DISCLOSURE STATEMENT PURSUANT TO THE PINK BASIC DISCLOSURE GUIDELINES

PHOENIX FOOTWEAR GROUP, INC.

a Delaware corporation

2236 Rutherford Road, Suite 113
Carlsbad, California 92008

Telephone: (760) 602-9688
www.phoenixfootwear.com
www.softwalkshoes.com
www.trotters.com
www.buenofootwear.com
www.savashoes.com

3140
(SIC Code)

Quarterly Report
For the Period Ended, July 2, 2022
(the "Reporting Period")

As of July 2, 2022, the number of shares outstanding of our Common Stock was: 13,582,609

As of April 2, 2022, (end of previous reporting period), the number of shares outstanding of our Common Stock was: 13,243,362.

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: ☒

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

Yes: ☐ No: ☒

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

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

The issuer was incorporated in the State of Delaware in 2002.

There have been no trading suspension orders issued by the SEC concerning the issuer since inception.
The issuer does not currently anticipate any stock split, stock dividend, recapitalization, merger, acquisition, spin-off or reorganization and none have occurred in the past 12 months.

The address of the issuer's principal executive offices.
2236 Rutherford Road, Suite 113
Carlsbad, California 92008

Telephone: (760) 602-9688
Fax: (760) 602-9619
Web sites:
www.phoenixfootwear.com
www.softwalkshoes.com
www.trotters.com
www.buenofootwear.com
www.savashoes.com

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

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

Yes: ☐ No: ☒

Item 2) Security Information

Trading Symbol: PXFG
Exact title and class of securities outstanding: Phoenix Footwear Group, Inc. common stock
CUSIP: 71903M209
Par or stated value: $0.01 per share
Total shares authorized: 50,000,000 common shares, as of August 15, 2022
Total shares outstanding: 13,582,609 as of July 2, 2022
Total shares outstanding: 13,582,609 common shares as of August 15, 2022
Number of Shares in Public Float: 8,525,309
Total number of shareholders of record: 149
<u>Transfer Agent</u>
Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078
(877) 282-1168

Is the Transfer Agent registered under the Exchange Act? Yes: ☒ No: ☐

Describe any trading suspension orders issued by the SEC in the past 12 months. None.

3) Issuance History
A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☐

Number of Shares outstanding on December 28, 2019	Opening Balance: Common: 12,786,695 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?**
January 2, 2020	New issuance	25,000	Common	$0.15	No	Kevin Flannagan	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
February 7, 2020	New issuance	33,333	Common	$0.16	No	John M. Dillen	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2020	New issuance	20,000	Common	$0.11	No	Steven M. DePerrior	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2020	New issuance	20,000	Common	$0.11	No	Stephanie E. Pianka	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2020	New issuance	20,000	Common	$0.11	No	Frederick Port	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2020	New issuance	20,000	Common	$0.11	No	Steven Tannenbaum	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
January 2, 2021	New issuance	25,000	Common	$0.05	No	Kevin Flannagan	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
February 7, 2021	New issuance	33,334	Common	$0.12	No	John M. Dillen	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933

April 1, 2021	New issuance	20,000	Common	$0.20	No	Steven M. DePerrior	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2021	New issuance	20,000	Common	$0.20	No	Stephanie E. Pianka	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2021	New issuance	20,000	Common	$0.20	No	Frederick Port	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2021	New issuance	20,000	Common	$0.20	No	Steven Tannenbaum	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
May 28, 2021	New Issuance	100,000	Common	$0.15	No	Bruce Kaplan	Executive Compensation - Shares issued pursuant to restricted stock award		Rule 701 under the Securities Act of 1933
April 1, 2022	New issuance	20,000	Common	$0.12	No	Steven M. DePerrior	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2022	New issuance	20,000	Common	$0.12	No	Stephanie E. Pianka	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2022	New issuance	20,000	Common	$0.12	No	Frederick Port	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
April 1, 2022	New issuance	20,000	Common	$0.12	No	Steven Tannenbaum	Director Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	54,664	Common	$0.14	No	John Dillen	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	53,598	Common	$0.14	No	Kevin Flannagan	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933

June 30, 2022	New Issuance	100,476	Common	$0.14	No	James Riedman	Executive Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
June 30, 2022	New Issuance	130,509	Common	$0.14	No	Non-Executive Employees	Employee Compensation - Shares issued pursuant to restricted stock award	Restricted	Rule 701 under the Securities Act of 1933
Number of Shares outstanding on July 2, 2022	Ending Balance: Common: 13,582,609 Preferred: N/A								

