

Phoenix Footwear Group, Inc.

Amendment to Annual Report for 12/28/2024 originally published through the OTC Disclosure & News Service on [04/04/2025](#)

Explanatory Note:
Edited Annual Report

***This coversheet was automatically generated by OTC Markets Group based on the information provided by the Company. OTC Markets Group has not reviewed the contents of this amendment and disclaims all responsibility for the information contained herein.*

PHOENIX FOOTWEAR GROUP, INC.
a Delaware corporation

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Carlsbad, California 92008

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3140
(SIC Code)

Annual Report

For the Fiscal Year Ended, December 28, 2024
(the "Reporting Period")

Outstanding Shares

The number of shares outstanding of our Common Stock was:

14,590,734 as of December 28, 2024

14,590,734 as of as of April 4, 2025

14,510,734 as of 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: ☒

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 or FINRA concerning the issuer since inception.

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

The address of the issuer's principal executive offices:

2236 Rutherford Road, Suite 113
Carlsbad, California 92008

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

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

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

No: ☒ Yes: ☐

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 April 4, 2025

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

Total shares outstanding: 14,590,734 common shares as of December 28, 2024

Total shares outstanding: 14,590,734 common shares as of April 4, 2025

Total number of shareholders of record: 147 as of April 4, 2025

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 December 31, 2022		Opening Balance:							
		Common: 13,582,609 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 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	Employee 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	Employee 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	Employee 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	Employee 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	Employee 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	Employee 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 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 Tannenbaum	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
Number of Shares outstanding on December 28, 2024	Ending Balance: Common: 14,590,734 Preferred: N/A								

B. Convertible Debt

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	Principal Amount at Issuance (\$)	Outstanding Balance as of 12/28/2024 (\$) Include accrued interest	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	# Shares Converted to Date	# of Potential Shares to be Issued Upon Conversion	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
July 21, 2011/July 30, 2012	\$1,350,000	\$1,829,039	May 5, 2026	(1)	0	16,803,730	Greenwood Capital; Steven Tannenbaum, President and General Partner	Loan
March 29, 2018	\$275,000	\$372,317	May 5, 2026	(1)	0	3,420,544	James R. Riedman	Loan
March 29, 2018	\$200,000	\$270,776	May 5, 2026	(1)	0	2,487,669	Steven Tannenbaum	Loan
March 29, 2018	\$50,000	\$67,694	May 5, 2026	(1)	0	621,917	Steven DePerrior	Loan
Total Outstanding Balance:	\$1,875,000	\$2,539,826		Total Shares:	0	23,333,860		

- (1) As described in Note 5 of the Notes to the Consolidated Financial Statements, pursuant to the amendment dated July 24, 2024, the Company, Greenwood and the Individual Note Holders agreed to extend the maturity dates of the notes until May 5, 2026, amend the interest rate equal to twelve percent (12%) per annum, and pay interest on the Notes from April 5, 2024, until repayment at maturity or conversion of the Principal at the Interest Rate. As of December 28, 2024, the Company has not made the November interest payment on the convertible notes, so interest is being accrued at the default rate of 13% per annum. As of December 28, 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.

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 market under the brands Trotters® and SoftWalk®. It is also the exclusive United States ("U.S.") distributor of Bueno Footwear, Los Cabos Shoes, and EOS Shoes. The Company also has an exclusive licensing agreement with Pendleton Woolen Mills to design, develop and sell footwear, which began on January 1, 2022, and will expire at the end of 2025. 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 \$150. 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 \$180. Utilizing its 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.

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 footwear; primarily rainboots and activewear sandals. Retail price points range from \$79 to \$200. 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.

EOS. EOS is contemporary brand for women who seek style without compromising comfort and quality. Featuring quality leathers, each with unique natural variation, EOS competes in the women's footwear segment at retail pricing points from \$199 to \$299.

During the fiscal year ended December 28, 2024, the Company had one reportable segment consisting of its operations of Trotters, SoftWalk, Bueno, Pendleton, Los Cabos, and EOS.

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. The agreement will expire at the end of 2025, and during the fourth quarter of 2024, the Company notified PWM that, upon expiration, it would not renew the agreement.

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

During 2024, the Company became the exclusive U.S. distributor for EOS which is sold by both the Company's own dedicated sales force and independent sales representatives that cover the entire U.S. market.

During the fiscal years ended December 28, 2024, and December 30, 2023, all the Company's products were carried by approximately 454 and 484 customers in over 696 and 907 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% and 75% of net sales for the years ended December 28, 2024, and December 30, 2023, respectively. Nordstrom Direct accounted for 12% and 10% of net sales during the fiscal years ended December 28, 2024, and December 30, 2023, respectively, and DSW accounted for 19% and 19% of net sales during the fiscal years ended December 28, 2024, and December 30, 2023, 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% of its net sales for the fiscal years ended December 28, 2024, and December 30, 2023. 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 www.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®, and EOS competes with Pikolinos®, Homers®, and Kelsi Dagger®.

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. Also beginning in 2025, 100% of our products will be distributed by a third-party logistics provider (3PL) from Mexico. 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, tariffs 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, Turkey, India and Mexico; and
- changes in relationships between the United States and China, India, Turkey and Mexico.

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

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

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

Public health crises could harm our business.

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

Product Development.

The Company has a team of development specialists who commercialize product designs and procure footwear that adheres to the Company's fit, quality and construction standards. They closely manage the production and quality processes with the Company's independent manufacturers in China to ensure timely delivery of goods to the marketplace. The development and commercialization of new product designs include capital outlays for the tooling of dies, molds and lasts, the costs of which are amortized into cost of goods sold over a twelve-month period beginning in the season the new design is first distributed. The Company incurred development costs of approximately \$671,000 and \$652,000 during the fiscal years ended December 28, 2024, and December 30, 2023, respectively.

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

Factories. The Company's footwear is produced by independent contract manufacturers located in China, India, and Turkey. The Company does not own or operate any manufacturing facilities. The Company believes that the use of independent manufacturers increases its production flexibility and capacity while substantially reducing capital expenditures and avoiding the costs of managing a large production work force. In an effort to ensure continuity of product quality and fit, as well as control of production costs, the Company uses manufacturers the Company has previous experience with when possible. The Company attempts to ensure that no one manufacturer is responsible for a disproportionate amount of its merchandise and allocates production between factories to achieve a balance between quality, cost and capability. The Company does not have any long-term contracts with any of its manufacturers; however, the Company has long-standing relationships with its manufacturers and believes its relationships are good.

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

Quality Control. Quality control is an important and effective means of maintaining the high standards and reputation of the Company's products. The Company's staff in China and India perform multiple inspection procedures at various stages of the production process. These include examining key raw materials prior to manufacture, samples, and materials at various stages of production and final products prior to shipment. The Company's staff is often on site at each of its manufacturers to oversee production. Third party manufacturers located in China, India and Turkey have produced 100% of the Company's footwear products over the last three fiscal years. The Company depends on the ability of these manufacturers to finance the production of goods ordered, maintain adequate manufacturing capacity and meet the Company's quality standards. The Company competes with other companies for the production capacity of these third-party manufacturers, and the Company does not exert direct control over the manufacturers' operations. As such, the Company has experienced at times, delays, or inability to fulfill customer demand and orders. The Company cannot guarantee that any third-party manufacturer will have sufficient production capacity, meet the Company's production deadlines, or meet its quality standards. In addition, from time to time, these manufacturers may have terminated their relationship with the Company. As a result, the Company is not always assured of an uninterrupted supply of products of acceptable quality and price from its third-party manufacturers. Any disruption in the supply of products from the Company's third-party manufacturers may harm its business and could result in a loss of sales and an increase in production costs, which would adversely affect the Company's results of operations.

