PINK OTC MARKETS QUARTERLY REPORT

Phoenix Footwear Group, Inc.

(Report prepared on November 12, 2015 for the 39-week period October 3, 2015)

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 as of November 4, 2015
Total shares outstanding:12,418,362 common shares as of November 4, 2015

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.

As described below under section "4) Issuance History," the Company completed a private placement of $2,000,000 of its common stock in a transaction exempt for, registration under Rule 506(c). The shares issued in that transaction were not registered under the Securities Act, and the shares may not be re-offered or re-sold in the United States absent registration or an applicable exemption from registration requirements. Certificates representing the sharers issued contained customary

restrictive legends and were issued to the Greenwood Investors and eligible shareholders who are accredited investors.

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 January 3, 2015 and December 28, 2013, and up 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 August 18, 2015, the Company completed the sale of 4,000,000 shares of its common stock at a price of $0.50 per share. The sale was made in a private placement offer to its shareholders who are "accredited investors" as defined in Regulation D promulgated by the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act").

The offering was made directly on a best efforts basis without an underwriter or any minimum number of shares that must be sold. The offering commenced on July 28, 2015, and terminated at 5:00 p.m. Eastern Time on August 17, 2015. The shares were issued to accredited investors in private transactions not involving any public offering and exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof, and Rule 506(c) of Regulation D thereunder. The offering was open to all shareholders of record as of June 11, 2015, who are accredited investors and currently reside in the United States.

In connection with the offering, the Company entered into a Standby Purchase Agreement, dated July 23, 2015 (the "Purchase Agreement"), with Greenwood Capital, LP, a Massachusetts limited partnership, and MGPLA, LP, a Delaware limited partnership, both managed by Greenwood Investments, Inc. (the "Greenwood Investors"). The Purchase Agreement was negotiated and approved by a special committee of the Company's Board of Directors. Under the Purchase Agreement, the Greenwood Investors initially purchased 2,094,400 shares at the offering price of $0.50 per share. This represents the Greenwood Investors' pro rata portion of the total number of shares available in the offering based upon their beneficial ownership of the common stock issued and outstanding as of the record date, including shares underlying the convertible notes held by them.

The Greenwood Investors also committed in the Purchase Agreement to purchase from the Company, at the offering price, any portion of the Shares not otherwise subscribed for in the offering. Pursuant to these terms, the Greenwood Investors purchased an additional 1,105,600 shares from the Company on August 18, 2015. The Greenwood Investors' obligation to buy any shares not otherwise subscribed for in the offering was subject to standard closing conditions set forth in the Standby Purchase Agreement. 800,000 shares were purchased by other eligible stockholders, including the Company's Chairman and CEO, James R. Riedman, who purchased 300,000 shares. The shares issued in the offering were not registered under the Securities Act, and the shares may not be re-offered or re-sold in the United States absent registration or an applicable exemption from registration requirements. Certificates representing the shares issued contained customary restrictive legends and were issued to the Greenwood Investors and other eligible shareholders.

On April 1, 2015, 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 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, 2015. 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, 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, 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, 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.

With the exception of the offerings and issuances described above, there have been no securities offerings and share issuances for services of the Company's securities in the previous two fiscal years ended January 3, 2015, and December 28, 2013 or in the interim period following fiscal year ended January 3, 2015 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 October 3, 2015, and January 3, 2015.
2. Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss) for the three and nine month periods ended October 3, 2015 and September 27, 2014.
3. Condensed Consolidated Statements of Stockholder's Equity for the three and nine month periods ended October 3, 2015 and the fiscal year ended January 3, 2015.
4. Condensed Consolidated Statements of Cash Flows for the nine months ended October 3, 2015 and September 27, 2014.
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 October 3, 2015 and September 27, 2014.

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 2015 and the previous two fiscal years ended January 3, 2015 and December 28, 2013, 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 2015, the Company's products were carried by approximately 856 customers in over 1,663 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 62%, 61%, and 61% of net sales from continuing operations for the first nine months ended October 3, 2015 and fiscal years of 2014 and 2013, respectively. For the 39-week period ended October 3, 2015 and 53 and 52-week periods of fiscal 2014 and 2013, respectively, Zappos.com, accounted for 14.9%, 15.4%, and 18.2% 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 3.3%, 2.5%, and 2.6% of its net sales for the 39-week period ended October 3, 2015 and the 53 and 52-week periods of fiscal 2014 and 2013, 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;
- responding to pressure from retailers to reduce cost of 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 and Vietnam 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 $236,000, $318,000 and $255,000 during the first nine months of fiscal 2015 and fiscal years of 2014 and 2013, 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 and Vietnam. 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 and Vietnam, have produced 100% of the Company's footwear products over the last four fiscal years. 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 manufacturers 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 62%, 61% and 61% of net sales from continuing operations for the 39-week period ended October 3, 2015 and the 52-week period of fiscal 2014 and 2013, respectively. Zappos.com accounted for 14.9%, 15.4% and 18.2% of net sales in the 39-week period ended October 3, 2015 and 53 and 52-week periods of fiscal 2014 and 2013, respectively.

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.

In a press release posted on the OTC Disclosure and News Service on August 18, 2015, the Company announced the appointment of David G. Whalen to the Company's Board of Directors effective as of September 1, 2015.

