and note payable, current (Note 5)	$ 6,343	$ 4,169
Accounts payable	2,695	2,733
Accrued expenses	1,081	646
Other current liabilities	—	—
Current portion of long term debt	190	220
Total current liabilities	10,309	7,768
OTHER LONG-TERM LIABILITIES		
Terms note payable, net of current portion (Note 5)	534	618
Convertible notes payable	1,350	1,350
Capital Lease obligation, net of current portion	554	577
Other non-current liabilities	256	286
Total liabilities	13,003	10,599
Commitments and contingencies (Note 4)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value — 50,000 shares authorized; 8,575 and 8,515 shares issued and outstanding in 2014 and 2013, respectively	87	86
Additional paid-in-capital	46,160	46,147
Accumulated deficit	(41,867)	(42,211)
Treasury stock at cost, 217 and 217 shares in 2014 and 2013, respectively	(2,643)	(2,643)
Total stockholders' equity	1,737	1,379
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,740	$ 11,978

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PHOENIX FOOTWEAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS)
(In thousands, except per share data)

	(Unaudited) Three Months Ended		(Unaudited) Nine Months Ended	
	Sept 27, 2014	Sept 28, 2013	Sept 27, 2014	Sept 28, 2013
Net sales	$ 6,357	$ 5,563	$ 16,345	$ 14,800
Cost of goods sold	3,922	3,379	10,391	9,202
Gross profit	2,435	2,184	5,954	5,598
Operating expenses:				
Selling, general and administrative	1,688	1,610	5,044	4,739
Other expense, net	—	—	—	—
Total operating expenses	1,688	1,610	5,044	4,739
Operating earnings	747	574	910	859
Interest expense, net	199	212	557	587
Earnings before income taxes and discontinued operations	548	362	353	272
Income tax expense (benefit)	—	—	—	—
Earnings from continuing operations	548	362	353	272
(Loss) earnings from discontinued operations, net of tax for the three and nine months ended Sept 27, 2014 and Sept 28, 2013, respectively	(—)	(42)	(9)	(61)
Net earnings	$ 548	$ 320	$ 344	$ 211
Net earnings per share, basic:				
Continuing Operations	$ 0.07	$ 0.04	$ 0.04	$ 0.03
Discontinued Operations	—	—	—	—
Net earnings per share	$ 0.07	$ 0.04	$ 0.04	$ 0.03
Net earnings per share, diluted:				
Continuing Operations	$ 0.04	$ 0.03	$ 0.02	$ 0.02
Discontinued Operations	—	—	—	—
Net earnings per share	$ 0.04	$ 0.03	$ 0.02	$ 0.02
Weighted average shares outstanding used to calculate per share information, Basic:	8,358	8,298	8,332	8,278
Diluted:	14,717	14,168	14,691	14,148
Net earnings	$ 548	$ 320	$ 344	$ 211
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation adjustments, net of zero income taxes	—	—	—	—
Comprehensive earnings	$ 548	$ 320	$ 344	$ 211

The accompanying notes are an integral part of these condensed consolidated financial statements.

PHOENIX FOOTWEAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Accumulated Other Comprehensive Earnings (Loss)	Total
	Shares	Amount			Shares	Amount		
BALANCE — December 28, 2013	8,515	$ 86	$ 46,147	$ (42,211)	(217)	$ (2,643)	$ —	$ 1,379
Issuance of Common Stock	—	—	—	—	—	—	—	—
Stock Based Compensation	—	—	—	—	—	—	—	—
Net Income				171				171
BALANCE — March 29, 2014	8,515	$ 86	$ 46,147	$ (42,040)	(217)	$ (2,643)	$	$ 1,550
Issuance of Common Stock	60	1	13	—	—	—	—	14
Stock Based Compensation	—	—	—	—	—	—	—	—
Net Loss				(375)				(375)
BALANCE — June 28, 2014	8,575	$ 87	$ 46,160	$ (42,415)	(217)	$ (2,643)	$ —	$ 1,189
Issuance of Common Stock	—	—	—	—	—	—	—	—
Stock Based Compensation	—	—	—	—	—	—	—	—
Net Income				548				548
BALANCE — September 27, 2014	8,575	$ 87	$ 46,160	$ (41,867)	(217)	$ (2,643)	$ —	$ 1,737

The accompanying notes are an integral part of these condensed consolidated financial statements.

PHOENIX FOOTWEAR GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	(Unaudited) Nine Months Ended	
	Sept 27, 2014	Sept 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 344	$ 211
(Loss) from discontinued operations	(9)	(61)
Earnings from continuing operations	353	272
Adjustments to reconcile earnings from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	61	93
Provision for losses on accounts receivable	88	266
Non-cash stock-based compensation	47	44
Gain on sale of property	—	(213)
Amortization of deferred debt issuance costs	97	97
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(2,202)	(2,711)
Inventories, net	(980)	(672)
Other current assets	260	(94)
Income taxes receivable	—	—
Other non-current assets	—	—
Increase (decrease) in:		
Accounts payable	(38)	(332)
Accrued expenses	402	231
Other long-term liabilities	(51)	591
Income taxes payable	—	—
Net cash (used in) provided by operating activities from continuing operations	(1,963)	(2,428)
(Loss) from discontinued operations, net of tax (including net gain (loss) on sale of $0 and $0, respectively)	(9)	(61)
Adjustments to reconcile loss from discontinued operations to net cash (used in) provided by operating activities:	—	—
Net cash (used in) provided by operating activities from discontinued operations	(9)	(61)
Net cash (used in) provided by operating activities	(1,972)	(2,489)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(20)	(8)
Proceeds from sale of property	—	519
Net cash (used in) provided by investing activities	(20)	511
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and line of credit	16,311	15,273
Repayments of notes payable and line of credit	(14,274)	(13,141)
Issuance of subordinated convertible secured notes	—	—
Repurchase and cancellation common stock	—	—
Debt Issuance and Other Costs	—	(3)
Net cash provided by financing activities	2,037	2,129
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45	151
CASH AND CASH EQUIVALENTS — Beginning of period	141	43
CASH AND CASH EQUIVALENTS — End of period	$ 186	$ 194

The accompanying notes are an integral part of these condensed consolidated financial statements.

PHOENIX FOOTWEAR GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. GENERAL

Definitions

As used in this report, unless the context suggests otherwise, "Phoenix Footwear," "the Company," "its", "our," "us", and "we" means Phoenix Footwear Group, Inc. and consolidated subsidiaries, "H.S. Trask" means Phoenix Footwear II, Inc. (f/k/a H.S. Trask & Co.), "Chambers" means Belt Company (f/k/a Chambers Belt Company), "Tommy Bahama" means Phoenix Delaware Acquisition, Inc., "the FASB" means the Financial Accounting Standards Board, "SFAS" means Statement of Financial Accounting Standards, "ASC" means the "FASB Accounting Standards Codification™", "ASU" means "Accounting Standards Update" and "SEC" means the Securities and Exchange Commission.

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the requirements of Quarterly Reporting of the OTC Markets. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the Company's opinion, considered necessary to provide a fair presentation for the interim periods presented. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the footnotes thereto included within the Company's latest Annual Report for the fiscal year ended December 28, 2013, posted on the Pink OTC Markets website on March 13, 2014. The Company's Annual Report may be accessed at http://www.otcmarkets.com/stock/PXFG/financials using the Company's Ticker Symbol PXFG.

The foregoing interim results are not necessarily indicative of the results of operations for the full year ending January 3, 2015.

Accounting Period

The Company's operating and reporting period is on a 52-53 week fiscal year ending on the Saturday nearest to December 31. The Company refers to the fiscal year ended December 29, 2012 as "fiscal 2012," the fiscal year ending December 28, 2013 as "fiscal 2013," and the fiscal year ending January 3, 2015 as "fiscal 2014." The 52-week fiscal years consist of four equal quarters of 13 weeks each, and the 53-week fiscal years consist of three 13-week fiscal quarters and one 14-week fiscal quarter. The financial results for the 53-week fiscal years and 14-week fiscal quarters will not be exactly comparable to the 52-week fiscal years and 13-week fiscal quarters. Fiscal 2012, fiscal 2013, each include 52 weeks and fiscal 2014, includes 53 weeks. Accordingly, the quarters ended September 27, 2014 and September 28, 2013 each consisted of 13 weeks.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts and other receivables, accounts payable, accrued expenses, convertible debt, term note and its revolving credit facility. The carrying amount of cash, cash equivalents, accounts receivable, other receivables, accounts payable and accrued liabilities approximates fair value due to the relatively short maturity of such instruments. The carrying amount of the Company's note payable outstanding under the revolving credit facility approximates its fair value based upon current rates and terms available to the Company for similar debt.