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

The Company's top ten customers represented approximately 73% and 75% of net sales for the fiscal years ended December 28, 2024, and December 30, 2023, respectively. Nordstrom Direct accounted for 12% and 10% of net sales during the fiscal years ended December 28, 2024, and December 30, 2023, respectively, and DSW accounted for 19% of net sales during the fiscal years ended December 28, 2024, and December 30, 2023.

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. The agreement will expire at the end of 2025, and during the fourth quarter of 2024, the Company notified PWM that it would not renew the agreement after it expires.

During 2022, the Company entered into an exclusive agreement with Urban Shoemakers Pty. Ltd. to become the United States Distributor for Los Cabos Footwear and EOS Footwear for a period of five years. At the end of that period, the agreement will renew for a period of two years, unless terminated. Under this agreement, products will be sold by both the Company's own dedicated sales force and independent sales representatives in the United States. The Company began selling Los Cabos Footwear during Spring 2023 and they launched EOS Footwear in Fall 2024.

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:

Facility/Location	Own/Lease	Description	Approximate Square Footage
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 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 expired in September 2024, and it was extended in March 2024 from October 1, 2024, through September 30, 2031.

The Company leases a warehouse facility located in Old Town, Maine. The warehouse facility was renewed

for another two-year period beginning on July 1, 2023, and will expire on June 30, 2025. The Company does not expect to renew that lease as it is in the process of moving 100% of its distribution to a third-party logistics provider (3PL). As described in Note 9 “Subsequent Events”, the Company has leased office space for its customer service department in Old Town, Maine. The lease will begin on April 1, 2025, and will expire on February 29, 2028.

The Company also leases an office space in Dongguan, China to maintain staff to oversee its manufacturing operations in China. The lease in China began on April 1, 2024, and will expire on March 31, 2025. As described in Note 9 “Subsequent Events”, on February 18, 2025, the Company entered into a two-year lease agreement for a new office space in Dongguan, China. The lease commences on March 16, 2025, and will expire on March 31, 2027.

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 April 4, 2025. 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 April 4, 2025, are deemed outstanding for the purposes of computing the share ownership and percentage ownership of the person holding such securities, but they are not deemed outstanding for the purposes of computing the percentage ownership of any other person.

Percentage of beneficial ownership is calculated assuming 14,750,734 shares of the Company’s stock (net of treasury shares) were outstanding as of April 4, 2025. 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.

Individual or Entity Name (include name of control person(s) if a corporate entity)	Position/Company Affiliation (e.g. Officer/Director/Owner of more than 5%)	City and State (include Country if outside U.S.)	Number of shares owned (1)(2)(3)	Class of Shares Owned	Ownership Percentage of Class Outstanding (undiluted)	Names of control person(s) if a corporate entity	Note
James R. Riedman	Chief Executive Officer, Director	Rancho Santa Fe, CA	1,903,694	Common	12.9%		(2), (3), (4), (5)
Steven Tannenbaum and Greenwood Investments, Inc.	Director and Control Person	Miami, FL	5,211,613	Common	35.3%	Steven Tannenbaum	(2), (3), (4), (5)
Frederick R. Port	Director	Rancho Santa Fe, CA	305,000	Common	2.1%		(2)
Steven M. DePerrior	Director	Rochester, NY	300,000	Common	2.1%		(2)
Stephanie E. Pianka	Director	Lake Placid, NY	300,000	Common	2.1%		(2)
John M. Dillen	Chief Financial Officer	Eagle, ID	309,328	Common	2.1%		

(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) 203,804 shares owned directly by CE Capital, LLC, an entity over which Mr. Riedman has managerial control; and (iv) 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) 200,000 shares issued to Mr. Tannenbaum pursuant to a restricted stock award as compensation for serving on the Company's Board of Directors, and (iii) 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 24,503,013 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: CBIZ CPAs P.C.
13500 Evening Creek Drive N #450
San Diego, CA 92128
(858) 795-2159
Nathan Story, Engagement Shareholder
nstory@cbiz.com

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

All other means of Investor Communications: None

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

9) Disclosure and Financial Information

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

Name: John Dillen

Title: Chief Financial Officer

Relationship to Issuer: Employee and Officer

Qualifications of person or persons who prepared the financial statements: Chief Financial Officer

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

☒ U.S. GAAP

☐ IFRS

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

Name: John Dillen

Title: Chief Financial Officer

Relationship to Issuer: Employee and Officer

Qualifications of person or persons who prepared the financial statements: Chief Financial Officer

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

- a. Independent Auditors' Report
- b. Consolidated Balance Sheets as of December 28, 2024, and December 30, 2023.
- c. Consolidated Statements of Operations for the fiscal years ended December 28, 2024, and December 30, 2023.
- d. Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended December 28, 2024, and December 30, 2023.
- e. Consolidated Statements of Cash Flows for the fiscal years ended December 28, 2024, and December 30, 2023.
- f. Notes to the Consolidated Financial Statements.

10) Issuer's Certifications

I, James R. Riedman, certify that:

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

Date: April 4, 2025

/s/ James R. Riedman,
Chief Executive Officer

I, John M. Dillen, certify that:

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

Date: April 4, 2025

/s/ John M. Dillen,
Chief Financial Officer

Exhibit A

PHOENIX FOOTWEAR GROUP, INC.

AUDITED FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED DECEMBER 28, 2024, and December 30, 2023

Audited Financial Statements

Independent Auditors' Report

Consolidated Balance Sheets

As of December 28, 2024, and December 30, 2023

Consolidated Statements of Operations

For the fiscal years ended December 28, 2024, and December 30, 2023

Consolidated Statements of Stockholders' Equity (Deficit)

For the fiscal years ended December 28, 2024, and December 30, 2023

Consolidated Statements of Cash Flows

For the fiscal years ended December 28, 2024, and December 30, 2023

Notes to Consolidated Financial Statements

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of **Phoenix Footwear Group, Inc. (the "Company")**, which comprise the consolidated balance sheets as of **December 28, 2024** and **December 30, 2023**, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of **December 28, 2024** and **December 30, 2023**, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, has a net capital deficiency, and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the

Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

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

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

/s/ CBIZ CPAs P.C.

