

PHOENIX FOOTWEAR GROUP, INC.
a Delaware corporation

2236 Rutherford Road, Suite 113
Carlsbad, California 92008

Telephone: (760) 602-9688
www.phoenixfootwear.com
www.softwalkshoes.com
www.trotters.com
www.buenofootwear.com
www.penfootwear.com
www.loscabosshoes.us
jdillen@phxg.com

3140
(SIC Code)

Quarterly Report
For the Quarter Ended, June 29, 2024
(the “Reporting Period”)

Outstanding Shares

The number of shares outstanding of our Common Stock was:

14,590,734 as of June 29, 2024

14,590,734 as of August 8, 2024

14,510,734 as of December 30, 2023

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?

Yes: No:

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 August 8, 2024
Total shares outstanding: 14,590,734 as of June 29, 2024
Total shares outstanding: 14,590,734 common shares as of August 8, 2024
Total number of shareholders of record: 144 as of June 29, 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 | Opening Balance: | | | | | | | | |
|---|---|--|---------------------|---|--|--|---|---|---|
| | 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 | 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 pursuant to restricted stock award | Restricted | Rule 701 under the Securities 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 |
| April 1, 2024 | New issuance | 20,000 | Common | \$0.05 | No | Steven M. DePerrior | Director Compensation - Shares issued pursuant to restricted stock award | Restricted | Rule 701 under the Securities Act of 1933 |
| April 1, 2024 | New issuance | 20,000 | Common | \$0.05 | No | Stephanie E. Pianka | Director Compensation - Shares issued pursuant to restricted stock award | Restricted | Rule 701 under the Securities Act of 1933 |
| April 1, 2024 | New issuance | 20,000 | Common | \$0.05 | No | Frederick Port | Director Compensation - Shares issued | Restricted | Rule 701 under the Securities |

| | | | | | | | | | |
|---|--|--------|--------|--------|----|-------------------|--|------------|---|
| | | | | | | | pursuant to restricted stock award | | Act of 1933 |
| April 1, 2024 | New issuance | 20,000 | Common | \$0.05 | No | Steven Tannenbaum | Director Compensation - Shares issued pursuant to restricted stock award | Restricted | Rule 701 under the Securities Act of 1933 |
| Number of Shares outstanding on June 29, 2024 | <u>Ending Balance:</u> Common: 14,590,734 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 6/29/2024 (\$) | Principal Amount at Issuance (\$) | Interest Accrued as of 6/29/2024 (\$) | 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 |
| June 20, 2024 | \$400,000 | \$400,000 | 1,361 | September 30, 2024 | (2) | James R. Riedman | Loan |

- (1) As described in Note 4 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 June 29, 2024, 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) As described in Note 4 of the Notes to the Consolidated Financial Statements, on April 23, 2024, the Company entered into a Security Agreement with James R. Riedman to loan the Company up to \$600,000 to be secured by the Company's Employee Retention Tax Credits ("ERTC"). Under the agreement, the Company agreed to pay interest at a rate of 13% per annum. The outstanding principal balance of the Note together with all accrued interest thereon shall be due and payable in full on the date which is the earlier of

(a) five (5) business days following the Company's receipt of the payment of the ERTC or (b) May 31, 2026 (the "Maturity Date"). On June 20, 2024, James Riedman agreed to defer the repayment of \$400,000, the outstanding principal amount, until no later than September 30, 2024.

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 quarter ended June 29, 2024, 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 be renewed 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 six months ended June 29, 2024, and fiscal years ended December 30, 2023, and December 31, 2022, all the Company's products were carried by approximately 453, 484, and 493 customers in over 742, 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 73%, 75%, and 77% of net sales from operations for the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Zappos.com accounted for 13%, 18%, and 18% of net sales during the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Nordstrom accounted for 12%, 10% and 9% of net sales during the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively, and DSW accounted for 21%, 19%, and 16% of net sales during the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively.

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%, 8%, and 7% of its net sales for the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively. 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 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 \$99,000, \$198,000, and \$198,000 during the fiscal quarter ended June 29, 2024, and 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 workforce. 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 the 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 73%, 75%, and 77% of net sales from operations for the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Zappos.com accounted for 13%, 18%, and 18% of net sales during the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively. Nordstrom accounted for 12%, 10% and 9% of net sales during the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively, and DSW accounted for 21%, 19%, and 16% of net sales during the fiscal quarter ended June 29, 2024, and the fiscal years ended December 30, 2023, and December 31, 2022, respectively.