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
David G. Whalen

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 2015, 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 3, 2015. 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 3, 2015 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 12,418,362 shares of the Company's common stock (net of treasury shares) were outstanding as of October 3, 2015. 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)	13,414,002	71.8%
Greenwood Investments, Inc. and Steven Tannenbaum (3), (4)	13,414,002	71.8%

(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 1,261,600 shares owned directly, 350,000 shares underlying outstanding stock options held by Mr. Riedman, 443,808 owned 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 shares underlying outstanding 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. 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 Dupont Hwy, Dover, Delaware 19901

.(3) Includes: (i) 4,386,887 shares of common stock owned by Greenwood Capital, LP; (ii) 425,163 shares of common stock owned by MGPLA, LP; (iii) 4,347,826 shares issuable upon conversion of two promissory notes held by Greenwood Capital, LP in the aggregate original principal amount of $1,000,000; and (iv) 1,521,739 shares issuable upon the conversion of a promissory note held by MGPLA, LP, in the original principal amount of $350,000. Also, includes shares held by James Riedman and Riedman Corporation (collectively the "Riedman Shareholders"), that may be deemed to be beneficially owned by Greenwood Capital, LP and MGPLA, LP (collectively the "Greenwood Investors") under the Voting Agreement as described in Note 4 below. Greenwood Investments, Inc. is the general partner of the Greenwood Investors, and has the authority to vote and dispose of all of the shares held. Steven Tannenbaum is the president of the General Partner. The Greenwood Investors, Greenwood Investments, Inc., and Mr. Tannenbaum (collectively the "Greenwood Parties") each have a principal business address at Prudential Tower, 800 Boylston Street, Suite 1450, Boston, MA 02199.

(4) In connection with the purchase of certain convertible promissory notes by the Greenwood Parties, the Greenwood Parties entered into a Voting Agreement on July 21, 2011 with the Riedman Shareholders and the Company, as amended on July 23, 2015 (the "Voting Agreement"). The Voting Agreement was amended and restated effective July 30, 2012 to add MGPLA, LP as a party in connection with its purchase of the convertible promissory note on that date. The Voting Agreement provides, among other things for the parties to vote on one candidate of the Riedman Shareholders and one candidate of the Greenwood Parties as directors of the Company's Board of Directors. As a result of the Voting Agreement and as of the date hereof, (i) the Riedman Shareholders may be deemed to beneficially own 10,681,615 shares beneficially owned by the Greenwood Parties and (ii) the Greenwood Parties may be deemed to beneficially own 2,732,387 shares beneficially owned by the Riedman Shareholders. Both the Riedman Shareholders 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 and beneficial ownership of the shares of the other.

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 2013 and 2014, 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 12, 2015

/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 12, 2015

/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 2015 ENDED OCTOBER 3, 2015

Financial Statements

Condensed Consolidated Balance Sheets
As of October 3, 2015 and January 3, 2015

Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss)
For the three and nine month periods ended October 3, 2015 and September 27, 2014

Condensed Consolidated Statements of Stockholders Equity
For the three and nine month periods ended October 3, 2015 and the fiscal year ended January 3, 2015

Condensed Consolidated Statements of Cash Flows
For the nine months ended October 3, 2015 and September 27, 2014

Notes to the Condensed Consolidated Financial Statements

.

PHOENIX FOOTWEAR GROUP, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except for per share data)

	October 3, 2015	January 3, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 232	$ 328
Accounts receivable (less allowances of $1,452 and $1,108 in 2015 and 2014, respectively)	3,610	2,449
Inventories (less provision of $329and $300 in 2015 and 2014, respectively)	10,000	8,150
Other current assets	528	514
Income tax receivable	—	—
Total current assets	14,370	11,441
PROPERTY, PLANT AND EQUIPMENT, net	61	71
Capital leased asset, net	660	527
OTHER ASSETS	50	50
TOTAL ASSETS	$ 15,141	$ 12,089
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit and note payable, current (Note 6)	$ 5,951	$ 3,831
Accounts payable	2,263	2,601
Accrued expenses	842	1,137
Current portion of long term debt	446	534
Total current liabilities	9,502	8,103
OTHER LONG-TERM LIABILITIES		
Term notes payable, net of current portion (Note 6)	538	124
Convertible notes payable	1,350	1,350
Capital lease obligation, net of current portion	521	543
Other non-current liabilities	213	230
Total liabilities	12,124	10,350
Commitments and contingencies (Note 4)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value — 50,000 shares authorized; 12,635 and 8,575 shares issued and outstanding in 2015 and 2014	127	87
Additional paid-in-capital	48,152	46,179
Accumulated deficit	(42,619)	(41,884)
Treasury stock at cost, 217 shares in 2014 and 2013	(2,643)	(2,643)
Total stockholders' equity	3,017	1,739
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,141	$ 12,089

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

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	
	Oct 3, 2015	Sept 27, 2014	Oct 3, 2015	Sept 27, 2014
Net sales	$ 5,824	$ 6,357	$ 16,554	$ 16,345
Cost of goods sold	3,889	3,922	11,106	10,391
Gross profit	1,935	2,435	5,448	5,954
Operating expenses:				
Selling, general and administrative	1,839	1,688	5,563	5,044
Other expense, net	—	—	—	—
Total operating expenses	1,839	1,688	5,563	5,044
Operating earnings (loss)	96	747	(115)	910
Interest expense, net	141	199	620	557
(Loss) earnings before income taxes and discontinued operations	(45)	548	(735)	353
Income tax expense (benefit)	—	—	—	—
(Loss) earnings from continuing operations	(45)	548	(735)	353
(Loss) earnings from discontinued operations, net of tax for the three and nine months ended Sept 27, 2014 and Sept 28, 2013, respectively	—	—	—	(9)
Net (loss) earnings	$ (45)	$ 548	$ (735)	$ 344
Net earnings (loss) per share, basic:				
Continuing Operations	$ 0.00	$ 0.07	$ (0.07)	$ 0.04
Discontinued Operations	—	—	—	—
Net earnings per share	$ 0.00	$ 0.07	$ (0.07)	$ 0.04
Net earnings (loss) per share, diluted:				
Continuing Operations	$ 0.00	$ 0.04	$ (0.07)	$ 0.02
Discontinued Operations	—	—	—	—
Net earnings (loss) per share	$ 0.00	$ 0.04	$ (0.07)	$ 0.02
Weighted average shares outstanding used to calculate per share information, Basic:	11,085	8,358	11,158	8,332
Diluted:	11,085	14,717	11,158	14,691
Net (loss) earnings	$ (45)	$ 548	$ (735)	$ 344
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation adjustments, net of zero income taxes	—	—	—	—
Comprehensive (loss) earnings	$ (45)	$ 548	$ (735)	$ 344

