

PHOENIX FOOTWEAR GROUP, INC.
a Delaware corporation

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3140
(SIC Code)

Annual Report

For the Fiscal Year Ended, January 3, 2026
(the "Reporting Period")

Outstanding Shares

The number of shares outstanding of our Common Stock was:

14,670,734 as of January 3, 2026

14,670,734 as of April 30, 2026

14,590,734 as of December 28, 2024

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:

9) Disclosure and Financial Information

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

Name: Allison Hannon
Title: Controller
Relationship to Issuer: Employee

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: Allison Hannon
Title: Controller
Relationship to Issuer: Employee
Qualifications of person or persons who prepared the financial statements: Controller

The following audited consolidated financial statements are attached as **Exhibit A** and are hereby incorporated by reference:

- a. Consolidated Balance Sheets as of January 3, 2026, and December 28, 2024.
- b. Consolidated Statements of Operations for the fiscal years ended January 3, 2026, and December 28, 2024.
- c. Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended January 3, 2026, and December 28, 2024.
- d. Consolidated Statements of Cash Flows for the fiscal years ended January 3, 2026, and December 28, 2024.
- e. 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 30, 2026

/s/ James R. Riedman,
Chief Executive Officer

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 30, 2026

/s/ James R. Riedman,
Chief Financial Officer

EXHIBIT A

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Consolidated Financial Statements

Consolidated Balance Sheets
(In thousands, except per share data)
January 3, 2026, and December 28, 2024

	January 3, 2026 (Reviewed)	December 28, 2024 (Audited)
ASSETS		
CURRENT ASSETS		
Cash	\$ 50	\$ 14
Accounts receivable, net of allowance for credit losses of \$27 (January 3, 2026) and \$154 (December 28, 2024)	2,821	4,136
Inventory	7,255	6,784
Prepaid expenses and other current assets	1,260	1,459
Total current assets	11,386	12,393
PROPERTY AND EQUIPMENT, net	-	15
OPERATING RIGHT-OF-USE ASSETS, net	834	934
FINANCED RIGHT-OF-USE ASSETS, net	8	11
DEFERRED FINANCING COSTS	-	19
Total assets	\$ 12,228	\$ 13,372
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Revolving line of credit	\$ 5,026	\$ 5,426
Accounts payable	3,719	1,973
Accrued expenses	1,532	1,067
Returns and allowances liability	1,052	1,447
Operating lease liabilities, current	115	137
Financed lease liabilities, current	4	4
Convertible debt, current	2,333	2,333
Notes payable, current	2,591	1,011
Income tax payable	-	7
Total current liabilities	16,372	13,405
OPERATING LEASE LIABILITIES, NONCURRENT	740	801
FINANCED LEASE LIABILITIES, NONCURRENT	4	8
OTHER NONCURRENT LIABILITIES	-	1
Total liabilities	17,116	14,215
COMMITMENTS AND CONTINGENCIES (Note 12)		
STOCKHOLDERS' DEFICIT		
Common stock, par value \$0.01 per share; 50,000 shares authorized, 14,887 and 14,807 issued and outstanding in 2025 and 2024, respectively	149	148
Additional paid-in-capital	48,500	48,500
Accumulated deficit	(50,894)	(46,848)
Treasury stock at cost, 217 shares in 2025 and 2024	(2,643)	(2,643)
Total stockholders' deficit	(4,888)	(843)
Total liabilities and stockholders' deficit	\$ 12,228	\$ 13,372

Consolidated Statements of Operations
(In thousands)
Years Ended January 3, 2026, and December 28, 2024

	<u>Year Ended January 3, 2026 (Reviewed)</u>	<u>Year Ended December 28, 2024 (Audited)</u>
NET SALES	\$ 13,022	\$ 17,973
COST OF SALES	<u>8,515</u>	<u>11,376</u>
Gross profit	4,507	6,597
OPERATING EXPENSES	7,240	8,219
LOSS FROM OPERATIONS	<u>(2,733)</u>	<u>(1,622)</u>
OTHER (EXPENSE) INCOME		
Interest expense	(1,505)	(1,055)
Gain on asset disposal	5	-
Other income	<u>189</u>	<u>-</u>
Total other expense, net	<u>(1,311)</u>	<u>(1,055)</u>
LOSS BEFORE INCOME TAXES	(4,044)	(2,677)
INCOME TAX EXPENSE	<u>2</u>	<u>3</u>
NET LOSS	<u><u>\$ (4,046)</u></u>	<u><u>\$ (2,680)</u></u>