2. LIQUIDITY & CAPITAL RESOURSES

Cash and cash equivalents at September 27, 2014 increased to $186,000 compared to $141,000 at December 28, 2013. The cash and cash equivalents balance fluctuates throughout the year due in part to the seasonal change in working capital requirements. Cash outflows supporting inventory purchasing, selling activities and distribution typically increase from December to February, and again, between June and August each year. During fiscal 2013, the Company completed the sale and leaseback of its warehouse and distribution facility and the refinancing of equipment located in Old Town, Maine in order to provide additional liquidity to support the Company's strategic goals. The Company also has a revolving credit facility with AloStar Bank of Commerce, an Alabama bank ("AloStar"), which currently provides it with up to $7.0 million in borrowing capacity, maturing on July 30, 2015.

Financial Authority of Maine Term Loan

As described in Note 5, "Debt", on November 11, 2013, the Company entered into an Economic Recovery Loan Agreement (the "Equipment Loan") with the Finance Authority of Maine ("FAME") for a five year term loan, collateralized by all machinery, equipment, furniture, furnishings, fixtures, tools and leasehold improvements located at the Company's Old Town, Maine warehouse and distribution center. The Equipment Loan, consisting of a secured five year term loan in the principal amount of $200,000, bears interest at a fixed per annum rate of 6.0%.

Sale-Leaseback

Also described in Note 5, "Debt", on July 1, 2013, the Company completed the sale and contemporaneous leaseback of the land and warehouse (the "Property") located in Old Town, Maine owned by Penobscot Shoe Company, a wholly-owned subsidiary of the Company ("Penobscot"), to Old Town Partners, LLC (the "Buyer"), pursuant to the terms of a purchase and sale agreement (the "PSA"). Under the PSA, the Company sold the Property to the Buyer for $620,000. Concurrently with the sale, the Company entered into a 10 year commercial lease of the Property with the Buyer. The proceeds of the transaction were used to pay off the balance of its $250,000 term loan with AloStar, and pay down its $700,000 subordinated term note with Gibraltar Business Capital, LLC ("Gibraltar"), and its $7.0 million revolving credit facility with AloStar.

Revolving Credit Facility and Issuance Subordinated Debt

Also described in Note 5, "Debt", on July 30, 2012, the Company entered into a three year $7.25 million Loan and Security Agreement with AloStar, a $700,000 three year subordinated term note with Gibraltar, and issued $350,000 subordinated secured 1% convertible note to MGPLA LP ("MGPLA"), thereby terminating its prior Loan Agreement with its prior lenders. The Loan Agreement (defined below in Note 6) and the Subordinated Loan Agreement (defined below in Note 6) include various financial and other covenants with which the Company has to comply in order to maintain borrowing availability and avoid penalties including maintaining required minimum EBITDA amounts.

In the absence of a decline in sales levels, the Company believes that cash flows from operations, the borrowing capacity of its revolving credit facility, and its access to capital will be sufficient to meet the ongoing needs of its business, anticipated growth, flow of inventory, investment requirements and working capital needs for the next twelve months. Additional future financing may be necessary and there can be no assurance that, if needed, the Company will be able to secure additional debt or equity financing with terms acceptable to it or even at all.

3. DISCONTINUED OPERATIONS

Chambers

On July 9, 2009, the Company sold to Tandy Brands Accessories, Inc. ("Tandy") substantially all of the assets used in the operation of Chambers' private label and Wrangler brand businesses. In partial payment of the purchase price due for the purchased assets, Tandy paid to the Company, approximately $3.5 million in immediately available funds at closing. As additional purchase price consideration, during the first 12 months after the closing, Tandy was obligated to pay the

Company on a monthly basis 21.5% of the net revenue that Tandy recognized from sales of private label products previously sold by Chambers, Chambers trademark branded products and Wrangler branded products to the mass merchandise market ("earn-out"), less $430,000 of prepaid earn-out received at closing.

As of the end of fiscal 2010, the Company had recorded $5.4 million of earn-out revenue, which included all of the twelve month earn-out period reported to the Company by Tandy. As of December 31, 2011, $75,000 was included in other current assets and $181,000 in other current accrued liabilities of continuing operations associated with the divestiture of the Chambers business. The reported earn-out was subject to audit by the Company which was finalized in the fourth quarter of fiscal 2010 and based on the results of the audit, the Company believed it had additional earn-out revenue.

On February 14, 2011, the Company filed suit against Tandy in Superior court of the State of Delaware in Newcastle County, seeking recovery of $524,257, representing an underpayment of the earn-out due under the purchase agreement between Chambers and Tandy, based on the results of the audit the Company performed during the fourth quarter of fiscal 2010.

On January 17, 2014 (the "Effective Date"), Chambers and Tandy entered into the Compromise Settlement Agreement and Release. Under the terms of the settlement, each of Chambers and Tandy agreed to fully and forever release and discharge one another from and against any and all liabilities, and causes of action that either party has, had, or may have had as of the date of the settlement that are in an way related to the purchase agreement or the litigation. As part of the settlement, Tandy was required to make a payment to Chambers in the amount of $15,000.

As a result of the Settlement, the Company recognized a net gain of $121,000 recorded in "Other (income)/expense, net" from the extinguishment of $181,000 accrued liability and $60,000 of the accrued receivable due to/from Tandy, associated with the divestiture of Chambers, as of December 28, 2013.

For consolidated financial statement reporting purposes, commencing with the first quarter of fiscal 2009, the Company began reporting Chambers as discontinued operations.

Presentation of Discontinued Operations

The following table summarizes the results of the Altama Delta Corporation ("Altama") and Chambers businesses for the three and nine months ended September 27, 2014 and September 28, 2013:

	Three Months Ended		Nine Months Ended	
	September 27, 2014	September 28, 2013	September 27, 2014	September 28, 2013
			(In thousands)	
Net sales	$ —	$ —	$ —	$ —
Cost of goods sold, operating expenses and other	—	42	9	61
Net gain on sale	—	—	—	—
Earnings (loss) from discontinued operations	$ —	$ (42)	$ (9)	$ (61)

The net loss from discontinued operations for the three and nine month ended of September 27, 2014 is related to legal expense associated with the settlement of the Tandy matter.

The net loss from discontinued operations for three and nine months ended of September 28, 2013 is related to the transfer and assumption of a severance payment obligation to a former executive of Altama, assumed by the Company in connection with the sale of Altama on December 19, 2007. The severance agreement required the Company to pay an annual severance of $33,600 in twenty-six equal bi-weekly installments of $1,292 to the former Altama executive until his death at which time the severance obligation would be terminated. During the third quarter of fiscal 2013, the severance agreement terminated in accordance with its own terms.

4. COMMITMENTS AND CONTINGENCIES

On April 2, 2013, the Company entered into a three year licensing agreement with Touchstone Television Productions, LLC ("ABC Studios"), to design, market and distribute footwear for the medical community under the Grey's Anatomy brand. Under the terms of the licensing agreement, the Company is required to pay a royalty fee on net invoiced sales at the end of each quarter over the term of the agreement. The licensing agreement guarantees a minimum royalty payment of $150,000 over its three year term expiring on December 31, 2016. In connection with the licensing agreement, the Company entered into a three year joint marketing agreement with Barco Uniforms, Inc. ("Barco"), an industry leading designer, manufacturer and distributor of uniforms including medical scrubs bearing the Grey's Anatomy label. Under the terms of the joint marketing agreement, the Company has agreed to pay a commission on all sales of its footwear trademarked under the licensing agreement with ABC Studios sold by Barco's sales representatives.

The Company, from time to time, may be subject to legal proceedings and claims arising in the normal course of business.

5. DEBT

Current Accounts Receivable and Inventory Loan and Security Agreements

On July 30, 2012, the Company and Penobscot entered into a Loan and Security Agreement with AloStar for a three-year revolving credit facility and a three-year term loan, collateralized by substantially all of the assets of the Company and its subsidiaries (as amended, the "Loan Agreement"). The Loan Agreement provides for up to $7.25 million in borrowing capacity consisting of a secured first lien revolving credit facility of up to $7.0 million (subject to a borrowing base as defined in the Loan Agreement) with a three-year maturity (the "Revolving Credit Facility") and a secured first lien term loan of $250,000 with a three-year maturity (the "AloStar Term Loan").

Concurrently with the execution of the Loan Agreement, and as a condition thereof, the Company also entered into that certain Subordinated Loan Agreement (as amended, the "Subordinated Loan Agreement") with Gibraltar for a three-year $700,000 term loan collateralized by substantially all of the assets of the Company and its subsidiaries. The Subordinated Loan Agreement provides for up to $700,000 in borrowing capacity consisting of a secured term loan of $700,000, with a maturity of three years and ninety days (the "Gibraltar Term Loan").

As an additional condition to the financing, the Company also concurrently completed the sale of $350,000 of a subordinated secured 1% convertible note (the "2012 Note") to MGPLA, an affiliate of the Greenwood Purchasers (defined below). The 2012 Note is initially convertible into 1,521,739 shares of the Company's common stock. The sale was made pursuant to a Securities Purchase Agreement dated July 30, 2012 between the Company and the MGPLA ("2012 Purchase Agreement").