San Diego, California
April 4, 2025

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

	December 28, 2024	December 30, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14	\$ 37
Accounts receivable, net (less allowance for bad debt of \$154 and \$31 in 2024 and 2023, respectively)	4,136	3,566
Inventories (less allowance of \$816 and \$197 in 2024 and 2023, respectively)	7,531	9,719
Income tax receivable – Employee Retention Tax Credit (Note 8)	—	813
Other current assets	712	660
Total current assets	12,393	14,795
PROPERTY, PLANT AND EQUIPMENT, net	15	40
RIGHT OF USE ASSETS, OPERATING	934	108
RIGHT OF USE ASSETS, FINANCED	11	15
DEFERRED FINANCING COSTS LONG-TERM	19	—
TOTAL ASSETS	<u>\$ 13,372</u>	<u>\$ 14,958</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Revolving line of credit, current (Note 5)	\$ 5,426	\$ 5,991
Accounts payable	1,973	2,589
Consultant contingency fee for Employee Retention Tax Credit (Note 8)	—	114
Accrued expenses	1,067	845
Returns and allowances liability	1,447	1,091
Current portion of right of use obligations, operating	137	146
Current portion of right of use obligations, financed	4	4
Current portion of convertible debt	2,333	2,333
Current portion of notes payables	1,011	—
Income tax payable	7	—
Total current liabilities	13,405	13,113
LONG-TERM LIABILITIES		
Right of use obligations, operating, net of current portion	801	—
Right of use obligations, financed, net of current portion	8	11
Other non-current liabilities	1	1
Total liabilities	14,215	13,125
Commitments and Contingencies (Note 3)		
STOCKHOLDERS' EQUITY (DEFICIT):		
Common stock, \$0.01 par value — 50,000 shares authorized; 14,807 and 14,727 shares issued and outstanding in 2024 and 2023, respectively	148	147
Additional paid-in-capital	48,500	48,497
Accumulated deficit	(46,848)	(44,168)
Treasury stock at cost, 217 shares in 2024 and 2023	(2,643)	(2,643)
Total stockholders' equity (deficit)	(843)	1,833
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	<u>\$ 13,372</u>	<u>\$ 14,958</u>

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

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

	<u>Years Ended</u>	
	December 28, 2024	December 30, 2023
Net sales	\$ 17,973	\$ 19,148
Cost of goods sold	<u>11,376</u>	<u>12,030</u>
Gross profit	6,597	7,118
Operating expenses:		
Selling, general and administrative	<u>8,219</u>	<u>7,164</u>
Total operating expenses	<u>8,219</u>	<u>7,164</u>
Operating loss	(1,622)	(46)
Interest expense, net	<u>1,055</u>	<u>873</u>
Loss before income taxes	(2,677)	(919)
Income tax (expense) benefit	<u>(3)</u>	<u>7</u>
Net loss	<u>\$ (2,680)</u>	<u>\$ (912)</u>
Net loss per share:		
Basic	\$ (0.18)	\$ (0.06)
Diluted	<u>\$ (0.18)</u>	<u>\$ (0.06)</u>
Weighted average shares outstanding used to calculate per share information:		
Basic	14,571	14,188
Diluted	<u>14,571</u>	<u>14,188</u>

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

PHOENIX FOOTWEAR GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
(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	<u>13,799</u>	<u>\$ 138</u>	<u>\$ 48,367</u>	<u>\$ (43,256)</u>	<u>(217)</u>	<u>\$ (2,643)</u>	<u>\$ 2,606</u>
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	—	—	—	(2,680)	—	—	(2,680)
Balance — December 28, 2024	<u>14,807</u>	<u>\$ 148</u>	<u>\$ 48,500</u>	<u>\$ (46,848)</u>	<u>(217)</u>	<u>\$ (2,643)</u>	<u>\$ (843)</u>

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

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

	Years Ended	
	December 28, 2024	December 30, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,680)	\$ (912)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	26	60
Provision for losses on accounts receivable	123	(17)
Non-cash stock-based compensation	4	139
Amortization of deferred financing costs	75	23
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(693)	1,939
Inventories, net	2,188	428
Income tax receivable – Employee Retention Tax Credit (Note 8)	813	—
Other current assets	(951)	303
Other non-current assets	(19)	—
Increase (decrease) in:		
Accounts payable	(615)	360
Accrued expenses	223	(233)
Contingent fee liability – Employee Retention Tax Credit (Note 8)	(114)	—
Returns and allowances liability	356	(322)
Income tax payable	—	(7)
Other long-term liabilities	799	(169)
Net cash provided by (used in) operating activities	(465)	1,592
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	23,967	21,068
Proceeds from Notes Payables	1,411	—
Payments of line of credit	(24,532)	(22,561)
Payments of notes payable	(400)	—
Payments on right of use obligation, financed	(4)	(71)
Net cash provided by (used in) financing activities	442	(1,564)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23)	28
CASH AND CASH EQUIVALENTS — Beginning of year	37	9
CASH AND CASH EQUIVALENTS — End of year	\$ 14	\$ 37
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	677	806
Income taxes	(3)	7
Supplemental disclosure of non-cash activities:		
Issuance of restricted stock grants	4	139
Right-of- use assets additions, operating	1,025	—

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

PHOENIX FOOTWEAR GROUP, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Definitions

As used in this report, unless the context suggests otherwise, “Phoenix Footwear,” “the Company,” “its,” “our,” “us”, and “we” means Phoenix Footwear Group, Inc. and its consolidated subsidiary, Penobscot Shoe Company, “the FASB” means the Financial Accounting Standards Board, “ASC” means the “FASB Accounting Standards Codification™”, “ASU” means “Accounting Standards Update” and “SEC” means the Securities and Exchange Commission.

Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”).

Accounting Period

The Company’s operating and reporting period is on a 52–53-week fiscal year ending on the Saturday nearest to December 31st. The Company refers to the fiscal year ended December 30, 2023, as “fiscal 2023,” and the fiscal year ended December 28, 2024, as “fiscal 2024.” The 52-week fiscal years consist of four equal quarters of 13 weeks each, and the 53-week fiscal years consist of three 13-week fiscal quarters and one 14-week fiscal quarter. The financial results for the 53-week fiscal years and 14-week fiscal quarters will not be exactly comparable to the 52-week fiscal years and 13-week fiscal quarters. Fiscal 2024 ended December 28, 2024, and fiscal 2023 ended December 30, 2023, each included 52 and 52 weeks, respectively.

Principles of Consolidation

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

Management Estimates

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

Segments

The Company determines operating segments on the same basis that it evaluates the performance internally. The operating segments have been aggregated and are reported as one reportable financial segment. The Company aggregates its operating segments for financial reporting purposes because they are similar in each of the following

areas: economic characteristics; type of customer; nature of products; nature of production processes; and distribution methods.

The Company had only one reportable segment in both fiscal 2024 and fiscal 2023 consisting of Trotters, SoftWalk, Los Cabos, Pendleton, and EOS.

Business and Credit Concentrations

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

The Company sold much of its footwear to 454 and 484 customers during the fiscal year ending December 28, 2024, and December 30, 2023, respectively, across the U.S., comprised of leading specialty and independent retail stores, mail order catalogues, uniform, and internet retailers. A decision by the controlling owner of a group of stores or any significant customer to decrease the amount of merchandise purchased from the Company or to cease carrying the Company's products could have an adverse effect on the Company's results of operations in future periods. Additionally, the financial difficulties of a customer could cause the Company to curtail business with that customer or the customer to reduce its business with the Company and cancel orders. The Company's top ten customers represented approximately 73% and 75% of net sales for the fiscal years ended December 28, 2024, and December 30, 2023, respectively. Nordstrom Direct accounted for 12% and 10% of net sales during the fiscal years ended December 28, 2024, and December 30, 2023, respectively, and DSW accounted for 19% and 19% of net sales during the fiscal years ended December 28, 2024, and December 30, 2023, respectively.

The Company extends credit to these customers based on an evaluation of each customer's financial condition. The Company monitors its exposure for credit losses on all receivables and maintains allowances for anticipated losses. Credit risk is impacted by conditions or occurrences within the economy and the retail industry and is principally dependent on each customer's financial condition. Four of the Company's customers constituted 57% of trade accounts receivable outstanding on December 28, 2024, and five of the Company's customers constituted 60% of trade accounts receivable as of December 30, 2023. The Company's inability to collect on its trade accounts receivable from any of its major customers could adversely affect the Company's results of operation and financial condition.