Consolidated Statements of Stockholders' Deficit
(In thousands)
Years Ended January 3, 2026, and December 28, 2024

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
BALANCE, December 30, 2023 (Audited)	14,727	\$ 147	\$ 48,497	\$ (44,168)	(217)	\$ (2,643)	\$ 1,833
Stock-based compensation	-	-	3	-	-	-	3
Issuance of common stock	80	1	-	-	-	-	1
Net loss	-	-	-	(2,680)	-	-	(2,680)
BALANCE, December 28, 2024 (Audited)	14,807	148	48,500	(46,848)	(217)	(2,643)	(843)
Issuance of common stock	80	1	-	-	-	-	1
Net loss	-	-	-	(4,046)	-	-	(4,046)
BALANCE, January 3, 2026 (Reviewed)	<u>14,887</u>	<u>\$ 149</u>	<u>\$ 48,500</u>	<u>\$ (50,894)</u>	<u>(217)</u>	<u>\$ (2,643)</u>	<u>\$ (4,888)</u>

Consolidated Statements of Cash Flows
(In thousands)
Years Ended January 3, 2026 and December 28, 2024

	Year Ended January 3, 2026 (Reviewed)	Year Ended December 28, 2024 (Audited)
OPERATING ACTIVITIES		
Net loss	\$ (4,046)	\$ (2,680)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	20	26
Provision for credit losses	(6)	169
Non-cash stock-based compensation	-	3
Net gain on disposal of property and equipment	(5)	-
Amortization of deferred financing costs	76	75
Changes in operating assets and liabilities		
Accounts receivable	1,321	(739)
Inventory	(471)	2,432
Employee retention tax credit receivable	-	813
Other current assets	246	(1,195)
Other non-current assets	-	(19)
Accounts payable	1,746	(615)
Accrued expenses	464	224
Employee retention tax credit contingent fee liability	-	(114)
Returns and allowances liability	(395)	356
Income tax payable	(7)	-
Other non-current liabilities	(84)	799
Net cash used in operating activities	<u>(1,141)</u>	<u>(465)</u>
FINANCING ACTIVITIES		
Borrowings on line of credit	13,404	23,967
Proceeds from notes payables	1,580	1,411
Payments of line of credit	(13,803)	(24,532)
Payments of notes payables	-	(400)
Payments of financed lease liability	(4)	(4)
Net cash provided by (used in) financing activities	<u>1,177</u>	<u>442</u>
NET INCREASE (DECREASE) IN CASH	36	(23)
CASH		
Beginning of year	<u>14</u>	<u>37</u>
End of year	<u>\$ 50</u>	<u>\$ 14</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for		
Interest	<u>\$ 655</u>	<u>\$ 677</u>
State income taxes paid (received)	<u>\$ 7</u>	<u>\$ (3)</u>
SUPPLEMENTAL NONCASH DISCLOSURES		
Issuance of common stock	<u>\$ 1</u>	<u>\$ 1</u>
Additions to operating right-of-use assets	<u>\$ -</u>	<u>\$ 1,025</u>

Notes to Consolidated Financial Statements

Note 1 – Nature of Business

Phoenix Footwear Group, Inc. was incorporated in 2002 in the state of Delaware. Penobscot Shoe Company is a 100% owned subsidiary of Phoenix Footwear Group, Inc. in the state of Maine. Hereinafter, Phoenix Footwear Group, Inc. and its wholly owned subsidiary will collectively be referred to as the “Company”.