In connection with the issuance of the 2012 Note, the Company also amended and restated certain agreements previously executed and delivered in connection with its sale of the $1.0 million of subordinated secured 1% convertible notes (the "2011 Notes" and collectively with the 2012 Note, the "Notes") to Greenwood Investors LP and Greenwood Capital LP (individually, and as the survivor by merger of Greenwood Investors LP with and into Greenwood Capital LP, "Capital" or "Greenwood Capital", and collectively, the "Greenwood Purchasers") and further, amended the terms of the 2011 Notes to extend the respective maturity dates thereof from July 30, 2014, to October 30, 2015, and provide for the increase in the applicable interest rate pursuant to the terms of the Loan Agreement commencing July 30, 2014, on terms consistent with the 2012 Note. As a result of the issuance of the 2012 Note, the conversion rate of the 2011 Notes was automatically adjusted from $0.334 per share to $0.23 per share.

Proceeds from the borrowings made on July 30, 2012, were used to pay in full the outstanding balances of $3.72 million, including $115,000 of prepayment penalties, owed to the Company's prior lenders, Gibraltar and Westran Industrial Loan Co., LLC ("Westran", collectively "Prior Lenders"). As a result, all commitments under the Company's then existing

Loan and Security Agreement (the "Prior Loan Agreement") between Gibraltar and Westran, and the related $3,250,000 revolving credit note with Gibraltar, $1,000,000 revolving credit note with Westran, $1,000,000 term loan note with Westran, $500,000 term loan note with Gibraltar, Intellectual Property Security Agreement, and Pledge Agreement each dated November 3, 2010, were terminated, all borrowings thereunder were repaid, and all liens thereunder were released, in each case effective July 30, 2012.

In connection with the Loan Agreement, the Subordinated Loan Agreement, and the Notes, AloStar, Gibraltar, the Greenwood Investors and the Company entered into that certain Intercreditor and Subordination Agreement (as amended, the "Subordination Agreement"), pursuant to which Gibraltar and the Greenwood Investors agree to subordinate the Company's obligations with respect to the Subordinated Loan Agreement and the Notes to the Company's respective senior debt obligations.

AloStar Loan Agreement:

Borrowings under the Revolving Credit Facility bear interest at a rate equal to the Daily LIBOR rate, on any day, equal to the greater of (a) 1.0%, and (b) the LIBOR rate as published by the Wall Street Journal on such day for United States dollar deposits for the one month delivery of funds in amounts approximately equal to the principal amount of the loan for which such rate is being determined plus 6.50%. Borrowings under the AloStar Term Loan Facility bear interest at a rate equal to the LIBOR rate plus 7.50%. In addition, the Company will be charged a $2,000 monthly loan servicing fee. A prepayment premium will be due the lenders if the Company terminates the credit facility prior to the original three year term date. The prepayment premium is based on 3% of the outstanding credit facility for prepayments within the first year of closing, 2% of the outstanding credit facility for prepayments within the second year of closing, and 1% of the outstanding credit facility for prepayments within the third year of closing prior to the termination date.

The Loan Agreement includes various financial and other covenants with which the Company has to comply in order to maintain borrowing availability and avoid penalties, including maintaining required EBITDA amounts.

Other covenants include, but are not limited to, covenants limiting or restricting the Company's ability to incur indebtedness, incur liens, enter into mergers or consolidations, dispose of assets, make investments, pay dividends, enter into transactions with affiliates, or prepay certain indebtedness. The Loan Agreement also contains customary events of default including, but not limited to, payment defaults, covenant defaults, cross-defaults to other indebtedness, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, defects in AloStar's security interests, change in control events and material adverse change. The occurrence of an event of default will increase the interest rate by 2.0% over the rate otherwise applicable and could result in the acceleration of all obligations of the Company to AloStar with respect to indebtedness, whether under the Loan Agreement or otherwise.

In connection with the Loan Agreement, the Company also entered into the following additional agreements with AloStar on July 30, 2012: 1) a Patent Security Agreement and a Trademark Security Agreement in which it granted a continuing security interest in the Company's intellectual property, including its trademarks, goodwill, copyrights, trade secrets, and patents; 2) a Pledge Agreement under which it pledged the shares of its subsidiaries Phoenix Footwear II, Inc., Belt Company, Phoenix Delaware Acquisition, Inc. Penobscot and PXG Canada, Inc., as collateral for the loans; and 3) a Deposit Account Control Agreement with Pacific Western Bank, with respect to the security interest granted AloStar in the Company's deposit account with Pacific Western Bank.

Gibraltar Subordinated Loan Agreement:

Borrowings under Gibraltar's Term Loan Facility bear interest at a rate equal to the prime rate, with a floor of 3.25%, plus 14.75%. Interest only payments were due monthly until July 1, 2013, at which point monthly interest payments continued while the principal balance is paid in quarterly installments of $30,000, with a balloon payment due at maturity. A prepayment premium of $28,000 will be due to the lenders if the Company terminates the credit facility prior to the original three year term date.

The Subordinated Loan Agreement includes various financial and other covenants with which the Company has to comply in order to maintain borrowing availability and avoid penalties, including maintaining required EBITDA amounts.

Other covenants include, but are not limited to, covenants limiting or restricting the Company's ability to incur indebtedness, incur liens, enter into mergers or consolidations, dispose of assets, make investments, pay dividends, enter into transactions with affiliates, or prepay certain indebtedness. The Subordinated Loan Agreement also contains customary events of default including, but not limited to, payment defaults, covenant defaults, cross-defaults to other indebtedness, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, defects in Gibraltar's security interests, change in control events and material adverse change. The occurrence of an event of default will increase the interest rate by 4.0% over the rate otherwise applicable and could result in the acceleration of all obligations of the Company to Gibraltar with respect to indebtedness, whether under the Subordinated Loan Agreement or otherwise.

In connection with the Subordinated Loan Agreement, the Company also entered into the following additional agreements with Gibraltar on July 30, 2012, in each case subject to the terms of the Subordination Agreement: 1) an Intellectual Property Security Agreement in which it granted a continuing security interest in the Company's intellectual property, including its trademarks, goodwill, copyrights, trade secrets, and patents; and 2) a Pledge Agreement under which it pledged the shares of its subsidiaries Phoenix Footwear II, Inc., Belt Company, Phoenix Delaware Acquisition, Inc. Penobscot and PXG Canada, Inc., as collateral for the loans.

2012 Purchase Agreement:

Convertible Note. The 2012 Note is due October 30, 2015, and bears interest at the initial rate of 1.0% per year. The interest is payable in cash semi-annually in arrears on October 31 and April 30 of each year, commencing October 31, 2012, and the rate increases to the applicable interest rate under the Loan Agreement commencing July 30, 2014. No prepayment may be made by the Company without MGPLA's consent. MGPLA may convert all or part of the 2012 Note into common stock of the Company at a conversion price equal to $0.23 until the maturity date. The initial conversion price is subject to adjustment in the event of certain corporate transactions, including but not limited to, certain issuances of common stock at a price below the conversion price of the 2012 Note. The 2012 Note also provides for mandatory conversion into common stock in the event certain market conditions are met for the trading of the Company's stock, including a trading price of at least $1.00 per share on each trading day during any period of 90 consecutive days ending within 10 days prior to the date of determination, or in the event a change of control results from a sale of the Company in a merger, stock or asset sale for a cash price of at least $5.00 per share.

The 2012 Note contains customary events of default including, but not limited to, payment defaults, failure to deliver shares on conversion, cross-defaults to other agreements in the transaction, cross-defaults to other indebtedness of $50,000 or more in the aggregate, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, defects in the security interests, unresolved judgments of $50,000 or more in excess of insurance coverage and change in control events. The occurrence of an event of default will increase the interest rate to 13.0% and could result in the acceleration of all obligations of the Company to MGPLA with respect to indebtedness.

In addition to the sale of the 2012 Note, the 2012 Purchase Agreement also required that the parties amend and restate the following additional agreements, subject to the Subordination Agreement, to include the MGPLA as a party:

Security Agreement, IP Security Agreement, Pledge Agreement. The obligation under the Notes is secured by a pledge of substantially all of the Company's assets, including its intellectual property assets and the stock of its wholly-owned subsidiary, Penobscot. The security interest is provided under the Security Agreement, Intellectual Property Security Agreement and Pledge Agreement between the Company, the Greenwood Investors and Greenwood Investments, Inc., as agent for the Greenwood Investors, each dated July 30, 2012.

Subordination Agreement. The security interest of the Greenwood Investors is subordinated to the rights of AloStar and Gibraltar under their respective $7.25 million credit facility and $700,000 term note, pursuant to the terms and conditions of the Subordination Agreement.

Investors Agreement.

