PINK OTC MARKETS QUARTERLY REPORT

Phoenix Footwear Group, Inc.

(Report prepared on May 11, 2017 for the 13-week period ended April 1, 2017)

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 May 11, 2017
Total shares outstanding: 12,568,362 common shares, as of May 11, 2017

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 in the footnotes under section "8)c, Beneficial Shareholders", the Greenwood 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 has issued restricted stock certificates to its non-employee directors which contain 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 2015, in a transaction exempt from registration under Rule 506(c) of Regulation D of the Securities and Exchange Act. 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 shares issued contained customary restrictive legends and were issued to the Greenwood Investors (defined below) 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 past 12 months. None.

4) Issuance History

For the previous two fiscal years ended December 31, 2016, and January 2, 2016, 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 March 31, 2017, the Company issued an aggregate of 80,000 shares of restricted common stock to four non-employee directors, Steven DePerrior, Stephanie Pianka, Frederick Port, and David Whalen 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, 2017. 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, 2016, the Company issued an aggregate of 70,000 shares of restricted common stock to four non-employee directors, Steven DePerrior, Stephanie Pianka, Frederick Port, and David Whalen 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, 2016. 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 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" 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.

Greenwood Capital, LP, a Massachusetts limited partnership, and MGPLA, L.P., a Delaware limited partnership, both managed by Greenwood Investments, Inc. (the "Greenwood Investors") purchased 3.2 million shares. 800,000 shares were also 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 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.

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 December 31, 2016, and January 2,

2016, or in the interim period following fiscal year ended December 31, 2016, to the date of this Pink OTC Markets Quarterly Report.

5) Financial Statements

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

1. Condensed Consolidated Balance Sheets as of April 1, 2017, and December 31, 2016.
2. Condensed Consolidated Statements of Income for the fiscal quarters ended April 1, 2017, and April 2, 2016.
3. Condensed Consolidated Statements of Stockholders' Equity for the fiscal quarter ended April 1, 2017, and the fiscal year ended December 31, 2016.
4. Condensed Consolidated Statements of Cash Flows for the fiscal quarters ended April 1, 2017, and April 2, 2016.
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 fiscal quarters ended April 1, 2017, and April 2, 2016.

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 in a number of its own styles which fundamentally differentiates SoftWalk from its competitors, the Company believes SoftWalk's consumer acceptance and popularity is attributable, in part, to its unique combination of comfort and contemporary styling. The Company's patented footbed technology provides the consumer with exceptional comfort without compromising style and is utilized in many of its SoftWalk products.

During the first quarter of fiscal 2017 and the previous two fiscal years ended December 31, 2016, ("fiscal 2016") and January 2, 2016, ("fiscal 2015"), 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 (the "ABC Studios 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 Licensing Agreement, the Company entered into a three year Joint Marketing Agreement (the "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. Additionally, on October 19, 2016, the Company entered into the first Amendment of the ABC Studios Licensing Agreement (the "Amended ABC Studios Licensing Agreement") with ABC Studios extending the term an additional three years expiring on December 31, 2019.

During 2016, the Company distributed its products in Canada under an exclusive distribution agreement with Canada Shoe Corp who was the sole importer and distributor of the Company's Trotters and SoftWalk brands in Canada. Beginning in April 2017, the company began distributing its products in Canada with Global Shoe Connection, Inc.

Historically, a majority of the Company's revenue is generated by the sale of women's footwear. Some of these styles have been produced under the ABC Studios Licensing Agreement. Under the ABC Studios Licensing Agreement, the Company has the right to produce, market, and sell footwear under the Grey's Anatomy by Softwalk trademark. The Amended ABC Studios Licensing Agreement guarantees a minimum royalty payment over its three year term expiring on December 31, 2019.

During the first quarter of fiscal 2017, the Company's products were carried by approximately 829 customers in over 1,391 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 65%, 65% and 64% of net sales from continuing operations for the quarter ended April 1, 2017, and the fiscal years of 2016 and 2015, respectively. Zappos.com, accounted for 16.1%, 16.2% and 15.2% of net sales in the 13-week period ended April 1, 2017, and the fiscal years 2016 and 2015, respectively, while Amazon accounted for 10.1%, 10.1% and 11.9% of net sales during the first quarter ended April 1, 2017, and the fiscal years 2016 and 2015, 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 7.0%, 6.4% and 3.5% of its net sales for the 13-week period ended April 1, 2017, and the 52 week periods of fiscal 2016 and 2015, respectively. The products marketed through the Company's web sites are sold at their suggested retail price, enabling the Company to maintain the full retail margins on in-line products. The Company's footwear can be purchased at *www.SoftWalkshoes.com* and *www.Trotters.com*.