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 — January 3, 2015	8,575	$ 87	$ 46,179	$ (41,884)	(217)	$ (2,643)	$ —	$ 1,739
Issuance of Common Stock	60	—	41	—	—	—	—	41
Stock Based Compensation	—	—	67	—	—	—	—	67
Net Loss				(39)				(39)
BALANCE — April 4, 2015	8,635	$ 87	$ 46,287	$ (41,923)	(217)	$ (2,643)	$	$ 1,808
Issuance of Common Stock	—	—	—	—	—	—	—	—
Stock Based Compensation	—	—	—	—	—	—	—	—
Net Loss				(651)				(651)
BALANCE — July 4, 2015	8,635	$ 87	$ 46,287	$ (42,574)	(217)	$ (2,643)	$ —	$ 1,157
Issuance of Common Stock	4,000	40	1,865	—	—	—	—	1,905
Stock Based Compensation	—	—	—	—	—	—	—	—
Net Loss				(45)				(45)
BALANCE — October 3, 2015	12,635	$ 127	$ 48,152	$ (42,619)	(217)	$ (2,643)	$ —	$ 3,017

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	
	Oct 3, 2015	Sept 27, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) earnings	$ (735)	$ 344
(Loss) from discontinued operations	—	(9)
(Loss) earnings from continuing operations	(735)	353
Adjustments to reconcile earnings from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	73	61
Provision for losses on accounts receivable	343	88
Non-cash stock-based compensation	108	47
Gain on sale of property	—	—
Amortization of deferred debt issuance costs	114	97
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,504)	(2,202)
Inventories, net	(1,850)	(980)
Other current assets	(82)	260
Income taxes receivable	—	—
Other non-current assets	(234)	—
Increase (decrease) in:		
Accounts payable	(338)	(38)
Accrued expenses	(274)	402
Other long-term liabilities	86	(51)
Income taxes payable	—	—
Net cash (used in) provided by operating activities from continuing operations	(4,293)	(1,963)
(Loss) from discontinued operations, net of tax (including net gain (loss) on sale of $0 and $0, respectively)	—	(9)
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)
Net cash (used in) provided by operating activities	(4,293)	(1,972)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(71)	(20)
Proceeds from sale of property	—	—
Net cash (used in) provided by investing activities	(71)	(20)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrownings on note payable-line of credit	19,498	16,311
Repayments of notes payable and line of credit	(17,227)	(14,274)
Issuance of common stock	1,905	—
Proceeds from Notes Payable	92	—
Debt Issuance and Other Costs	—	—
Net cash provided by financing activities	4,268	2,037
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(96)	45
CASH AND CASH EQUIVALENTS — Beginning of period	328	141
CASH AND CASH EQUIVALENTS — End of period	$ 232	$ 186

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 January 3, 2015, posted on the Pink OTC Markets website on March 10, 2015. 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 2, 2016.

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 28, 2013 as "fiscal 2013," the fiscal year ending January 3, 2015 as "fiscal 2014," and the fiscal year ending January 2, 2016 as "fiscal 2015." 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 2013, fiscal 20l4, and fiscal 2015 each include 52, 53, and 52 weeks, respectively. Accordingly, the quarters ended October 3, 2015 and September 27, 2014 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 October 3, 2015 decreased to $232,000 compared to $328,000 at January 3, 2015. 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.

Sale of Equity Securities

On August 18, 2015, the Company completed the sale of 4,000,000 shares of its common stock at a price of $0.50 per share. The sale was made in a private placement offer to its shareholders who are "accredited investors" as defined in Regulation D promulgated by the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act").

The offering was made directly on a best efforts basis without an underwriter or any minimum number of shares that must be sold. The offering commenced on July 28, 2015, and terminated at 5:00 p.m. Eastern Time on August 17, 2015. The shares were issued to accredited investors in private transactions not involving any public offering and exempt from the registration requirements of the Securities Act pursuant to Section 4(a)(2) thereof, and Rule 506(c) of Regulation D thereunder. The offering was open to all shareholders of record as of June 11, 2015, who are accredited investors and currently reside in the United States.

In connection with the offering, the Company entered into a Standby Purchase Agreement, dated July 23, 2015 (the "Purchase Agreement"), with Greenwood Capital, LP, a Massachusetts limited partnership, and MGPLA, LP, a Delaware limited partnership, both managed by Greenwood Investments, Inc. (the "Greenwood Investors"). The Purchase Agreement was negotiated and approved by a special committee of the Company's Board of Directors. Under the Purchase Agreement, the Greenwood Investors initially purchased 2,094,400 shares at the offering price of $0.50 per share. This represents the Greenwood Investors' pro rata portion of the total number of shares available in the offering based upon their beneficial ownership of the common stock issued and outstanding as of the record date, including shares underlying the convertible notes held by them.