Registration Rights. Under the Investors Agreement between the Company, the Greenwood Investors, James Riedman, and Riedman Corporation dated July 30, 2012, the Greenwood Investors received registration rights under which they may make a demand for registration of the shares underlying the Notes and other shares held by the Greenwood Investors and their affiliates. The demand may not be made until after the earlier of 3 years after July 21, 2011, or 180 days after the effective date of an initial public offering registration statement. The Company must thereafter file a registration statement within 60 days of a demand. The Greenwood Investors are limited to two demands for a Registration Statement on Form S-1. If the Company is eligible to use Form S-3, it must file a registration statement within 45 days of a demand and there is no limit on the number of such demands. The Greenwood Investors also obtained unlimited piggyback registration rights. Each of the categories of registration rights are subject to an underwriter's cutback. The agreement also obligates the Company make current information available to the public to meet the requirements of Rule 144.

Matters Requiring Investor Approval. Under the Investors Agreement, the Company may not take certain actions without the approval of Greenwood Investments, Inc., including but not limited to: increase or decrease its authorized capital stock, or authorize new classes or series of capital stock or securities convertible into common stock; amend its certificate of incorporation or by-laws; enter into a merger or sell all or substantially all of the properties or assets of the Company and its subsidiaries; dissolve; declare or pay any dividend; issue or obligate itself to issue any security, other than shares of common stock, except upon certain outstanding obligations; redeem any shares; increase or decrease the authorized size of the Board of Directors, except as expressly contemplated by the Voting Agreement; acquire all or any portion of any business or product line; enter into any material joint ventures, strategic alliances, or major partnerships; incur of any indebtedness outside the ordinary course of business other than under the agreements executed concurrently therewith; hire, terminate, or increase the compensation of James R. Riedman and any other person holding the position of chief executive of the Company; approve or authorize any transaction or series of related transactions outside the ordinary course of business involving $250,000 or more.

Matters Requiring Board Approval. Under the Investors Agreement, management may not take the following actions without approval of the board of directors, including but not limited to: materially modify any existing loans; approve or authorize any material modification to or material deviation from the Company's budget; increase the compensation of any director; approve the settlement by the Company of any material litigation or other proceedings relating to the Company; pay any capital expenditures in excess of $100,000 during any 12-month period other than a specific identifiable line item previously approved in the budget.

Standstill. Under the Investors Agreement, the Greenwood Investors and James R. Riedman and Riedman Corporation (the "Riedman Shareholders") each agreed to a standstill whereby they will not acquire any common stock or other securities of the Company in an open-market transaction unless approved in advance to do so by the Company's board of directors, and (i) in the case of the Riedman Shareholders, unless approved by Greenwood Investments, Inc. ("General Partner"), or (ii) in the case of the Greenwood Investors or any of their affiliates, by a director not appointed by or affiliated in any way with the Investors). The Riedman Shareholders are parties to the Investors Agreement solely for purposes of this standstill provision.

Participation Rights. The Greenwood Investors also obtained participation rights so that they shall be entitled to a right to purchase, on a pro rata basis, all or any part of any new securities issued by the Company, with certain exceptions for preexisting obligations by the Company to issue other securities.

Voting Agreement. The Company, the Greenwood Investors and the Riedman Shareholders also amended and restated that certain Voting Agreement dated July 21, 2011, as part of the transaction. The Riedman Shareholders agreed to elect one designee of the Investors as a member of the board of directors. The Investors agreed to elect one designee of the Riedman Shareholders to the Board. The parties also agreed to vote as necessary to ensure that the size of the board of directors shall be set and remain at four directors until the directors are next elected by stockholders, or at such earlier time as may be requested by the Greenwood Investors upon their written request, on which date the size of the board shall be reduced and set and remain at three directors.

Convertible Subordinated Secured Notes

On July 21, 2011, the Company completed the sale of the 2011 Notes to the Greenwood Purchasers. Capital is an affiliate of and managed by General Partner, its sole general partner. Steven Tannenbaum is the President of General Partner (the Greenwood Investors, General Partner and Mr. Tannenbaum are referred to collectedly herein as the "Greenwood Parties"). The 2011 Notes were initially convertible into 2,994,011 shares of the Company's common stock. The 2011 Notes are due October 30, 2015, and bear interest at the rate of 1.0% per annum. The interest is payable in cash semiannually in arrears on October 31, and April 30 of each year, commencing October 31, 2011. No prepayment may be made by the Company without Greenwood Purchasers' consent. Capital may convert all or part of the 2011 Notes into common stock of the Company until the maturity date. As a result of the Company's issuance of the 2012 Note, the conversion price of the 2011 Notes was reduced to $0.23, at which price the 2011 Notes are convertible into 4,347,826 shares of the Company's common stock. The conversion price remains subject to adjustment in the event of certain corporate transactions, including but not limited to, certain issuances of common stock at a price below the conversion price of the 2011 Notes. The 2011 Notes also provide for mandatory conversion into common stock in the event certain market conditions are met for the trading of the Company's stock, including a trading price of at least $1.00 per share on each trading day during any period of 90 consecutive days ended within 10 days prior to determination, or in the event a change in control results from the sale of the Company in a merger, stock or asset sale for a cash price of at least $5.00 per share.

The 2011 Notes contain customary events of default including, but not limited to, payment defaults, failure to deliver shares on conversion, cross-defaults to other agreements in the transaction, cross defaults to other indebtedness of $50,000 or more in the aggregate, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, and other occurrences including change in control. The occurrence of an event of default will increase the interest rate to 13.0% and could result in the acceleration of all obligations of the Company to Capital with respect to the 2011 Notes.

As a result of the Company's violation of the minimum EBITDA covenant of its prior loan agreement with its prior lenders, the Company was also in technical default of the 2011 Notes. On April 27, 2012, the Company obtained a waiver from the Greenwood Purchasers for the technical default of the 2011 Notes as of December 31, 2011, resulting from the violation of the minimum EBITDA covenant of its prior loan agreement.

The obligation under the 2011 Notes is secured by a pledge of substantially all of the Company's assets, including its intellectual property and stock of its Penobscot. The security is provided under the Security Agreement, Intellectual Property Security Agreement and Pledge Agreement between the Company, the Greenwood Investors and Greenwood Investments, Inc., as agent for the Greenwood Investors, each of which were amended and restated as discussed herein.

As required under the terms of the transaction, the Board of Directors approved the Amended and Restated By-Laws of the Company to i) eliminate the restriction on stockholders ability to act by written consent in lieu of a meeting with less than unanimous consent; ii) permit holders of at least 15% of the outstanding stock eligible to vote at a meeting to call a special meeting of stockholders; and iii) to incorporate the reduction of the size of the board from 7 to 4. In addition, the Company entered into (1) an Amendment of the Employment Agreement with James Riedman, the Company's Chief Executive Officer to eliminate its automatic renewal so it will terminate by its terms on December 31, 2012, and to provide that no severance will be paid if the agreement expires by virtue of it reaching the end of its term, and (2) an indemnification agreement with Stephanie Pianka, as a director of the Company.

Other agreements entered into in connection with the transaction with the Greenwood Purchasers, which have each been subsequently replaced or amended and restated as set forth above, included: (1) a Subordination and Intercreditor Agreement, subordinating the security interest of the Greenwood Purchasers to the rights of the Prior Lenders, together with a related Waiver and Consent provided by the Prior Lenders to the Company with respect to certain provisions under its credit facility and related loan agreements, to permit the issuance of the 2011 Notes to the Greenwood Purchasers; (2) the Investors Agreement; and (3) the Voting Agreement.

Capital Lease Obligation

On July 1, 2013, the Company completed the sale and contemporaneous leaseback of the Property to the Buyer, pursuant to the terms of the PSA. Under the PSA, the Company sold the Property to the Buyer for $620,000. Concurrently with the sale, the Company entered into a 10 year commercial lease of the Property with the Buyer. In addition, the Loan Agreement and the Subordinated Loan Agreement were amended to permit the consummation of the transactions completed by the PSA. The proceeds of the transaction were used to pay off the balance of its $250,000 term loan with AloStar, and pay down its $700,000 subordinated term note with Gibraltar, and its $7.0 million revolving credit facility with AloStar.

The sale and leaseback transaction of the Property was classified as a capital lease as the present value of the minimum future lease payments using the Company's incremental borrowing rate, exceeded the selling price of the Property. As a result, the Company recorded a capital leased asset and corresponding capital leased obligation at a fair value of $620,000, equal to the selling price of the Property. The $224,000 gain on the sale of the Property was deferred and will be recognized in proportion to depreciation of the capital leased asset over the ten year initial term of the lease. Payments under the lease agreement reduce the lease obligation, and the imputed interest is recorded to interest expense in the Company's consolidated statements of operations.