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

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

- anticipating and responding to changing consumer demands in a timely manner;
- maintaining brand reputation and authenticity;
- developing high quality products that appeal to consumers;
- appropriately pricing products;

- providing strong and effective product marketing support;
- ensuring product availability; and
- maintaining and effectively accessing the Company's distribution channels.

Trotters primarily competes with the Naturalizer®, EasySpirit®, Munro America® and Cobb Hill® brands, as well as with retailers' private label footwear. SoftWalk primarily competes with the Sofft®, Born®, Dansko®, and Allegria® 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 due to 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 construction standards. They closely manage the production and quality processes with the Company's independent manufacturers in China to ensure timely delivery of goods to the marketplace. The development and commercialization of new product designs include capital outlays for the tooling of dies, molds and lasts, the costs of which are 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 $72,000, $380,000, and 334,000 during the first fiscal quarter of 2017 and the fiscal years of 2016 and 2015, 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 its 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 has produced 100% of the Company's footwear products over the last three 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 65%, 65% and 64% of net sales from operations for the 13 week period ended April 1, 2017, and the 52-week periods of fiscal 2016 and 2015, respectively. Zappos.com accounted for 16.1%, 16.2% and 15.2% of net sales during the first fiscal quarter of 2017 and the 52-week periods of fiscal 2016 and fiscal 2015, respectively, while Amazon accounted for 10.1%, 10.1% and 11.9% of net sales during those same periods.

Although the Company has enjoyed long-term relationships with many of its customers, they do not have a contractual obligation to purchase the Company's 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 the Company's 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 October 2017.

The Company also leases land and a warehouse located in Old Town, Maine. The lease of the Old Town, Maine Warehouse expires in June 2023.

The Company also leases office space in Dongguan, China, to maintain staff overseas to oversee its manufacturing operations in China.

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

8) Officers, Directors, and Control Persons

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

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

Executive Officers:

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

Directors:

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

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 (10%) of the outstanding shares of common stock as of May 11, 2017, 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 table shows 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 May 11, 2017. 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 May 11, 2017, 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 12,568,362 shares of the Company's common stock (net of treasury shares) were outstanding as of May 11, 2017. Except as otherwise indicated, to the Company's 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), (4)	13,414,002	71.2%
Greenwood Investments, Inc. and Steven Tannenbaum (2), (3), (4)	13,414,002	71.2%

(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) 4,812,050 shares of common stock owned by Greenwood Capital, LP; and (ii) 5,869,565 of common stock issuable upon conversion of three promissory notes held by Greenwood Capital, LP in the aggregate original principal amount of $1,350,000 (the "Greenwood Notes"). 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 under the Voting Agreement as described in Note 4 below. Greenwood Investments, Inc. is the general partner of Greenwood Capital, LP., and has the authority to vote and dispose of all of the shares held. Steven Tannenbaum is the president of Greenwood Investments, Inc., Greenwood Capital, LP, Greenwood Investments, Inc., and Mr. Tannenbaum arecollectively referred to as 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 the Greenwood Notes, 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 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 2016 and fiscal 2015, 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.

May 11, 2017

/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.

May 11, 2017

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

Exhibit A

PHOENIX FOOTWEAR GROUP, INC.

FINANCIAL STATEMENTS

FOR THE FIRST QUARTER OF FISCAL 2017 ENDED APRIL 1, 2017

Financial Statements

Condensed Consolidated Balance Sheets
As of April 1, 2017, and December 31, 2016

Condensed Consolidated Statements of Operations
For the first fiscal quarters ended April 1, 2017, April 2, 2016.

Condensed Consolidated Statements of Stockholders' Equity
For the first fiscal quarter ended April 1, 2017, and for the fiscal year ended December 31, 2016.

Condensed Consolidated Statements of Cash Flows
For the first quarters ended April 1, 2017, and April 2, 2016.

Notes to the Consolidated Financial Statements

PHOENIX FOOTWEAR GROUP, INC.

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

	April 1, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 268	$ 342
Accounts receivable (less allowances of $1,244 and $1,493 in 2017 and 2016, respectively)	3,023	2,096
Inventories (less provision of $327 and $417 in 2017 and 2016, respectively)	8,076	9.160
Other current assets	742	557
Total current assets	12,109	12,155
PROPERTY, PLANT AND EQUIPMENT, net	32	35
Capital leased asset, net	421	440
OTHER ASSETS	96	109
TOTAL ASSETS	$ 12,658	$ 12,739
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit and note payable, current (Note 4)	$ 5,237	$ 4,424
Accounts payable	2,718	3,362
Accrued expenses	863	904
Current portion of long term debt	374	427
Total current liabilities	9,192	9,117
OTHER LONG-TERM LIABILITIES		
Term notes payable, net of current portion (Note 4)	30	97
Convertible notes payable	1,350	1,350
Capital lease obligation, net of current portion	437	451
Other non-current liabilities	140	146
Total liabilities	11,149	11,161
Commitments and contingencies (Note 3)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value — 50,000 shares authorized; 12,785 and 12,705 shares issued and outstanding in 2017 and 2016	128	128
Additional paid-in-capital	48,229	48,205
Accumulated deficit	(44,205)	(44,112)
Treasury stock at cost, 217 shares in 2017 and 2016	(2,643)	(2,643)
Total stockholders' equity	1,509	1,578
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,658	$ 12,739