The Greenwood Investors also committed in the Purchase Agreement to purchase from the Company, at the offering price, any portion of the Shares not otherwise subscribed for in the offering. Pursuant to these terms, the Greenwood Investors purchased an additional 1,105,600 shares from the Company on August 18, 2015. The Greenwood Investors' obligation to buy any shares not otherwise subscribed for in the offering is subject to standard closing conditions set forth in the Standby Purchase Agreement. 800,000 shares were purchased by other eligible stockholders, including the Company's Chairman and CEO, James R. Riedman, who purchased 300,000 shares.

NewStar Loan and Security Agreement

As described in Note 5, "Debt", on February 2, 2015, the Company and Penobscot entered into a Loan and Security Agreement with NewStar Business Credit, LLC, a Delaware limited liability company as administrative agent ("NewStar"), and the lenders party thereto from time to time (the "NewStar Loan Agreement"). The NewStar Loan Agreement provides for up to $9.0 million in borrowing capacity consisting of a revolving line of credit facility of up to $8.0 million (subject to a borrowing base as defined in the NewStar Loan Agreement) with a five-year maturity (the "RLOC") and a term loan of $1.0 million (the "Term Loan"). Interest on the principal amount outstanding under the RLOC accrues at a rate equal to the greater of (i) the rate per annum published on each Business Day in the "Money Rates" table of *The Wall Street Journal* as the one-month LIBOR rate, adjusted daily, and (ii) 1.0% (such greater amount, the "LIBOR Rate") plus 3.75%. Interest on the amount outstanding under the Term Loan accrues at the rate equal to the LIBOR Rate plus 5%. The principal amount of the Term Loan is payable in 36 equal monthly installments of $27,778, together with accrued interest, on the first day of each calendar month beginning March 1, 2015. The obligations of the Company as the borrower under the NewStar Loan Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the NewStar Loan Agreement, the Company and Penobscot have each granted NewStar (for the benefit of the lenders party to the NewStar Loan Agreement) a security interest in all of their personal property.

Proceeds from the NewStar Loan Agreement were used to pay in full the obligations outstanding under that Loan and Security Agreement dated July 30, 2012 between the Company and AloStar Bank of Commerce, which carried an annual

interest rate equal to the LIBOR Rate plus 5.5% and that Loan and Security Agreement dated July 30, 2012 between the Company and Gibraltar Business Capital which carried an annual interest rate of 18.0%.

As a condition to the closing under the NewStar Loan Agreement, the Company also extended from October 30, 2015 until July 31, 2020, the maturity date of the $1,350,000 in aggregate principal amount of its subordinated secured 1% convertible notes held by Greenwood Capital LP and MGPLA LP.

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 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.

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 October 3, 2015 and September 27, 2014:

	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
			(In thousands)	
Net sales	$ —	$ —	$ —	$ —
Cost of goods sold, operating expenses and other	—	—	—	9
Net gain on sale	—	—	—	—
Earnings (loss) from discontinued operations	$ —	$ —	$ —	$ (9)

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 Loan and Security Agreements

On February 2, 2015, the Company and Penobscot entered into a Loan and Security Agreement with NewStar Business Credit, LLC, a Delaware limited liability company as administrative agent ("NewStar"), and the lenders party thereto from time to time (the "NewStar Loan Agreement"). The NewStar Loan Agreement provides for up to $9.0 million in borrowing capacity consisting of up to $8.0 million (subject to a borrowing base as defined in the NewStar Loan Agreement) with a five-year maturity (the "RLOC") and a term loan of $1.0 million (the "Term Loan"). The principal amount of the Term Loan is payable in 36 equal monthly installments of $27,778, together with accrued interest, on the first day of each calendar month beginning March 1, 2015. The obligations of the Company as the borrower under the NewStar Loan Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the NewStar Loan Agreement, the Company and Penobscot have each granted NewStar (for the benefit of the lenders party to the NewStar Loan Agreement) a security interest in all of their personal property. The maturity dates of the RLOC and Term Note are February 2, 2020 and February 2, 2018, respectively.

Interest accrues on the principal amount outstanding under the Revolving Credit Facility at the rate equal to the greater of (i) the rate per annum published on each Business Day in the "Money Rates" table of The Wall Street Journal as the one-month LIBOR rate, adjusted daily, and (ii) 1.0% (such greater amount, the "LIBOR Rate") plus 3.75%. Interest accrues on the principal amount outstanding under the Term Loan at the rate equal to the LIBOR Rate plus 5.0%.

The obligations outstanding under the Revolving Credit Facility and the Term Loan may be prepaid at any time. Beginning with the Company's fiscal year ending December 31, 2016, the Term Loan is subject to a mandatory annual prepayment in an amount equal to the lesser of (i) 25.0% of aggregate excess cash flow (as defined in the NewStar Loan Agreement) of the Company and its subsidiaries for each fiscal year or (ii) $100,000. A prepayment premium will be payable to the lenders if the Company prepays the entire amount outstanding under and terminates the credit facility prior to the third anniversary thereof. The prepayment premium is equal to 3% of the RLOC plus the outstanding principal amount, if any, of the Term Loan in the case of a termination within the first year of the closing, 2% of such sum in the case of a termination within the second year of the closing, and 1% of such sum in the case of a termination within the third year of the closing.

The NewStar 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 minimum tangible net worth and minimum fixed charge coverage ratios.

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 NewStar 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 NewStar's security interests, change in control events and material adverse change.