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 be renewed 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 30, 2031. 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 will expire in September 2024, and it was extended in March 2024 from October 1, 2024, through September 30, 2031.

The Company also leases land and a warehouse located in Old Town, Maine. The Old Town Maine lease expired in June 2023, and it was renewed for another two-year term ending on June 30, 2025. 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 expires 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 August 8, 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 August 8, 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.

The percentage of beneficial ownership is calculated assuming 14,590,734 shares of the Company's stock (net of treasury shares) were outstanding as of August 8, 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 | 29,767,247 | Common | 79.8% | | (2), (3), (4), (5) |
| Steven Tannenbaum and Greenwood Investments, Inc. | Director and Control Person | Miami, FL | 29,767,247 | Common | 79.8% | 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 of the Company. Mr. Riedman can be reached c/o Phoenix Footwear Group, Inc., 2236 Rutherford Road, Suite 113, Carlsbad, California 92008.

(4) Includes: (i) 4,991,613 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 24,443,013 shares beneficially owned by the Greenwood Parties and (ii) the Greenwood Parties may be deemed to beneficially own 5,324,234 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 had 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) Financial Statements

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 financial statements for this reporting period 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 Quarterly Report as **Exhibit** **A** are and are hereby incorporated by reference:

- a. Consolidated Balance Sheets as of June 29, 2024, and December 30, 2023.
- b. Consolidated Statements of Operations for the fiscal quarters ended June 29, 2024, and July 1, 2023.
- c. Statement of Retained Earnings (Consolidated Statements of Stockholders' Equity) for the fiscal quarters ended June 29, 2024, and July 1, 2023.
- d. Consolidated Statements of Cash Flows for the fiscal quarters ended June 29, 2024, and July 1, 2023.
- e. Notes to the Consolidated Financial Statements.

Item 10) Issuer's Certifications.

I, James R. Riedman, certify that:

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

Date: August 8, 2024

/s/ James R. Riedman,
Chief Executive Officer

I, John M. Dillen, certify that:

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

Date: August 8, 2024

/s/ John M. Dillen,
Chief Financial Officer

Exhibit A

PHOENIX FOOTWEAR GROUP, INC.

FINANCIAL STATEMENTS

FOR THE FISCAL QUARTER ENDED JUNE 29, 2024

Audited Financial Statements

Independent Auditors' Report

Consolidated Balance Sheets
As of June 29, 2024, and December 30, 2023

Consolidated Statements of Operations
For the fiscal quarters ended June 29, 2024, and July 1, 2023

Consolidated Statements of Stockholders' Equity
For the fiscal quarters ended June 29, 2024, and July 1, 2023

Consolidated Statements of Cash Flows
For the fiscal quarters ended June 29, 2024, and July 1, 2023