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

PHOENIX FOOTWEAR GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Quarter Ended	
	April 1, 2017	April 2, 2016
Net sales	$ 4,983	$ 5,502
Cost of goods sold	3,156	3,414
Gross profit	1,827	2,088
Operating expenses:		
Selling, general and administrative	1,796	2,145
Total operating expenses	1,796	2,145
Operating Income	31	(57)
Interest expense, net	124	141
Net Loss	$ (93)	$ (198)
Net loss) per share:		
Basic	$ (0.01)	$ (0.02)
Diluted	(0.01)	(0.02)
Net loss per share	$ (0.01)	$ (0.02)
Weighted average shares outstanding used to calculate per share information:		
Basic	12,489	12,419
Diluted	12,489	12,419
Net loss	$ (93)	$ (198)

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		Total
	Shares	Amount			Shares	Amount	
Balance — January 2, 2016	12,635	$ 127	$ 48,152	$ (42,916)	(217)	$ (2,643)	$ 2,720
Issuance of common stock	70	1	—	—	—	—	1
Stock-based compensation for services	—	—	53	—	—	—	53
Net loss	—	—	—	(1,196)	—	—	(1,196)
Balance — December 31, 2016	12,705	$ 128	$ 48,205	$ (44,112)	(217)	$ (2,643)	$ 1,578
Issuance of common stock	80	—	—	—	—	—	—
Stock-based compensation for services	—	—	24	—	—	—	24
Net loss	—	—	—	(93)	—	—	(93)
Balance — April 1, 2017	12,785	$ 128	$ 48, 229	$ (44,205)	(217)	$ (2,643)	$ 1,509

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)

	For the Quarters Ended	
	April 1, 2017	April 2, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (93)	$ (198)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	22	25
Provision for losses on accounts receivable	(249)	117
Non-cash stock-based compensation	24	54
Amortization of deferred debt issuance costs	14	14
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(678)	(830)
Inventories, net	1,084	(854)
Other current assets	(186)	40
Income taxes receivable		
Increase (decrease) in:		
Accounts payable	(644)	536
Accrued expenses	(42)	24
Other long-term liabilities	(6)	(6)
Net cash used in operating activities	(754)	(1,078)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	—	—
Net cash provided by (used in) investing activities	—	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	4,814	6.089
Payments of line of credit	(4,001)	(4,725)
Payments of notes payable and capital lease	(133)	(110)
Issuance of common stock, net of issuance costs	—	—
Payment of debt issuance costs	—	—
Net cash provided by financing activities	680	1,254
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(74)	176
CASH AND CASH EQUIVALENTS — Beginning of period	342	283
CASH AND CASH EQUIVALENTS — End of period	$ 268	$ 459
SUPPLEMENTAL CASH FLOW INFORMATION:		

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

PHOENIX FOOTWEAR GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 its consolidated subsidiary, Penobscot Shoe Company, "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.

Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the requirements of Quarterly Reporting of the OTC Markets. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the Company's opinion, considered necessary to provide a fair presentation for the interim periods presented. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the footnotes thereto included within the Company's latest Annual Report for the fiscal year ended December 31, 2016, posted on the Pink OTC Markets website on April 25, 2017. The Company's Annual Report may be accessed at http://www.otcmarkets.com/stock/PXFG/financials using the Company's Ticker Symbol PXFG.

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 January 2, 2016, as "fiscal 2015," the fiscal year ending December 31, 2016 as "fiscal 2016," and the fiscal year ending December 30, 2017, as "fiscal 2017." 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. Accordingly, the quarters ended April 1, 2017, and April 2, 2016, 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, the revolving credit facility and term note and convertible notes. The carrying amount of cash, cash equivalents, accounts receivable, other receivables, accounts payables and accrued liabilities approximates fair value due to the relatively short maturity of such instruments. The carrying amount of the Company's notes payable outstanding under the revolving credit facility, long term notes and convertible notes approximates its fair value based upon current rates and terms available to the Company for similar debt.