At the closing under the NewStar Loan Agreement, the Company used proceeds from the Term Loan and the Revolving Credit Facility to pay in full the obligations outstanding under that Loan and Security Agreement dated July 30, 2012 between the Company, Penobscot and Alostar Bank of Commerce and that Loan and Security Agreement dated July 30, 2012 between the Company and Gibraltar Business Capital and those agreements were terminated.

As a condition to the closing under the NewStar Loan Agreement, the Company also extended from October 30, 2015 until July 31, 2020, the maturity date of the $1,350,000 in aggregate principal amount of its subordinated secured 1% convertible notes held by Greenwood Capital LP and MGPLA LP.

Prior 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 "AloStar Loan Agreement"). The AloStar Loan Agreement provided 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 AloStar Loan Agreement) with a three-year maturity (the "AloStar 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 AloStar 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 provided 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 "Greenwood 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") 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 AloStar Loan Agreement that commenced 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 AloStar Loan Agreement, the Subordinated Loan Agreement, and the Greenwood 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 agreed 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 AloStar Revolving Credit Facility bore 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 5.50%. Borrowings under the AloStar Term Loan Facility bore interest at a rate equal to the LIBOR rate plus 7.50%. In addition, the Company was charged a $2,000 monthly loan servicing fee. A prepayment premium was due to the lenders if the Company terminated the credit facility prior to the original three year term date. The prepayment premium was 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 AloStar Loan Agreement and related agreements were terminated in connection with the NewStar Loan Agreement entered into on February 2, 2015.

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

Other covenants included, but were 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 AloStar Loan Agreement also contained 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 would have increased the interest rate by 2.0% over the rate otherwise applicable and could have resulted in the acceleration of all obligations of the Company to AloStar with respect to indebtedness, whether under the AloStar Loan Agreement or otherwise.

In connection with the AloStar 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 bore 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 will continue while the principal balance will paid in quarterly installments of $30,000, with a balloon payment due at maturity. A prepayment premium of $28,000 was due to the lenders if the Company terminated the credit facility prior to the original three year term date. The Gibraltar Subordinated Term Loan Agreement was terminated and paid off in connection with the Company's entering into the NewStar Loan Agreement on February 2, 2015.

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

Other covenants included, but were 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 contained 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 would have increased the interest rate by 4.0% over the rate otherwise applicable and could have resulted 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 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 were initially due on October 30, 2015. As a condition to the closing under the New Star Loan Agreement, the Company extended the maturity date from October 30, 2015 until July 31, 2020. The 2011 Notes 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.

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.

2012 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 maturity date of the Greenwood Notes was extended to July 31, 2020, in connection with the Company entering into the NewStar Loan Agreement on February 2, 2015.

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 was 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, and as amended on July 23, 2015 (the "Investors Agreement"), 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, and as amended on July 23, 2015 (the "Voting Agreement"), 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.

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 AloStar 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 (10) 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 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%. 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 AloStar 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.

IBM Capital Lease Agreement

On November 26, 2014, the Company entered into a two year capital lease agreement with IBM Credit LLC to purchase computer server hardware and software in the principal amount of $64,311 bearing an imputed per annum interest rate of 6.0% with 24 periodic payments in the amount of $2,744 due through November 2016. The server hardware and software was placed into services during the first quarter of fiscal 2015.

As of October 3, 2015 and January 3, 2015, debt consisted of the following:

	October 3, 2015	January 3, 2015
	(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……..	$ 133	$ 162
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 5.50% per annum (stated rate of 6.50% at January 3, 2015).....	—	3,831
Revolving line of credit with NewStar 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 5.50% per annum (stated rate of 6.0% at January 3, 2015).....	5,951	—
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 January 3,2015).	—	460
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 increased 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 increased 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%	553	579
Capitalize leased obligation: 2 year capital lease with IBM Corporation maturing on December 26, 2016. Lease payments are allocated to the reduction of the capital lease obligation and the interest expense with an imputed per annum rate of 6.0%.....	40	—
Term loan facility: 3 year term note with NewStar Business Credit maturing on February 2, 2018, secured by all of the Company's personal property; principal and interest of $27,778 is paid monthly at a rate of 6% per annum……	778	—
	$ 8,805	$ 6,382
Current portion of long term debt	6,396	4,365
Long term debt, net of current portion	$ 2,409	$ 2,017

The NewStar Loan Agreement and the Subordinated Loan Agreement include various financial and other covenants, with which the Company had to comply in order to maintain borrowing availability and avoid penalties including maintaining required monthly minimum Tangible Net Worth and Fixed Coverage Ratio.

As of October 3, 2015, the Company's Fixed Coverage Ratio of 0.71:1.0 was lower than the required threshold and,

accordingly, the Company was not in compliance with this covenant. On November 6, 2015, the Company received a waiver of covenant default from NewStar for the period ended October 3, 2015.

As of October 3, 2015, the Company had $1,126 in available borrowing capacity under its Revolving Credit Facility with NewStar Business Credit.

The Company incurred $261,000 in prepaid debt issuance costs in connection with the NewStar Loan Agreement. The prepaid debt issuance cost includes legal, appraisal and other loan document fees in addition to a commitment fee of $112,500. In connection with the Prior Loan Agreement and related agreements entered into on July 30, 2012, the Company had incurred prepaid debt costs of $387,000. Capitalized debt issuance fees are amortized into expense over the loan term.

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 987,000 as of October 3, 2015.

