

PHOENIX FOOTWEAR GROUP, INC.
a Delaware corporation

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Carlsbad, California 92008

Telephone: (760) 602-9688
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www.softwalkshoes.com
www.trotters.com
www.buenofootwear.com
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3140
(SIC Code)

Annual Report

For the Fiscal Year Ended, December 30, 2023
(the "Reporting Period")

Outstanding Shares

The number of shares outstanding of our Common Stock was:

14,510,734 as of December 30, 2023

14,510,734 as of March 18, 2024

13,582,609 as of As of December 31, 2022

Shell Status

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: No:

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: No:

Change in Control

Indicate by check mark whether a change in control of the company has occurred over this reporting period:

Yes: No:

Item 1) Name and address(es) of the issuer and its predecessors (if any)

The exact name of the issuer is Phoenix Footwear Group, Inc. (hereinafter referred to as the "Company").

The issuer was incorporated in the State of Delaware in 2002 and is active and in good standing.

There was no prior incorporation or any predecessors during the past five years.

There have been no trading suspension orders issued by the SEC concerning the issuer since inception.

The issuer does not currently anticipate any stock split, stock dividend, recapitalization, merger, acquisition, spin-off or reorganization and none have occurred in the past 12 months.

The address of the issuer's principal executive offices:

2236 Rutherford Road, Suite 113
Carlsbad, California 92008

The address of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address:

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

No: Yes:

Item 2) Security Information

Transfer Agent

Computershare Investor Services
(877) 282-1168
Carer@computershare.co.uk
P.O. Box 43078
Providence, RI 02940-3078

Publicly Quoted or Trade Securities:

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 March 18, 2024

Total shares outstanding: 13,582,609 as of December 31, 2022

Total shares outstanding: 14,510,734 common shares as of December 30, 2023

Total shares outstanding: 14,510,734 common shares as of March 18, 2024

Total number of shareholders of record: 148 as of March 18, 2024

Other Classes of authorized or outstanding equity securities that do not have a trading symbol: NONE

Security Description:

1. For common equity, describe any dividend, voting and preemption rights.

NA

2. For preferred stock, describe the dividend, voting, conversion, and liquidation rights as well as redemption or sinking fund provisions.

NA

3. Describe any other material rights of common or preferred stockholders.

NA

4. Describe any material modifications to rights of holders of the company's securities that have occurred over the reporting period covered by this report.

NA

3) Issuance History

A. Changes to the Number of Outstanding Shares

Indicate by check mark whether there were any changes to the number of outstanding shares within the past two completed fiscal years:

No: Yes: (If yes, you must complete the table below)

Number of Shares outstanding on January 1, 2022		<u>Opening Balance:</u>							
		Common: 13,163,362 Preferred: N/A							
Date of Transaction	Transaction type (e.g. new issuance, cancellation, shares returned to treasury)	Number of Shares Issued (or cancelled)	Class of Securities	Value of shares issued (\$/per share) at Issuance	Were the shares issued at a discount to market price at the time of issuance? (Yes/No)	Individual/ Entity Shares were issued to (entities must have individual with voting/investment control disclosed).	Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)	Restricted or Unrestricted as of this filing?	Exemption or Registration Type?
April 1, 2022	New issuance	20,000	Common	\$0.12	No	Steven M. DePerrior	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2022	New issuance	20,000	Common	\$0.12	No	Stephanie E. Pianka	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933

April 1, 2022	New issuance	20,000	Common	\$0.12	No	Frederick Port	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2022	New issuance	20,000	Common	\$0.12	No	Steven Tannenbaum	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	54,664	Common	\$0.14	No	John Dillen	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	53,598	Common	\$0.14	No	Kevin Flannagan	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	100,476	Common	\$0.14	No	James Riedman	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	130,509	Common	\$0.14	No	Non-Executive Employees	Employee Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	20,000	Common	\$0.12	No	Steven M. DePerrior	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	20,000	Common	\$0.12	No	Stephanie E. Pianka	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	20,000	Common	\$0.12	No	Frederick Port	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	20,000	Common	\$0.12	No	Steven Tannenbaum	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	100,000	Common	\$0.09	No	John Dillen	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	112,500	Common	\$0.09	No	Kevin Flannagan	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	150,000	Common	\$0.09	No	James Riedman	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 3, 2023	New issuance	146,375	Common	\$0.09	No	Non-executive employees	Director Compensation - Shares issued	Restricted	Rule 701 under the Securities

							pursuant to restricted stock award		Act of 1933
June 30, 2023	New issuance	54,664	Common	\$0.14	No	John Dillen	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2023	New issuance	53,598	Common	\$0.14	No	Kevin Flannagan	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2023	New issuance	100,477	Common	\$0.14	No	James Riedman	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2023	New issuance	130,511	Common	\$0.14	No	Non-Executive Employees	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
Number of Shares outstanding on December 30, 2023	<u>Ending Balance:</u> Common: 14,510,734 Preferred: N/A								

B. Debt Securities, Including Promissory Notes and Convertible Notes

Indicate by check mark whether there are any outstanding promissory, convertible notes, convertible debentures, or any other debt instruments that may be converted into a class of the issuer's equity securities:

No:

Yes: (If yes, you must complete the table below)

Date of Note Issuance	Outstanding Balance as of 12/30/2023 (\$)	Principal Amount at Issuance (\$)	Interest Accrued as of 12/30/2023 (\$)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
July 21, 2011/July 30, 2012	\$1,680,373	\$1,350,000	\$30,847	July 31, 2024	(1)	Greenwood Capital; Steven Tannenbaum, President and General Partner	Loan
March 29, 2018	\$342,054	\$275,000	\$6,279	July 31, 2024	(1)	James R. Riedman	Loan
March 29, 2018	\$248,767	\$200,000	\$4,567	July 31, 2024	(1)	Steven Tannenbaum	Loan
March 29, 2018	\$62,192	\$50,000	\$1,142	July 31, 2024	(1)	Steven DePerrior	Loan
March 29, 2018	\$0.00	\$25,000	\$0.00	July 31, 2024	(1), (2)	Jose Lenhard	Loan

- (1) As described in Note 5 of the Notes to the Consolidated Financial Statements, pursuant to the amendment dated July 29, 2022, the notes accrue interest at a daily interest rate equal to 0.0208% which rate shall adjust by the Prime Rate Adjustment as and when the rate of interest on the Company's indebtedness to Senior Lender adjusts. The Company will pay the accrued interest in cash semi-annually in arrears on October 31 and April 30 of each year (each an "Interest Payment Date"), commencing October 31, 2022, or if any such

day is not a Business Day, on the next succeeding Business Day. All accrued but unpaid interest under this Note shall be payable at maturity (or upon conversion). On July 29, 2022, the maturity dates of the notes were extended until July 31, 2024. As of December 30, 2023, the Greenwood Notes are convertible into 16,803,730 shares of the Company's common stock at a conversion price of \$0.10 per share, and the 2018 Notes are convertible into 6,530,130 shares of the Company's common stock at a conversion price of \$0.10 per share. The conversion price is subject to adjustment in the event of certain corporate transactions, including but not limited to, recapitalization of the Company's capital stock, issuances of common stock at a price below the conversion price and reorganization, merger or consolidation.

- (2) On June 1, 2022, the Company entered into an agreement with Jose Lenhard to redeem, on or before June 1, 2022, a certain Convertible Note held by Jose Lenhard in the principal amount of \$25,000. In exchange, Mr. Lenhard agreed to accept such payment as full consideration for the redemption of the Note's full principal balance as well as all accrued and unpaid interest.

4) 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, and markets under the brands Trotters® and SoftWalk®. It is also the exclusive United States ("U.S.") distributor of Bueno Footwear and Los Cabos Shoes. The Company also has an exclusive licensing agreement, which began on January 1, 2022, with Pendleton Woolen Mills to design and sell footwear. These brands are primarily sold through department stores, leading specialty and independent retail stores, catalogues and internet retailers. The Company has been engaged in the manufacture or importation and sale of quality footwear since 1882.

B. Subsidiaries, parents or affiliated companies:

Penobscot Shoe Company, a Maine corporation, is a wholly owned subsidiary of the Company. James R. Riedman is the sole director of Penobscot and may be contacted at 760.602.9688 or jriedman@phxg.com.

C. 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.

Bueno. Known for style and comfort, Bueno provides retail price points from \$99 to \$200. Founded in 1950 in Istanbul, Turkey, Bueno is one of Europe's leading women's footwear brands, and is distributed in over 30 countries including Italy, Germany, France, Australia, and Canada. The Company has exclusive rights to market and sell the brand in the U.S.

Pendleton. Pendleton Woolen Mills (Pendleton) founded in 1863 is an iconic American brand, best known for its colorful woolen jacquard and print, blankets and apparel. The Company entered into an exclusive license agreement with Pendleton for the sale of branded rubberized footwear; primarily rainboots and activewear sandals. Retail price points range from \$79 to \$150. Under the license, the Company is marketing women's, men's and children's footwear.

Los Cabos. Los Cabos is a contemporary brand for the modern woman with fun-loving colors and carefully crafted textures at an affordable price. Los Cabos competes in the women’s footwear segment at retail price points from \$40 to \$90. With European sizing and vibrant colors, Los Cabos distinguishes itself from competitors such as Corky’s, Blowfish, and Hey Dude.

During the fiscal year ended December 30, 2023, the Company had one reportable segment consisting of its operations of Trotters, SoftWalk, Bueno, Pendleton, and Los Cabos.

Distribution Methods of Issuer’s Products.

Historically, a majority of the Company’s revenue is generated by the sale of women’s footwear. Trotters and SoftWalk products are sold by the Company’s own dedicated employee sales force that covers the U.S. market.

During 2017, the Company became the exclusive U.S. distributor for Bueno Footwear which is sold by both the Company’s own dedicated sales force and independent sales representatives that cover the entire U.S. market.

On August 6, 2021, the Company entered into a four-year licensing agreement commencing January 1, 2022, with Pendleton Woolen Mills, “PWM”, to design, market and distribute Rubber Footwear defined as footwear made with at least 50% rubber or rubber derivatives. Products sold under this agreement are sold by both the Company’s own dedicated sales force and independent sales representatives in the U.S. and Canadian markets.

During 2022, the Company entered into an exclusive agreement with Urban Shoemakers Pty. Ltd. to become the U.S Distributor for Los Cabos Footwear, beginning in Spring 2023, for a period of five years. At the end of that period, the agreement will renew for a period of two years unless terminated. Under this agreement, products are sold by both the Company’s own dedicated sales force and independent sales representatives in the United States.