The Company specializes in quality comfort women’s footwear. The Company designs, develops, and markets the brands Trotters and SoftWalk. Under exclusive licenses, the Company distributes Bueno Footwear, Los Cabos Shoes, and EOS Shoes. During 2022, the Company entered into an exclusive licensing agreement with Pendleton Woolen Mills (“PWM”) to design, develop and sell footwear. That agreement expired in 2025, and during 2024, the Company notified PWM that it would not renew the agreement. Approximately 91% of the Company’s gross sales were to wholesale customers in fiscal year 2025 and 2024.

Note 2 – Liquidity and Management’s Plan

The financial statements have been prepared on a going-concern basis, which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As further, described in Note 5, the Company has a significant debt obligation due within 12 months from the date the financial statements are available to be issued. Liquid resources on hand are insufficient to repay the debt at maturity.

The Company is engaging with their lender to extend the maturity date under the agreement. However, the outcome of those negotiations is uncertain.

These factors create substantial doubt about the Company’s ability to continue as a going concern for the 12 months following the date the financial statements are available to be issued.

Note 3 – Summary of Significant Accounting Policies

Principles of consolidation – The consolidated financial statements of the Company include the accounts of Phoenix Footwear Group, Inc. and Penobscot Shoe Company. All intercompany transactions and balances have been eliminated in consolidation.

Fiscal year-end – The Company’s fiscal year ends on the Saturday nearest to December 31st, resulting in a fiscal year of either 52 or 53 weeks. The years ended January 3, 2026 (fiscal year 2025) and December 28, 2024 (fiscal year 2024), consisted of 53 and 52 weeks, respectively.

Use of estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the financial statements. These estimates include assessing the collectability of receivables, the use and recoverability of inventory, costs of future product returns and exchanges, assumptions relating to contract liabilities, and assumptions relating to leasing activity. Actual results could differ from those estimates.

Cash – The Company considers liquid investments and certificates of deposit purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at January 3, 2026 and December 28, 2024.

The Company maintains cash balances with financial institutions that may occasionally exceed federally insured limits. The Company has not experienced any losses related to these balances as a result of their exceeding federally insured limits, and management believes its cash deposit risk to be minimal.

Accounts receivable and allowance for credit losses – The Company carries its accounts receivable at invoiced amounts less the allowances for current expected credit losses. On a periodic basis, the Company evaluates its accounts receivable and establishes allowances from uncollectible accounts. Under this method, an allowance is recorded based upon historical experience and management’s evaluation of, among other factors, current and reasonably supportable expected future economic conditions and the customer’s willingness or ability to pay. Receivables are written off in the period deemed uncollectible. Accounts receivable, net were approximately as follows (the Company follows fiscal years):

	January 3, 2026 (Reviewed)	December 28, 2024 (Audited)	December 30, 2023 (Audited)
Accounts receivable, net	<u>\$ 2,821,000</u>	<u>\$ 4,136,000</u>	<u>\$ 3,566,000</u>

Fair value of financial instruments – The Company’s financial instruments consist of cash, accounts receivable, accounts payable, accrued expenses, returns and allowances liability, revolving line of credit, and convertible debt and notes payable. The carrying values of these financial instruments are considered to be representative of their fair market value, due to the short maturity of these instruments.

Inventory – Inventory, which consists primarily of footwear, is stated at the lower of cost (first-in, first-out method) or net realizable value.

Advertising programs – The Company participates in cooperative advertising programs to reimburse a portion of advertising costs that its customers may incur. Cooperative advertising costs are expensed as incurred and presented with other general and administrative costs on the consolidated statements of operations. Cooperative advertising costs were approximately \$46,000 and \$48,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively. All other advertising costs are generally expensed as incurred. Total advertising expenses were approximately \$151,000 and \$200,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively.

Deferred financing costs – Deferred financing costs are capitalized and amortized over the term of the related debt instrument. The current portion of deferred financing costs is presented with prepaids and other current assets on the consolidated balance sheets and was approximately \$19,000 and \$76,000 as of January 3, 2026, and December 28, 2024, respectively. The long-term portion of deferred financing costs was approximately \$0 and \$19,000 as of January 3, 2026, and December 28, 2024, respectively. The amortization is recorded as and presented with interest expense on the consolidated statements of operations. Amortization was approximately \$76,000 and \$75,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively.