At October 3, 2015, outstanding stock-based awards consisted of the following:

	Vested	Unvested
	(In thousands)	
Service-based stock options	1,010	—
Service-based restricted stock rights	—	60
Performance-based restricted stock rights	—	—
Total outstanding stock-based awards	1,010	600

Total stock-based compensation expense recognized for the nine months ended October 3, 2015 and September 27, 2014 was as follows:

	Nine Months Ended	
	Oct 3, 2015	Sept 27, 2014
	(In thousands)	
Selling, general and administrative	$ 108	$ 47
Pre-tax stock-based compensation expense	108	47
Income tax benefit	—	—
Total stock-based compensation expense	$ 108	$ 47

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 1,010,000 and 560,000 as of October 3, 2015 and September 27, 2014, 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 October 3, 2015 and September 27, 2014, there were 60,000 and 60,000, performance-based stock grants to non-employee directors outstanding, respectively.

As of October 3, 2015, the total compensation cost related to unvested stock-based awards granted to executives and non-employee directors but not yet recognized was $25,000.

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 October 3, 2015 and September 27, 2014, 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 October 3, 2015 and January 3, 2015, 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 October 3, 2015 and September 27, 2014 (in thousands, except per share amounts):

	Three Months Ended	
	Oct 3, 2015	**Sept 27, 2014**
	(In thousands, except per share data)	
(Loss) earnings per share from continuing operations, basic and diluted:		
(Loss) earnings from continuing operations	$ (45)	$ 548
1% Subordinated convertible notes interest	16	16
(Loss) earnings adjusted for assumed conversion	$ (17)	$ 564
Basic: Weighted average common shares outstanding	11,085	8,358
Diluted: Weighted average common shares outstanding	11,085	14,717
(Loss) earnings per share from continuing operations, basic	$ 0.00	$ 0.07
diluted	$ 0.00	$ 0.04
Loss per share from discontinued operations, basic and diluted:		
Loss from discontinued operations	$ —	$ —
Basic: Weighted average common shares outstanding	11,085	8,358
Diluted: Weighted average common shares outstanding	11,085	8,358
Loss per share from discontinued, basic	$ —	$ —
diluted	$ —	$ —

	Nine Months Ended	
	Oct 3, 2015	**Sept 27, 2014**
	(In thousands, except per share data)	
(Loss) earnings per share from continuing operations, basic and diluted:		
(Loss) earnings from continuing operations	$ (735)	$ 335
1% Subordinated convertible notes interest	50	23
(Loss) earnings adjusted for assumed conversion	$ (685)	$ 367
Basic: Weighted average common shares outstanding	11,158	8,332
Diluted: Weighted average common shares outstanding	11,158	14,691
(Loss) earnings per share from continuing operations, basic	$ (0.07)	$ 0.04
diluted	$ (0.07)	$ 0.02
Loss per share from discontinued operations, basic and diluted:		
Loss from discontinued operations	$ —	$ (9)
Basic: Weighted average common shares outstanding	11,158	8,332
Diluted: Weighted average common shares outstanding	11,158	8,332
Loss per share from discontinued, basic	$ —	$ —
diluted	$ —	$ —

Options and performance based grants outstanding to purchase 1.12 million shares of common stock were excluded from the computation of dilutive earnings per share for the three and nine month period ended October 3, 2015, as were 5.9 million shares of common stock issuable upon the conversion of $1.35 million of subordinated secured 1% convertible notes because their inclusion would have been anti-dilutive.

Options outstanding to purchase130,000 shares of common stock were excluded from the computation of diluted earnings per share for the reporting period ending September 27, 2014, 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 January 3, 2015 and December 28, 2013. 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 28, 2013 as "fiscal 2013," the fiscal year ending January 3, 2015 as "fiscal 2014," and the fiscal year ending January 2, 2016 as "fiscal 2015." 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 2013 and 2015 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 October 3, 2015 (hereinafter referred to as "the third quarter of fiscal 2015" and the 39-week period ended September 27, 2014 (hereinafter referred to as "the third quarter of fiscal 2014") 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 October 3, 2015.

Fiscal 2015 Financial Overview

Continuing Operations. Net sales from continuing operations for the first nine months of fiscal 2015 were $16.6 million, an increase of $209,000 or 1.3%, compared to net sales of $16.3 million in the first nine months of fiscal 2014. The net loss from continuing operations was $115,000, compared to net income from continuing operations of $910,000 for the first nine months of fiscal 2014.

The Company's working capital as of October 3, 2015 and January 3, 2015 was $4.9 million and $3.3 million, respectively.

Discontinued Operations. The net loss from discontinued operations in the first nine months of fiscal 2015 was $0 as compared to net income of $9 in the first nine months of fiscal 2014.

As of October 3, 2015 and January 3, 2015, there were no current assets or liabilities from discontinued operations.

Net Earnings/Loss Per Share. Net (loss) income per share from continuing operations for the first nine months of fiscal 2015 and fiscal 2014 was $(0.07) and $0.04, respectively.