2. LIQUIDITY & CAPITAL RESOURCES

Cash and cash equivalents at April 1, 2017, decreased to $268,000 compared to $342,000 at December 31, 2016. 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.

Finance Authority of Maine Term Loan

As described in Note 8, "Subsequent Events," on April 4, 2017, 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 $300,000, bears interest at a fixed per annum rate of 6.0%. Payments of principal and interest in the amount of $5,800, commencing one month from the date entered into and continuing on the same day of each month thereafter until April 4, 2022 (the "Maturity Date"), when, unless sooner paid, the remaining principal and accrued and unpaid interest, shall be due and payable in full. The Sterling National Bank Loan Agreement and the Subordinated Loan Agreement were amended in connection with the Equipment Loan to permit the transactions contemplated thereunder. In addition, Sterling National Bank 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. The proceeds of the FAME loan agreement were used to extinguish the remaining outstanding amount of $73,635 of the FAME loan agreement, entered into on November 11, 2013, and other ongoing working capital requirements.

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."

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.

Greenwood Capital, LP, a Massachusetts limited partnership, and MGPLA, L.P., a Delaware limited partnership, both managed by Greenwood Investments, Inc. (the "Greenwood Investors") purchased 3.2 million.

800,000 shares were also purchased by other eligible stockholders, including the Company's Chairman and CEO, James R. Riedman, who purchased 300,000 shares.

Sterling Loan and Security Agreement

As described in Note 4, "Debt", on February 2, 2015, the Company and Penobscot entered into a Loan and Security Agreement with Sterling National Bank (f/k/a:NewStar Business Credit, LLC), a Delaware limited liability company as administrative agent ("Sterling"), and the lenders party thereto from time to time, and as amended by that certain First Amendment to the Loan and Security Agreement dated as of March 18, 2016 (the "Sterling Loan Agreement"), and the Second Amendment to the Loan and Security Agreement dated as of November 3, 2016. The Sterling 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 Sterling Loan Agreement) with a five-year maturity (the "Sterling Revolving Line of Credit") and a term loan of $1.0 million (the "Term Loan"). Interest on the principal amount outstanding under the Sterling Revolving Line of Credit 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 Sterling Loan Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the Sterling Loan Agreement, the Company and Penobscot have each granted Sterling (for the benefit of the lenders party to the Sterling Loan Agreement) a security interest in all of their personal property.

Proceeds from the Sterling 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 Sterling 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.

In the absence of a significant decline in sales levels, the Company believes that cash flows from operations, the borrowing capacity of Sterling Revolving Line of Credit, 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. COMMITMENTS AND CONTINGENCIES

On April 2, 2013, the Company entered into a three years and nine months 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. Through the end of fiscal 2016, the Company has paid $614,000 in royalties to ABC Studios.

On October 19, 2016, the Company entered into the first amendment of the ABC Studios License Agreement (the "Amended ABC Studios Licensing Agreement") with ABC Studios extending the term for an additional three years expiring on December 31, 2019.

Historically, a majority of the Company's revenue is generated by the sale of women's footwear. Some of these styles have been produced under the ABC Studios License Agreement. Under the ABC Studios License Agreement, the Company has the right to produce, market, and sell footwear under the Grey's Anatomy by Softwalk trademark. The Amended ABC Studios Licensing Agreement guarantees a minimum royalty payment over its three year term expiring on December 31, 2019.

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

4. DEBT

Loan and Security Agreements

On February 2, 2015, the Company and Penobscot entered into a Loan and Security Agreement with Sterling Business Credit, LLC, a Delaware limited liability company as administrative agent ("Sterling"), and the lenders party thereto from time to time (the "Sterling" Loan Agreement"). The Sterling 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 Sterling 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 Sterling Loan Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the Sterling Loan Agreement, the Company and Penobscot have each granted Sterling (for the benefit of the lenders party to the Sterling 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 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 Sterling 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 Sterling 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 Sterling 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 Sterling’s security interests, change in control events and material adverse change.

At the closing under the Sterling 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 Sterling 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.

2012 Purchase Agreement:

<u>Convertible Subordinated Secured Notes</u>

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 Sterling 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.

Since its original issuance, the 2012 Note has been assigned from MGPLA, L.P. to Greenwood Capital LP.

The 2012 Note was initially due October 30, 2015, and bore interest at the initial rate of 1.0% per year. As a condition of the closing under the Sterling Loan Agreement, the Company extended the maturity date from October 30, 2015, until July 31, 2020. 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 Greenwood Capital, LP's consent. Greenwood Capital LP 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 Sterling 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 Greenwood Capital, LP 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 MGPLA, L.P. 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.