The Company currently buys all its products from seven independent contract manufacturers located in China, India and Turkey. As of December 28, 2024, and December 30, 2023, four of the Company's vendors constituted 61% and 63% of its accounts payable, respectively. The Company does not have long-term written agreements with any of its manufacturers. The Company could experience difficulties with these manufacturers, including reductions in the availability of production capacity, failure to meet the Company's quality control standards, failure to meet production deadlines or increased manufacturing costs. If the Company's current manufacturers cease doing business with it, the Company could experience an interruption in the manufacture of the Company's products. Although the Company believes that it could find alternative manufacturers, the Company may be unable to establish relationships with alternative manufacturers that will be as favorable as the relationships that exist currently. If the Company is unable to provide products consistent with its standards or the manufacture of the Company's footwear is delayed or becomes more expensive, this could result in customers canceling orders, refusing to accept deliveries or demanding reductions in purchase prices, any of which could have a material adverse effect on the Company's business and results of operations. In addition, the Company's operations are subject to the customary risks of doing business abroad, including but not limited to currency fluctuations and revaluations, custom duties and related fees, various import controls and other monetary barriers, restrictions on the transfer of funds, labor unrest and strikes and, in certain parts of the world, political instability.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, accounts and other receivables, accounts payable, accrued liabilities, the revolving credit facility, notes payable 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, notes payable and convertible notes

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

Revenue Recognition

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

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

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

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

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

Cash Equivalents

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

Accounts Receivable, net

The Company provides a reserve against its accounts receivable for estimated losses that may result from non-collection due to the financial position of its customers. To minimize the likelihood of uncollectibility, customers' creditworthiness is reviewed periodically based on external credit reporting services and the Company's experience with the account and is adjusted accordingly. When a customer's account becomes significantly past due, the Company generally places a hold on the account and discontinues further shipments to that customer, minimizing the further risk of loss. The Company determines the amount of the reserve by analyzing known uncollectible accounts, aged receivables, historical losses and its customers' creditworthiness. Amounts later determined and specifically identified to be uncollectible are charged or written off against this reserve.

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

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

Historically, actual results in these areas have not been materially different than the Company's estimates, and the Company does not anticipate that its estimates and assumptions are likely to materially change in the future.

However, if the Company incorrectly anticipates trends or unexpected events occur, its results of operations could be materially affected.

Inventories and Cost of Goods Sold

Inventories, principally finished goods, are valued at the lower of cost (based on the first-in, first-out method) or net realizable value. The cost elements included in inventory consist of all direct costs of products (net of purchase discounts and vendor allowances), allocated overhead (primarily sourcing and indirect production costs), inbound freight and merchandise acquisition costs such as import fees. The Company reduces the carrying cost of inventories for obsolete or slow-moving items as necessary to properly reflect inventory value. Reserves are estimated based upon inventory on hand, historical sales activity and the expected net realizable value. The Company's analysis includes a review of inventory quantities on hand at period end in relation to year-to-date sales, existing orders from customers and projections for sales in the near future. The net realizable value, or market value, is determined using the Company's estimate of sales prices of such inventory based upon historical sales experience on a style-by-style basis or, if necessary, through off-price or discount store channels.

Cost of goods sold includes the inventory cost elements listed above as well as outbound shipping and handling. The Company's cost of goods sold may not be comparable to those of other entities, since some entities include all of the costs associated with their distribution functions in cost of goods sold while the Company includes these costs in SG&A expenses.

Deferred Financing Costs

Deferred financing costs are amortized over the term of the related debt instrument. Amortization expense associated with deferred financing costs is recorded as interest expense and totaled \$75,000 and \$23,000 in fiscal 2024 and fiscal 2023, respectively. The amortization of expense during fiscal 2024 was associated with the Company's new line of credit with Celtic Bank and the extinguishment of its Invoice Purchase and Security Agreement with Alterna Capital Solutions. Amortization expense during fiscal 2023 was associated with the Company's Invoice Purchase and Security Agreement with Alterna Capital Solutions.

Property, Plant, Equipment, Depreciation and Amortization

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

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

	<u>December 28, 2024</u>	<u>December 30, 2023</u>	<u>Useful Lives (Years)</u>
	<u>(In thousands)</u>		
Machinery, furniture and equipment	\$ 370	\$ 370	4 - 10 years
Leasehold improvements	156	156	2 - 10 years
Computer hardware and software	544	544	2 - 5 years
	1,070	1,070	
Less accumulated depreciation and amortization	(1,055)	(1,030)	
Property, plant and equipment, net.....	<u>\$ 15</u>	<u>\$ 40</u>	

	<u>December 28, 2024</u>	<u>December 30, 2023</u>	<u>Useful Lives (Years)</u>
	<u>(In thousands)</u>		
Right of use assets, financed	\$ 796	\$ 736	5-10 years
Right of use assets, operating	1,730	766	3-5 years
Less lease expense	(1,581)	(1,379)	
Right of use assets, net.....	<u>\$ 945</u>	<u>\$ 123</u>	

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

During the second quarter of 2023, and as described in Note 6 "Leases", the lease was renewed for a two-year term until the end of June 2025.

Depreciation and amortization expense associated with the Company's fixed assets during fiscal 2024 and fiscal 2023 was \$26,000 and \$60,000, respectively.

Long-lived Assets Impairments

The Company reviews the carrying value of its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Identification of any impairment would include a comparison of estimated future undiscounted operating cash flows anticipated to be generated during the remaining life of the assets with their net carrying value. An impairment loss would be recognized as the amount by which the carrying value of the assets exceeds their fair value. For fiscal 2024 and fiscal 2023, no impairment loss was recognized as a result of this review.

Shipping Activities

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

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

Product Design and Development Costs

Expenditures relating to the design of new products and processes, including significant improvements and refinements to existing products, are expensed as incurred and included in SG&A. The amounts charged to expense were \$198,000 and \$198,000 in fiscal 2024 and fiscal 2023, respectively.

Advertising Programs

The Company capitalizes direct-response advertising costs when (1) it can be shown that customers responded to a specific advertisement and (2) there is a probable future economic benefit. Direct-response advertising costs, such as those for our catalogues, are capitalized and amortized over their useful lives (generally two to four months). As of December 28, 2024, and December 30, 2023, the Company had no capitalized advertising costs. The Company expenses non-direct-response advertising production costs as incurred and records communication costs as an expense when the advertisement first takes place. Catalogue and other advertising costs totaled \$200,000 and \$206,000 during fiscal 2024 and fiscal 2023, respectively.

The Company participates in certain cooperative advertising programs to reimburse a portion of advertising and marketing costs that its customers may incur. Such costs include mailing expenses for catalogues and advertisement runs in newspapers, magazines, radio and television. The Company records cooperative advertising costs as an expense when the advertising first takes place. Total cooperative advertising expense, which was included in SG&A, was \$48,000 and \$27,000 for fiscal 2024 and fiscal 2023, respectively.

Income Taxes

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

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

Earnings (Loss) Per Share

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

Options, stock rights and convertible notes outstanding to purchase 23.3 million shares of common stock were excluded from the computation of diluted earnings per share for fiscal 2024 and fiscal 2023 because their inclusion would have been anti-dilutive.