Financial Authority of Maine Term Loan

On November 11, 2013, the Company entered into an Equipment Loan with FAME, for a five year term loan, collateralized by all machinery, equipment, furniture, furnishings, fixtures, tools and leasehold improvements located at the Company's Old Town, Maine warehouse and distribution center. The Equipment Loan, consisting of a secured five year term loan in the principal amount of $200,000, bears interest at a fixed per annum rate of 6.0%. Payments of principal and interest in the amount of $3,867 commencing one month from the date entered into and continuing on the same day of each month thereafter (except for any month not containing such a day, in which case it shall be due the last day of that month) until November 11, 2018 (the "Maturity Date"), when, unless sooner paid, the remaining principal and accrued and unpaid interest shall be due and payable in full. The Loan Agreement and the Subordinated Loan Agreement were amended in connection with the Equipment Loan to permit the transactions contemplated thereunder. In addition, AloStar, Gibraltar, and the Greenwood Parties entered into a separate subordination letter agreement with FAME to permit the repayment of the Equipment Loan and the use of certain equipment as collateral.

As of September 27, 2014 and December 28, 2013, debt consisted of the following:

	September 27, 2014	December 28, 2013
	(In thousands)	
Term loan facility with Financial Authority of Maine; secured by the Company's personal property in the Maine warehouse and distribution center; interest payable monthly at a rate of 6% annum…….....	$ 171	$ 197
Revolving line of credit with AloStar Bank of Commerce; secured by all of the Company's personal property; interest payable monthly and bears a rate equal to the greater of 1% or the Daily LIBOR rate plus 6.50% per annum (stated rate of 7.50% at December 28, 2013)	6,343	4,169
Subordinated term loan facility with Gibraltar Business Capital; secured by all of the Company's personal property; interest payable monthly and bears a stated rate of prime, with a floor of 3.25%, plus 14.75% per annum (stated rated of 18.0% at December 28, 2013).....	520	610
Subordinated secured 1% convertible notes with Greenwood Capital LP; secured by all of the Company's personal property; interest payable semi-annually on October 31st and April 30th at a rate of 1% per annum until July 29, 2014, after which the rate will increase to the applicable interest rate under the AloStar Loan Agreement.	1,000	1,000
Subordinated secured 1% convertible note with MGPLA LP; secured by all of the Company's personal property; interest payable semi-annually on October 31st and April 30th at a rate of 1% per annum until July 30, 2014, after which the rate will increase to the applicable interest rate under the AloStar Loan Agreement.	350	350
Capitalized leased obligation: 10 year capital lease with Old Town Partners, LLC terminating on June 30, 2023. Lease payments are allocated to the reduction of the capital lease obligation and the interest expense with an imputed per annum rate of 9.5%.	587	608
	$ 8,971	$ 6,934

The Loan Agreement and the Subordinated Loan Agreement include various financial and other covenants, with which the Company has to comply in order to maintain borrowing availability and avoid penalties including maintaining required minimum EBITDA amounts. As of September 27, 2014, the Company's rolling 12 month EBITDA of $1,186,653 was in compliance with the minimum EBITDA covenant of the Loan Agreement and the Subordinated Loan Agreement.

On February 27, 2013 and March 4, 2013, respectively, the Company entered into the First Amendment to the Subordinated Loan Agreement with Gibraltar and the First Amendment to the Loan Agreement with AloStar, waiving the Company's non-compliance with the required minimum EBITDA covenant of those agreements as of December 29, 2012 and amending the required minimum EBITDA covenant for each of the first, second and third quarters for fiscal 2013.

As of September 27, 2014, the Company had $657,000 in available borrowing capacity under the Revolving Credit Facility.

During fiscal 2013, the Company incurred $26,000 in prepaid debt costs associated with the 5 year term loan agreement with the FAME. During fiscal 2012, the Company incurred $387,355 in prepaid debt issuance costs in connection with the AloStar Loan Agreement. The prepaid debt issuance cost includes legal, appraisal and other loan document fees in addition to a closing fee of $75,000.

6. STOCK-BASED COMPENSATION

On July 1, 2011, the Board of Directors adopted and approved the 2011 Long-Term Incentive Plan of Phoenix Footwear Group, Inc. (the "2011 Plan"), subject to stockholder approval which was obtained on June 29, 2012 to renew the Amended and Restated 2001 Long Term Incentive Plan of the Company which had expired by its terms. Under the 2011 Plan, the Company may grant stock options, stock appreciation rights, stock awards and other awards from time to time to key employees, officers, directors, advisors and independent consultants to the Company or to any of its subsidiaries. Shares available for future option and restricted stock grants totaled 1.02 million as of September 27, 2014.

At September 27, 2014, outstanding stock-based awards consisted of the following:

	Vested	Unvested
	(In thousands)	
Service-based stock options	560	480
Service-based restricted stock rights	—	60
Performance-based restricted stock rights	—	—
Total outstanding stock-based awards	560	540

Total stock-based compensation expense recognized for the nine months ended September 27, 2014 and September 28, 2013 was as follows:

	Nine Months Ended	
	Sept 27, 2014	Sept 28, 2013
	(In thousands)	
Selling, general and administrative	$ 47	$ 44
Pre-tax stock-based compensation expense	47	44
Income tax benefit	—	—
Total stock-based compensation expense	$ 47	$ 44

Options

In general, options become exercisable over either a two- or three-year period from the grant date and expire 10 years after the date of grant. The fair value of each option award is estimated on the date of the grant using the Black-Scholes-Merton option pricing model. Expected volatilities are based on historical volatility of our stock price and implied. The Company use historical data to estimate an option's expected life; the expected life for grants to senior management-level employees and other employees are considered separately for valuation purposes. The risk-free interest rate input is based on the U.S. Treasury yield curve in effect at the time of the grant. Compensation cost, net of projected forfeitures, is recognized on a straight-line basis over the period between the grant and vesting dates, with compensation cost for grants with a graded vesting schedule recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards.

Options outstanding and exercisable under these arrangements totaled 560,000 and 93,000 as of September 27, 2014 and September 28, 2013, respectively.

Restricted Stock Rights

In general, service-based stock rights vest over a two-year period from the grant date. Performance-based stock rights cliff vest based on specifically defined performance criteria consisting primarily of revenue, income and shareholder value targets and expire generally within a three to five-year period if the performance or service criteria have not been met. The Company deems stock rights to be equivalent to a stock option for the purpose of calculating dilutive shares.

Compensation cost for restricted stock rights is measured as the excess, if any, of the quoted market price of the Company's stock at the grant date over the amount the holder must pay to acquire the stock (which is generally zero). Compensation cost, net of projected forfeitures, is recognized over the period between the issue date and the date any restrictions lapse, with compensation cost for grants with a graded vesting schedule (service-based) recognized on a straight-line basis over the requisite service period for the total award. In any event, compensation expense is not recognized, if at all, until vesting is considered probable.

The recognition of compensation expense associated with performance-based grants requires judgment in assessing the probability of meeting the performance milestones. This may result in significant expense recognition in the period in which the performance goals are met or when achievement of the goals is deemed probable. As of September 27, 2014 and September 28, 2013 there were 60,000 and 60,000, performance-based stock grants to non-employee directors outstanding, respectively.

As of September 27, 2014, the total compensation cost related to unvested stock-based awards granted to executives and non-employee directors but not yet recognized was $93,000.

In addition to the stock options and performance based grants outstanding under the 2011 Plan, the Company granted options to two major stockholders in consideration for debt and debt guarantees. Options outstanding and exercisable under these arrangements totaled 50,000 and 50,000 as of September 27, 2014 and September 28, 2013, respectively.

7. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10, Income Taxes, which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. As of September 27, 2014 and December 28, 2013, the Company had a full valuation allowance on its deferred tax assets.

8. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Dilutive earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued in periods in which they have a dilutive effect. Potentially dilutive securities include outstanding stock options, unvested restricted stock rights and convertible debt. The dilutive securities are reflected in diluted earnings per common share by application of the treasury stock method and for convertible debt by application of the if-converted method.

Under the treasury stock and if-converted methods, share based awards and convertible debt is assumed to have been exercised and converted at the beginning of the period (or at time of issuance, if later), and the resulting common shares are included in the denominator. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

The following table shows the computation of basic and diluted earnings per common share for the three and nine months ended September 27, 2014 and September 28, 2013 (in thousands, except per share amounts):

	Three Months Ended	
	Sept 27, 2014	**Sept 28, 2013**
	(In thousands, except per share data)	
Earnings per share from continuing operations, basic and diluted:		
Earnings from continuing operations	$ 548	$ 362
1% Subordinated convertible notes interest	16	3
Earnings adjusted for assumed conversion	$ 564	$ 365
Basic: Weighted average common shares outstanding	8,358	8,298
Diluted: Weighted average common shares outstanding	14,717	14,168
Earnings per share from continuing operations, basic	$ 0.07	$ 0.04
diluted	$ 0.04	$ 0.03
Loss per share from discontinued operations, basic and diluted:		
Loss from discontinued operations	$ —	$ (42)
Basic: Weighted average common shares outstanding	8,358	8,298
Diluted: Weighted average common shares outstanding	8,358	8,298
Loss per share from discontinued, basic	$ —	$ —
diluted	$ —	$ —

	Nine Months Ended	
	Sept 27, 2014	**Sept 28, 2013**
	(In thousands, except per share data)	
Earnings per share from continuing operations, basic and diluted:		
Earnings from continuing operations	$ 335	$ 272
1% Subordinated convertible notes interest	23	8
Earnings adjusted for assumed conversion	$ 367	$ 280
Basic: Weighted average common shares outstanding	8,332	8,278
Diluted: Weighted average common shares outstanding	14,691	14,148
Earnings per share from continuing operations, basic	$ 0.04	$ 0.03
diluted	$ 0.02	$ 0.02
Loss per share from discontinued operations, basic and diluted:		
Loss from discontinued operations	$ (9)	$ (61)
Basic: Weighted average common shares outstanding	8,332	8,278
Diluted: Weighted average common shares outstanding	8,332	8,278
Loss per share from discontinued, basic	$ —	$ —
diluted	$ —	$ —

Options outstanding to purchase 130,000 and 1,180,000 shares of common stock were excluded from the computation of diluted earnings per share for the reporting periods ending September 27, 2014 and September 28, 2013, respectively, because the exercise price of these options exceeded the average market price of the Company's common stock for the three and nine month periods.