Finance 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 April 1, 2017 and December 31, 2016, debt consisted of the following:

	April 1, 2017	December 31, 2016
	(In thousands)	
Term loan facility with Finance 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………………………………………………………………………………..	$ 73	$ 84
Revolving line of credit with Sterling National Bank; 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 5.0% per annum (stated rate of 4.75% at April 1, 2017)	5,237	4,424
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 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 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%	490	502
Term loan facility: 3 year term note with Sterling National Bank maturing on February 2, 2018, secured by all of the Company's personal property; principal of $27,778 is paid monthly and bears interest at a rate equal to the greater of 1% or thee Daily LIBOR rate plus 5.0% per annum (stated rate of 6.0% at April 1, 2017) …………………………………	278	389
	$ 7,428	$ 6,749
Current portion of long term debt	5,611	4,851
Long term debt, net of current portion	$ 1,817	$ 1,898

The Sterling 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 December 31, 2016, the Company was not in compliance with the Fixed Charge Coverage Ratio ("FCCR") of 1.15:1.00 and the minimum Tangible Net Worth covenant of $3.1 million of the Loan and Security Agreement with its Lender. On April 21, 2017, Sterling National Bank and the Company entered into the Second Amendment of the Loan and Security Agreement waving the FCCR and Minimum Tangible Net Worth covenants as of December 31, 2016, and through April 1, 2017, resetting the minimum Tangle Net Worth covenant and replacing the FCCR covenant with a minimum Free Cash Flow covenant beginning in April 2017 reporting period through the November 2017 reporting period, and then reverting back to a minimum FCCR thereafter.

As of April 1, 2017, the Company had $729,000 in available borrowing capacity under its Revolving Credit Facility with Sterling Business Credit.

The Company incurred $261,000 in prepaid debt issuance costs in connection with the Sterling Loan Agreement. The prepaid debt issuance cost includes legal, appraisal and other loan document fees in addition to a commitment fee of $112,500. Capitalized debt issuance fees are amortized into expense over the loan term and totaled $14,000 for the periods ended April 1, 2017 and April 2, 2016. Debt issuance costs incurred during the first fiscal quarters of 2017 and 2016 were primarily related to the amortization of prepaid debt costs associated with the Sterling Loan Agreement as well as the term loan with the Financial Authority of Maine.

5. 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 837,204 as of April 1, 2017.

At April 1, 2017, outstanding stock-based awards consisted of the following:

	Vested	Unvested
	(In thousands)	
Service-based stock options	1,010	—
Service-based restricted stock rights	—	80
Performance-based restricted stock rights	—	—
Total outstanding stock-based awards	1,010	80

Total stock-based compensation expense recognized for the three months ended April 1, 2017, and April 2, 2016 was as follows:

	Three Months Ended	
	April 1, 2017	April 2, 2016
	(In thousands)	
Selling, general and administrative	$ 24	$ 54
Pre-tax stock-based compensation expense	24	54
Income tax benefit	—	—
Total stock-based compensation expense	$ 24	$ 54

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 uses 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 1,070,000 as of April 1, 2017, and April 2, 2016, 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 April 1, 2017, and April 2, 2016, there were 80,000 and 80,000 performance-based stock grants to non-employee directors outstanding, respectively.

As of April 1, 2017, the total compensation cost related to unvested stock-based awards granted to executives and non-employee directors but not yet recognized was $17,000.

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 April 1, 2017, and April 2016, respectively.

6. 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 months ended April 1, 2017 and April 2, 2016 (in thousands, except per share amounts):

	Three Months Ended	
	April 1, 2017	**April 2, 2016**
	(In thousands, except per share data)	
(Loss) earnings per share from continuing operations, basic and diluted:		
Loss from operations	$ (93)	$ (198)
1% Subordinated convertible notes interest	—	—
Loss adjusted for assumed conversion	$ (93)	$ (198)
Basic: Weighted average common shares outstanding	12,489	12,419
Diluted: Weighted average common shares outstanding	12,489	12,419
Loss per share from operations, basic	$ (0.01)	$ (0.02)
diluted	$ (0.01)	$ (0.02)

Options, stock rights and convertible notes outstanding to purchase 7.0 million and 6.75 million shares of common stock were excluded from the computation of dilutive earnings per share for the three month period ended April 1, 2017, and April 2, 2016, because their inclusion would have been anti-dilutive.

7. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10 (formerly SFAS 109), 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 April 1, 2017, and December 31, 2016, the Company had a full valuation allowance on its deferred tax assets.