Reconciliation of the numerators and denominators of basic and diluted loss per share for fiscal 2024 and for fiscal 2023 is as follows:

	December 28, 2024	December 30, 2023
	(In thousands, except per share data)	
Loss per share, basic:		
Net loss.....	\$ (2,680)	\$ (912)
Basic: Weighted average common shares outstanding.....	14,571	14,188
Loss per share, basic.....	\$ (0.18)	\$ (0.06)
	December 28, 2024	December 30, 2023
	(In thousands, except per share data)	
Loss per share, diluted:		
Net loss.....	\$ (2,680)	\$ (912)
Basic: Weighted average common shares outstanding.....	14,571	14,188
Shares related to assumed conversion of convertible notes and unvested restricted stock	—	—
Diluted: Weighted average common shares outstanding.....	14,571	14,188
Loss per share, diluted.....	\$ (0.18)	\$ (0.06)

Recently Adopted Accounting Standards

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

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

In November 2023, FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. Among other new disclosure requirements, ASU 2023-07 requires companies to disclose significant segment expenses that are regularly provided to the chief operating decision maker. ASU 2023-07 will be effective for public entities beginning after December 15, 2023, and interim periods beginning after December 15, 2024. ASU 2023-07 must be applied retrospectively to all prior periods presented in the financial statements. The standard was adopted on December 31, 2023, and there was no disclosure impact to on the Consolidated Financial Statements for fiscal 2024.

Recently Issued Accounting Standards - Not Yet Adopted

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 requires companies to disclose, on an annual basis, specific categories in the effective tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. In addition, ASU 2023-09 requires companies to disclose additional information about income taxes paid. ASU 2023-09

will be effective for annual periods beginning January 1, 2025, and will be applied on a prospective basis with the option to apply the standard retrospectively. The Company is evaluating the disclosure impact of ASU 2023-09.

In February 2024, The FASB has issued ASU 2024-02, Codification Improvements-Amendments to Remove References to the Concepts Statements. ASU 2024-02 is part of an ongoing effort to make technical corrections to the Codification such as conforming amendments, clarifications to guidance, simplifications to wording or the structure of guidance, and other minor improvements. Specifically, ASU 2024-02 removes references to FASB Concept Statements as they are nonauthoritative. ASU 2024-02 is effective for fiscal years beginning after December 15, 2024, for public business entities and for fiscal years beginning after December 15, 2025, for all other entities. Early adoption is permitted. The amendments can be applied either prospectively or retrospectively. The Company is currently evaluating the disclosure impact of ASU 2024-02.

In November 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. ASU 2024-03 requires disaggregated disclosure of income statement expenses for public business entities (PBEs). The ASU does not change the expense captions an entity presents on the face of the income statement; rather, it requires disaggregation of certain expense captions into specified categories in disclosures within the footnotes to the financial statements. ASU 2024-03 is effective for all PBEs for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The Company is currently evaluating the disclosure impact of ASU 2024-03.

In November 2024, the FASB issued ASU 2024-04 Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments. ASU 2024-04 provides guidance on whether induced conversion or extinguishment accounting should be applied to certain settlements of convertible debt instruments that do not occur in accordance with the instruments' preexisting terms. ASU 2024-04 is effective for all entities for annual reporting periods beginning after December 15, 2025, and interim reporting periods with those annual reporting periods. Early adoption is permitted as of the beginning of the annual reporting period for all entities that have adopted the amendments in ASU 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The Company is currently evaluating the impact of ASU 2024-04 on the financial statements.

Reclassifications

Certain reclassifications have been made to conform to the current year presentation. These reclassifications had no effect on reported results of operations or stockholders' equity (deficit).

2. LIQUIDITY AND GOING CONCERN

Cash and cash equivalents on December 28, 2024, decreased by \$23,000 to \$14,000 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.

Going Concern

Business operations of the Company have been significantly disrupted as a result of rising inflation over the last several years. Those disruptions have the potential to impact the Company's suppliers and overall customer demand. In addition, increasing tariffs on goods sourced from China as well as the threat of new tariffs could impact our costs of products and we may have to increase prices, which could lead to a decline in sales and revenue. In the event the Company is not able to maintain its anticipated sales levels, it may need additional financing to maintain operations. If additional future financing is necessary, and given the highly unpredictable nature of the financial markets, it is uncertain if the Company will be able to secure additional debt or equity financing with terms acceptable to it or even at all. These conditions, when considered in the aggregate, raise substantial doubt about the Company's ability to

continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Management plans to continue to evaluate other potential sources of financing. The Company has taken steps to reduce discretionary spending and other expenditures including reduction of staffing and moving its distribution to Mexico in the effort to reduce overhead costs required in maintaining a distribution center in the United States. The impact of inflation and tariffs on the Company's business operations, including the duration and impact on overall customer demand, cannot be reasonably estimated at this time and it is anticipated this will have a material adverse impact on the business, results of operations, financial position and cash flows in fiscal 2025. As a result, these actions do not alleviate the substantial doubt about the Company's ability to continue as a going concern.

3. COMMITMENTS AND CONTINGENCIES

On February 20, 2019, the Company entered a new long-term operating lease for its corporate headquarters consisting of approximately 7,574 square feet, which expired on September 30, 2024. On March 7, 2024, the Company renewed the lease for a seven-year term, which began on October 1, 2024, and will expire on September 30, 2031. Lease payments under this agreement are included in the future minimum lease payments under its operating lease.

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

As described in Note 6, "Leases", on July 1, 2013, the Company entered into a sale and leaseback agreement that was classified as a capital lease. Beginning in 2019, and in accordance with ASC 842, this lease was classified as a financed lease. The 10-year initial term of the lease included a 5-year renewal option. This agreement expired in June 2023 and was renewed for a two-year term beginning on July 1, 2023, and will expire on June 30, 2025. The lease is now classified as an operating lease under ASC 842.

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

	<u>(In thousands)</u>
Year ending December:	
2025.....	\$ 240
2026.....	182
2027.....	182
2028.....	182
2029.....	182
Thereafter.....	318
Less: amount representing interest.....	(348)
Total minimum lease payments.....	<u>\$ 938</u>

As described in Note 6, "Leases", on November 29, 2022, the Company entered into a five year and three month financed lease agreement with Wells Fargo Financial Leasing, Inc for use of printer hardware in the principal amount of \$18,826 bearing an imputed per annum interest rate of 8.99% with 63 periodic payments in the amount of \$298 due through June 2027. The printers were placed into service during last quarter of 2022. Upon inception of the lease, the Company recorded an asset and liability in the amount of \$18,826. These payments are included in future minimum lease payments.

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

	<u>(In thousands)</u>
Year ending December:	
2025.....	\$ 4
2026.....	4
2027.....	4
2028.....	1
Thereafter.....	—
Less: amount representing interest	<u>(1)</u>
Total minimum lease payments	<u>\$ 12</u>

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

Rent expense included in operations for fiscal 2024 and fiscal 2023 was \$43,000 and \$66,000 respectively.

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 \$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 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. During the fourth quarter of 2024, the Company notified PWM that it would not renew its license agreement after its expiration at the end of 2025.

Future minimum royalty payments under the agreement are as follows:

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

On May 3, 2023, the Company entered into an agreement with a distribution center in Mexico to distribute and ship all its Bueno products. The agreement began on August 1, 2023, and expires on July 31, 2025, and requires a minimum monthly payment of \$20,000 for order processing, distribution, and storage of its products to begin in January 2024. During 2024, the Company began moving all of its products to Mexico for distribution.