During the fiscal year ended December 30, 2023, and December 31, 2022, all the Company’s products were carried by approximately 484 and 493 customers in over 907 and 731 retail locations, respectively, 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. The Company’s top ten customers represented approximately 75% and 77% of net sales from operations for the years ended December 30, 2023, and December 31, 2022, respectively. Zappos.com, accounted for 18% and 18% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Nordstrom Direct accounted for 10% and 9% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively. DSW accounted for 19% and 16% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively, while Costco Wholesale accounted for 2% and 12%, respectively, during those same periods.

Consumer Direct.

The Company believes its e-commerce websites complement the Company’s existing wholesale business by increasing consumer awareness of the Company’s brands. Sales through the Company’s internet websites represented approximately 8% and 7% of its net sales for the fiscal years ended December 30, 2023, and December 31, 2022. The products marketed through the Company’s websites 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., www.Trotters.com., www.Buenofootwear.com., www.penfootwear.com and loscabosshoes.us.

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®, and Munro America® brands, as well with retailers' private label footwear, while SoftWalk primarily competes with the Sofft®, Born®, Dansko®, and Alegria® brands. Bueno primarily competes with Tamaris®, Miz Mooz®, Ecco® and Pikolinos® brands, and Los Cabos competes with Corky's®, Blowfish®, and Hey Dude® brands. Pendleton competes with Patagonia®, The North Face®, and Columbia®.

The Company believes that 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.

Issuer's Business Risks

Our products are produced outside the U.S. where we are subject to the risks of international commerce.

A majority of our products are produced in China, India and Turkey. Therefore, our business is subject to the following risks of doing business offshore:

- the imposition of additional United States legislation and regulations relating to imports, including quotas, duties, taxes or other charges or restrictions;
- foreign governmental regulation and taxation;
- effects of inflation and foreign currency exchange rate fluctuations;
- the occurrence of contagious disease or illness and its impact on suppliers
- changes in economic conditions;
- transportation conditions and costs in the Pacific and Atlantic;
- changes in the political stability of China, India and Turkey; and
- changes in relationships between the United States and China, India and Turkey.

Changes in any of these factors could materially increase our costs of products and we may not be able to recover all of our cost increases through price increases to our customers. If any of these factors were to render the conduct of business in these countries undesirable or impracticable, we would have to manufacture or source our products elsewhere. There can be no assurance that additional sources or products would be available to us or, if available, that these sources could be relied on to provide product at terms favorable to us. The occurrence of any of these developments could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Changes to United States tax, tariff and import/export regulations may have a negative effect on global economic conditions, financial markets and our business.

The current political climate has introduced greater uncertainty with respect to trade policies, tariffs and government regulations affecting trade between the U.S. and other countries. We source products from manufacturers located outside of the U.S., primarily in China. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported products or the imposition of unilateral tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

Public health crises could harm our business.

Public health crises could harm our business. Public health crises, such as the outbreak of the coronavirus (COVID-19) first identified in Wuhan, China, could cause disruption to the Company's manufacturers and suppliers located in China and elsewhere. If our manufacturers and suppliers are so affected, our supply chain could be disrupted causing our product shipments to be delayed. In addition, a public health crisis could negatively impact our consumer spending in impacted regions or globally, which could materially adversely affect our business, financial condition, and results of operation.

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 \$198,000 and \$198,000 during the fiscal years ended December 30, 2023, and December 31, 2022, 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, India, and Turkey. 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 production is performed by the Company's in-house production team in the U.S., with closer inspection from its staff located in China and India. 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 and India perform 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, India and Turkey have 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 inability 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 have terminated their relationship with the Company. As a result, the Company is not always assured of an uninterrupted supply of products of 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.

The Company's top ten customers represented approximately 75% and 77% of net sales from operations for the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Zappos.com, accounted for 18% and 18% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Nordstrom Direct accounted for 10% and 9% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively. DSW accounted for 19% and 16% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively while Costco Wholesale accounted for 2% and 12%, respectively, 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 vigorously protects its intellectual property against infringement. The Company's patents expire at various times through August 2030. The Company cannot be sure, however, that its activities do not, and will not, infringe on the proprietary rights of others.

On August 6, 2021, the Company entered into a four-year licensing agreement commencing January 1, 2022, with Pendleton Woolen Mills, ("PWM"), to design, market and distribute Rubber Footwear defined as footwear made with at least 50% rubber or rubber derivatives. During 2023, the agreement was amended to include all types of footwear. Under the terms of the licensing agreement, the Company is required to pay a royalty fee of 7.5% on net invoiced wholesale trade sales on adult styles, 5% on net invoiced sales on kid styles, and 5% on net invoiced direct to consumer sales. Payments are due at the end of each quarter over the term of the agreement. The licensing agreement guarantees a minimum royalty payment of \$56,000 in 2022, \$75,000 in 2023, \$112,000 in 2024, and \$150,000 in 2025. In addition to, and not included in the minimum royalties outlined previously, the Company agrees to pay 2% of its net invoiced sales of any licensed products bearing the PWM "National Parks Stripes" designs to the National Park Foundation/Pendleton Fund under the same payment terms outlined previously.

During 2022, the Company entered into an exclusive agreement with Urban Shoemakers Pty. Ltd. to become the U.S Distributor for Los Cabos Footwear, beginning in Spring 2023, for a period of five years. At the end of that period, the agreement will renew for a period of two years, unless terminated. Under this agreement, products will be sold by both the Company's own dedicated sales force and independent sales representatives in the United States

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 products or services.

5) Issuer's Facilities

The general location, use and approximate size of the Company's principal properties are set forth below:

<u>Facility/Location</u>	<u>Own/Lease</u>	<u>Description</u>	<u>Approximate Square Footage</u>
Carlsbad, California	Lease	Office Space	7,574
Old Town, Maine	Lease	Warehouse	75,000
Dongguan, People's Republic of China	Lease	Office Space	1,507

The Company leases facilities under operating lease agreements expiring through September 2024. The Company's corporate headquarters are located in Carlsbad, California and consists of approximately 7,574 square feet. The lease for the Company's headquarters expires in September 2024.

The Company also leases land and a warehouse located in Old Town, Maine. The Old Town Maine lease expired in June 2023, and the Company has not renewed the lease and is on a month-to-month tenancy. It also leases an office space in Dongguan, China to maintain staff to oversee its manufacturing operations in China. The lease in China expired in March 2024 and it was renewed for another one-year term beginning on April 1, 2024 and expiring on March 31, 2025.

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

6) Officers, Directors, and Control Persons

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables show the number of shares of common stock beneficially owned by directors, executive officers, by directors and executive officers as a group, and by persons known to the Company to beneficially own more than five percent of the outstanding shares of common stock as of March 18, 2024. For the purposes of computing a person's beneficial ownership, shares of common stock issuable upon the exercise of securities exercisable within 60 days of March 18, 2024, 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 14,590,734 shares of the Company's stock (net of treasury shares) were outstanding as of March 18, 2024. Except as otherwise indicated, known to the Company, the beneficial owners of common stock listed below have sole or shared investment and voting power with respect to such shares.

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned (1)(2)(3)	Share type/class	Ownership Percentage of Class Outstanding	Names of control person(s) if a corporate entity	Note
James R. Riedman	Executive Officer, Director	Rancho Santa Fe, CA	29,587,684	Common	79.5%		(2), (3), (4), (5)
Steven Tannenbaum and Greenwood Investments, Inc.	Director and Control Person	Miami, FL	29,587,684	Common	79.5%	Steven Tannenbaum	(2), (3), (4), (5)
Frederick R. Port	Director	Rancho Santa Fe, CA	285,000	Common	2.0%		(2)
Steven M. DePerrior	Director	Rochester, NY	280,000	Common	1.9%		(2)
Stephanie E. Pianka	Director	Lake Placid, NY	280,000	Common	1.9%		(2)
John M. Dillen	Executive Officer	Cascade, ID	309,328	Common	2.1%		

* Less than 1% of the Company's outstanding common stock.

- (1) Unless otherwise noted, and subject to applicable community property laws, each person has sole voting and dispositive power with respect to all shares of common stock beneficially shown as owned by that person.
- (2) Includes shares issuable upon the exercise of outstanding stock options and performance-based deferred stock awards (includes shares shown in Table 3 Share Issuance above) as follows:

Frederick R. Port	20,000
Stephanie E. Pianka	20,000
Steven M. DePerrior	20,000
Steven Tannenbaum	20,000
All current directors and executive officers as a group (4 persons)	80,000

- (3) Includes: (i) 1,261,600 shares owned directly by Mr. Riedman; (ii) 150,000 shares issued to Mr. Riedman pursuant to a restricted stock award as compensation for his services as an employee of the Company; (iii) 3,420,540 shares issuable upon conversion of a promissory note held by Mr. Riedman in the aggregate principal amount of \$342,054; (iv) 203,804 shares owned directly by CE Capital, LLC, an entity over which Mr. Riedman has managerial control; and (v) 87,337 shares owned by Mr. Riedman's children. (vi) 200,953 shares issued to Mr. Riedman pursuant to a restricted stock award as compensation for his services as an employee to the Company. Mr. Riedman can be reached c/o Phoenix Footwear Group, Inc., 2236 Rutherford Road, Suite 113, Carlsbad, California 92008.