Property and equipment – Property and equipment are recorded at cost. Depreciation is determined based on the straight-line method over the estimated useful lives of the related assets, generally five years. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful lives of the assets. Depreciation expense was approximately \$20,000 and \$26,000 for the fiscal years ended January 3, 2026, and December 28, 2024, respectively.

Leases – The Company accounts for leases under Accounting Standards Update No. 2016-02, *Leases* (Topic 842). Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets and lease expense is recognized on a straight-line basis over the lease term. For all its operating and finance leases with a term of longer than 12 months, the Company recognizes a right-of-use asset and a lease liability, initially measured at the estimated present value of the lease payments. Right-of-use (ROU) assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease.

In determining the present value of lease payments, the Company discounts lease payments based on the incremental borrowing rate. The ROU assets also include any lease payments made and exclude lease incentives. The lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. For lease agreements with lease and non-lease components, the Company elected the practical expedient to not separate non-lease components from the lease component and are accounted for as a single lease component.

Variable lease payments that do not depend on a rate or index, escalation in the index subsequent to the initial measurement, payments associated with non-lease components such as common area maintenance, real estate taxes, insurance, and short-term lease payments (leases with a term with 12 months or less) are expensed as incurred or when the achievement of the specified target that triggers the contingent rent is considered probable.

Revenue recognition – The Company recognizes revenues when control of the promised goods is transferred to customers, in an amount that reflects the consideration in exchange for those goods. This generally occurs upon shipment of the goods, as this is when the transfer of control of the goods passes from the Company to the customer.

The Company records revenue net of estimates for variable consideration. Components of variable consideration include prompt payment discounts, volume rebates, and product returns. The Company uses historical data to estimate the amount of prompt payment discounts per customer.

The Company also makes sales to customers on consignment terms. The Company reserves 100% of those sales and adjusts the reserve at the earlier of when the most likely amount of consideration they expect to receive changes or when the consideration becomes fixed. The Company also reserves for potential cooperative advertising taken by its customers.

Revenues are also reduced by expected returns, which are recorded as a return and allowance liability. The return and allowance liability amounted to approximately \$1,052,000 and \$1,447,000 January 3, 2026 and December 28, 2024, respectively. The Company also records an asset on the consolidated balance sheets within prepaid expenses and other current assets for the cost of the estimated returns of inventory, which amounted to approximately \$454,000 and \$747,000 at January 3, 2026, and December 28, 2024, respectively.

Sales tax – Sales taxes collected from the Company's customers are recorded on a net basis. This obligation is included in accrued expenses and other liabilities until the taxes are remitted to the appropriate taxing authorities.

Shipping and handling costs – The Company records all inbound freight and merchandise acquisition costs, such as import fees, and outbound shipping and handling as cost of sales. Total outbound shipping expenses were approximately \$1,137,000 and \$1,103,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively.

Employee retention tax credit – The employee retention tax credit (ERTC) was first made available to eligible businesses meeting certain criteria under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and subsequently updated through other relief provisions passed by the U.S. government. The ERTC is a refundable tax credit against certain payroll taxes paid on qualified wages and can be as much as \$7,000 per employee per quarter for the first three quarters in 2021 and \$5,000 per employee for all of 2020. The Company performed an analysis and determined that it met the criteria to qualify for an ERTC claim.

In connection with these claims, in 2024, the Company paid a contingent expense of approximately \$114,000 and received a refund of approximately \$813,000.

Reclassification – Certain amounts in the December 28, 2024, consolidated balance sheet and consolidated statement of cash flow have been reclassified to conform to January 3, 2026, presentation. Reclassifications had no effect on ending deficit or net loss as of and for the year ended December 28, 2024.

Note 4 – Leases

Operating Leases – The Company’s leases typically have fixed payment terms. The Company typically is responsible for payment of operating expenses, including common area maintenance charges, insurance, and taxes, and payments for those costs are not included as a part of rent expense.