Future minimum payments under the agreement are as follows:

	<u>(In thousands)</u>
Year ending December:	
2025.....	\$ 120
Total minimum payments	<u>\$ 120</u>

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

4. DEFINED CONTRIBUTION PLAN

The Company has a defined contribution 401(k) savings plan (the “Plan”), which covers substantially all employees. The Plan allows employees to elect to contribute a portion of their wages on a tax-deferred basis, and the Company may match, at its discretion, a portion of the employee contribution. The Company contributed \$18,000 and \$20,000 during fiscal 2024 and fiscal 2023, respectively.

5. 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 deferred financing costs. The proceeds from the agreement were used to pay off Alterna Capital Solutions and to fund working capital.

As of December 28, 2024, interest is accrued on the principal amount outstanding under the Celtic Loan Agreement at the current Prime Rate, which was 8.50% on the date the agreement was signed, plus 3.75%. On December 19, 2024, the Prime rate was adjusted to 7.50% and as of December 28, 2024, interest is accrued at 7.50% 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 payment 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 December 28, 2024, the outstanding loan balance with Celtic Bank was \$5.4 million and availability was \$679,000.

As of December 28, 2024, the Company was in compliance with Celtic Bank and its covenants.

James Riedman Notes

ERTC 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 R. Riedman agreed to defer the repayment of \$400,000, the outstanding principal

amount, until no later than September 30, 2024.

On September 27, 2024, James R. Riedman and the Company agreed that Riedman is entitled to demand repayment, in part or in full, at his discretion until the full amount owed, inclusive of accrued interest, is repaid in full.

On December 9, 2024, James R. Riedman (Lender) and the Company (Borrower) executed an Amended and Re-stated Security Agreement and Amended and Re-stated Promissory Note. Payments of interest are to be made monthly in arrears until such time as the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to Borrower; provided, however, that Lender shall not make any demand for repayment without the written consent of Senior Lender (Celtic Bank Corporation) prior to the date Borrower's loan from Senior Lender has been paid in full. As of December 28, 2024, the Company has made \$9,000 of interest payments to James R. Riedman under this Note.

November 2024 Note:

On November 29, 2024, James R. Riedman (Lender) and the Company (Borrower) executed a Security Agreement and Promissory Note in the amount of \$50,000. Under the terms of this Note, the Company agreed to pay interest at a rate of 12% per annum payable before the fifth day of January of each year until the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to Borrower; provided, however, that Lender shall not make any demand for repayment without the written consent of Senior Lender (Celtic Bank Corporation) prior to the date Borrower's loan from Senior Lender has been paid in full.

December 2024 Note:

On December 26, 2024, James R. Riedman (Lender) and the Company (Borrower) executed a Security Agreement and Promissory Note in the amount of \$410,000. Under the terms of this Note, the Company agreed to pay interest at a rate of 12% per annum payable quarterly in arrears no later than the fifth of January, April, July and October of each year until the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to Borrower; provided, however, that Lender shall not make any demand for repayment without the written consent of Senior Lender (Celtic Bank Corporation) prior to the date Borrower's loan from Senior Lender has been paid in full.

Steven Tannenbaum Note:

On November 29, 2024, Steven Tannenbaum and the Company (Borrower) executed a Security Agreement and Promissory Note in the amount of \$150,000. Under the terms of this Note, the Company agreed to pay interest at a rate of 12% per annum payable before the fifth day of January of each year until the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to Borrower; provided, however, that Lender shall not make any demand for repayment without the written consent of Senior Lender (Celtic Bank Corporation) prior to the date Borrower's loan from Senior Lender has been paid in full.

Alterna Capital Solutions Invoice Purchase Security Agreement

On October 9, 2020, the Company and Penobscot entered into an Invoice Purchase Security Agreement with Alterna Capital Solutions. On August 5, 2022, The Company and Alterna entered into an Inventory Finance Rider which provided additional borrowing capacity, secured by the Company's Eligible Inventory.

On April 5, 2024, the obligations outstanding in the amount of \$6.5 million under the Alterna Capital Solutions LLC Invoice Purchase and Inventory Rider Agreements were satisfied, and the agreements with Alterna Capital Solutions LLC were terminated.

Subordinated Secured 1% Convertible Notes Collectively the Greenwood Notes:

The Company has issued a series of promissory notes designated as its “Subordinated Secured 1% Convertible Notes”, including: (i) that certain Amended and Restated Subordinated Secured 1% Convertible Note originally issued July 21, 2011, and amended and restated July 30, 2012, and as further amended on February 2, 2015 and June 30, 2020, executed by the Company in favor of Greenwood Capital in the principal amount of \$500,000; (ii) that certain Amended and Restated Subordinated Secured 1% Convertible Note originally issued July 21, 2011, and amended and restated July 30, 2012, and as further amended on February 2, 2015 and June 30, 2020, executed by the Company in favor of Greenwood Investors, LP, in the principal amount of \$500,000 (which note was subsequently assigned and transferred by Greenwood Investors, LP to Greenwood Capital effective December 31, 2012); and (iii) that certain Subordinated Secured 1% Convertible Note originally issued July 30, 2012, as amended on February 2, 2015, executed by the Company in favor of MGPLA, LP, in the principal amount of \$350,000 (which note was subsequently assigned and transferred by MGPLA, LP to Greenwood Capital effective December 29, 2016), and later amended as of June 30, 2020, each as amended by that certain Amendment to Subordinated Notes, dated effective as of July 29, 2022 (collectively, the “Greenwood Notes”).

The Greenwood 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 obligation under the Greenwood 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 Greenwood, 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 Greenwood 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. As of December 18, 2024, Riedman Corporation has been released and removed as a party to the Voting Agreement.

2018 Subordinated Secured Convertible Notes.

The Company has issued a series of promissory notes designated as its “2018 Subordinated Secured Convertible Notes”, including: (i) that certain 2018 Subordinated Secured Convertible Note originally issued March 29, 2018, as amended on June 30, 2020 and December 1, 2020, executed by the Company in favor of Riedman in the principal amount of \$275,000; (ii) that certain 2018 Subordinated Secured Convertible Note originally issued March 29, 2018, as amended on June 30, 2020 and December 1, 2020, executed by the Company in favor of Tannenbaum in the principal amount of \$200,000; and (iii) that certain 2018 Subordinated Secured Convertible Note originally issued March 29, 2018, as amended on June 30, 2020 and December 1, 2020, executed by the Company in favor of DePerrior in the principal amount of \$50,000, each as amended by that certain Amendment to Subordinated Notes, dated effective as of July 29, 2022 (collectively, the “Individual Investor Notes” and, together with the Greenwood Notes, collectively, the “Notes”).

Current Amendments to Greenwood Notes and Individual Investor Notes:

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.

On July 24, 2024, the Company, Greenwood and the Individual Note Holders agreed to extend the maturity dates of the notes until May 5, 2026, amend the interest rate equal to twelve percent (12%) per annum, and pay interest on the Notes from April 5, 2024, until repayment at maturity or conversion of the Principal at the Interest Rate.

In November 2024, The Company and the Individual Note Holders agreed to defer the interest payments for an unspecified period of time. As a result, the Company is now accruing interest at the default rate of 13%.

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. As of December 18, 2024, Riedman Corporation has been released and removed as a party to the Voting Agreement.