- (4) Includes: (i) 4,812,050 shares owned directly by Greenwood Capital, LP; (ii) 16,803,730 shares issuable upon conversion of three promissory notes held by Greenwood Capital, LP in the aggregate original principal amount of \$1,680,373 (the “Greenwood Notes”); (iii) 2,487,670 shares issuable upon conversion of a promissory note held by Steven Tannenbaum in the aggregate principal amount of \$248,767; and (iv) 140,000 shares issued to Mr. Tannenbaum pursuant to a restricted stock award as compensation for serving on the Company’s Board of Directors, and (v) 20,000 shares issuable to Mr. Tannenbaum upon the exercise of performance-based stock awards. Also includes shares held by the Riedman Parties that may be deemed to be beneficially owned by Mr. Tannenbaum, Greenwood Capital, LP and Greenwood Investments, Inc. under the Voting Agreement as described in Note 5 below. Greenwood Investments, Inc. is the general partner of Greenwood Capital, LP, and has voting and dispositive power over all of the shares owned by Greenwood Capital, LP. Mr. Tannenbaum is the president of Greenwood Investments, Inc. Greenwood Capital LP, Greenwood Investments, Inc., and Mr. Tannenbaum (collectively the “Greenwood Parties”) can be reached c/o Phoenix Footwear Group, Inc. 2236 Rutherford Road Suite 113, Carlsbad, CA 92008.
- (5) In connection with the purchase of the Greenwood Notes, the Greenwood Parties entered into a Voting Agreement on July 21, 2011, with James Riedman and Riedman Corporation (together, 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 23,884,412 shares beneficially owned by the Greenwood Parties and (ii) the Greenwood Parties may be deemed to beneficially own 5,501,797 shares beneficially owned by the Riedman Shareholders. Both the Riedman Shareholders and Greenwood Parties expressly disclaim being a member of Section 13(d)(3) “group” with any of the reporting persons of the other party, and further expressly disclaim any beneficial ownership of the shares of the other. As of January 1, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

7) Legal/Disciplinary History

- A. None of the persons listed in Item 6 above have, in the past 10 years, been the subject of:
- (1) an indictment or conviction in a criminal proceeding or plea agreement or named as a defendant in a pending criminal proceeding (excluding minor traffic violations);
 - (2) of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person’s involvement in any type of business, securities, commodities, financial- or investment-related, insurance or banking activities;
 - (3) of a finding, disciplinary order or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, a state securities regulator of a violation of federal or state securities or commodities law, or a foreign regulatory body or court, which finding or judgment has not been reversed, suspended, or vacated;
 - (4) Named as a defendant or a respondent in a regulatory complaint or proceeding that could result in a “yes” answer to part 3 above; or
 - (5) an order by a self-regulatory organization that permanently or temporarily barred, suspended, or otherwise limited such person’s involvement in any type of business or securities activities
 - (6) a U.S Postal Service false representation order, or a temporary restraining order, or preliminary injunction with respect to conduct alleged to have violated the false representation statute that applies to U.S mail.
- B. Material Pending Legal Proceedings: None.

8) Party Providers

Securities Counsel: Woods Oviatt Gilman LLP
1900 Bausch & Lomb Place
Rochester, NY 14604
(585) 987-2800
Greg Gribben, Partner
administrator@woodsoviatt.com

Accounting Firm: Mayer Hoffman McCann P.C.
13500 Evening Creek Drive N#450
San Diego, CA 92128
(858) 795-2159
Nathan Story, Engagement Shareholder
nstory@cbiz.com

Investor Relations: John Dillen, Chief Financial Officer, Secretary and Treasurer
2236 Rutherford Road, Suite 113, Carlsbad, CA 92008
760-602-9688
jdillen@phxg.com

All other means of Investor Communications: None

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

9) Disclosure and Financial Information

A. This Disclosure Statement was prepared by (name of individual):

Name: John Dillen
Title: CFO
Relationship to Issuer: Employee and Officer
Qualifications of person or persons who prepared the financial statements: CFO

B. The following financial statements were prepared in accordance with:

U.S. GAAP
 IFRS

C. The following financial statements were prepared by (name of individual):

Name: John Dillen
Title: CFO
Relationship to Issuer: Employee and Officer
Qualifications of person or persons who prepared the financial statements: CFO

The following audited consolidated financial statements are attached at the end of this Annual Report as **Exhibit A** are and are hereby incorporated by reference:

- a. Independent Auditors' Report
- b. Consolidated Balance Sheets as of December 30, 2023, and December 31, 2022.
- c. Consolidated Statements of Operations for the fiscal years ended December 30, 2023, and December 31, 2022.
- d. Consolidated Statements of Stockholders' Equity for the fiscal years ended December 30, 2023, and December 31, 2022.
- e. Consolidated Statements of Cash Flows for the fiscal years ended December 30, 2023, and December 31, 2022.
- f. Notes to the Consolidated Financial Statements.

Item 10) Issuer's Certifications.

I, James R. Riedman, certify that:

1. I have reviewed this annual 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.

Date: March 18, 2024

/s/ James R. Riedman,
Chief Executive Officer

I, John M. Dillen, certify that:

1. I have reviewed this annual 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.

Date: March 18, 2024

/s/ John M. Dillen,
Chief Financial Officer

Exhibit A

PHOENIX FOOTWEAR GROUP, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED DECEMBER 30, 2023, and December 31, 2022

Audited Financial Statements

Independent Auditors' Report

Consolidated Balance Sheets
As of December 30, 2023, and December 31, 2022

Consolidated Statements of Operations
For the fiscal years ended December 30, 2023, and December 31, 2022

Consolidated Statements of Stockholders' Equity
For the fiscal years ended December 30, 2023, and December 31, 2022

Consolidated Statements of Cash Flows
For the fiscal years ended December 30, 2023, and December 31, 2022

Notes to Consolidated Financial Statements



Independent Auditors' Report

To the Audit Committee and Stockholders
of **Phoenix Footwear Group, Inc.**

Opinion

We have audited the consolidated financial statements of **Phoenix Footwear Group, Inc. (the "Company")**, which comprise the consolidated balance sheets as of **December 30, 2023** and **December 31, 2022**, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of **December 30, 2023** and **December 31, 2022**, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Mayer Hoffman McCann P.C.
13500 Evening Creek Dr. N., Suite 450
San Diego, CA 92128

Phone: 858.795.2000
Fax: 858.795.2001
mhmcpa.com



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as

fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

/s/ Mayer Hoffman McCann P.C.

San Diego, California
March 18, 2024

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

	<u>December 30, 2023</u>	<u>December 31, 2022</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 37	\$ 9
Accounts receivable, net (less allowance for bad debt of \$31 and \$48 in 2023 and 2022, respectively)	3,566	5,488
Inventories (less allowance of \$197 and \$231 in 2023 and 2022, respectively)	9,719	10,147
Income tax receivable – Employee Retention Tax Credit (Note 7)	813	813
Other current assets	660	847
Total current assets	14,795	17,304
PROPERTY, PLANT AND EQUIPMENT, net	40	65
RIGHT OF USE ASSETS, OPERATING	108	249
RIGHT OF USE ASSETS, FINANCED	15	48
TOTAL ASSETS	<u>\$ 14,958</u>	<u>\$ 17,666</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit, current (Note 5)	\$ 5,991	\$ 7,484
Accounts payable	2,589	2,229
Consultant contingency fee for Employee Retention Tax Credit (Note 7)	114	114
Accrued expenses	845	1,078
Returns and allowances liability	1,091	1,413
Current portion of right of use obligations, operating	146	157
Current portion of right of use obligations, financed	4	72
Current portion of convertible debt	2,333	—
Income Tax Payable	—	7
Total current liabilities	13,113	12,554
LONG-TERM LIABILITIES		
Convertible debt	—	2,333
Right of use obligations, operating, net of current portion	—	147
Right of use obligations, financed, net of current portion	11	14
Other non-current liabilities	1	12
Total liabilities	13,125	15,060
Commitments and Contingencies (Note 3)		
STOCKHOLDERS' EQUITY:		
Common stock, \$0.01 par value — 50,000 shares authorized; 14,727 and 13,799 shares issued and outstanding in 2023 and 2022, respectively	147	138
Additional paid-in-capital	48,497	48,367
Accumulated deficit	(44,168)	(43,256)
Treasury stock at cost, 217 shares in 2023 and 2022	(2,643)	(2,643)
Total stockholders' equity	1,833	2,606
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 14,958</u>	<u>\$ 17,666</u>

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

PHOENIX FOOTWEAR GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years Ended	
	December 30, 2023	December 31, 2022
Net sales	\$ 19,148	\$ 21,707
Cost of goods sold	<u>12,030</u>	<u>12,793</u>
Gross profit	7,118	8,914
Operating expenses:		
Selling, general and administrative	<u>7,164</u>	<u>7,132</u>
Total operating expenses	<u>7,164</u>	<u>7,132</u>
Operating income (loss)	(46)	1,782
Non-operating other (income), net - Employee Retention Tax Credit	—	(699)
Interest expense, net	<u>873</u>	<u>1,031</u>
Income (loss) before income taxes	(919)	1,450
Income tax (expense) benefit	<u>7</u>	<u>(21)</u>
Net income (loss)	<u>\$ (912)</u>	<u>\$ 1,429</u>
Net income (loss) per share:		
Basic	<u>\$ (0.06)</u>	<u>\$ 0.11</u>
Diluted	<u>\$ (0.06)</u>	<u>\$ 0.05</u>
Weighted average shares outstanding used to calculate per share information:		
Basic	14,188	13,396
Diluted	<u>14,188</u>	<u>37,508</u>

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

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

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Treasury Stock</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Shares</u>	<u>Amount</u>	
Balance — January 1, 2022	13,380	\$ 134	\$ 48,315	\$ (44,685)	(217)	\$ (2,643)	\$ 1,121
Stock-Based Compensation	419	4	52	—	—	—	56
Net Income	—	—	—	1,429	—	—	1,429
Balance — December 31, 2022	13,799	\$ 138	\$ 48,367	\$ (43,256)	(217)	\$ (2,643)	\$ 2,606
Stock-Based Compensation	928	9	130	—	—	—	139
Net loss	—	—	—	(912)	—	—	(912)
Balance — December 30, 2023	14,727	\$ 147	\$ 48,497	\$ (44,168)	(217)	\$ (2,643)	\$ 1,833

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

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

	Years Ended	
	December 30, 2023	December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (912)	\$ 1,429
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	199	230
Provision for losses on accounts receivable	(17)	(25)
Non-cash stock-based compensation	139	56
Amortization of deferred financing costs	23	143
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,939	(1,487)
Inventories, net	428	(4,170)
Income tax receivable – Employee Retention Tax Credit (Note 7)	—	(813)
Other current assets	164	(214)
Other non-current assets	—	(18)
Increase (decrease) in:		
Accounts payable	360	486
Contingent fee liability – Employee Retention Tax Credit (Note 7)	—	114
Accrued expenses	(233)	281
Returns and allowances liability	(322)	83
Income Tax Payable	(7)	7
Other long-term liabilities	(169)	(149)
Net cash provided by (used in) operating activities	<u>1,592</u>	<u>(4,047)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	21,068	27,662
Convertible debt borrowings	—	119
Payments of line of credit	(22,561)	(23,594)
Payments of notes payable	—	(66)
Payments on right of use obligation, financed	(71)	(110)
Net cash provided by (used in) financing activities	<u>(1,564)</u>	<u>4,011</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	28	(36)
CASH AND CASH EQUIVALENTS — Beginning of period	<u>9</u>	<u>45</u>
CASH AND CASH EQUIVALENTS — End of period	\$ 37	\$ 9
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	806	993
Income taxes	7	21
Supplemental disclosure of non-cash financing activities:		
Issuance of restricted stock grants	139	56

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

PHOENIX FOOTWEAR GROUP, INC.
NOTES TO THE 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, “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 consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

Accounting Period

The Company’s operating and reporting period is on a 52–53-week fiscal year ending on the Saturday nearest to December 31st. The Company refers to the fiscal year ended December 31, 2022, as “fiscal 2022,” and the fiscal year ended December 30, 2023, as “fiscal 2023.” 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 2023 ended December 30, 2023, and fiscal 2022 ended December 31, 2022, included 52 and 52 weeks, respectively.