EXHIBIT B

Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the interim unaudited condensed consolidated financial statements of this report, and Management's Discussion and Analysis of Financial Condition and Results of Operations, the historical consolidated financial statements and the related notes and the other financial information included in the Company's Annual Report posted on the Pink OTC Markets website for the fiscal years ended December 28, 2013 and December 30, 2012. This discussion contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth under "Cautionary Statement Concerning Forward-Looking Statements" below.

The Company's operating and reporting period is on a 52-53 week fiscal year ending on the Saturday nearest to December 31. The Company refers to the fiscal year ended December 29, 2012 as "fiscal 2012," the fiscal year ending December 28, 2013 as "fiscal 2013," and the fiscal year ending January 3, 2015 as "fiscal 2014." The 52-week fiscal years consist of four equal quarters of 13 weeks each, and the 53-week fiscal years consist of three 13-week fiscal quarters and one 14-week fiscal quarter. The financial results for the 53-week fiscal years and 14-week fiscal quarters will not be exactly comparable to the 52-week fiscal years and 13-week fiscal quarters. Fiscal 2012, fiscal 2013 each include 52 weeks and fiscal 2014, includes 53 weeks.

The following discussion provides information and analysis of the Company's results of operations for the 39- week period ended September 27, 2014 (hereinafter referred to as "the first half of fiscal 2014" and the 13-week period ended September 28, 2013 (hereinafter referred to as "the first half of fiscal 2013") and its liquidity and capital resources. The following discussion and analysis should be read in conjunction with the Company's Condensed Consolidated Financial Statements included herein as Exhibit A of this Quarterly Report for period ended September 27, 2014.

Fiscal 2014 Financial Overview

Continuing Operations. Net sales from continuing operations for the first nine months of fiscal 2014 were $16.3 million, an increase of $1.5 million or 10.4%, compared to net sales of $14.8 million in the first nine months of fiscal 2013. Net income from continuing operations was $353,000 an increase of $81,000, or 29.8%, compared to net income from continuing operations of $272,000 for the first nine months of fiscal 2013.

The Company's working capital as of September 27, 2014 and December 28, 2013 was $3.8 million and $3.5 million, respectively.

Discontinued Operations. The net loss from discontinued operations in the first nine months of fiscal 2014 was $9,000 as compared to net income of $61,000 in the first nine months of fiscal 2013. The net loss from discontinued operations for the first nine months of fiscal 2013 includes legal fees associated with the Company's suit filed against Tandy on February 14, 2011 and the transfer and assumption of a severance payment obligation to a former executive of Altama Delta Corporation ("Altama"), assumed by the Company in connection with the sale of Altama on December 19, 2007. The Severance Agreement required the Company to pay an annual severance of $33,600 in twenty-six equal bi-weekly installments of $1,292 to the former Altama executive until his death at which time the severance obligation terminates. During the third quarter of fiscal 2013, the severance agreement terminated in accordance with its own terms.

As of September 27, 2014 and December 28, 2013, there were no current assets or liabilities from discontinued operations.

Net Earnings/Loss Per Share. Net income per share from continuing operations for the first nine months of fiscal 2014 and fiscal 2013 was $0.04 and $0.03, respectively.

Results of Operations

Comparison of the Three Months Ended September 27, 2014 to the Three Months Ended September 28, 2013

The following table sets forth selected consolidated operating results stated in dollars and as a percentage of net sales:

	Three Months Ended					
	September 27, 2014		September 28, 2013		Increase (Decrease)	
	(In thousands)					
Net sales	$ 6,357	100%	$ 5,563	100%	$ 794	14%
Cost of goods sold	3,922	62%	3,379	61%	543	16%
Gross profit	2,435	38%	2,184	39%	251	11%
Operating expenses:						
Selling, general and administrative	1,688	27%	1,610	29%	78	5%
Total operating expenses	1,688	27%	1,610	29%	78	5%
Operating earnings	747	12%	574	10%	173	30%
Interest expense, net	199	3%	212	4%	(13)	(6)%
Earnings before income taxes and discontinued operations	548	9%	362	7%	186	51%
Income tax expense (benefit)	—	— %	—	— %	—	—%
Earnings from continuing operations	548	9%	362	7%	186	51%
Earnings (loss) from discontinued operations	—	0%	(42)	(1)%	42	100%
Net earnings	$ 548	9%	$ 320	6%	$ 228	71%

* Greater than 100%

Net Sales

Net sales from continuing operations for the third quarter of fiscal 2014 increased $794,000 or 14.3%, to $6.4 compared to $5.6 million in the third quarter of fiscal 2013. The increase in net sales for the period was primarily driven by the timely fulfillment of new product introductions designed to appeal to the broader customer demographic of the Company's internet based accounts, national retailers, and sales of licensed footwear.

Gross Profit

Gross profit from continuing operations, for the third quarter of fiscal 2014, increased $251,000 or 11.5% to $2.4 million from $2.2 million when compared to the third quarter of fiscal 2013. Gross profit as a percentage of net sales decreased to 38.3% during the third quarter of fiscal 2014 from 39.3% for the comparable period of fiscal 2013.

The 100 basis point decline in gross profit as a percentage of net sales for the period was primarily attributable to the sales of lower margin licensed footwear during the period.

Cost of goods sold includes all direct costs of products (net of purchase discounts and vendor allowances), allocated overhead (primarily sourcing and indirect production costs), inbound freight and merchandise acquisition costs such as import fees, as well as outbound shipping and handling. The Company's cost of goods sold may not be comparable to those of other entities, since some entities include all of the costs associated with their distribution functions in cost of goods sold while the Company includes these costs in SG&A expenses.

Operating Expenses

Selling, general and administrative expenses, or SG&A, increased $78,000, to $1.7 million during the third quarter of fiscal 2014 compared to $1.6 million for the same period of fiscal 2013. SG&A as a percentage of net sales decreased to 26.6% for the third quarter of fiscal 2014, compared to 28.9% for the same period of fiscal 2013.

The increase in SG&A during the second quarter of fiscal 2014 was primarily associated with a net increase in commissions paid of $85,000 on increased sales of 14.3% due in part to the sale of licensed footwear.

Interest Expense

Interest expense from continuing operations during the third quarter of fiscal 2014 and the comparable period of fiscal 2013 was $199,000 and $212,000, respectively.

Income (loss) from Discontinued Operations

The loss net of tax from discontinued operations for the third quarter of fiscal 2014 was $0 compared to losses from discontinued operations of $42,000 for the third quarter of fiscal 2012. The net loss from discontinued operations for the third quarter of fiscal 2013 includes legal fees associated with the Company's suit filed against Tandy on February 14, 2011, and the transfer and assumption of a severance payment obligation to a former executive of Altama assumed by the Company in connection with the sale of Altama on December 19, 2007. The Severance Agreement required the Company to pay an annual severance of $33,600 in twenty-six equal bi-weekly installments of $1,292 to the former Altama executive until his death at which time the severance obligation terminates. During the third quarter of fiscal 2013, the severance agreement terminated in accordance with its own terms.

Comparison of the Nine Months Ended September 27, 2014 to the Nine Months Ended September 28, 2013

The following table sets forth selected consolidated operating results stated in dollars and as a percentage of net sales:

	Nine Months Ended					
	September 27, 2014		September 28, 2013		Increase (Decrease)	
	(In thousands)					
Net sales	$ 16,345	100%	$ 14,800	100%	$ 1,545	10%
Cost of goods sold	10,391	64%	9,202	62%	1,189	13%
Gross profit	5,954	36%	5,598	38%	356	6%
Operating expenses:						
Selling, general and administrative	5,044	31%	4,739	32%	305	6%
Other expense, net	—	— %	—	— %	—	—%
Total operating expenses	5,044	31%	4,739	32%	305	6%
Operating Income	910	6%	859	6%	51	6%
Interest expense, net	557	3%	587	4%	(30)	(5)%
Earnings before income taxes and discontinued operations	353	2%	272	2%	81	30%
Income tax expense (benefit)	—	— %	—	— %	—	—%
Loss from continuing operations	353	2%	272	2%	81	30%
(Loss) earnings from discontinued operations	(9)	—%	(61)	—%	52	85%
Net earnings	$ 344	2%	$ 211	1%	$ 133	63%

* Greater than 100%

Net Sales

Net sales from continuing operations increased $1.5 million, 10.4%, to $16.3 million for the first nine months of fiscal 2014 compared to $14.8 million for the first nine months of fiscal 2013. The increase in net sales for the period was primarily driven by the timely fulfillment of new product introductions designed to appeal to the broader customer demographic of the Company's internet based accounts, national retailers, and sales of licensed footwear.