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 December 28, 2024, and December 30, 2023, debt consisted of the following:

	<u>December 28, 2024</u>	<u>December 30, 2023</u>
	<u>(In thousands)</u>	
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 13% as of December 28, 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 April 4, 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 April 4, 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 13% as of December 28, 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 of 7.50% plus 3.75% as of December 28, 2024.....	\$ 5,426	\$ —
James Riedman Note with an annual interest rate of 13%, secured by all the Company’s assets, payable within 30 days after demand of payment as of December 28, 2024.....	\$ 400	\$ —
James Riedman Note with an annual interest rate of 12%, secured by all the Company’s payable within 30 day of demand of payment as of December 28, 2024.....	\$ 50	\$ —
James Riedman Note with an annual interest rate of 12%, secured by all the Company’s assets payable within 30 days after demand of payment as of December 28, 2024.	\$ 410	\$ —
Steven Tannenbaum Note with an annual interest rate of 12%, secured by all the Company’s assets, payable due within 30 days after demand of payment as of December 28, 2024.....	\$ 151	\$ —
	<u>\$ 8,770</u>	<u>\$ 8,324</u>
Current portion of long-term debt	\$ 8,770	\$ 8,324
Long-term debt, net of current portion	\$ —	\$ —

Capitalized debt issuance costs are amortized into expense over the loan term and totaled \$75,000 and \$23,000 during the twelve months ended on December 28, 2024, and December 30, 2023, respectively. Deferred financing costs incurred during 2024 and 2023 were mostly attributed to the amortization of deferred financing costs associated with the loan agreements with Alterna Capital Solutions and the new agreement with Celtic Bank. Deferred financing costs associated with Celtic Bank Loan Agreement totaled \$152,872 and will be amortized over a two-year period utilizing the effective interest rate method.

6. LEASES

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The 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 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 and building 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 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. The agreement expired on June 30, 2024, and was renewed for another two-year term, which will expire on June 30, 2025. Upon renewal, the agreement was classified as an operating ROU asset and liability.

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 lease agreement expired during 2023 and was not renewed.

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. The lease commenced 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 payments 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 commenced in May 2019 and expired 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 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 commenced 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 December 28, 2024, and December 30, 2023, the Company had the following right of use operating and financed lease obligations:

	December 28, 2024 (In thousands)	December 30, 2023 (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%.....	\$ 12	\$ 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%.....	\$ —	\$ 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%	\$ 881	\$ —
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%	\$ 57	\$ —
	<u>\$ 950</u>	<u>\$ 161</u>
Current portion of right of use obligations	\$ 141	\$ 150
Right of use obligations, net of current portion	<u>\$ 809</u>	<u>\$ 11</u>

As of December 28, 2024, the ROU assets and financed lease liabilities were as follows:

(\$ in thousands)	December 28, 2024	Financial Statement Line Item
<u>Assets:</u>		
Right of use assets	<u>\$ 11</u>	Right of use assets, financed, net
<u>Liabilities:</u>		
Current		
financed	\$ 4	Current portion of right of use obligations, financed, net
Noncurrent		
financed	\$ 8	Right of use obligations, financed, net
Total leased liabilities	<u>\$ 12</u>	

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 December 28, 2024, the ROU assets and operating lease liabilities were as follows:

(\$ in thousands)	December 28, 2024	Financial Statement Line Item
<u>Assets:</u>		
Right of use assets	\$ 934	Right of use assets, operating, net
<u>Liabilities:</u>		
Current		
Operating	\$ 137	Current portion of right of use obligations, operating, net
Noncurrent		
Operating	\$ 801	Right of use obligations, operating, net
Total leased liabilities	\$ 938	

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
2025 \$	4
2026 \$	4
2027 \$	4
2028 \$	1
2029 \$	—
Thereafter \$	—
Total value of lease liabilities \$	13
Less: amount representing interest \$	(1)
Present value of lease liabilities \$	12

As of December 28, 2024, and December 30, 2023, the weighted-average remaining lease term for the Company's finance leases was 3.17 years and 4.17 years, respectively. As of December 28, 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
2025	\$ 240
2026	\$ 182
2027	\$ 182
2028	\$ 182
2029	\$ 182
Thereafter	\$ 318
Total value of lease liabilities	\$ 1,286
Less: amount representing interest	\$ (348)
Present value of lease liabilities	\$ 938

As of December 28, 2024, and December 30, 2023, the weighted average remaining lease term for the Company's finance leases was 6.37 years and .75 years, respectively. As of December 28, 2024, and December 30, 2023, the weighted average discount rate was 10.49% and 4.75%, respectively.

Total rent expense for fiscal 2024 and fiscal 2023 was \$43,000 and \$65,000, respectively.

7. STOCK-BASED COMPENSATION

Effective July 1, 2021, the Board of Directors adopted and approved the 2021 Long-Term Incentive Plan of Phoenix Footwear Group, Inc. (the "2021 Plan"), subject to stockholder approval. On June 30, 2022, stockholder approval was recorded in the Company's annual shareholder meeting. Under the 2021 Long-Term Incentive Plan the Company may grant stock options, stock appreciation rights, stock awards and other award from time to time to key employees, officers, directors, advisors and independent consultants to the Company or to any of its subsidiaries. Shares available for future options and restricted stock grants under the 2021 plan totaled 1,372,628 as of December 28, 2024.

Total stock-based compensation expense recognized for fiscal 2024 and fiscal 2023 were as follows:

	Fiscal Year ended	
	December 28, 2024	December 30, 2023
	(In thousands)	
Selling, general and administrative	\$ 11	\$ 81
Pre-tax stock-based compensation	\$ 11	\$ 81
Total stock-based compensation expense	\$ 11	\$ 81

Options

In general, options become exercisable over either a two or three-year period from the grant date and expire 10 years after the date of grant. The fair value of each option award is estimated on the date of the grant using the Black-Scholes-Merton option pricing model. Expected volatilities are based on historical volatility of the Company's stock price. The Company uses historical data to estimate an option's expected life; the expected life for grants to senior management-level employees and other employees are considered separately for valuation purposes. The risk-free

interest rate input is based on the U.S. Treasury yield curve in effect at the time of the grant. Compensation cost, net of projected forfeitures, is recognized on a straight-line basis over the period between the grant and vesting dates, with compensation cost for grants with a graded vesting schedule recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. During fiscal 2024 and fiscal 2023 the Company did not grant option awards.

There were no options outstanding and exercisable under these arrangements as of December 28, 2024, or December 30, 2023.

The aggregate intrinsic value of options and the amount of shares of those options exercised during fiscal 2024 and fiscal 2023 was zero. The unrecognized compensation cost related to stock option awards at December 28, 2024, was zero.

The following table summarizes the stock option transactions during fiscal 2024 and fiscal 2023:

	Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(In thousands, except exercise price)		
Options outstanding, December 31, 2022	560	\$ 0.23	\$ 0.23
Options granted	—	—	—
Options exercised	—	—	—
Options expired	(560)	0.23	0.23
Options outstanding, December 30, 2023	—	\$ —	\$ —
Options granted	—	—	—
Options exercised	—	—	—
Options expired	—	—	—
Options outstanding, December 28, 2024	—	\$ —	\$ —
Options exercisable, December 28, 2024	—	\$ —	\$ —

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 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 December 28, 2024, and December 30, 2023, there were 280,000 and 80,000 performance-based stock grants to both employees and non-employee directors outstanding, respectively.

As of December 28, 2024, the total compensation cost related to stock-based awards granted to either employee or non-employee directors but not yet recognized was \$6,750.