Principles of Consolidation

The consolidated financial statements consist of Phoenix Footwear Group, Inc. and its wholly owned subsidiary, Penobscot Shoe Company. Intercompany accounts and transactions have been eliminated in consolidation.

Management Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management believes that the estimates, judgments and assumptions made when accounting for items and matters such as, but not limited to, the allowances for doubtful accounts, sales returns, impairment assessments and charges, recoverability of assets (including deferred tax assets), uncertain tax positions, share-based compensation expense, the assessment of lower of cost or net realizable value on inventory, useful lives assigned to long-lived assets, and depreciation are reasonable based on the information available at the time they were made. Management also makes estimates in the assessments of potential losses in relation to tax matters and threatened or pending legal proceedings. Actual results could materially differ from those estimates. For matters not related to income taxes, if a loss is considered probable and the amount can be reasonably estimated, the Company recognizes an expense for the estimated loss. If there is the potential to recover a portion of the estimated loss from a third party, management makes a separate assessment of recoverability and reduces the estimated loss if the recovery is deemed probable.

Segments

The Company determines operating segments on the same basis that it evaluates the performance internally. The operating segments have been aggregated and are reported as one reportable financial segment. The Company aggregates its operating segments for financial reporting purposes because they are similar in each of the following areas: economic characteristics; type of customer; nature of products; nature of production processes; and distribution methods.

The Company had only one reportable segment in both fiscal 2023 and fiscal 2022 consisting of Trotters, SoftWalk, Los Cabos, Pendleton, and Bueno.

Business and Credit Concentrations

The Company maintains cash in U.S. bank accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant cash risk.

The Company sold much of its footwear to 484 and 493 customers during the fiscal year ending December 30, 2023, and December 31, 2022, respectively, across the U.S., comprised of leading specialty and independent retail stores, mail order catalogues, uniform, and internet retailers. A decision by the controlling owner of a group of stores or any significant customer to decrease the amount of merchandise purchased from the Company or to cease carrying the Company's products could have an adverse effect on the Company's results of operations in future periods. Additionally, the financial difficulties of a customer could cause the Company to curtail business with that customer or the customer to reduce its business with the Company and cancel orders. The Company's top ten customers represented approximately 75% and 77% of net sales from operations for the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Zappos.com accounted for 18% and 18% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively and Nordstrom Direct accounted for 10% and 9% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively. DSW accounted for 19% and 16% of net sales during the fiscal years ended December 30, 2023, and December 31, 2022, respectively, while Costco Wholesale accounted for 2% and 12%, respectively, during those same periods.

The Company extends credit to these customers based on an evaluation of each customer's financial condition. The Company monitors its exposure for credit losses on all receivables and maintains allowances for anticipated losses. Credit risk is impacted by conditions or occurrences within the economy and the retail industry and is principally dependent on each customer's financial condition. Four of the Company's customers constituted 60% of trade accounts receivable outstanding on December 30, 2023, and five of the Company's customers constituted 65% of trade accounts receivable as of December 31, 2022. The Company's inability to collect on its trade accounts receivable from any of its major customers could adversely affect the Company's results of operation and financial condition.

The Company currently buys all its products from seven independent contract manufacturers located in China, India and Turkey. As of December 30, 2023, and December 31, 2022, four of the Company's vendors constituted 63% and 62% of its accounts payable, respectively. The Company does not have long-term written agreements with any of its manufacturers. The Company could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet the Company's quality control standards, failure to meet production deadlines or increased manufacturing costs. If the Company's current manufacturers cease doing business with it, the Company could experience an interruption in the manufacture of the Company's products. Although the Company believes that it could find alternative manufacturers, the Company may be unable to establish relationships with alternative manufacturers that will be as favorable as the relationships that exist currently. If the Company is unable to provide products consistent with its standards or the manufacture of the Company's footwear is delayed or becomes more expensive, this could result in customers canceling orders, refusing to accept deliveries or demanding reductions in purchase prices, any of which could have a material adverse effect on the Company's business and results of operations. In addition, the Company's operations are subject to the customary risks of doing business abroad, including but not limited to currency fluctuations and revaluations, custom duties and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability.

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 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 and convertible notes approximates its fair value based upon current rates and terms available to the Company for similar debt.

Revenue Recognition

The Company recognizes revenue under the accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments. Revenue is recognized when obligations under the terms of a contract with our customers are satisfied; this generally occurs upon shipment of our product to our customer, which is when the transfer of control of our products passes to the customer. The duration of our arrangements with our customers is typically one year or less. Revenue is measured as the amount of consideration we expect to receive in exchange for the transfer of our products at a point in time and consists of either fixed or variable consideration or a combination of both.

Revenues from sales are recorded at the net sales price, which includes estimates of variable consideration for which reserves are established. Components of variable consideration include prompt payment discounts, volume rebates, and product returns. These reserves, as detailed below, are based on the amounts earned, or to be claimed on the related sales, and are classified as a current liability.

When a customer has a right to a prompt payment discount, we estimate the likelihood that the customer will earn the discount using historical data and adjust our estimate when the estimate of the likelihood that a customer will earn the discount changes or the consideration becomes fixed, whichever occurs earlier. Because most of our customers have payment terms less than six months, there is not a significant financing component in our contracts with customers.

When a customer has consignment terms, we reserve 100% of those sales, and we adjust our estimate either when the most likely amount of consideration we expect to receive changes, or when the consideration becomes fixed, whichever occurs earlier.

The Company's levels of reserves fluctuate depending upon all of the factors mentioned above. The Company also reserves for potential co-op advertising normally taken by its customers. These trade allowances provided to its retail customers enhance the flow of goods through the retail channels while reducing the level of sales returns.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable, net

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' creditworthiness is reviewed periodically based on external credit reporting services and the Company's experience with the account and 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 the further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, historical losses and its customers' creditworthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve.

Also, in accordance with ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Company provides a reserve based upon its historical loss rate as percentage of sales on those receivables not specifically identified, net of other reserves. The Company adopted this standard in 2023, and there was no impact to the financial statements of operations upon adoption.

The Company's levels of reserves fluctuate depending upon all of the factors mentioned above.

Historically, actual results in these areas have not been materially different than the Company'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, its results of operations could be materially affected.

Inventories and Cost of Goods Sold

Inventories, principally finished goods, are valued at the lower of cost (based on the first-in, first-out method) or net realizable value. The cost elements included in inventory consist of 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. 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.

Cost of goods sold includes the inventory cost elements listed above 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.

Deferred Financing Costs

Deferred financing costs are amortized over the term of the related debt instrument. Amortization expense associated with deferred financing costs is recorded as interest expense and totaled \$23,000 and \$143,000 in fiscal 2023 and fiscal 2022, respectively. The amortization expense during fiscal 2023 was associated with the Company's Invoice Purchase and Security Agreement with Alterna Capital Solutions, and the amortization expense during 2022 was mostly associated with the Company's Invoice Purchase and Security Agreement with Alterna Capital Solutions as well as the extinguishment of the Company's Credit and Security Agreement with Iron Horse Credit LLC.

Property, Plant, Equipment, Depreciation and Amortization

Property, plant and equipment are recorded at cost. Repair and maintenance costs that do not improve service potential or extend economic life are expensed as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Land is not depreciated, and construction in progress is not depreciated until ready for service. Leasehold improvements recorded at the inception of a lease are amortized using the straight-line method over the life of the lease or the useful life of the improvement, whichever is shorter. For improvements made during the lease term, the amortization period is the shorter of the useful life or the remaining lease term (including any renewal periods that are deemed to be reasonably assured). Property under finance or operating leases is amortized over the lives of the respective leases or the estimated useful lives of the assets, whichever is shorter.

The following tables summarize the Company's major classes of property, plant and equipment and right of use leased assets:

	<u>December 30, 2023</u>	<u>December 31, 2022</u>	<u>Useful Lives (Years)</u>
	(In thousands)		
Machinery, furniture and equipment	\$ 370	\$ 370	4 - 10 years
Leasehold improvements	156	156	2 - 10 years
Computer hardware and software.....	544	544	2 - 5 years
	<u>1,070</u>	<u>1,070</u>	
Less accumulated depreciation and amortization	(1,030)	(1,005)	
Property, plant and equipment, net.....	<u>\$ 40</u>	<u>\$ 65</u>	

	<u>December 30, 2023</u>	<u>December 31, 2022</u>	<u>Useful Lives (Years)</u>
	(In thousands)		
Right of use assets, financed.....	\$ 736	\$ 736	5-10 years
Right of use assets, operating.....	766	766	3-5 years
Less accumulated depreciation and amortization	(1,379)	(1,205)	
Right of use assets, net.....	<u>\$ 123</u>	<u>\$ 297</u>	

As described in Note 6, "Leases", on July 1, 2013, the Company completed the sale and contemporaneous leaseback of the land and warehouse facility (collectively, the "Property") located in Old Town, Maine and owned by Penobscot Shoe Company, a Maine corporation and wholly owned subsidiary of the Company ("Penobscot"), to Old Town Partners, LLC (the "Buyer") pursuant to the terms of a purchase and sale agreement for \$620,000. The transaction was accounted for as a capital lease resulting in the recording of a capital leased asset and capital leased obligation equal to the Property's selling price. A gain of \$224,000 on the sale of the Property was deferred and is being recognized in proportion to depreciation of the capital leased asset over the initial 10-year term of the lease. Upon adoption of ASC 842, the Company now classifies the sale and leaseback of its facility in Old Town, Maine as a right of use asset.

During the second quarter of 2023, the final payment was made on the lease and the obligation no longer exists. The Company continues to lease space in that location on a month-to-month basis.

Depreciation and amortization expense associated with the Company's fixed and right of use assets during fiscal 2023 and fiscal 2022 was \$199,000 and \$230,000, respectively.

Long-lived Assets Impairments

The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Identification of any impairment would include a comparison of estimated future undiscounted operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value. For fiscal 2023 and fiscal 2022, no impairment loss was recognized as a result of this review.