Results of Operations

Comparison of the Three Months Ended October 3, 2015 to the Three Months Ended September 27, 2014

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

	Three Months Ended					
	October 3, 2015		September 27, 2014		Increase (Decrease)	
	(In thousands)					
Net sales	$ 5,824	100%	$ 6,357	100%	$ (533)	(8)%
Cost of goods sold	3,889	67%	3,922	62%	(33)	0%
Gross profit	1,935	33%	2,435	38%	(500)	(21)%
Operating expenses:						
Selling, general and administrative	1,839	32%	1,688	27%	151	9%
Total operating expenses	1,839	32%	1,688	27%	151	9%
Operating earnings	96	2%	747	12%	(651)	(87)%
Interest expense, net	141	2%	199	3%	(58)	(29)%
(Loss) earnings before income taxes and discontinued operations	(45)	0%	548	9%	(593)	*%
Income tax expense (benefit)	—	— %	—	—%	—	—%
(Loss) earnings from continuing operations	(45)	0%	548	9%	(593)	*%
(Loss) earnings from discontinued operations	—	0%	—	0%	—	0%
Net (loss) earnings	$ (45)	0%	$ 548	9%	$ (593)	*%

* Greater than 100%

Net Sales

Net sales from continuing operations for the third quarter of fiscal 2015 decreased $533,000 or 8.4%, to $5.8 million compared to $6.4 million in the third quarter of fiscal 2014. The decrease in net sales for the period resulted from the non-recurrence of sales in the national retail and catalog distribution channels which were partly offset by an 85.5% increase in sales of occupational footwear sold primarily in the medical uniform channel.

Gross Profit

Gross profit from continuing operations, for the third quarter of fiscal 2015, decreased $500,000 or 20.5% to $1.9 million from $2.4 million when compared to the third quarter of fiscal 2014. Gross profit as a percentage of net sales decreased to 33.2% during the third quarter of fiscal 2015 from 38.3% for the comparable period of fiscal 2014.

The 510 basis point decline in gross profit as a percentage of net sales for the period consisted of an increase in discounts and allowance provided to national retailers associated with the implementation of the Company's minimum advertised pricing policy, an increase in air freight associated with the increased sales demand of lower margin occupational footwear, together with the clearance of phased-out and discontinued 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 $151,000, to $1.8 million during the third quarter of fiscal 2015 compared to $1.7 million for the same period of fiscal 2014. SG&A as a percentage of net sales increased to 31.6% for the third quarter of fiscal 2015, compared to 26.6% for the same period of fiscal 2014.

The increase in SG&A during the third quarter of fiscal 2015 was primarily associated with the planned increase in occupational footwear sales and sales support personnel together with an increase in selling and other marketing activities during the period.

Interest Expense

Interest expense from continuing operations during the third quarter of fiscal 2015 and the comparable period of fiscal 2014 was $141,000 and $199,000, respectively.

Income (loss) from Discontinued Operations

The loss net of tax from discontinued operations for the third quarter of fiscal 2015 was $0 compared to losses from discontinued operations of $0 for the third quarter of fiscal 2014**.**

Comparison of the Nine Months Ended October 3, 2015 to the Nine Months Ended September 27, 2014.

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

	Nine Months Ended					
	October 3, 2015		September 27, 2014		Increase (Decrease)	
	(In thousands)					
Net sales	$ 16,554	100%	$ 16,345	100%	$ 209	1%
Cost of goods sold	11,106	67%	10,391	64%	715	7%
Gross profit	5,448	33%	5,954	36%	(506)	(9)%
Operating expenses:						
Selling, general and administrative	5,563	34%	5,044	31%	519	10%
Other expense, net	—	— %	—	— %	—	—%
Total operating expenses	5,563	34%	5,044	31%	519	10%
Operating (Loss) earnings	(115)	—%	910	6%	(1,025)	*%
Interest expense, net	620	4%	557	3%	63	11%
(Loss) earnings before income taxes and discontinued operations	(735)	(4)%	353	2%	(1,088)	*%
Income tax expense (benefit)	—	— %	—	— %	—	—%
Loss earnings from continuing operations	(735)	(4)%	353	2%	(1,088)	*%
Loss from discontinued operations	—	—%	(9)	—%	9	100%
Net (loss) earnings	$ (735)	(4)%	$ 344	2%	$ (1,079)	*%

* Greater than 100%

Net Sales

Net sales from continuing operations increased $209,000, 1.3%, to $16.6 million for the first nine months of fiscal 2015 compared to $16.3 million for the first nine months of fiscal 2014. The increase in net sales for the period was primarily driven by an 107.1% increase in sales of occupational footwear sold primarily in the medical uniform channel which was partially offset by an increase in discounts and allowances associated with the implementation of the Company’s minimum

advertised pricing policy and the non-recurrence of sales in the national retail and catalog distribution channels.

Gross Profit

Gross profit from continuing operations decreased by $506,000 or 8.5% to $5.5 million in the first nine months of fiscal 2015 compared to $6.0 million for the same period of the prior year. Gross margin as a percentage of net sales for the first nine months of fiscal 2015 was 32.9% compared to 36.4% for the first nine months of fiscal 2014.

The 350 basis point decline in gross profit as a percentage of net sales for the period consisted of an increase in discounts and allowance provided to national retailers associated with the implementation of the Company's minimum advertised pricing policy, an increase in air freight associated with the increased sales demand of lower margin occupational footwear, together with a onetime increase in product development costs 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 $519,000 to $5.6 million in the first nine months of fiscal 2015 compared to $5.0 million for the same period of fiscal 2014. SG&A as a percentage of net sales increased to 33.6% for the first nine months of fiscal 2015, compared to 30.8% for the first nine months of fiscal 2014.

The increase in SG&A during the first nine months of fiscal 2015 was primarily associated with the planned increase in occupational footwear sales, sales support and warehouse personnel, an increase in selling and other marketing activities, together with the non-cash vesting of employee performance stock options and onetime increase in temporary labor at the Company's warehouse and distribution center.

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 2015 was $620,000 compared to $557,000 for the first nine months of fiscal 2014. Included in interest expense during the first nine months of fiscal 2015 are $167,000 of early termination and the accelerated expensing of deferred financing cost associated with the payoff and termination of the AloStar Bank of Commerce revolving credit facility and term note with Gibraltar Business Capital on February 2, 2015.