Notes to Consolidated Financial Statements

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

| | June 29, 2024 | December 30, 2023 |
|---|------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 12 | \$ 37 |
| Accounts receivable, net (less allowance for bad debt of \$46 and \$31 in 2024 and 2023, respectively) | 3,259 | 3,566 |
| Inventories (less allowance of \$231 and \$197 in 2024 and 2023, respectively) | 8,982 | 9,719 |
| Income tax receivable – Employee Retention Tax Credit (Note 8) | 15 | 813 |
| Other current assets | 784 | 660 |
| Total current assets | 13,052 | 14,795 |
| PROPERTY, PLANT AND EQUIPMENT, net | 27 | 40 |
| RIGHT OF USE ASSETS, OPERATING | 1,035 | 108 |
| RIGHT OF USE ASSETS, FINANCED | 11 | 15 |
| TOTAL ASSETS | \$ 14,125 | \$ 14,958 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Revolving line of credit, current (Note 4) | \$ 5,160 | \$ 5,991 |
| Accounts payable | 2,575 | 2,589 |
| Consultant contingency fee for Employee Retention Tax Credit (Note 8) | 8 | 114 |
| Accrued expenses | 836 | 845 |
| Returns and allowances liability | 833 | 1,091 |
| Current portion of right of use obligations, operating | 211 | 146 |
| Current portion of right of use obligations, financed | 4 | 4 |
| Current portion of convertible debt | 2,333 | 2,333 |
| Current portion of long-term debt | 400 | — |
| Income Tax Payable | — | — |
| Total current liabilities | 12,360 | 13,113 |
| OTHER LONG-TERM LIABILITIES | | |
| Term notes payable, net of current portion (Note 4) | — | — |
| Convertible debt (related parties) | — | — |
| Right of use obligations, operating, net of current portion | 849 | 11 |
| Right of use obligations, financed, net of current portion | 9 | 1 |
| Other non-current liabilities | — | — |
| Total liabilities | 13,218 | 13,125 |
| Commitments and Contingencies (Note 3) | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$0.01 par value — 50,000 shares authorized; 14,807 and 14,727 shares issued and outstanding in 2024 and 2023 | 148 | 147 |
| Additional paid-in-capital | 48,500 | 48,497 |
| Accumulated deficit | (45,098) | (44,168) |
| Treasury stock at cost, 217 shares in 2024 and 2023 | (2,643) | (2,643) |
| Total stockholders' equity | 907 | 1,833 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 14,125 | \$ 14,958 |

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)

| | (Unaudited) | | (Unaudited) | |
|---|--------------------|--------------|------------------|--------------|
| | Three Months Ended | | Six Months Ended | |
| | June 29, 2024 | July 1, 2023 | June 29, 2024 | July 1, 2023 |
| Net sales | \$ 4,426 | \$ 4,680 | \$ 8,824 | \$ 10,131 |
| Cost of goods sold | 2,722 | 2,919 | 5,330 | 6,210 |
| Gross profit | 1,704 | 1,761 | 3,494 | 3,921 |
| Operating expenses: | | | | |
| Selling, general and administrative | 1,991 | 1,730 | 3,998 | 3,680 |
| Other expense, net | — | — | — | — |
| Total operating expenses | 1,991 | 1,730 | 3,998 | 3,680 |
| Operating income (loss) | (287) | 31 | (504) | 241 |
| Interest expense, net | 231 | 226 | 426 | 461 |
| Loss before income taxes | (518) | (195) | (930) | (220) |
| Income tax expense (benefit) | — | — | — | — |
| Net loss | \$ (518) | \$ (195) | \$ (930) | \$ (220) |
| Net loss per share | \$ (0.04) | \$ (0.01) | \$ (0.06) | \$ (0.02) |
| Weighted average shares outstanding used to calculate per share information | 14,590 | 14,305 | 14,550 | 13,863 |
| Net loss | \$ (518) | \$ (195) | \$ (930) | \$ (220) |

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 — 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 | <u>14,727</u> | <u>\$ 147</u> | <u>\$ 48,497</u> | <u>\$ (44,168)</u> | <u>(217)</u> | <u>\$ (2,643)</u> | <u>\$ 1,833</u> |
| Stock Based Compensation | 80 | 1 | 3 | — | — | — | 4 |
| Net Loss | — | — | — | (930) | — | — | (930) |
| Balance — June 29, 2024 | <u>14,807</u> | <u>\$ 148</u> | <u>\$ 48,500</u> | <u>\$ (45,098)</u> | <u>(217)</u> | <u>\$ (2,643)</u> | <u>\$ 907</u> |

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

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

| | <u>Quarters Ended</u> | |
|--|-----------------------|----------------|
| | June 29, 2024 | July 1, 2023 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (930) | \$ (220) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 113 | 114 |
| Provision for losses on accounts receivable | 15 | 3 |
| Non-cash stock-based compensation | 4 | 103 |
| Amortization of deferred financing costs | 34 | 11 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 292 | 1,700 |
| Inventories, net | 737 | 627 |
| Other current assets | (158) | 143 |
| Right of use assets | (1,025) | — |
| Other non-current assets | 798 | — |
| Increase (decrease) in: | | |
| Accounts payable | (121) | (373) |
| Accrued expenses | (8) | (65) |
| Returns and allowances liability | (258) | (395) |
| Other long-term liabilities | 914 | (90) |
| Net cash provided by operating activities | <u>407</u> | <u>1,558</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of equipment | — | — |
| Net cash used in investing activities | <u>—</u> | <u>—</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings on line of credit | 15,463 | 11,015 |
| Payments of line of credit | (16,294) | (12,488) |
| Proceeds from notes payable | 400 | — |
| Payments on right of use obligation | (1) | (57) |
| Net provided by (used in) cash provided by financing activities | <u>(432)</u> | <u>(1,530)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (25) | 28 |
| CASH AND CASH EQUIVALENTS — Beginning of period | <u>37</u> | <u>9</u> |
| CASH AND CASH EQUIVALENTS — End of period | \$ 12 | \$ 37 |