Shipping Activities

Amounts billed to customers related to shipping and handling costs incurred in delivering product to the customer are included in net sales. Related costs incurred are included in cost of goods sold. Shipping and handling

costs incurred in bringing products to the Company's warehouse are capitalized as part of inventory. Costs associated with the Company's own distribution and warehousing are expensed as incurred and are included in SG&A.

Product Design and Development Costs

Expenditures relating to the design of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred and included in SG&A. The amounts charged to expense were \$198,000 and \$198,000 in fiscal 2023 and fiscal 2022, respectively.

Advertising Programs

The Company capitalizes direct-response advertising costs when (1) it can be shown that customers responded to a specific advertisement and (2) there is a probable future economic benefit. Direct-response advertising costs, such as those for our catalogues, are capitalized and amortized over their useful lives (generally two to four months). As of December 30, 2023, and December 31, 2022, the Company had no capitalized advertising costs. The Company expenses non-direct-response advertising production costs as incurred and records communication costs as an expense when the advertisement first takes place. Catalogue and other advertising costs totaled \$206,000 and \$173,000 during fiscal 2023 and fiscal 2022, respectively.

The Company participates in certain cooperative advertising programs to reimburse a portion of advertising and marketing costs that its customers may incur. Such costs include mailing expenses for catalogues and advertisement runs in newspapers, magazines, radio and television. The Company records cooperative advertising costs as an expense when the advertising first takes place. Total cooperative advertising expense, which was included in SG&A, was \$27,000 and \$44,000 for fiscal 2023 and fiscal 2022, respectively.

Income Taxes

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

The Company applies the provisions of ASC 740-10, which contains a two-step process for recognizing and measuring uncertain tax positions. The first step is to determine whether or not a tax benefit should be recognized. A tax benefit will be recognized if the weight of available evidence indicates that the tax position is more likely than not to be sustained upon examination by the relevant tax authorities. The recognition and measurement of benefits related to the Company's tax positions requires significant judgment, as uncertainties often exist with respect to new laws, new interpretations of existing laws, and rulings by taxing authorities. Differences between actual results and our assumptions or changes in our assumptions in future periods are recorded in the period they become known.

Earnings Per Share

Basic earnings per common share is calculated by dividing earnings allocated to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect, in periods in which they have a dilutive effect, the effect of unvested restricted stock not classified as participating securities and common shares issuable upon exercise of stock options or warrants and other convertible securities. The difference between reported basic and diluted weighted-average common shares results from the assumption that all dilutive stock options and warrants and other convertible securities outstanding were exercised or converted and all outstanding restricted shares have vested.

Options, stock rights and convertible notes outstanding to purchase 23.3 million and 830,000 shares of common stock were excluded from the computation of diluted earnings per share for fiscal 2023 and fiscal 2022, respectively, because their inclusion would have been anti-dilutive.

Reconciliation of the numerators and denominators of basic and diluted income per share for fiscal 2023 and for fiscal 2022 is as follows:

	December 30, 2023	December 31, 2022
(In thousands, except per share data)		
Income (loss) per share, basic:		
Net income (loss)	\$ (912)	\$ 1,429
Basic: Weighted average common shares outstanding.....	14,188	13,396
Earnings (loss) per share, basic	\$ (0.06)	\$ 0.11
(In thousands, except per share data)		
Income (loss) per share, diluted:		
Net income (loss)	\$ (912)	\$ 1,429
1% Subordinated convertible notes interest	—	245
Income adjusted for assumed conversion	\$ (912)	\$ 1,674
Basic: Weighted average common shares outstanding.....	14,188	13,396
Shares related to assumed conversion of convertible notes and unvested restricted stock	—	24,112
Diluted: Weighted average common shares outstanding.....	14,188	37,508
Earnings (loss) per share, diluted	\$ (0.06)	\$ 0.05

Recently Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The pronouncement seeks to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The effective date for the adoption of ASU 2016-13 is January 1, 2023. The standard was adopted on January 1, 2023, and there was no impact on the Consolidated Financial Statements for fiscal 2023.

In October 2021, the FASB issued ASU 2021-07, Compensation—Stock Compensation (Topic 718), Determining the Current Price of an Underlying Share for Equity-Classified Share-Based awards. The amendments in this update provide that a nonpublic entity is allowed to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees using the reasonable application of a reasonable valuation method. Nonpublic entities can elect the practical expedient in this Update on a measurement-date-by-measurement-date basis. They must be applied to all share-based awards within the scope of the practical expedient with the same underlying share and the same measurement date. The effective date is for fiscal periods beginning after December 15, 2022. The standard was adopted on January 1, 2023, and there was no impact on the Consolidated Financial Statements for fiscal 2023.

In August 2020, the FASB issued ASU 2020-06, Debt with Conversion and Other Options (subtopic 470-20) and Derivatives and Hedging – Contracts in an Entity’s Own Equity (subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. The pronouncement is intended to simplify the accounting for convertible debt and convertible preferred stock by removing the requirements to separately present certain conversion features in equity. In addition, the amendments in the ASU are intended to simplify the guidance in ASC 815-40, Derivatives and Hedging: Contracts in Entity’s Own Equity, by removing certain criteria that must be satisfied in order to classify a contract as equity, which is expected to decrease the number of freestanding instruments and embedded derivatives accounted for as assets or liabilities. The effective date for adoption of ASU 2020-06 is January 2, 2022. The standard was adopted on January 2, 2022, and there was no impact on the Consolidated Financial Statements for fiscal 2022 or 2023.

Recently Issued Accounting Standards - Not Yet Adopted

In November 2023, FASB issued ASU No. 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. Among other new disclosure requirements, ASU 2023-07 requires companies to disclose significant segment expenses that are regularly provided to the chief operating decision maker. ASU 2023-07 will be effective for annual periods beginning on January 1, 2024, and interim periods beginning on January 1, 2025. ASU 2023-07 must be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the disclosure impact of ASU 2023-07.

In December 2023, the FASB issued ASU No. 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 requires companies to disclose, on an annual basis, specific categories in the effective tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. In addition, ASU 2023-09 requires companies to disclose additional information about income taxes paid. ASU 2023-09 will be effective for annual periods beginning January 1, 2025, and will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is evaluating the disclosure impact of ASU 2023-09.

2. LIQUIDITY

Cash and cash equivalents on December 30, 2023, increased by \$28,000 to \$37,000 compared to \$9,000 at December 31, 2022. The cash and cash equivalents balance fluctuate 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. The Company expects that future cash flows from operations and from available credit lines will be sufficient for the Company to continue operations for more than twelve months from the date these financial statements are issued.

3. COMMITMENTS AND CONTINGENCIES

On February 20, 2019, the Company entered a new long-term operating lease for its corporate headquarters consisting of approximately 7,574 square feet thus replacing the former lease, which expires in September 2024. Lease payments under this agreement are included in the future minimum lease payments under its operating lease.

Additionally, the Company has a short-term operating lease for its China office space, consisting of approximately 1,500 square feet, which expired in March 2024 and was renewed for another one-year term beginning on April 1, 2024, and expiring on March 31, 2025. The Company has elected not to classify this short-term lease as an ROU liability or asset as permitted under ASC 842, but the future payments are included in the future minimum lease payments under the Company's operating lease agreements.

Minimum lease payments, which take into account escalation clauses, are recognized on a straight-line basis over the minimum lease term.

Rent expense included in operations for fiscal 2023 and fiscal 2022 was \$66,000 and \$30,000 respectively.

Future minimum commitments under the Company's operating lease agreements are as follows:

	<u>(In thousands)</u>
Year ending December:	
2024.....	\$ 193
Total minimum lease payments	<u>\$ 193</u>

As described in Note 6, “Leases”, on July 1, 2013, the Company entered into a sale and leaseback agreement that was classified as a capital lease. Beginning in 2019, and in accordance with ASC 842, this lease was classified as a financed lease. The 10-year initial term of the lease included a 5-year renewal option. The agreement expired during the second quarter of 2023 and was not renewed. The Company is on a month-to-month tenancy and continues to make monthly payments. Monthly payments are no longer included in the future minimum payments under financed leases.

Also, prior to 2019, and as described in Note 6, “Leases”, the Company had lease agreements for copiers in Carlsbad, CA and Old Town, ME. Under ASC 842, these lease agreements were classified as financed leases. Payments under these leases reduced the lease obligation, and the imputed interest was recorded to interest expense in the Company’s consolidated statements of operations. These agreements have both expired and require no more future minimum lease payments.

On November 29, 2022, the Company entered into a five year and three month financed lease agreement with Wells Fargo Financial Leasing, Inc for use of printer hardware in the principal amount of \$18,826 bearing an imputed per annum interest rate of 8.99% with 63 periodic payments in the amount of \$298 due through June 2027. The printers were placed into service during last quarter of 2022. Upon inception of the lease, the Company recorded an asset and liability in the amount of \$18,826. These payments are included in future minimum lease payments.

Future minimum lease payments under the finance leases are as follows:

	<u>(In thousands)</u>
Year ending December:	
2024.....	\$ 4
2025.....	4
2026.....	4
2027.....	4
2028.....	1
Thereafter.....	—
Less: amount representing interest	(2)
Total minimum lease payments.....	<u>\$ 15</u>

On August 6, 2021, the Company entered into a four-year licensing agreement commencing January 1, 2022, with Pendleton Woolen Mills, “PWM”, to design, market and distribute Rubber Footwear defined as footwear made with at least 50% rubber or rubber derivatives. Under the terms of the licensing agreement, the Company is required to pay a royalty fee of 7.5% on net invoiced wholesale trade sales on adult styles, 5% on net invoiced sales on kid styles, and 5% on net invoiced direct to consumer sales. Payments are due at the end of each quarter over the term of the agreement. The licensing agreement guarantees a minimum royalty payment of \$393,000 over its term. In addition to, and not included in the minimum royalties outlined previously, the Company agreed to pay 2% of its net invoiced sales of any licensed products bearing the PWM “National Parks Stripes” designs to the National Park Foundation/Pendleton Fund under the same payment terms outlined previously.

Future minimum royalty payments under the agreement are as follows:

	<u>(In thousands)</u>
Year ending December:	
2024.....	\$ 112
2025.....	150
Total minimum royalty payments.....	<u>\$ 262</u>

On May 3, 2023, the Company entered into an agreement with a distribution center in Mexico to distribute and ship all its Bueno products. The agreement began on August 1, 2023, and expires on July 31, 2025, and requires

a minimum monthly payment of \$20,000 for order processing, distribution, and storage of its Bueno products to begin in January 2024.