Carlsbad Operating Lease

On February 20, 2019, the Company entered into a six-year and five-month operating lease agreement for use of their office space for the Carlsbad Corporate Headquarters. The initial lease agreement commenced in May 2019 and expired in September 2024. On March 7, 2024, the Company amended the lease agreement to extend the lease term through September 2031. The amended agreement had monthly payments of \$13,633 per month for the first year of the lease term, increasing 3.5% each subsequent year.

China Operating Leases

In February 2024, the Company renewed its prior lease to rent property in the People’s Republic of China and expired on March 31, 2025.

In February 2025, the Company entered into a new two-year lease agreement to rent property located in China, which began on April 1, 2025, and was set to expire on March 31, 2027. That lease was later cancelled in June 2025.

In June 2025, the Company entered into a new one-year lease to rent property in China, which commenced on July 1, 2025, and will expire on June 30, 2026. The Company has elected not to classify this short-term lease as an ROU liability or asset as permitted under ASC 842.

India Operating Lease

On June 14, 2025, the Company entered a three-year lease agreement to rent property located in Sikandra, Agra, India. The lease began on July 1, 2025, and it will end on June 30, 2028. The monthly rent is set at \$1,283 for the first year, with a 5% increase applied at the start of each subsequent calendar year.

Maine Warehouse Operating Lease

On July 1, 2013, the Company completed the sale and contemporaneous leaseback of a property to a buyer, pursuant to the terms of a Professional Service Agreement (“PSA”). Under the PSA, the Company sold the property to a buyer for \$620,000. Concurrently with the sale, the Company entered into a 10-year commercial lease of the Property with the Buyer. Prior to the adoption of ASC 842, the sale and leaseback transaction 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.

Under ASC 842, the Company elected to use the package of practical expedients, which permitted the Company not to reassess prior conclusions about lease identification, lease classification and initial direct costs. As a result, this lease was classified as a finance lease.

The agreement expired on June 30, 2024, and was renewed for another two-year term, with an expiration date of June 30, 2025. Upon renewal, the agreement was classified as an operating ROU asset and liability. The lease was not extended in 2025.

Maine Dresser Operating Lease

On February 6, 2025, the Company entered into a forty-seven-month lease agreement 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 lease commences April 1, 2025, and will expire on February 29, 2028.

Finance Leases – On November 29, 2022, the Company entered into a five-year and three month financed lease agreement with a lender 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 significant assumptions used by the Company in determining the fair value at lease inception as of January 3, 2026, and December 28, 2024, are as follows:

	January 3, 2026 (Reviewed)	December 28, 2024 (Audited)
Weighted-average remaining lease term in years for operating leases	5.8	6.4
Weighted-average remaining lease term in years for financed leases	2.2	3.2
Weighted-average discount rate for operating leases	10.49%	10.49%
Weighted-average discount rate for financed leases	8.99%	8.99%

Future minimum lease payments for future fiscal years are as follows (the Company follows fiscal years; the amounts below are the payment committed for the fiscal year ending near or at December 31 of each year shown):

	Operating Leases	Finance Leases
Years ending		
2026	\$ 207,640	\$ 3,586
2027	207,640	3,586
2028	193,798	598
2029	181,811	-
2030	181,811	-
Thereafter	136,359	-
	1,109,059	7,770
Total undisclosed cash flows	(253,602)	-
Less: imputed interest		
Total lease liabilities	<u>\$ 855,457</u>	<u>\$ 7,770</u>

Total lease expense in connection with its lease agreements was \$269,000 and \$219,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively, and are presented with other general and administrative expenses on the consolidated statements of operations.

Note 5 – Debt and Related Party Transactions

Line of Credit – On April 5, 2024, the Company entered into a line of credit agreement with a lender. Under the terms of the agreement, the Company may borrow amounts up to \$9,000,000. Advances bear interest at prime plus 3.75% (prime was 6.75% as of January 3, 2026). Amounts outstanding under the agreement are secured by substantially all assets of the Company. The line of credit agreement is set to expire April 2026. The Company and lenders are in continuous discussions to extend the maturity date.