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 (“GAAP”) for interim financial information and in accordance with the requirements of Quarterly Reporting of the OTC Markets. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the Company’s opinion, considered necessary to provide a fair presentation for the interim periods presented. The consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the footnotes thereto included within the Company’s latest Annual Report for the fiscal year ended December 30, 2023, posted on the OTC Markets web site on March 18, 2024. The Company’s Annual Report may be accessed at <http://www.otcmarkets.com/stock/PXFG/financials> using the Company’s Ticker Symbol PXFG.

Accounting Period

The Company’s operating and reporting period is on a 52–53-week fiscal year ending on the Saturday nearest to December 31st. The Company refers to the fiscal year ended December 28, 2024, as “fiscal 2024,” 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. Accordingly, the quarters ended June 29, 2024, and July 1, 2023, each consisted of 13 weeks.

Fair Value of Financial Instruments

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

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 of 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.

Previously, we recorded returns and other allowances as a contra balance within accounts receivable. Under the new guidance, the returns and other allowances are recorded as a liability.

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.

2. LIQUIDITY

Cash and cash equivalents on June 29, 2024, decreased by \$25,000 to \$12,000 compared to \$37,000 at December 30, 2023. 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 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.

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

4. DEBT

Celtic Bank Business Loan Agreement

On April 5, 2024, The Company and Penobscot entered into a Business Loan Agreement with Celtic Bank Corporation (“Celtic”) for a two-year revolving credit facility collateralized by substantially all of the assets of the Company and its subsidiaries (the “Celtic Loan”). The Celtic Loan Agreement provides for up to \$9.0 million in borrowing capacity (subject to a borrowing base as defined in the Celtic Loan Agreement). The agreement is subject to early termination fees of 2% and 1% of the Maximum Line of Credit for year one and year two, respectively. In connection with the agreement, the Company incurred \$152,872 in prepaid debt costs. The proceeds from the agreement were used to pay off Alterna Capital Solutions and to fund working capital.

Interest will accrue on the principal amount outstanding under the Celtic Loan Agreement at the current Prime Rate of 8.50% plus 3.75%. The minimum interest is \$35,000 per month. In the event and after a full month where the Prime Rate has decreased/increased by a full 2.00% from the original Prime Rate of 8.50%, the minimum monthly will be decreased/increased by \$10,000.

The Celtic Loan Agreement includes various financial and other covenants with which the Company has to comply in order to maintain borrowing availability including giving notice to Celtic of any claims and litigation against the Company, providing access to the Company’s financial records and providing financial statements.

Other covenants include, but are not limited to, covenants limiting or restricting the Company’s ability to incur indebtedness, incur liens, make or contract to make capital expenditures exceeding \$250,000, or enter into any mergers or make any acquisitions.

The proceeds from the closing of the Celtic Loan Agreement were used to pay off the Company’s Invoice Purchase Security Agreement and Inventory Finance Rider with Alterna Capital Solutions (“Alterna”).

As of June 29, 2024, the outstanding loan balance with Celtic was \$5.2 million and availability was \$296,000.

James Riedman Note

On April 23, 2024, the Company entered into a Security Agreement with James R. Riedman to loan the Company up to \$600,000 to be secured by the Company’s Employee Retention Tax Credits (“ERTC”). Under the agreement, the Company agreed to pay interest at a rate of 13% per annum. The outstanding principal balance of the Note together with all accrued interest thereon shall be due and payable in full on the date which is the earlier of (a) five (5) business days following the Company’s receipt of the payment of the ERTC or (b) May 31, 2026 (the “Maturity Date”).