Future minimum payments under the agreement are as follows:

	<u>(In thousands)</u>
Year ending December:	
2024.....	\$ 240
2025.....	140
Total minimum payments.....	<u>\$ 380</u>

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

4. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution 401(k) savings plan (the “Plan”), which covers substantially all employees. The Plan allows employees to elect to contribute a portion of their wages on a tax-deferred basis, and the Company may match, at its discretion, a portion of the employee contribution. The Company contributed \$20,000 and \$14,000 during fiscal 2023 and fiscal 2022, respectively.

5. DEBT

Alterna Capital Solutions Invoice Purchase Security Agreement

On October 9, 2020, the Company and Penobscot entered into an Invoice Purchase Security Agreement with Alterna Capital Solutions (“Alterna”), with a one-year term with successive annual renewals unless the Company provides at least 60-day notice prior to the end of the respective term of its intention to not renew. The Company agrees to sell to Alterna the Company’s Accounts as defined further in the Agreement with a credit facility maximum amount of \$2,500,000 of net funds employed at any given time. The Company shall pay 0.20% of the amount due on a Purchased Account. In addition, the Company shall pay a Funds Usage Daily Fee of 0.0278% on the unpaid amounts due on all Purchased Accounts. The Funds Usage Daily Fee shall be adjusted 0.0007% for every 0.25% change in the Prime Rate. As security for the obligations of the Company and Penobscot under the Alterna Capital Solutions Invoice Purchase Security Agreement, the Company and Penobscot have each granted Alterna a security interest in all of their personal property subject to the October 9, 2020, Intercreditor Agreement.

On June 17, 2021, the amount of net funds employed at any given time was increased to \$3,500,000. The Invoice Purchase Security Agreement was automatically renewed for an additional one-year term on October 9, 2021.

On August 5, 2022, the Company and Alterna Capital Solutions LLC amended the Invoice and Purchase Security Agreement (the “IPSA”) and entered into an Inventory Finance Rider. The IPSA was amended to increase the maximum borrowing capacity to \$7,000,000, change the funds daily usage fee to be 0.0208% plus 0.0007% change for every 0.25% change in the Prime Rate when compared to the existing Prime Rate, and eliminate certain fees as well as remove the Required Reserve Amounts. The Inventory Finance Rider provides borrowing capacity, secured by the Company’s Eligible Inventory, in an amount equal to the amount of Accounts as defined in the IPSA with seasonal increases as may be agreed upon between Alterna Capital Solutions LLC and the Company.

On September 14, 2022, the Company and Alterna Capital Solutions amended the Invoice and Purchase Security Agreement to increase the maximum borrowing capacity to \$8,000,000. At the Purchaser’s sole discretion, the maximum amount can be increased to an amount up to \$10,000,000 and subject to an additional facility fee of 0.25%.

During the third quarter of 2023, Alterna Capital Solutions agreed to increase the borrowing capacity on the Company’s inventory to an amount equal to 1.10% of Accounts as defined in the IPSA as well as raise the amount of

the seasonal increase.

As of December 30, 2023, the funded balance with Alterna Capital Solutions totaled \$6.0 million and the availability was \$417,000.

On November 1, 2021, the Company, Penobscot, Alterna Capital Solutions and IHC California LLC (“IHC CA”) entered into an Intercreditor Agreement so as to clarify their respective priorities in connection with the Alterna Capital Solutions Invoice and Purchase Agreement and the IHC California LLC Credit and Security Agreement in the event there is an Assignment (as further defined in the Intercreditor Agreement). In summary, Alterna Capital will have priority to the proceeds from sales to the Company’s accounts and inventory sold which has given rise to the accounts, excluding returned inventory. IHC California LLC will have priority over the Company’s on-hand inventory, future inventory and returned inventory.

On August 11, 2022, the obligations outstanding under the IHC California LLC Credit and Security Agreement were satisfied and the IHC California LLC Credit and Security Agreement was terminated.

IHC California LLC Credit and Security Agreement

On November 1, 2021, the Company and Penobscot entered into a Credit and Security Agreement with IHC California LLC, (“IHC CA”). The IHC CA Credit Agreement provides for up to \$3.0 million in borrowing capacity consisting of a revolving line of credit facility (subject to a borrowing base as defined in the IHC CA Credit Agreement) with a one-year maturity. Interest on the principal amount outstanding under the IHC CA Credit Agreement accrues at a rate equal to 14.5% per annum. The obligations of the Company as the borrower under the IHC CA Credit Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the IHC CA Credit Agreement the Company and Penobscot have each granted IHC CA a security interest in all of their personal property subject to the November 1, 2021, Intercreditor Agreement.

On August 11, 2022, the obligations outstanding under the IHC California LLC Credit and Security Agreement were satisfied and the IHC California LLC Credit and Security Agreement was terminated.

2011 Purchase Agreement:

Convertible Subordinated Secured Notes

On July 21, 2011, the Company completed the sale of the \$1.0 million of subordinated secured 1% convertible notes (the “2011 Notes”, and collectively with the 2012 and the 2018 Notes, the “Notes”) to Greenwood Investors LP (“Investors”) and Greenwood Capital LP (“Capital”, collectively “Investors, the “Greenwood Purchasers”, and together with MGPLA, the “Greenwood Investors”). Capital is an affiliate of and managed by General Partner (defined below), its sole general partner. Steven Tannenbaum, Director, is the President and General Partner (the Greenwood Investors, General Partner and Mr. Tannenbaum are referred to collectively 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. During 2015, 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 semi-annually 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 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.

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 (as defined below); and (3) the Amended and Restated Voting Agreement dated July 30, 2012, by and among the Company, the Greenwood Investors, James Riedman and Riedman Corporation. As of January 2, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

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. During 2015, 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.

During 2015, the maturity date of the Greenwood Notes was extended to July 31, 2020.

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.

On June 30, 2020, the Company and Greenwood agreed to waive the Event of Default and amend the Notes to extend the maturity date to July 31, 2022, decrease the conversion price from \$0.23 per share to \$0.10 per share, as well as agree to the nonpayment and accrual of interest during the Payment Blockage period. The Company concluded the amendments were debt extinguishments in accordance with ASC 470 and that there was no gain or loss as a result.

On December 1, 2020, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to amend the interest rate to twelve percent (12%) per annum five percent (5.0%) of which shall be payable in cash ("*Cash Interest*") and seven percent (7.0%) of which shall be payable in kind ("*PIK Interest*"). The Company will pay the accrued Cash Interest in cash semi-annually in arrears on October 31 and April 30 of each year (each an "*Interest Payment Date*"), commencing April 30, 2021, or if any such day is not a Business Day, on the next succeeding Business Day, and the accrued PIK Interest shall be added to the Principal of this Note on each Interest Payment Date. All accrued but unpaid Interest under this Note shall be payable at maturity (or upon conversion). The Company concluded the amendments were debt extinguishments in accordance with ASC 470 and that there was no gain or loss as a result.

On July 29, 2022, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to amend the interest rate to equal a daily interest rate of 0.0208%, which rate shall adjust by the Prime Rate Adjustment as and when the rate of interest on the Company's indebtedness to Senior Lender adjusts. The Company will pay the accrued interest semi-annually in arrears on October 31 and April 30 of each year (each an "*Interest Payment Date*"), commencing October 31, 2022, or if any such day is not a Business Day, on the next succeeding Business Day. All accrued but unpaid Interest under this Note shall be payable at maturity (or upon conversion). Under the new agreement, the maturity date of the notes was extended until July 31, 2024. The Company concluded the amendments were debt modifications in accordance with ASC 470 and that there was no gain or loss as a result.

2018 Convertible Debt.

On March 29, 2018, the Company completed the sale of \$550,000 of subordinated secured convertible notes (the "Notes") to James R. Riedman, Chief Executive Officer and Chairman of the Board, Steven Tannenbaum, Director, Steven DePerrior, Director, and Jose Lenhard, Vice President Sourcing and Development, collectively "the Holders". The Notes accrue interest at an interest rate per annum equal to the sum of the greater of 1% or the monthly LIBOR Rate plus 3.75%. Interest shall be paid semi-annually in arrears on April 30 and October 31 of each year commencing April 30, 2018. The Notes are initially convertible into 2,391,304 shares of the Company's common stock at a conversion price of \$0.23 per share. The initial conversion price is subject to adjustment in the event of certain corporate transactions, including but not limited to, recapitalization of the Capital Stock, issuances of common stock at a price below the initial conversion price and reorganization, merger or consolidation. The offer and sale of the Notes was made in a private placement to its executive officers and directors not involving any public offering and exempt from the registration requirements of the Securities and Exchange Act of 1933, as amended (the "Securities Act"), pursuant to Section 4(a)(2) thereof.

On June 30, 2020, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to waive the Event of Default and amend the Notes to extend the maturity date to July 31, 2022, decrease the conversion price from \$0.23 per share to \$0.10 per share, as well as agree to the nonpayment and accrual of interest during the Payment Blockage period. The Company concluded the amendments were debt extinguishments in accordance with ASC 470 and that there was no gain or loss as a result.

On December 1, 2020, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to amend the interest rate to twelve percent (12%) per annum five percent (5.0%) of which shall be payable in cash ("*Cash Interest*") and seven percent (7.0%) of which shall be payable in kind ("*PIK Interest*"). The Company will pay the accrued Cash Interest in cash semi-annually in arrears on October 31 and April 30 of each year (each an "*Interest*")

Payment Date”), commencing April 30, 2021, or if any such day is not a Business Day, on the next succeeding Business Day, and the accrued PIK Interest shall be added to the Principal of this Note on each Interest Payment Date. All accrued but unpaid Interest under this Note shall be payable at maturity (or upon conversion). The Company concluded the amendments were debt extinguishments in accordance with ASC 470 and that there was no gain or loss as a result.

On June 1, 2022, the Company entered into an agreement with Jose Lenhard to redeem, on or before June 1, 2022, a certain Convertible Note held by Jose Lenhard in the principal amount of \$25,000. In exchange, Mr. Lenhard agreed to accept such payment as full consideration for the redemption of the Note’s full principal balance as well as all accrued and unpaid interest.

Investor Agreement.

Registration Rights

Under the Amended and Restated Investor 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. As of January 1, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

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.