The Company incurred approximately \$153,000 in deferred financing costs in connection with the agreement and is amortized over the life of the line of credit. Amortization expense associated with deferred financing costs totaled \$76,000 and \$75,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively. The line of credit outstanding balance was approximately \$5,026,000 and \$5,426,000 as of January 3, 2026, and December 28, 2024, respectively.

The lending institution has the right to terminate this agreement immediately at any time upon the occurrence of any event of default. The lending agreement includes several restrictive covenants, including restrictions on capital expenditures, and the ability to enter into mergers or make acquisitions. The Company was in compliance with the financial covenants as of January 3, 2026.

Related Party Notes – The Company entered into several notes payable arrangements with existing shareholders.

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 ERTC ("ERTC Note"), bearing interest 13% per annum. The note is payable in full, including accrued interest, on the earlier of (a) five (5) business days following the Company's receipt of the payment of the ERTC funds or (b) May 31, 2026.

On June 20, 2024, repayment of \$400,000 of outstanding principal was deferred to no later than September 30, 2024. On September 27, 2024, the parties agreed that James R. Riedman may demand repayment, in whole or in part, at his discretion until the balance is fully repaid.

On December 9, 2024, the note was amended to require monthly interest payments in arrears until repayment in full.

2024 Notes – On November 29, 2024, James R. Riedman and the Company 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.

On December 26, 2024, James R. Riedman and the Company 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.

2025 Notes – In 2025, James R. Riedman and the Company executed three separate Subordinated Demand Promissory Notes on January 23, 2025, February 20, 2025, and February 28, 2025, for \$560,000, \$880,000 and \$140,000, respectively. Under the terms of these notes, 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.

During 2025, interest payments on all the James Riedman notes were deferred, and the Company began accruing interest at an additional default rate of 3%.

The outstanding principal balance of all James R. Riedman notes, together with all accrued interest thereon shall be due and payable in full within thirty (30) days of written demand from James R. Riedman; provided, however, shall not make any demand for repayment without the written consent of the line of credit lender. As of January 3, 2026, and December 28, 2024, the outstanding principal balance of James R. Riedman notes were approximately \$2,440,000 and \$860,000, respectively.

Steven Tannenbaum

On November 29, 2024, Steven Tannenbaum and the Company 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 Steven Tannenbaum; provided, however, shall not make any demand for repayment without the written consent of the line of credit lender. As of January 3, 2026, and December 28, 2024, the outstanding principal balance of Steve Tannenbaum note was approximately \$151,000. During 2025, interest payments were deferred, and the Company began accruing interest at the default rate of 15%.

Greenwood and Investor Convertible Notes

The Company has issued (i) “Subordinated Secured 1% Convertible Notes” (the “Greenwood Notes”) with an aggregate principal of \$1,350,000, originally issued between 2011 and 2012 to Greenwood-affiliated entities and MGPLA, LP (subsequently assigned to Greenwood Capital), and amended multiple times, most recently on July 29, 2022; and (ii) “2018 Subordinated Secured Convertible Notes” (the “Individual Investor Notes”) totaling \$525,000, issued to individual investors in 2018 and similarly amended, including on July 29, 2022 (collectively, the “Notes”).

The Notes contain customary default provisions, including payment defaults, failure to deliver shares upon conversion, cross-defaults, material judgment defaults, breaches of representations, bankruptcy events, and change in control. The Notes are secured by substantially all Company assets, including intellectual property and stock of Penobscot.

On July 24, 2024, the Company and noteholders agreed to extend the maturity to May 5, 2026, set the interest rate at 12% per annum, and require interest accrual from April 5, 2024, through repayment or conversion. In November 2024, interest payments were deferred for an unspecified period, resulting in accrual at a 13% default rate.

Invoice Purchase Security and Inventory Finance Rider Agreements

On October 9, 2020, the Company entered into an Invoice Purchase Security Agreement with a capital solutions provider. On August 5, 2022, the Company entered into an Inventory Finance Rider which provided additional borrowing capacity, secured by the Company's eligible inventory with the same capital solutions provider.