On June 20, 2024, James Riedman agreed to defer the repayment of \$400,000, the outstanding principal amount, until no later than September 30, 2024.

Alterna Capital Solutions Invoice Purchase Security Agreement

On October 9, 2020, the Company and Penobscot entered into an Invoice Purchase Security Agreement with 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.

On April 5, 2024, the obligations outstanding under the Alterna Capital Solutions LLC Invoices to Purchase and Inventory Rider Agreements were satisfied, and the agreements with Alterna Capital Solutions LLC were 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 (repaid in full on June 1, 2022), formerly the Vice President Sourcing and Development, collectively “the Holders”. The Notes accrued 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 were 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 was 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 an 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 was 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.

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 to 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 the 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.

As of June 29, 2024, and December 30, 2023, debt consisted of the following:

| | <u>June 29, 2024</u> | <u>December 30, 2023</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 June 29, 2024..... | 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 June 29, 2024..... | — | 2,447 |
| Inventory Finance Rider with Alterna Capital Solutions; secured by all the Company’s personal property; with an interest rate of 10.49% as of June 29, 2024..... | — | 3,544 |
| 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 June 29, 2024 | 1,680 | 1,680 |
| Business Loan Agreement RLOC with Celtic Bank Corporation; secured by all the Company’s assets; with an interest rate of Prime plus 3.75% as of June 29, 2024..... | 5,160 | — |
| James Riedman Note with an annual interest rate of 13% payable due no later than September 30, 2024 | 400 | — |
| | <u>\$ 7,893</u> | <u>\$ 8,324</u> |
| Current portion of long-term debt | 7,893 | 8,324 |
| Long-term debt, net of current portion | <u>\$ —</u> | <u>\$ —</u> |

Capitalized debt issuance costs are amortized into expense over the loan term and totaled \$34,000 and \$11,000 during the first six months ended on June 29, 2024, and July 1, 2023, respectively. Debt issuance costs incurred during 2024 and 2023 were mostly attributed to the amortization of prepaid debt costs associated with the loan agreements with Alterna Capital Solutions and the new agreement with Celtic Bank. Prepaid debt costs associated with Celtic Bank Loan Agreement totaled \$152,872 and will be amortized over a two-year period.

5. 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 renewed on April 1, 2024, and will expire on June 30, 2025, and is now classified as an operating lease.

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.

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 the 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 Operating Lease

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. In November 2019, the lease was assigned to Nelli- Regen Three, LLC. The lease agreement began in May 2019 and will expire 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.

On March 7, 2024, the Company entered into a Restated Amendment to extend its lease agreement with Nelli- Regen Three, LLC through September 30, 2031. The amount of the seven-year agreement is \$907,191, and it will require monthly payments of \$13,633 per month for the first year of the agreement, increasing 3.5% each subsequent year. The new lease will begin on October 1, 2024, and has been classified as an ROU asset and liability in accordance with ASC 842.

Maine Lease Agreement

On June 28, 2023, the Company extended its lease agreement with Old Town Partners, previously classified as a capital lease agreement and then later a financed lease agreement under ASC 842, for a two-year term. The amount of the two-year agreement is \$208,750 and requires monthly payment of \$9,328 in the first year and \$9,795 during the second year.

As of June 29, 2024, and December 30, 2023, the Company had the following right of use operating and financed lease obligations:

| | <u>June 29, 2024</u> | <u>December 30, 2023</u> |
|---|----------------------|--------------------------|
| | (In thousands) | (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% | 13 | 15 |
| 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% | 42 | 146 |
| Right of use obligation: 84-month operating lease with Nelli-Regen Three, LLC. The lease begins on October 1, 2024, and expires in September 2031. Lease payments are allocated to the reduction of the right of use obligation and lease expense with an imputed discount rate of 10.49% | 907 | — |
| Right of use obligation: 24-month operating lease with Old Town Partners, LLC terminating in June 2025. The lease began on July 1, 2024, and expires on June 31, 2025. Lease payments are allocated to the reduction of the right of use obligation and lease expense with an imputed discount rate of 10.49% | 111 | — |
| | <u>\$ 1,073</u> | <u>\$ 161</u> |
| Current portion of right of use obligations | \$ 215 | 150 |
| Right of use obligations, net of current portion | \$ 858 | \$ 11 |