8. SUBSEQUENT EVENTS

On April 4, 2017, 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 $300,000, bears interest at a fixed per annum rate of 6.0%. Payments of principal and interest in the amount of $5,800, commencing one month from the date entered into and continuing on the same day of each month thereafter until April 4, 2022 (the "Maturity Date"), when, unless sooner paid, the remaining principal and accrued and unpaid interest, shall be due and payable in full. The Sterling National Bank Loan Agreement and the Subordinated Loan Agreement were amended in connection with the Equipment Loan to permit the transactions contemplated thereunder. In addition, Sterling National Bank 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. The proceeds of the FAME loan agreement were used to extinguish the remaining outstanding amount of $73,635 of the FAME loan agreement, entered into on November 11, 2013, and will be used for other ongoing working capital requirements.

As of December 31, 2016, the Company was not in compliance with the Fixed Charge Coverage Ratio ("FCCR") of 1.15:1.00 and the minimum Tangible Net Worth covenant of $3.1 million of the Loan and Security Agreement with its Lender. On April 21, 2017, Sterling National Bank and the Company entered into the Second Amendment of the Loan and Security Agreement waving the FCCR and Minimum Tangible Net Worth covenants as of December 31, 2016, and through April 1, 2017, resetting the minimum Tangle Net Worth covenant and replacing the FCCR covenant with a minimum Free Cash Flow covenant beginning in April 2017 reporting period through the November 2017 reporting period, and then reverting back to a minimum FCCR thereafter.

The company has evaluated subsequent events through May 11, 2017, which is the date the consolidated financial statements were available to be issued.

EXHIBIT B

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

The following discussion provides information and analysis of the Company's results of operations and its liquidity and capital resources, and should be read in conjunction with the Company's Consolidated Financial Statements and the other financial information included in Exhibit A and elsewhere in this Annual Report. 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.

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 January 2, 2016 as "fiscal 2015," the fiscal year ending December, 2016 as "fiscal 2016," and the fiscal year ending December 30, 2016, as "fiscal 2017." 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 2015, 2016 and 2017 each include 52 weeks. Accordingly, the quarters ended April 1, 2017 and April 2, 2016 each consisted of 13 weeks.

Fiscal Quarter of 2017 Financial Overview

Continuing Operations. Net sales from operations for the first quarter of fiscal 2017 were $5.0 million, a decrease of $519,000 or 9.4%, compared to net sales of $5.5 million in the first quarter of fiscal 2016. The net loss from operations during first quarter of fiscal 2017 was $93,000 and the net loss during the first quarter of fiscal 2016 was $198,000.

The Company's working capital as of April 1, 2017, decreased $121,000 to $2.9 million compared to $3.0 million as of December 31, 2016. Amounts outstanding on the Company's revolving credit facility as of April 1, 2017, increased to $5.2 million compared to borrowings of $4.4 million as of December 31, 2016. Excess availability on the Company's credit facility, as of April 1, 2017 decreased to $729,000 from $1.0 million as of as of December 31, 2016.

Net Earnings/Loss Per Share. Net loss per share from operations for the first quarter of fiscal 2017 was $0.01 compared to a net loss per share from continuing operations of $0.02 per share for the first quarter of fiscal 2016.

Results of Operations

Comparison of the Three Months Ended April 1, 2017, to the Three Months Ended April 2, 2016.

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

	Three Months Ended					
	April 1, 2017		April 2, 2016		Increase (Decrease)	
	(In thousands)					
Net sales	$ 4,983	100%	$ 5,502	100%	$ (519)	(9)%
Cost of goods sold	3,156	63%	3,414	62%	(258)	(8)%
Gross profit	1,827	37%	2,088	38%	(261)	(13)%
Operating expenses:						
Selling, general and administrative	1,796	36%	2,145	39%	(349)	(16)%
Total operating expenses	1,796	36%	2,145	39%	(349)	(16)%
Operating earnings (loss)	31	(1)%	(57)	(1)%	88	(*)%
Other (income)/expense, net	—	—%	—	—%		—%
Interest expense, net	124	3%	141	3%	(17)	(12)%
Loss before income taxes	(93)	(2)%	(198)	(4)%	105	53%
Income tax expense (benefit)	—	— %	—	— %	—	—%
Loss from operations	(93)	(2)%	(198)	(4)%	105	53%
Net loss	$ (93)	(2)%	$ (198)	(4)%	$ 105	53%

* Greater than 100%

Net Sales

Net sales from operations decreased $519,000 or 9.4% to $5.0 million in the first quarter of fiscal 2017 compared to $5.5 million in the first quarter of fiscal 2016.

The decrease in net sales for first three months of fiscal 2017 includes a $525,000 decline from internet based sales. In January of 2017, Shoes.com, another significant internet based retailer with whom the Company was doing business ceased operations. The failure of Shoes.com resulted in a bad debt write off of $181,000 which was recognized in the fourth quarter of fiscal 2016. Together with the loss of Benchmark brands who ceased operations during the third quarter of 2016, the net lost sales from these two accounts from the first quarter of fiscal 2016 not recurring in the first quarter of fiscal 2017 was $348,000.