On April 5, 2024, the obligations outstanding in the amount of approximately \$6,500,000 under both agreements were satisfied and were terminated by the proceeds from the loan agreement entered into with a lending institution on April 5, 2024.

Interest expense on all outstanding debt amounted to approximately \$1,321,000 and \$998,000 for the fiscal years then ended January 3, 2026, and December 28, 2024, respectively.

Note 6 – Stock-Based Compensation

Effective July 1, 2021, the Company's Board of Directors adopted and approved a long-term incentive plan (the Plan). The Plan was approved by the Company's stockholders on June 30, 2022. Under the Plan, the Company may grant stock options, appreciation rights, and awards to key members of management, advisors, and independent consultants to the Company or its subsidiaries. The shares available for future options and restricted stock grants under the Plan totaled 1,372,628 as of January 3, 2026, and December 28, 2024.

The total stock-based compensation amounted to approximately \$0 and \$11,000 for fiscal years ended January 3, 2026, and December 28, 2024, respectively.

Stock Options – Under the Plan, stock options typically can be exercised over a two or three-year period from the grant date and expire ten years after the grant date. There were no options outstanding or exercisable as of January 3, 2026, and December 28, 2024.

Restricted Stock Units – Under the plan, service-based stock units vest over a two-year period from the grant date and performance-based stock units vest based on specified performance criteria.

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 January 3, 2026, and December 28, 2024, there were 200,000 and 280,000 performance-based stock grants to both employees and non-employee directors outstanding, respectively.

Service-based and performance-based stock units granted to employees of the Company are as follows:

	<u>Restricted Stock Units</u>
Restricted stock units outstanding, December 30, 2023 (Audited)	80
Granted	280
Cancelled	-
Issued	<u>(80)</u>
Restricted stock units outstanding, December 28, 2024 (Audited)	280
Granted	-
Cancelled	-
Issued	<u>(80)</u>
Restricted stock units outstanding, January 3, 2026 (Reviewed)	<u><u>200</u></u>

Note 7 – Income Taxes

The Company records deferred tax assets for deductible temporary differences and net operating loss carry-forwards using enacted tax rates in effect in the year the difference is expected to reverse. The Company records deferred tax liabilities for taxable temporary differences. The Company records a valuation allowance when it is more likely than not that some or all of the deferred tax assets will not be realized.

The federal, state, and foreign current and deferred income tax positions as of January 3, 2026, and December 28, 2024, are as follows:

	<u>January 3, 2026 (Reviewed)</u>	<u>December 28, 2024 (Audited)</u>
Current tax provision		
Federal	\$ -	\$ -
State	2	3
Foreign	<u>-</u>	<u>-</u>
Total current tax provision	2	3
Deferred tax provision		
Federal	-	-
State	-	-
Foreign	<u>-</u>	<u>-</u>
Total deferred tax provision	<u>-</u>	<u>-</u>
Total income tax provision	<u><u>\$ 2</u></u>	<u><u>\$ 3</u></u>

The components of the deferred income tax positions as of January 3, 2026 and December 28, 2024 are as follows:

	January 3, 2026 <u>(Reviewed)</u>	December 28, 2024 <u>(Audited)</u>
Deferred tax assets		
Net operating loss	\$ 10,570	\$ 9,512
Accruals, current	545	885
Capital lease obligation	195	-
Capitalized inventory costs (under UNICAP)	88	92
Property and equipment	8	-
Allowance for credit losses	6	34
Accruals, net of current portion	<u>-</u>	<u>1</u>
Total deferred tax assets	11,412	10,524
Deferred tax liabilities		
Right-of-use assets	(190)	-
Accumulated depreciation	<u>-</u>	<u>(191)</u>
Total deferred tax liabilities	<u>(190)</u>	<u>(191)</u>
Income tax liability, net	11,222	10,333
Valuation allowances	<u>(11,222)</u>	<u>(10,333)</u>
Deferred tax asset (liability), net	<u>\$ -</u>	<u>\$ -</u>