The following table summarizes service-based and performance-based stock shares issued as of December 28, 2024:

	Restricted Stock Shares
	(In thousands)
Restricted Stock Shares outstanding December 31, 2022	778
Granted.....	714
Cancelled.....	(484)
Issued	(928)
Restricted Stock Shares outstanding December 30, 2023	80
Granted.....	280
Cancelled.....	—
Issued	(80)
Restricted Stock Shares outstanding December 28, 2024	280

8. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10, which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. As of December 28, 2024, and December 30, 2023, the Company had a full valuation allowance on its deferred tax assets

The following table presents the current and deferred income tax provision (benefit) for federal, state and foreign income taxes for fiscal 2024 and fiscal 2023:

	2024	2023
	(In thousands)	
Current tax provision (benefit):		
Federal	\$ —	\$ —
State	3	(7)
Foreign.....	—	—
	<u>3</u>	<u>(7)</u>
Deferred tax provision (benefit):		
Federal	—	—
State.....	—	—
Foreign.....	—	—
	<u>—</u>	<u>—</u>
Total provision (benefit) for income taxes:.....	<u>\$ 3</u>	<u>\$ (7)</u>

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

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

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

In assessing the realizability of deferred tax asset of approximately \$10.3 million at December 28, 2024, the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

Significant components of the Company's net deferred tax assets or liabilities as of December 28, 2024, and December 30, 2023, are as follows:

	(In Thousands)	
	2024	2023
	Non-current	Non-current
Deferred tax assets		
Net operating loss	\$ 9,512	\$ 8,942
Capital loss carryover	—	—
Accruals	885	483
Accruals-noncurrent.....	1	2
Allowance for doubtful accounts	34	6
UNICAP	92	83
Earn-out	—	—
Deferred tax liabilities		
Accumulated depreciation	(191)	(9)
Net deferred income tax asset (liability)	10,333	9,507
Valuation allowances	(10,333)	(9,507)
Net deferred tax asset (liability).....	\$ —	\$ —

A reconciliation of the expected tax computed at the U.S. statutory federal income tax rate to the total (benefit) expense for income taxes at December 28, 2024, and December 30, 2023, follows:

	2024	2023
	(In thousands)	
Expense for federal income taxes at 21%.....	\$ (562)	\$ (192)
State and other taxes, net of federal benefit.....	(45)	(12)
Items not deductible	3	4
Other	—	(9)
Prior year true-ups.....	(220)	(66)
Change in valuation allowance.....	827	268
Income tax expense (benefit).....	\$ 3	\$ (7)

The Company has determined it is more likely than not that its deferred tax assets will not be realized. Accordingly, a valuation allowance has been recorded at December 28, 2024, to fully offset the deferred tax asset of approximately \$10.3 million.

As of December 28, 2024, the Company had approximately \$39.3 million of net operating loss carryforwards available for federal tax purposes which begin to expire in 2028. As of December 28, 2024, the Company also had approximately \$9.9 million of net operating loss carryforwards for California and \$15.9 million of net operating losses for other states. The state net operating losses begin to expire in 2028.

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

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

As of December 28, 2024, the Company complied with Accounting for Uncertain Tax positions pursuant to ASC 740. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (excluding interest and penalties):

	(In thousands)
Unrecognized tax benefits, December 30, 2023.....	\$ —
Increases for prior year tax positions	—
Decreases for prior year tax positions	—
Increases for current year tax positions	—
Settlements	—
Administrative practice relief.....	—
Unrecognized tax benefits, December 28, 2024	\$ —

Included in the balance of unrecognized tax benefits at December 28, 2024, are approximately \$0 of tax benefit that, if recognized, would affect the effective tax rate (including interest and penalties).

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

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. As of December 28, 2024, the Company had approximately \$0 of accrued interest and penalties related to uncertain tax positions.

The Company is subject to taxation in the U.S. and various state tax jurisdictions. As of December 28, 2024, the Company is no longer subject to federal examinations for the years before 2021; and for California examinations before 2020. Generally, the tax years remain open for examination by the tax authorities under a four-year statute of limitations; however, certain states may keep their statute open for six to ten years.

Income Tax Receivable – ERTC

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

2021, all of which amended and extended the ERTC availability and guidelines under the CARES Act.

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

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

In accordance with this policy the Company presented the amount recognized of \$699,000, which is net of the contingent expenses of \$114,000, as other income, net – employee retention tax credit in the consolidated statements of operations for fiscal year ended December 31, 2022. As of December 30, 2023, and December 31, 2022, \$813,000 has been reported as an income tax refund receivable on the consolidated balance sheet for the amount of refundable credit due to the Company, which is made up of an income tax refund receivable of \$608,000 and \$205,000 related to wages paid in 2021 and 2020, respectively. In addition, a liability for the contingent fees in the amount of \$114,000 was recorded in the consolidated balance sheet as of December 31, 2022.

During 2024, the Company received the refund in the full amount of \$813,000 and the Company paid the full amount of the contingent fee due.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through April 4, 2025, which is the date the consolidated financial statements were available to be issued.

On January 23, 2025, James R. Riedman (Lender) and the Company (Borrower) executed a Security Agreement and Promissory Note in the amount of \$560,000. Under the terms of this Note, the Company agreed to pay interest at a rate of 12% per annum payable quarterly in arrears no later than the fifth of January, April, July and October of each year until the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to Borrower.

On February 6, 2025, the Company entered into a forty-seven-month lease agreement with Dresser Properties, LLC, to lease an office space located in Old Towne, Maine for its customer service department. The monthly base rent will be \$750 and will increase to \$800 per month in year two. The new lease commences April 1, 2025, and will expire on February 29, 2028. It will be classified as and ROU asset and liability in accordance with ASC 842.

On February 18, 2025, the Company entered into a new two-year lease agreement totaling \$24,804 plus taxes for a new office space in Dongguan, China. The lease commenced on March 16, 2025, and expires on March 31, 2027, and will be classified as an ROU asset and liability in accordance with ASC 842.

On February 21, 2025, James R. Riedman (Lender) and the Company (Borrower) executed a Security Agreement and Promissory Note in the amount of \$880,000. Under the terms of this Note, the Company agreed to pay interest at a rate of 12% per annum payable quarterly in arrears no later than the fifth of January, April, July and October of each year until the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to

Borrower.

On February 28, 2025, James R. Riedman (Lender) and the Company (Borrower) executed a Security Agreement and Promissory Note in the amount of \$140,000. Under the terms of this Note, the Company agreed to pay interest at a rate of 12% per annum payable quarterly in arrears no later than the fifth of January, April, July and October of each year until the Note is repaid in full. The outstanding principal balance of this Note together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from Lender to Borrower.

Center for Environmental Health vs. Phoenix Footwear Group, Inc., et al. On April 3, 2025, the Company was served with a complaint for Injunctive Relief and Civil Penalties by the Center for Environmental Health, a non-profit corporation as filed with the Superior Court of California, County of Alameda, on February 20, 2025 (the "Complaint"). The Complaint alleges that the Company, along with the other Defendants named therein, have failed to warn individuals in the State of California that they are being exposed to a chemical known in the State of California to cause cancer and reproductive harm. The Complaint alleges that such exposures have occurred through the manufacture, distribution, sale and use of footwear made with leather materials. The Company is evaluating the merits of this matter. At this time, it is impossible to predict the outcome or any damages that the Company may suffer, if any.