Income (loss) from Discontinued Operations

The loss net of tax from discontinued operations for the first nine months of fiscal 2015 was $0 compared to a loss net of tax of $9,000 from discontinued operations for the same period of fiscal 2014.

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. While the Company's operating results have improved over the last several years, it had incurred losses in five of the last seven years resulting in the divesture of a number of operating divisions between fiscal 2008 and 2011, to generate additional working capital necessary to fund ongoing operations and reduce bank debt. On August 18, 2015, the Company completed the sale of 4,000,000 shares of its common stock at a price of $0.50 per share in a private placement to its shareholders who are

"accredited inventors" to fund inventory purchasing in anticipation of increased demand for the Company's occupational and licensed footwear offering. 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 2015 and 2014, the Company funded its operations with cash generated by operating activities, borrowings from its revolving credit facility and the sale of 4,000,000 common shares to its shareholders, who are accredited investors. Cash was used to purchase inventory and fund ongoing 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 October 3, 2015 and January 3, 2015, working capital consisted of the following:

	October 3, 2015	January 3, 2015	Increase (Decrease)
		(In thousands)	
Current assets of continuing operations	$ 14,370	$ 11,441	$ 2,929
Current liabilities of continuing operations	9,502	8,103	1,399
Working capital	4,868	$ 3,338	1530

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 October 3, 2015, gross accounts receivable were 5.1 million, an increase of $1.5 million or 42.3% from $3.6 million as of January 3, 2015. Because the Company's business is seasonal, the gross receivables balance may be more meaningfully compared to the balance of $5.9 million as of September 27, 2014, rather than the year-end balance. Compared to gross accounts receivables as of September 27, 2014, gross accounts receivable decreased $834,000 or 14.1% from $5.9 million. The decrease in gross accounts receivable is consistent with the 8.4% decrease in net revenue during the third quarter.

Provision for Returns and Allowances for Doubtful Accounts

As of October 3, 2015, the provision for returns and allowances for doubtful accounts was $1.5 million, an increase of $343,000 or 31.0% from $1.1 as of January 3, 2015. The provision for returns and allowances for doubtful accounts as of October 3, 2015, when compared to September 27, 2014, increased $341,000 or 30.7% from $1.1 million.

The increase in the outstanding balance as of October 3, 2015 when compared the outstanding balance as of September 27, 2014 is primarily the result of the implementation of the Company's minimum advertising pricing policy.

Inventory

As of October 3, 2015, gross inventory was $10.3 million compared to $8.5 million as of January 3, 2015, an increase of $1.9 million. Compared to gross inventory as of September 27, 2014, gross inventories increased $1.4 million or 15.6%

from $8.9 million. The increase in gross inventory as of October 3, 2015, is largely associated with 175% increase in licensed occupational footwear, and the timing of goods in-transit when compared to gross inventory at September 27, 2014.

Accounts Payable and Accrued Expenses

As of October 3, 2015, accounts payable and accrued expense were $3.1 million, a decrease of $633,000 or 16.9% from $3.7 million as of January 3, 2015. Compared to accounts payable and accrued expense of $3.8 million as of September 27, 2014, accounts payable and accrued expense increased 17.8% or $671,000. The decrease in accounts payable and accrued expense when compared to the prior year period ended September 27, 2014 is primarily associated with an decrease in amounts due to factories in China for inventory purchases as a result of the sale of 4,000,000 shares of the Company's common stock to its shareholders who are accredited investors on August 18, 2015.

Revolving Credit Facility

The outstanding balance on the revolving credit facility as of October 3, 2015, was $6.0 million, an increase of $2.1 million, when compared to $3.8 million as of January 3, 2015. Because the Company's business is seasonal, the revolving credit facility balance may be more meaningfully compared to the balance of $6.3 million as of September 27, 2014, rather than the year-end balance. Compared to the revolving credit facility balance as of September 27, 2014, the outstanding balance of the revolving credit facility decreased $392,000 or 6.2%. On August 18, 2015 the Company completed the sale of 4,000,000 common shares to its shareholders who are accredited investors accounting for decrease in borrowings on the revolving credit facility that was partly offset by decrease in accounts payables and accrued expense.

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 2015 was $4.3 million compared to $2.0 million of net cash used in operating activities from continuing operations in the first nine months of fiscal 2014.

Net cash used in operating activities from continuing operations for the first nine months of fiscal 2015 of 4.3 million, was the result of net increase in accounts receivables of $1.5 million and inventory of $1.9 million associated with increased inventory positions of licensed occupational footwear and decreases in accounts payable and accrued expenses of $612,000 together with a $735,000 loss from continuing operations over the first nine months of fiscal 2015.

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.

Discontinued Operations

Net cash of $0 was used in operating activities from discontinued operations in the first nine months of fiscal 2015 compared to $9,000 used in operating activities from discontinued operations during the first nine months of fiscal 2014.

Cash Flows Provided by (Used in) Investing Activities

Net cash used in investing activities during the first nine months of fiscal 2015 was $71,000, compared to net cash used in investing activities during the first nine months of fiscal 2014 was $20,000. Net cash used in investing activities during first nine months of fiscal 2015 included the purchase of server hardware and software. 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.

Cash Flows Provided by (Used in) Financing Activities

Net cash provided by financing activities during the first nine months of fiscal 2015 $4.3 million was the result of the proceeds from the sale of $4,000,000 shares of the Company's stock at a price of $.50 per share. Net cash provided by financing activities of $2.0 million during the first nine months of fiscal 2014 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 October 3, 2015 and January 3, 2015, 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.