The expected tax determined at the U.S. statutory federal income tax rate reconciled to the income tax expense (benefit) for fiscal years ended January 3, 2026 and December 28, 2024 is as follows:

	January 3, 2026 <u>(Reviewed)</u>	December 28, 2024 <u>(Audited)</u>
Expense for federal income taxes at 21%	\$ (849)	\$ (562)
State and other taxes, net of federal benefit	(43)	(45)
Nondeductible items	4	3
Other	-	-
Prior year true-ups	-	(220)
Change in valuation allowance	<u>890</u>	<u>827</u>
Income tax expense	<u>\$ 2</u>	<u>\$ 3</u>

Note 8 – Commitments and Contingencies

Commitments – On May 3, 2023, the Company entered into a two-year agreement, commencing on August 1, 2023, with a third-party logistics (3PL) provider in Mexico. Services under the agreement include, but are not limited to, warehouse storage, logistics, brokerage, pick, pack and ship, and transportation of goods. The agreement automatically renews each year for successive year periods, unless either party sends written notice to the other indicating their intention to terminate the agreement, with a minimum of 90 days prior to the expiration date. The agreement was renewed for one year on August 1, 2025. A minimum monthly payment of \$20,000 is required. Future minimum payments under this agreement amount to approximately \$120,000 as of January 3, 2026.

Contingencies and litigation – The Company is involved, from time to time, in various legal proceedings incident to the normal conduct of its business. In the opinion of management, the disposition of all such proceedings will not have a material, adverse effect on the Company's results of operations, financial position, or liquidity.

Licenses – 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 footwear. Under the agreement, the Company is required to pay royalty commissions to PWM of 5.0% - 7.5% on net sales, plus an additional 2.0% on net sales of products bearing the PWM "National Parks Stripes" designs. Royalty expenses recorded in connection with this agreement amounted to approximately \$150,000 and \$112,000 for fiscal years ended January 3, 2026 and December 28, 2024, respectively, and are presented with cost of sales on the consolidated statements of operations. The agreement expired at the end of fiscal year 2025.

On July 6, 2022, the Company entered into a five-year licensing agreement with Urban Shoemaker Pty. Ltd. (the Supplier) To become the exclusive U.S. distributor of Los Cabos and EOS footwear. The agreement automatically renews for successive two-year periods unless either party elects to terminate the agreement by written notice. Under the agreement, the Company is required to pay royalty commissions to the Supplier of 17.5% on all product purchases. There are no future minimum guarantees per the licensing agreement.

Note 9 – Retirement Plan

The Company sponsors a 401(k) retirement plan (the Plan), which is available to substantially all employees. Under the Plan, employees may contribute a portion of their wages subject to limits stated in the Internal Revenue Code. Employee contributions were matched at the Company's discretion. Total employer contributions to the Plan amounted to approximately \$22,000 and \$18,000 for the fiscal years ended January 3, 2026, and December 28, 2024, respectively.

Note 10 – Major Customers and Suppliers

Customers – Three customers made up approximately 39.2% of the Company's net sales for the fiscal year ended January 3, 2026. These customers had outstanding balances of approximately \$1,187,000 due to the Company as of January 3, 2026.

Two customers made up approximately 30.6% of the Company's net sales for the fiscal year ended December 28, 2024. These customers had outstanding balances of approximately \$1,648,000 due to the Company as of December 28, 2024.

Vendors – One vendor made up approximately 22.2% of the Company's total expenditures for the year ended January 3, 2026. The Company had an outstanding balance of approximately \$1,056,000 due to this vendor as of January 3, 2026.

Two vendors made up approximately 21.0% of the Company's total expenditures for the year ended December 28, 2024. The Company had an outstanding balance of approximately \$313,000 due to these vendors as of December 28, 2024.

Note 11 – Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet dates but before the consolidated financial statements are available to be issued. The Company recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheets, including the estimates inherent in the process of preparing the consolidated financial statements.

The Company has evaluated subsequent events through April 30, 2026, which is the date the consolidated financial statements were available for issuance.