Gross Profit

Gross profit from continuing operations increased by $356,000 or 6.4% to $6.0 million in the first nine months of fiscal 2014 compared to $5.6 million for the same period of the prior year. Gross margin as a percentage of net sales for the first nine months of fiscal 2014was 36.4% compared to 37.8% for the first nine months of fiscal 2013.

The 140 basis point decline in the gross profit as a percentage of net sales resulted primarily from the sales of lower margin licensed footwear during the period.

Cost of goods sold includes all direct costs of products (net of purchase discounts and vendor allowances), allocated overhead (primarily sourcing and indirect production costs), inbound freight and merchandise acquisition costs such as import fees, as well as outbound shipping and handling. The Company's cost of goods sold may not be comparable to those of other entities, since some entities include all of the costs associated with their distribution functions in cost of goods sold while the Company includes these costs in SG&A expenses.

Operating Expenses

Selling, general and administrative expenses, or SG&A, increased $305,000 to $5.0 million in the first nine months of fiscal 2014 compared to $4.7 million for the same period of fiscal 2013. SG&A as a percentage of net sales decreased to 30.8% for the first nine months of fiscal 2014, compared to 32.0% for the first nine months of fiscal 2013.

The increase in SG&A for the first nine months of fiscal 2014 was primarily associated with a net increase in commissions paid of $175,000 on increased sales of 10.4% due in part to sales of licensed footwear, and the addition of personnel at the Company's warehouse and distribution center and increase in other sales support expenses.

SG&A consist primarily of the following: compensation, sales and marketing, design and development, professional fees, insurance, depreciation and other operating expenses.

Interest Expense

Interest expense from continuing operations in the first nine months of fiscal 2014 was $557,000 compared to $587,000 for the first nine months of fiscal 2013.

Income (loss) from Discontinued Operations

The loss net of tax from discontinued operations for the first nine months of fiscal 2014 was $9,000 compared to income net of tax of $61,000 from discontinued operations for the same period of fiscal 2013. The net loss from discontinued operations for the third quarter of fiscal 2013 includes legal fees associated with the Company's suit filed against Tandy on February 14, 2011, and the transfer and assumption of a severance payment obligation to a former executive of Altama assumed by the Company in connection with the sale of Altama on December 19, 2007. The Severance Agreement required the Company to pay an annual severance of $33,600 in twenty-six equal bi-weekly installments of $1,292 to the former Altama executive until his death at which time the severance obligation terminates. During the third quarter of fiscal 2013, the severance agreement terminated in accordance with its own terms.

Liquidity and Capital Resources

Historically, the Company's primary sources of liquidity have been generated from cash flows from operations, the working capital line of credit with its banks, the issuance of debt and other financing alternatives such as leasing. However, the Company has incurred losses in six of the last seven years and as a result has sold a number of its operating divisions during that time in an effort to generate additional working capital necessary to fund ongoing operations and reduce bank debt. The Company requires cash for inventory purchasing, distribution and selling activities, as well as for general working capital purposes. The Company's need for working capital is seasonal with the greatest requirements existing from December to February, and again between June and August of each year. The Company typically builds up its inventory early during each of these periods to meet customer demand for the Spring/Summer and Fall/Winter selling seasons.

Working Capital

During the first nine months of fiscal 2014 and 2013, the Company funded its operations with cash generated by operating activities, borrowings from its revolving credit facility and the sale of its warehouse and land located in Old Town, Maine. Cash is used to purchase inventory and fund operating activities. Historically, the Company has also funded its operations through vendor provided credit.

The Company's working capital varies from time to time due to the seasonal requirements of its brands (which have historically been heightened during the first and third quarters), the timing of factory shipments, the need to increase inventories and support an in-stock position in anticipation of customers' orders, and the timing of accounts receivable collections.

As of September 27, 2014 and December 28, 2013, working capital consisted of the following:

	Sept 27, 2014	December 28, 2013	Increase (Decrease)
		(In thousands)	
Current assets of continuing operations	$ 14,120	$ 11,241	$ 2,879
Current liabilities of continuing operations	10,309	7,768	2,541
Working capital	3,811	3,473	338

The primary changes in the components of working capital were to accounts receivable, inventory, accounts payable, accrued expenses and the revolving line of credit.

Accounts Receivable

As of September 27, 2014, gross accounts receivable were $5.9 million, an increase of $2.2 million and $$623,000 million or 59.6% and 11.8% from $3.7 million and $5.3 million reported as of December 28, 2013 and September 28, 2013, respectively.

Provision for Returns and Allowances for Doubtful Accounts

As of September 27, 2014, the provision for returns and allowances for doubtful accounts was $1.1 million, an increase of $87,000 or 8.5% from $1.0 as of December 28, 2013. The provision for returns and allowances for doubtful accounts as of September 27, 2014, when compared to September 28, 2013, increased $51,000 or 4.8% from $1.1 million.

The increase in the outstanding balance as of September 27, 2014 when compared the outstanding balance as of September 28, 2013 was consistent with the 14.3% increase in net sales during the third quarter of fiscal 2014 when compared to the third quarter of fiscal 2013.

Inventory

As of September 27, 2014, gross inventory was $8.9 million compared to $7.9 million as of December 28, 2013, an increase of $1.0 million due largely to an increase in demand for the Company's fall product offering and improved in-season

replenishment of non-season core and carry-over styles. Compared to gross inventories of $7.9 million as of September 28, 2013, gross inventory increased 12.9% or $1.0 million.

Accounts Payable and Accrued Expenses

As of September 27, 2014, accounts payable and accrued expense were $3.8 million, an increase of $397,000 from $3.4 million as of December 28, 2013. Compared to accounts payable and accrued expense of $3.1 million as of September 28, 2013, accounts payable and accrued expense increased 22.0% or $681,000. The increase in accounts payable and accrued expense when compared to the prior year period ended September 28, 2013 is primarily associated with an increase in amounts due to factories in China for inventory.

Revolving Credit Facility

The outstanding balance on the revolving credit facility as of September 27, 2014, was $6.3 million, an increase of $2.2 million and $400,000, respectively, when compared to $4.2 million as of December 28, 2013 and $5.9 million as of September 28, 2013. The increase in borrowings on the revolving credit facility as of September 27, 2014, is positively correlated to the increase in inventory and amounts paid to third party manufactures located in China and increase in other accounts payable and accrued expenses associated with inventory purchasing when compared to September 28, 2013.

Economic Outlook

The current economic recovery has been beleaguered by a historically lower than normal labor participation rate and persistently higher than normal unemployment that has contributed to the lowering of the consumer's confidence. While improving, any uncertainty about the current or future economic conditions may cause consumers and retailers to defer purchases or cancel purchase orders for the Company's products in response to tighter credit, decreased cash availability and weakened consumer confidence.

Beginning in fiscal 2009, the Company began restructuring its business operations in response to the changing economic environment in an effort to return to profitability and generate positive cash flow from its business operations. More recently, the Company completed the sale and leaseback of its warehouse and distribution facility, and the refinancing of equipment located in Old Town, Maine in order to provide additional liquidity to support the Company's strategic goals. The Company also has a revolving credit facility with AloStar which currently provides it with up to $7.0 million in borrowing capacity, maturing on July 30, 2015.

On July 30, 2012, the Company entered into the AloStar Loan Agreement, which provides for up to $7.25 million in borrowing capacity consisting of a secured first lien revolving credit facility of up to $7.0 million and a secured first lien term loan of $250,000. Concurrently with the execution of the AloStar Loan Agreement, and as a condition thereof, the Company also entered into the Gibraltar Subordinated Loan Agreement, for a three-year $700,000 term loan collateralized by substantially all of the assets of the Company and its subsidiaries. As an additional condition to the financing, the Company also concurrently completed the sale of the 2012 Note to MGPLA. In connection with the issuance of the 2012 Note, the Company also amended and restated certain agreements previously executed and delivered in connection with its sale of the 2011 Notes, and further, amended the terms of the 2011 Notes to extend the respective maturity dates, and adjust the interest rate and conversion rate thereof.