Finance Authority of Maine Term Loan:

2017 Term Loan.

On April 4, 2017, the Company entered into an Equipment Loan with FAME for a five-year term, 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 in the principal amount of \$300,000, bears interest at a fixed per annum rate of 5.75%. Monthly payments of principal and interest in the amount of \$5,800 are due, 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. During 2020, the Company and FAME agreed the Company could defer payments and extend the termination date of the Loan as needed given the uncertainty caused in retail markets as a result of the COVID-19 pandemic. The Company deferred \$19,575 in fiscal 2020 which represents an additional 2 months added to the term of the loan. On May 26, 2022, the Company made final payment on its term note with FAME.

As of December 30, 2023, and December 31, 2022, debt consisted of the following:

	<u>December 30, 2023</u>	<u>December 31, 2022</u>
	(In thousands)	
2018 Subordinated secured convertible notes with the Holders; secured by all of the Company's personal property; interest payable semi-annually on October 31st and April 30th at a rate 10.49% as of December 30, 2023.....	653	653
Invoice Purchase Security Agreement with Alterna Capital Solutions; secured by all the Company's personal property; with an interest rate of 10.49% as of December 30, 2023.....	2,447	3,635
Inventory Finance Rider with Alterna Capital Solutions; secured by all the Company's personal property; with an interest rate of 10.49% as of December 30, 2023.....	3,544	3,849
Subordinated secured 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 10.49% as of December 30, 2023	1,680	1,680
	<u>\$ 8,324</u>	<u>\$ 9,817</u>
Current portion of long-term debt	8,324	7,484
Long-term debt, net of current portion	<u>\$ —</u>	<u>\$ 2,333</u>

During fiscal 2023 and 2022, the Company incurred \$20,000 and \$22,500, respectively, in prepaid debt costs associated with its agreements with Alterna Capital Solutions.

The capitalized debt issuance costs are amortized into expense over the loan term and totaled \$23,000 and \$143,000 during the full twelve months of fiscal 2023 and 2022, respectively. Debt issuance costs incurred during fiscal 2023 and 2022 were mostly attributed to the amortization of prepaid debt costs associated with the loan agreements with Alterna Capital Solutions and Iron Horse Credit LLC.

6. LEASES

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the statements of operations.

The new standard provides several optional practical expedients in transition. We elected to use the 'package of practical expedients', which permits us not to reassess, under the new standard, our prior conclusions about lease identification, lease classification and initial direct costs. We did not elect the use-of-hindsight with respect to determining the lease term (i.e., considering the actual outcome and updated expectations of lease renewals, termination option and purchase options). We also did not elect the use of the practical expedient pertaining to land easements because we do not have any such easements.

This standard did have a material effect on our financial statements. The most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on our balance sheet for various equipment leases, all currently accounted for as operating and financed; and (2) providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities.

Under the new standard, the Company has both finance and operating leases which are as follows:

Financed Lease Agreements

Sale and Leaseback Right of Use 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 fiscal 2018 prior to the adoption of ASC 842 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.

Under ASC 842, the capital lease obligation was recorded as a right of use obligation. The Company was not required to make any changes to the monthly accounting of the right of use obligation as it had previously been recorded as a capital lease obligation. This agreement expired during fiscal 2023 and was not renewed.

LEAF Capital LLC Right of Use Obligation

On December 12, 2017, the Company entered a 5-year financed lease agreement with LEAF Capital Funding, LLC for use of printer hardware in the principal amount of \$28,212 bearing an imputed per annum interest rate of 4.75% with 60 periodic payments in the amount of \$470 due through January 2023. The printers were placed into service during the first quarter of fiscal 2018. Upon adoption of ASC 842, the Company recorded an asset and liability in the amount of \$28,212. The agreement expired during 2023 and the obligation no longer exists.

Toshiba Financial Services Right of Use Obligation

On May 31, 2017, the Company entered into a five year and three month financed lease agreement with Toshiba Financial Services, which began in July 2017, for use of printer hardware in its Maine Warehouse in the principal amount of \$23,034 bearing an imputed per annum interest rate of 4.75% with 63 periodic payments in the amount of \$366 due through September 2022. The printers were placed into service during the second quarter of fiscal 2017. Upon adoption of ASC 842, the Company recorded an asset and liability in the amount of \$23,304. The Company continued to make monthly payments after the agreement expired until it entered into a new lease agreement which began in December 2022 as described below.

Wells Fargo Financial Leasing Inc Right of Use Obligation

On November 29, 2022, the Company entered into a five year and three month financed lease agreement with Wells Fargo Financial Leasing, Inc for use of printer hardware in the principal amount of \$18,826 bearing an imputed per annum interest rate of 8.99% with 63 periodic payments in the amount of \$298 due through June 2027. The printers were placed into service during last quarter of 2022. Upon inception of the lease, the Company recorded an asset and liability in the amount of \$18,826.

Operating Lease Agreements

China Lease Operating Lease

On March 8, 2023, the Company entered into a one-year lease agreement totaling \$10,343 with monthly payments of \$862 plus tax to rent property in Dongguan, People's Republic of China. It began on April 1, 2023, and will expire on March 31, 2024. On February 23, 2024, the Company renewed this lease agreement totaling \$10,008 and will make monthly payment of \$834 plus tax. The Company has elected not to classify this short-term lease as an ROU liability or asset as permitted under ASC 842.

Carlsbad Lease Right of Use Obligation

On February 20, 2019, the Company entered into a six year and five-month operating lease agreement with A&M Capre RCP, LLC for use of their office space for the Carlsbad Corporate Headquarters. The lease agreement began in May 2019 and expires in September 2024. The amount of the six year and five-month agreement is \$705,547 and requires a monthly payment ranging from \$6,249 during the second year and up to \$14,466 during the final year.

As of December 30, 2023, and December 31, 2022, the Company had the following right of use operating and financed lease obligations:

	December 30, 2023 (In thousands)	December 31, 2022 (In thousands)
Right of use obligation: 63-month finance lease with Wells Fargo Financial Leasing, Inc matures in February 2028. Lease payments are allocated to the reduction of the liability and expense with an imputed per annum rate of 8.99%	15	19
Right of use obligation: 65-month operating lease with Nelli-Regen Three, LLC The lease expires in September 2024. Lease payments are allocated to the reduction of the right of use obligation and lease expense with an imputed discount rate of 4.75%	146	304
Right of use obligation: 10-year finance lease with Old Town Partners, LLC terminating on June 30, 2023. Lease payments are allocated to the reduction of the lease obligation and the interest expense with an imputed per annum rate of 9.5%	—	67
	<u>\$ 161</u>	<u>\$ 390</u>
Current portion of right of use obligations	\$ 150	229
Right of use obligations, net of current portion	\$ 11	\$ 161

As of December 30, 2023, the ROU assets and financed lease liabilities were as follows:

(\$ in thousands)	December 30, 2023	Financial Statement Line Item
<u>Assets:</u>		
Right of use assets	\$ 15	Right of use assets, financed, net
<u>Liabilities:</u>		
Current		
financed	\$ 4	Current portion of right of use obligations, financed, net
Noncurrent		
financed	11	Right of use obligations, financed, net
Total leased liabilities	<u>\$ 15</u>	

As of December 31, 2022, the ROU assets and financed lease liabilities were as follows:

(\$ in thousands)	December 31, 2022	Financial Statement Line Item
<u>Assets:</u>		
Right of use assets	\$ 48	Right of use assets, financed, net
<u>Liabilities:</u>		
Current		
financed	\$ 72	Current portion of right of use obligations, financed, net
Noncurrent		
financed	14	Right of use obligations, financed, net
Total leased liabilities	\$ 86	

As of December 30, 2023, the ROU assets and operating lease liabilities were as follows:

(\$ in thousands)	December 30, 2023	Financial Statement Line Item
<u>Assets:</u>		
Right of use assets	\$ 108	Right of use assets, operating, net
<u>Liabilities:</u>		
Current		
Operating	\$ 146	Current portion of right of use obligations, operating, net
Noncurrent		
Operating	—	Right of use obligations, operating, net
Total leased liabilities	\$ 146	

As of December 31, 2022, the ROU assets and operating lease liabilities were as follows:

(\$ in thousands)	December 31, 2022	Financial Statement Line Item
<u>Assets:</u>		
Right of use assets	\$ 249	Right of use assets, operating, net
<u>Liabilities:</u>		
Current		
Operating	\$ 157	Current portion of right of use obligations, operating, net
Noncurrent		
Operating	147	Right of use obligations, operating, net
Total leased liabilities	\$ 304	

As described in Note 3, “Commitments and Contingencies”, maturity of our financed lease liabilities were as follows:

(\$ in thousands)	Financed Leases
2024	\$ 4
2025	4
2026	4
2027	4
2028	1
Total value of lease liabilities	\$ 17
Less: amount representing interest	(2)
Present value of lease liabilities	\$ 15

As of December 30, 2023, and December 31, 2022, the weighted-average remaining lease term for the Company’s finance leases was 4.17 years and 1.44 years, respectively. As of December 30, 2023, and December 31, 2022, the weighted-average discount rate was 8.99% and 9.61%, respectively.

As described in Note 3, “Commitments and Contingencies”, maturity of our operating lease liabilities were as follows:

(\$ in thousands)	Operating Leases
2024	\$ 154
Total value of lease liabilities	\$ 154
Less: amount representing interest	(8)
Present value of lease liabilities	\$ 146

As of December 30, 2023, and December 31, 2022, the weighted-average remaining lease term for the Company’s operating leases was .75 years and 1.92 years, respectively. As of December 30, 2023, and December 31, 2022, the weighted-average discount rate was 4.75% and 4.75%, respectively.

Total rent expense on our leases for fiscal 2023 and fiscal 2022 was \$65,000 and \$30,000, respectively.

7. STOCK-BASED COMPENSATION

Effective July 1, 2021, the Board of Directors adopted and approved the 2021 Long-Term Incentive Plan of Phoenix Footwear Group, Inc. (the “2021 Plan”), subject to stockholder approval. On June 30, 2022, stockholder approval was recorded in the Company’s annual shareholder meeting. Under the 2021 Long-Term Incentive Plan the Company may grant stock options, stock appreciation rights, stock awards and other award 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 options and restricted stock grants under the 2021 plan totaled 1,652,628 as of December 30, 2023.

Total stock-based compensation expense recognized for fiscal 2023 and fiscal 2022 were as follows:

	Fiscal Year ended	
	December 30, 2023	December 31, 2022
	(In thousands)	
Selling, general and administrative	\$ 81	\$ 94
Pre-tax stock-based compensation	81	94
Total stock-based compensation expense	\$ 81	\$ 94

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 the Company’s stock price. 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. During fiscal 2023 and fiscal 2022 the Company did not grant option awards.