Gross Profit

The consolidated gross profit margin from operations for the first quarter of fiscal 2017 was 36.7% compared to 37.9% for the first quarter of fiscal 2016. The 120 basis point decrease in the gross profit margin is in large part associated with the clearance of slower moving and phased out goods during the period together with an increase as a percentage of net sales of lower margin licensed footwear.

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, decreased $349,000 or 16.3%, to $1.8 million in the first quarter of fiscal 2017 compared to $2.1 million in the first quarter of fiscal 2016. SG&A as a percentage of net sales was 36.0% and 39.0% for the first quarters of fiscal 2017 and 2016, respectively.

With the loss of Benchmark and Shoes.com in fiscal 2016, the Company actively took steps to reduce operating expense in fiscal 2016 and during the first quarter of 2017. These steps included, but were not limited to; the elimination of three sales positions, reductions in marketing expenditures and the consolidation of service functions.

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 quarter of fiscal 2017 was $124,000 compared to $141,000 for the first quarter of fiscal 2016. The interest expense for the first quarter of fiscal 2017 and 2016 is primarily associated with the Company's revolving line of credit and term note with Sterling National Bank.

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. On April 4, 2017, the Company entered into a $300,000, 5 year term loan agreement with the FAME, and during fiscal 2015 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," as defined in Regulation D of the Securities Act of 1933, 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 fiscal 2017 and fiscal 2016, the Company funded its operations with cash generated by operating activities, borrowings from its revolving credit facility, and the sale in fiscal 2015 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 April 1, 2017, and December 31, 2016, working capital consisted of the following:

	April 1, 2017	December 31, 2016	Increase (Decrease)
		(In thousands)	
Current assets	$ 12,109	$ 12,155	$ (46)
Current liabilities	9,192	9,117	(75)
Working capital	$ 2,917	$ 3,038	$ (121)

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

Accounts Receivable

As of April 1, 2017, gross accounts receivable were $4.3 million, a decrease of $678,000 or 18.9% from $3.6 million as of December 31, 2016. Because the Company's business is seasonal, the gross receivables balance may be more meaningfully compared to the balance of $4.9 million at April 2, 2016, rather than the year-end balance. Compared to gross accounts receivables at April 2, 2016, gross receivables decreased $655,000 or 13.3%, which is consistent with the 9.4% decrease in net sales for the first quarter of 2017 when compared to the first quarter of 2016.

Inventory

As of April 1, 2017, gross inventory was $8.4 million compared to $9.6 million as of December 31, 2016, a decrease of $1.2 million or 12.3%. Compared to gross inventories of $11.6 million as of April 2, 2016, gross inventory decreased $3.2 million or 27.7% The decrease in inventory is the result of the Company change in buying during the Fall 2016 and Spring 2017 seasons to rebalance its inventory positions in proportion to anticipated demand.

Revolving Credit Facility

The outstanding balance on the revolving credit facility as of April 1, 2017, was $5.2 million, an increase of $813,000 or 18.4% when compared to $4.4 million as of December 31, 2016, and a decrease of $1.3 million or 19.7% when compared to $6.5 million as of April 2, 2016. The decrease in the outstanding balance of the revolving credit facility during the first quarter of fiscal 2017 when compared to the first quarter of fiscal 2016 is primarily associated with reduced Fall 2016 and Spring 2017 inventory purchasing.

As of December 31, 2016, the Company was not in compliance with the Fixed Charge Coverage Ratio ("FCCR") of 1.15:1.00 and the minimum Tangible Net Worth covenant of $3.1 million of the Loan and Security Agreement with its Lender. On April 21, 2017, Sterling National Bank and the Company entered into the Second Amendment of the Loan and Security Agreement waving the FCCR and Minimum Tangible Net Worth covenants as of December 31, 2016, and through April 1, 2017, resetting the minimum Tangle Net Worth covenant and replacing the FCCR covenant with a minimum Free Cash Flow covenant beginning in April 2017 reporting period through the November 2017 reporting period, and then reverting back to a minimum FCCR thereafter.

Accounts Payable and Accrued Expenses

As of April 1, 2017, accounts payable and accrued expense were $3.6 million, a decrease of $685,000 from $4.3 million as of December 31, 2016. Compared to accounts payable and accrued expense of $4.3 million as of April 2, 2016, accounts payable and accrued expense decreased 17.5% or $758,000. The decrease in accounts payables and accrued expense is primarily associated with the reduced level of inventory purchases together with lower operating expenses of $349,000 during the first quarter of fiscal 2017 when compared to the first quarter of fiscal 2016.