On July 1, 2013, the Company completed the sale and contemporaneous leaseback of its warehouse facility and land in Old Town, Maine, under a purchase and sale agreement between its subsidiary Penobscot Shoe Company and Old Town Partners, LLC. Penobscot sold the property to Old Town Partners for $620,000. Concurrently with the sale, the Company and Penobscot entered into a 10 year commercial lease of the same property with the Old Town Partners. The proceeds of the transaction were used to pay off the balance of the Company's $250,000 term loan with AloStar, and pay down its $700,000 subordinated term note with Gibraltar, and its $7.0 million revolving credit facility with AloStar.

On November 8, 2013, the Company entered into a 5 year term loan agreement with the Financial Authority of Maine in the amount of $200,000. The proceeds from the loan agreement were used to pay down a portion of the subordinated term note with Gibraltar and its revolving credit facility with AloStar.

The Company's financial success is sensitive to changes in the general economic conditions, both globally and nationally, that may adversely affect the demand for its products including recessionary economic cycles, higher interest

borrowing rates, higher fuel and other energy costs, inflation, increases in commodity prices, higher levels of unemployment, higher consumer debt levels, higher tax rates and other economic factors. If economic and financial market conditions in the United States deteriorate or remain weak for an extended period of time, this could result in a slowing of consumer spending, the effect of which may inhibit the Company's ability to maintain or increase its sales to new and existing customers, reduce orders or increase order cancellations from wholesale accounts that are directly impacted by fluctuations in the broader economy, leading to higher discounting and lower gross margins, thus making it increasingly more difficult to generate the level of availability under the Company's revolving credit facility needed to manage inventory.

In the absence of a decline in sales levels, the Company believes that cash flows from operations, the borrowing capacity of its revolving credit facility, and its access to capital will be sufficient to meet the ongoing needs of its business, anticipated growth, flow of inventory, investment requirements and working capital needs for the next twelve months. Additional future financing may be necessary and there can be no assurance that, if needed, the Company will be able to secure additional debt or equity financing with terms acceptable to it or even at all.

Cash Flows Provided by (Used in) Operations

Continuing Operations

Net cash used in operating activities from continuing operations in the first nine months of fiscal 2014 was $2.0 million compared to $2.4 million of net cash used in operating activities from continuing operations in the first nine months of fiscal 2013.

Net cash used in operating activities from continuing operations for the first nine months of fiscal 2014 of $2.0 million, was the result of increases in accounts receivables of $2.2 million on seasonally higher sales volume, inventory of $980,000, and a decrease in other current assets of $260,000, that were partly offset by an increase in accrued amounts for inventory of $400,000 and earnings of $353,000 from continuing operations.

Net cash used in operating activities in the first nine months of fiscal 2013 of $2.4 million, was largely associated with an increase in accounts receivables and inventory of $2.7 million and $700,000, respectively, reduced partly by the increase in other long-term liabilities primarily associated with the recording of a capital leased obligation related to the sale and leaseback of the land and warehouse facility located in Old Town, Maine during the third quarter of fiscal 2013, and earnings of $272,000 from continuing operations.

Discontinued Operations

Net cash of $9,000 was used in operating activities from discontinued operations in the first nine months of fiscal 2013 compared to $61,000 provided by operating activities from discontinued operations during the first nine months of fiscal 2013. Net cash used in operating activities from discontinued operations in the first nine months of fiscal 2013 included legal fees associated with the Company's suit filed against Tandy and severance payments to a former executive of Altama.

Cash Flows Provided by (Used in) Investing Activities

Net cash used in investing activities during the first nine months of fiscal 2014 was $20,000, compared to net cash provided by investing activities during the first nine months of fiscal 2013 was $511,000. Net cash used in investing activities during the first nine months of fiscal 2014, were the result of repairs to the roof of the Company's warehouse and distribution center located in Old Town, Maine.

Net cash of $511,000 provided by investing activities in the first nine months of fiscal 2013 included the net proceeds received from the sale of land and the warehouse facility located in Old Town, Main during the third quarter. Net cash of $23,000 used in investing activities in the first nine months of fiscal 2012 included the cost of replacing the boilers in the Company's Maine warehouse.

Cash Flows Provided by (Used in) Financing Activities

Net cash provided by financing activities during the first nine months of fiscal 2014 and fiscal 2013, respectively, of $2.0 million and 2.1 million was primarily the result of increased borrowings from the Company's revolving credit facility.

Inflation

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net sales or profitability.

Critical Accounting Policies

The Company's accounting policies are more fully described in Note 1 of the Consolidated Financial Statements included in this Annual Report for the fiscal period ended December 28, 2013. As disclosed in Note 1, the Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of the Company's consolidated financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Although these estimates are based on the Company's knowledge of current events and actions it may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Furthermore, when testing assets for impairment in future periods, if the Company's management uses different assumptions or if different conditions occur, impairment charges may result.

The Company believes that the following discussion addresses its most critical accounting policies, which are those that are most important to the portrayal of its financial condition and results of operations and require the Company's most difficult, subjective and complex judgments.

Revenue Recognition

The Company recognizes revenue from product sales when persuasive evidence of an arrangement exists, products are shipped and the customer takes title and assumes risk of loss, the sales price charged is fixed or determinable and collectability is reasonably assured. Product sales and shipping revenues, net of sales allowances, discounts and return allowances, are recorded when the products are shipped or, in certain situations, upon acceptance by the customer. Allowances for estimated returns are accounted for as reductions to sales, cost of goods sold, accounts receivable and an increase in inventory to the extent such product is resalable. The Company bases its estimates on historical rates of customer returns and allowances, as well as the specific identification of outstanding returns and allowances, which are known to the Company but which have not yet been received or paid. Sales taxes collected from e-commerce customers are excluded from reported sales.

Allowance for Doubtful Accounts

The Company provides a reserve against its accounts receivable for estimated losses that may result from non-collection due to the financial position of its customers. To minimize the likelihood of uncollectibility, customers' credit-worthiness is reviewed periodically based on external credit reporting services and the Company's experience with the account, and it is adjusted accordingly. When a customer's account becomes significantly past due, the Company generally places a hold on the account and discontinues further shipments to that customer, minimizing further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, economic conditions in the customers' industries, historical losses and its customers' credit-worthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve. In addition to these individual assessments, in general, outstanding trade accounts receivable amounts that are greater than 365 days are fully reserved for and amounts greater than 120 days are 75% reserved for. The Company's level of reserves may fluctuate depending upon all of the factors mentioned above. The Company also reserves for potential trade discounts and deductions for co-op advertising normally taken by its customers, allowances the Company provides to its retail customers to effectively flow goods through the retail channels and an allowance for estimated sales returns.

Historically, actual results in these areas have not been materially different than management's estimates, and the Company does not anticipate that its estimates and assumptions are likely to materially change in the future. However, if the Company incorrectly anticipates trends or unexpected events occur, the Company's results of operations could be materially affected.

Reserve for Obsolete or Slow Moving Inventory

The Company reduces the carrying cost of inventories for obsolete or slow moving items as necessary to properly reflect inventory value. Reserves are estimated based upon inventory on hand, historical sales activity and the expected net realizable value. The Company's analysis includes a review of inventory quantities on hand at period end in relation to year-to-date sales, existing orders from customers and projections for sales in the near future. The net realizable value, or market value, is determined using the Company's estimate of sales prices of such inventory based upon historical sales experience on a style by style basis or, if necessary, through off-price or discount store channels.

Historically, actual results in these areas have not been materially different than the estimates of management and the Company does not anticipate that its estimates and assumptions are likely to materially change in the future. However, the likelihood of any material change is dependent primarily on the Company's expectations of future consumer demand for its footwear. A misinterpretation or misunderstanding of future consumer demand for the Company's footwear or of the economy, or other failure to estimate correctly, could result in inventory valuation changes, either favorably or unfavorably, compared to the requirement determined to be appropriate as of the balance sheet date.

Valuation of Deferred Income Taxes

The Company records a valuation allowance when necessary to reduce its deferred tax assets to the amount that is more likely than not to be realized. The Company evaluates its projections of taxable income to determine the recoverability of its deferred tax assets and the need for a valuation allowance. The Company considers all evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations. As of September 27, 2014 and December 28, 2013, the Company had a full valuation allowance on its deferred tax assets. The likelihood of a material change in the Company's expected realization of its deferred tax assets depends on future taxable income and the effectiveness of the Company's tax planning strategies amongst the various domestic and international tax jurisdictions in which the Company operates.

Recent Accounting Pronouncements

None issued.

Off-Balance Sheet Arrangements

As described in Note 4 "Commitments and Contingencies" of the notes to the consolidated financial statements, on April 2, 2013, the Company entered into a licensing agreement with ABC Studios guaranteeing a minimum royalty payment of $150,000 to be paid over the three year term of the agreement. Other than operating leases, entered into from time to time in the normal course of business, and as discussed here and described in Note 4 of the notes to the consolidated financial statements, the Company does not have any other off-balance sheet arrangements. The Company does not believe that these operating leases or the licensing agreement are material to its current or future financial condition, results of operations, liquidity, capital resources or capital expenditures.