Options outstanding and exercisable under these arrangements totaled 0 and 0 as of December 30, 2023, and December 31, 2022, respectively.

The aggregate intrinsic value of options and the amount of shares of those options exercised during fiscal 2023 and fiscal 2022 was zero. The unrecognized compensation cost related to stock option awards at December 30, 2023, was zero.

The following table summarizes the stock option transactions during fiscal 2023 and fiscal 2022:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
	(In thousands, except exercise price)		
Options outstanding, January 1, 2022	560	\$ 0.23	\$ —
Options granted	—	—	—
Options exercised	—	—	—
Options cancelled	—	—	—
Options outstanding, December 31, 2022	560	\$ 0.23	\$ —
Options granted	—	—	—
Options exercised	—	—	—
Options expired	(560)	0.23	—
Options outstanding, December 30, 2023	—	\$ 0.23	\$ —
Options exercisable, December 30, 2023	—	\$ —	\$ —

Restricted Stock Shares

In general, service-based stock shares 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 grant 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.

On June 30, 2021, the Company granted to several employees a total of 678,499 service based restricted shares of common stock contingent upon their continued employment with the Company through June 30, 2023. The shares vested over a period of 2 years with 50% vesting on June 30, 2022, and the remaining 50% vesting on June 30, 2023. Half of the shares were issued in 2022 and the remaining were issued on June 30, 2023.

On April 1, 2022, the Company granted to each of its non-employee directors 20,000 service-based restricted shares of common stock contingent upon the director's continued membership on the Company's Board through March 31, 2023. The shares were issued on April 3, 2023.

On May 18, 2022, the Company granted to several employees a total of 358,875 shares to several of its employees. The issuance of the shares was contingent upon the successful completion of certain performance metrics by the end of 2022, which were achieved. As a result, the Company accrued a liability for the full amount of approximately \$32,000 and the shares were issued in the second quarter of 2023. During 2023, the Company granted an additional 150,000 shares for completion of certain performance metrics during 2022. The shares were all issued on June 30, 2023.

On March 31, 2023, the Company granted to each of its non-employee directors 20,000 service based restricted shares of common stock contingent upon the director's continued membership on the Company's Board through March 31, 2024.

On April 19, 2023, the Company granted to several employees a total of 483,875 shares to several of its employees. The issuance of the shares was contingent upon the successful completion of certain performance metrics by the end of 2023. Since those metrics were not met, the shares have been cancelled and will not be issued.

The recognition of compensation expense associated with both performance-based and service-based grants requires judgment in assessing the probability of meeting the performance milestones. This may result in significant expense recognition when the performance goals are met or when the achievement of the goals is deemed probable. As of December 30, 2023, and December 31, 2022, there were 80,000 and 778,127 performance-based stock grants to both employees and non-employee directors outstanding, respectively.

As of December 30, 2023, the total compensation cost related to stock-based awards granted to either employee or non-employee directors but not yet recognized was \$3,800.

The following table summarizes service-based and performance-based stock shares issued as of December 30, 2023:

	Restricted Stock Shares
	(In thousands)
Restricted Stock Shares outstanding January 1, 2022.....	758
Granted.....	439
Cancelled.....	—
Issued.....	(419)
Restricted Stock Shares outstanding December 31, 2022.....	778
Granted.....	714
Cancelled.....	(484)
Issued.....	(928)
Restricted Stock Shares outstanding December 30, 2023.....	<u>80</u>

8. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10, 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 December 30, 2023, and December 31, 2022, the Company had a full valuation allowance on its deferred tax assets.

The following table presents the current and deferred income tax provision (benefit) for federal, state and foreign income taxes for fiscal 2023 and fiscal 2022:

	<u>2023</u>	<u>2022</u>
	(In thousands)	
Current tax provision (benefit):		
Federal.....	\$ —	—
State	(7)	21
Foreign	—	—
	<u>(7)</u>	<u>21</u>
Deferred tax provision (benefit):		
Federal.....	—	—
State.....	—	—
Foreign.....	—	—
	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes:	<u>\$ (7)</u>	<u>21</u>

Current income taxes (benefits) are based upon the year's income taxable for federal, state and foreign tax reporting purposes. Deferred income taxes (benefits) are provided for certain income and expenses, which are recognized in different periods for tax and financial reporting purposes.

Deferred tax assets and liabilities are computed for differences between the financial statements and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income.

The Company's policy is not to record deferred income taxes on the undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations.

In assessing the realizability of deferred tax asset of approximately \$9.4 million at December 30, 2023, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Significant components of the Company's net deferred tax assets or liabilities as of December 30, 2023, and December 31, 2022, are as follows:

	<u>2023</u>		<u>2022</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
	(In thousands)		(In thousands)	
Deferred tax assets				
Net operating loss.....	\$ —	\$ 8,942	\$ —	\$ 8,495
Capital loss carryover.....	—	—	—	—
Accruals.....	—	483	—	672
Accruals-noncurrent	—	2	—	26
Allowance for doubtful accounts.....	—	6	—	10
UNICAP.....	—	83	—	84
Earn-out.....	—	—	—	—
Deferred tax liabilities				
Accumulated depreciation	—	(9)	—	(48)
Deferred income tax asset (liability).....	—	9,507	—	9,239
Valuation allowances	—	(9,507)	—	(9,239)
Net deferred tax asset (liability)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

A reconciliation of the expected tax computed at the U.S. statutory federal income tax rate to the total benefit for income taxes at December 30, 2023, and December 31, 2022, follows:

	<u>2023</u>	<u>2022</u>
	(In thousands)	
Expense for federal income taxes at 21%	\$ (192)	\$ 305
State and other taxes, net of federal benefit	(12)	14
Items not deductible	4	—
Employee Retention Tax Credit – Non taxable	—	(171)
Other	(9)	11
Prior year true-ups	(66)	350
Change in valuation allowance	268	(488)
Income tax expense (benefit)	<u>\$ (7)</u>	<u>\$ 21</u>

The Company has determined it is more likely than not that its deferred tax assets will not be realized. Accordingly, a valuation allowance has been recorded at December 30, 2023, to fully offset the deferred tax asset of approximately \$9.4 million.

As of December 30, 2023, the Company had approximately \$37.7 million of net operating loss carryforwards available for federal tax purposes which begin to expire in 2028. As of December 30, 2023, the Company also had approximately \$9.7 million of net operating loss carryforwards for California and \$9.3 million of net operating losses for other states. The state net operating losses begin to expire in 2029.

Utilization of the NOL carryforwards may be subject to a substantial annual limitation due to ownership change limitations that may have occurred or that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), as well as similar state and foreign provisions. These ownership changes may limit the amount of NOL and R&D credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively. In general, an “ownership change” as defined by Section 382 of the Code results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain shareholders.

The Company has not completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since the Company’s formation due to the complexity and cost associated with such a study, and the fact that there may be additional such ownership changes in the future.

As of December 30, 2023, the Company complied with Accounting for Uncertain Tax positions pursuant to ASC 740. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (excluding interest and penalties):

	(In thousands)
Unrecognized tax benefits, December 31, 2022	\$ —
Increases for prior year tax positions	—
Decreases for prior year tax positions	—
Increases for current year tax positions	—
Settlements	—
Administrative practice relief	—
Unrecognized tax benefits, December 30, 2023	<u>\$ —</u>

Included in the balance of unrecognized tax benefits at December 30, 2023, are approximately \$0 of tax benefit that, if recognized, would affect the effective tax rate (including interest and penalties).

It is not anticipated that there will be a significant change in unrecognized tax benefits over the next twelve months.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of December 30, 2023, the Company had approximately \$0 of accrued interest and penalties related to uncertain tax positions.

The Company is subject to taxation in the U.S. and various state tax jurisdictions. As of December 30, 2023, the Company is no longer subject to federal examinations for the years before 2020; and for California examinations before 2019. Generally the tax years remain open for examination by the tax authorities under a four year statute of limitations; however, certain states may keep their statute open for six to ten years.

Income Tax Receivable – ERTC

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law, providing numerous tax provisions and other stimulus measures, including the Employee Retention Tax Credit (“ERTC”): a refundable tax credit against certain employment taxes for qualifying businesses keeping employees on their payroll during the COVID-19 pandemic. The ERTC was subsequently amended by the Taxpayer Certainty and Disaster Tax Relief Act of 2020, the Consolidated Appropriation Act of 2021, and the American Rescue Plan Act of 2021, all of which amended and extended the ERTC availability and guidelines under the CARES Act.

During 2022, the Company claimed refundable credits under the ERTC program of approximately \$608,000 and \$205,000, for the years ended December 31, 2021, and 2020, respectively, as provided under the Federal Coronavirus Aid, Relief and Economic Security Act and subsequently amended by the Consolidated Appropriations Act, 2021. Under the terms of the program the Company must incur qualifying wage or health care costs and have either suspended operations under governmental order or experienced a specified decline in gross receipts. If conditions are not met, any amount of credit received is refundable to the government and the Company may be subject to fines and penalties.

The Company elected to account for its participation in programs deemed to be government grants under International Accounting Standard 20, Accounting for Government Grants and Disclosure of Government Assistance, which requires reasonable assurance that conditions to receive the credit have been met and that the credit is receivable as of year-end before recognition into income.

In accordance with this policy the Company presented the amount recognized of \$699,000, which is net of the contingent expenses of \$114,000, as other income, net – employee retention tax credit in the consolidated statements of operations for fiscal year ended December 31, 2022. As of December 30, 2023, and December 31, 2022, \$813,000 has been reported as an income tax refund receivable on the consolidated balance sheet for the amount of refundable credit due to the Company, which is made up of an income tax refund receivable of \$608,000 and \$205,000 related to wages paid in 2021 and 2020, respectively. In addition, a liability for the contingent fees in the amount of \$114,000 was recorded in the consolidated balance sheet as of December 31, 2022. As of December 30, 2023, the Company has not yet received the refund.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 18, 2024, which is the date the consolidated financial statements were available to be issued.

On February 23, 2024, the Company entered into a twelve-month lease extension totaling \$10,008 plus taxes for its office space in Dongguan, China. The lease begins on April 1, 2024, and expires on March 31, 2024.

On March 7, 2024, the Company entered into a Restated Amendment #1 extending the lease with Nelli Regen Three LLC dated February 20, 2019, for the Company’s Corporate Headquarters in Carlsbad, CA. The term of the lease was extended to September 30, 2031. The monthly base rent will be \$13,633 per month for the first year of the agreement and will increase 3.5% each subsequent year. The new lease will begin on October 1, 2024, and will be classified as an ROU liability and asset.