As of June 29, 2024, the ROU assets and financed lease liabilities were as follows:

| (\$ in thousands) | June 29, 2024 | Financial Statement Line Item |
|--------------------------|---------------|---|
| <u>Assets:</u> | | |
| Right of use assets | \$ 11 | Right of use assets, financed, net |
| <u>Liabilities:</u> | | |
| Current | | |
| financed | \$ 4 | Current portion of right of use obligations, financed, net |
| Noncurrent | | |
| financed | 9 | Right of use obligations, financed, net |
| Total leased liabilities | \$ 13 | |

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 | \$ 15 | |

As of June 29, 2024, the ROU assets and operating lease liabilities were as follows:

| (\$ in thousands) | June 29, 2024 | Financial Statement Line Item |
|--------------------------|---------------|--|
| <u>Assets:</u> | | |
| Right of use assets | \$ 1,035 | Right of use assets, operating, net |
| <u>Liabilities:</u> | | |
| Current | | |
| Operating | \$ 211 | Current portion of right of use obligations, operating, net |
| Noncurrent | | |
| Operating | 849 | Right of use obligations, operating, net |
| Total leased liabilities | \$ 1,060 | |

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 | |

The maturity of our financed lease liabilities are as follows:

| (\$ in thousands) | Financed Leases |
|---------------------------------------|--------------------|
| 2024 \$ | 2 |
| 2025 | 4 |
| 2026 | 4 |
| 2027 | 4 |
| 2028 | 1 |
| Total value of lease liabilities \$ | 15 |
| Less: amount representing interest | (2) |
| Present value of lease liabilities \$ | <u>13</u> |

As of June 29, 2024, and December 30, 2023, the weighted-average remaining lease term for the Company's finance leases was 3.67 years and 4.17 years, respectively. As of June 29, 2024, and December 30, 2023, the weighted-average discount rate was 8.99% and 8.99%, respectively.

The maturity of our operating lease liabilities are as follows:

| (\$ in thousands) | Operating Leases |
|---------------------------------------|---------------------|
| 2024 \$ | 148 |
| 2025 | 240 |
| 2026 | 182 |
| 2027 | 182 |
| 2028 | 182 |
| Thereafter | 500 |
| Total value of lease liabilities \$ | 1,434 |
| Less: amount representing interest | (374) |
| Present value of lease liabilities \$ | <u>1,060</u> |

As of June 29, 2024, and December 30, 2023, the weighted-average remaining lease term for the Company's operating leases was 5.76 years and .75 years, respectively. As of June 29, 2024, and December 30, 2023, the weighted-average discount rate was 8.78% and 4.75%, respectively.

Total rent expense for the first six months of fiscal 2024 and 2023 was \$37,000 and \$11,000, respectively.

6. 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”), which was subsequently approved by the Company’s shareholders June 30, 2022. Under the 2021 Plan the Company may grant stock options, stock appreciation rights, stock award and other awards from time to time to key employees, officers, directors, advisors and independent consultants to the Company or to any of its subsidiaries. Shares available for future options and restricted stock grants under the plan subject to stockholder approval totaled 1,164,332 as of June 29, 2024.

As of June 29, 2024, outstanding stock-based awards consisted of the following:

| | Vested | Unvested |
|---|----------------|------------|
| | (In thousands) | |
| Service-based stock options | — | — |
| Service-based restricted stock rights | — | 280 |
| Performance-based restricted stock rights | — | — |
| Total outstanding stock-based awards | <u>—</u> | <u>280</u> |

Total stock-based compensation expense recognized for the quarter ended June 29, 2024, and the quarter ended July 1, 2023, was as follows:

| | Six Months ended | |
|--|------------------|--------------|
| | June 29, 2024 | July 1, 2023 |
| | (In thousands) | |
| Selling, general and administrative | \$ 8 | \$ 63 |
| Pre-tax stock-based compensation expense | <u>8</u> | <u>63</u> |
| Total stock-based compensation expense | <u>\$ 8</u> | <u>\$ 63</u> |

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.