Cash Flows Used in Operations

Operations

Net cash used in operating activities in the first quarter of fiscal 2017 was $754,000 compared to $1.1 million of cash used in operating activities from in the first quarter of fiscal 2016. Cash used in operating activities during the first three months of 2017 included a $1.1 million decrease in inventories and a $864,000 decrease in accounts receivable and other current assets combined with a $686,000 decrease in accounts payable and accrued expenses as well as a $93,000 net loss.

Cash Flows Provided by (Used in) Investing Activities

Net cash provided by (used in) investing activities during the first quarter of fiscal 2017 and fiscal 2016 was $0 and $0, respectively.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities during the first three months of fiscal 2017 and fiscal 2016 was $$680,000 and $1.3 million, respectively.

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 Condensed Consolidated Financial Statements included in this Quarterly Report for the interim period ended April 1, 2017. As disclosed in Note 1, the Company's condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The preparation of the Company's condensed 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 its condensed 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 April 1, 2017 and December 31, 2016, 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.

Recently Adopted Accounting Standards

Inventory

In July 2015, the FASB issued ASU 2015-11: *Simplifying the Measurement of Inventory*, which modifies existing requirements regarding measuring inventory at the lower of cost or market. Specifically, this standard eliminates the need to determine and consider replacement cost or net realizable value less an approximately normal profit margin when measuring inventory. This ASU requires a prospective adoption method and is effective prospectively after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact that this pronouncement will have on its condensed consolidated financial statements. On December 31, 2016, the Company adopted this pronouncement, which did not have a material impact on its consolidated financial statements.
Stock Compensation

In March 2016, the FASB issued ASU No. 2016-09, *Compensation — Stock Compensation (Topic 718),* which is intended to increase simplification of accounting for equity share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard is effective for annual periods (including interim periods) beginning after December 15, 2016, with early adoption permitted.

Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating the expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. On December 31, 2016, the Company adopted this pronouncement, which did not have a material impact on its consolidated financial statements.

Recently Issued Accounting Standards - Not Yet Adopted

Statement of Cash Flows - Classification

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance for how certain transactions are classified in the statement of cash flows. This standard requires a retrospective transition method to each period presented and is effective for reporting periods beginning after December 15, 2017, with early adoption permitted. The Company is currently assessing the impact of the adoption of this standard on its condensed consolidated financial statements.

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842),* which is intended to increase transparency and comparability of accounting for lease transactions. This update revises accounting for operating leases by a lessee, among other changes, and requires a lessee to recognize a liability to make lease payments and an asset representing a company's right to use the underlying asset for the lease term in the balance sheet. The distinction between finance and operating leases has not changed and the update does not significantly change the effect of finance and operating leases on the statement of operations. This standard is effective for annual periods (including interim periods) beginning after December 15, 2019, with early adoption permitted. At adoption, this update will be applied using a modified retrospective approach. The Company is currently assessing the impact of adoption of this standard on its condensed consolidated financial statements.

Financial Instruments

In January 2016, the FASB issued ASU 2016-01: *Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities.* The pronouncement requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The ASU requires the adoption method by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments relating to equity securities without readily determinable fair values (including disclosure requirements) will be applied prospectively to equity investments that exist as of the date of adoption. These changes become effective for fiscal years beginning after December 15, 2017. The expected adoption method is being evaluated by the Company and is not expected to have a significant impact on its condensed consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09: *Revenue from Contracts with Customers (Topic 606)*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." ASU 2014-09 becomes effective for reporting periods (including interim periods) beginning after December 15, 2018. Early application is permitted for reporting periods (including interim periods) beginning after December 15, 2016. This new standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the impact that this pronouncement will have on its condensed consolidated financial statements. The Company has not yet selected a transition method or determined the effect of the standard on financial reporting once the standard is effective.

In May 2016, the FASB issued ASU 2016-12: *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which provides narrow scope improvements and practical expedients related to ASU 2014-09: *Revenue from Contracts with Customers (Topic 606)*. The purpose of ASU 2016-12 is to clarify certain narrow aspects of Topic 606 such as assessing the collectability criterion, presentation of sales taxes and other similar taxes collected from customers, noncash consideration, contract modifications at transition, completed contracts at transition, and technical correction. The standard has the same effective date as ASU 2014-09 described above. The Company is currently evaluating the impact that this pronouncement will have on its condensed consolidated financial statements. The Company has not yet selected a transition method or determined the effect of the standard on financial reporting once the standard is effective.

Off-Balance Sheet Arrangements

Other than operating leases, entered into from time to time in the normal course of business, and as discussed here and described in Note 3 of the notes to the condensed 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.