There are zero options outstanding and exercisable under these arrangements as of June 29, 2024, and July 1, 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 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 April 1, 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 were not issued.

On March 18, 2024, the Company agreed to grant one of its employees 200,000 service based restricted shares of common stock. Vesting occurs after two years of employment with the Company.

On April 1, 2024, 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, 2025.

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 June 29, 2024, and July 1, 2023, there were 280,000 and 564,000 performance-based stock grants to both employees and non-employee directors outstanding, respectively.

As of June 29, 2024, the total compensation cost related to stock-based awards granted to either employee or non-employee directors but not yet recognized was \$12,000.

7. EARNINGS (LOSS) PER SHARE

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

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

Reconciliation of the numerators and denominators of basic and diluted loss per share for the three months ended June 29, 2024, and July 1, 2023, is as follows:

| | <u>June 29, 2024</u> | <u>July 1, 2023</u> |
|--|---------------------------------------|---------------------|
| | (In thousands, except per share data) | |
| Loss per share from operations, basic: | | |
| Net Loss:..... | \$ (518) | \$ (195) |
| Basic: Weighted average common shares outstanding..... | 14,590 | 14,305 |
| Loss per share from operations, basic..... | <u>\$ (0.04)</u> | <u>\$ (0.01)</u> |
| | <u>June 29, 2024</u> | <u>July 1, 2023</u> |
| | (In thousands, except per share data) | |
| Loss per share from operations, diluted: | | |
| Net Loss:..... | \$ (518) | \$ (195) |
| 1% Subordinated convertible notes interest | — | — |
| Loss adjusted for assumed conversion | <u>\$ (518)</u> | <u>(195)</u> |
| Basic: Weighted average common shares outstanding..... | 14,590 | 14,305 |
| Shares related to assumed conversion of convertible notes..... | — | — |
| Diluted: Weighted average common shares outstanding..... | <u>14,590</u> | <u>14,305</u> |
| Loss per share from operations, diluted..... | <u>\$ (0.04)</u> | <u>\$ (0.01)</u> |

Reconciliation of the numerators and denominators of basic and diluted loss per share for the six months ended June 29, 2024, and July 1, 2023, is as follows:

| | <u>June 29, 2024</u> | <u>July 1, 2023</u> |
|--|---------------------------------------|---------------------|
| | (In thousands, except per share data) | |
| Loss per share from operations, basic: | | |
| Net Loss..... | \$ (930) | \$ (220) |
| Basic: Weighted average common shares outstanding..... | 14,550 | 13,863 |
| Loss per share from operations, basic..... | <u>\$ (0.06)</u> | <u>\$ (0.02)</u> |
| | <u>July 1, 2023</u> | <u>July 1, 2023</u> |
| | (In thousands, except per share data) | |
| Loss per share from operations, diluted: | | |
| Net Loss..... | \$ (930) | \$ (220) |
| 1% Subordinated convertible notes interest | — | — |
| Income (loss) adjusted for assumed conversion | <u>\$ (930)</u> | <u>(220)</u> |
| Basic: Weighted average common shares outstanding..... | 14,550 | 13,863 |
| Shares related to assumed conversion of convertible notes..... | — | — |
| Diluted: Weighted average common shares outstanding..... | <u>14,550</u> | <u>13,863</u> |
| Loss per share from operations, diluted..... | <u>\$ (0.06)</u> | <u>\$ (0.02)</u> |

Options, stock rights and convertible notes outstanding to purchase \$23.6 million and \$23.3 shares of common stock were excluded from the computation of dilutive earnings per share for the quarter ended June 29, 2024, and July 1, 2023, because their inclusion would have been anti-dilutive.

8. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10 (formerly SFAS 109), which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. As of December 30, 2023, and December 31, 2022, the Company had a full valuation allowance on its deferred tax assets.

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 had not received the refund.

During the second quarter of 2024, the Company received \$805,000 of the \$813,000.

9. SUBSEQUENT EVENTS

On July 24, 2024, the Company, Greenwood and the 2018 Subordinated Note Holders agreed to extend the maturity dates of the notes until May 5, 2026, and amend the per annum interest rate to 12%.

In July 2024, the Company received the balance of the funds due under the Employee Retention Tax Credit.