B. Debt Securities, Including Promissory Notes and Convertible Notes

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of Note Issuance	Outstanding Balance as of 7/2/2022 ($)	Principal Amount at Issuance ($)	Interest Accrued as of 7/2/2022 ($)	Maturity Date	Conversion Terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of Noteholder	Reason for Issuance (e.g. Loan, Services, etc.)
July 21, 2011/July 30, 2012	$1,650,841	$1,350,000	$32,426	July 31, 2022	(1)	Greenwood Capital; Steven Tannenbaum, President and General Partner	Loan
March 29, 2018	$336,043	$275,000	$6,601	July 31, 2022	(2)	James R. Riedman	Loan
March 29, 2018	$244,395	$200,000	$4,800	July 31, 2022	(2)	Steven Tannenbaum	Loan
March 29, 2018	$61,099	$50,000	$1,200	July 31, 2022	(2)	Steven DePerrior	Loan
March 29, 2018	$0.00	$25,000	$0.00	July 31, 2022	(2), (3)	Jose Lenard	Loan

(1) As described in Note 2 and 4 of the Notes to the Consolidated Financial Statements, pursuant to the amendment dated December 1, 2020, the notes accrue interest at an interest rate of twelve percent (12%) per annum five percent (5.0%) of which shall be payable in cash ("*Cash Interest*") and seven percent (7.0%) of which shall be payable in kind ("*PIK Interest*"). The Company will pay the accrued Cash Interest in cash semi-annually in arrears on October 31 and April 30 of each year (each an "*Interest Payment Date*"), commencing April 30, 2021, or if any such day is not a Business Day, on the next succeeding Business Day, and the accrued PIK Interest shall be added to the Principal of this Note on each Interest Payment Date. All accrued but unpaid interest under this Note shall be payable at maturity (or upon conversion). The Notes were initially convertible into 5,869,565 shares of the Company's common stock at a conversion price of $.23 per share. On June 30, 2020, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to waive the Event of Default and amend the Notes to extend the maturity date to July 31, 2022 and decrease the conversion price from $0.23 per share to $0.10 per share. As of July 2, 2022, the Notes are convertible into 16,508,412 shares of the Company's common stock at a conversion price of $0.10 per share. The 2012 Note also provides for mandatory conversion into common stock in the event certain market conditions are met for the trading of the Company's stock, including a trading price of at least $1.00 per share on each trading day during any period of 90 consecutive days ending within 10 days prior to the date of determination,

or in the event a change of control results from a sale of the Company in a merger, stock or asset sale for a cash price of at least $5.00 per share.

(2) As described in Note 2 and 4 of the Notes to the Consolidated Financial Statements, pursuant to the amendment dated December 1, 2020, the notes accrue interest at an interest rate of twelve percent (12%) per annum five percent (5.0%) of which shall be payable in cash ("*Cash Interest*") and seven percent (7.0%) of which shall be payable in kind ("*PIK Interest*"). The Company will pay the accrued Cash Interest in cash semi-annually in arrears on October 31 and April 30 of each year (each an "*Interest Payment Date*"), commencing April 30, 2021, or if any such day is not a Business Day, on the next succeeding Business Day, and the accrued PIK Interest shall be added to the Principal of this Note on each Interest Payment Date. All accrued but unpaid interest under this Note shall be payable at maturity (or upon conversion). Interest shall be paid semi-annually in arrears on April 30 and October 31 of each year. The Notes were initially convertible into 2,391,304 shares of the Company's common stock at a conversion price of $0.23 per share. On June 30, 2020, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to waive the Event of Default and amend the Notes to extend the maturity date to July 31, 2022 and decrease the conversion price from $0.23 per share to $0.10 per share. As of July 2, 2022, the Notes are convertible into 6,425,713 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.

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

4) Financial Statements

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

☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by (name of individual):

Name: John Dillen
Title: CFO
Relationship to Issuer: Employee and Officer

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

1. Consolidated Balance Sheets as of July 2, 2022, and January 1, 2022.
2. Consolidated Statements of Operations for the fiscal quarters ended July 2, 2022, and July 3, 2021.
3. Consolidated Statements of Stockholders' Equity for the fiscal quarter ended July 2, 2022, and fiscal year ended January 1, 2022.
4. Consolidated Statements of Cash Flows for the six months ended July 2, 2022, and July 3, 2021.
5. Notes to the Consolidated Financial Statements.

5) Issuer's Business, Products and Services

A. Description of the Issuer's business operations:

The Company specializes in quality comfort women's footwear. The Company designs, develops, and markets under the brands Trotters®, and SoftWalk® and SAVA®. It is also the exclusive United States ("U.S.") distributor of Bueno Footwear. As of August 6, 2021, the Company has the license with Pendleton Woolen Mills "PWM" to design, market and distribute Rubber Footwear defined as footwear made with at least 50% rubber or rubber derivatives. These brands are primarily sold through department stores, leading specialty and independent retail stores, catalogues and internet retailers. The Company has been engaged in the manufacture or importation and sale of quality footwear since 1882.

B. Subsidiaries, parents or affiliated companies:

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

C. Principal products or services, and their markets:

The Company's products emphasize quality, fit and comfort with classic styling. These products compete predominately in the moderate-priced categories of the market.

Trotters. Competing primarily in the traditional women's dress, tailored and casual classifications, Trotters provides retail price points from $79 to $129. The broad selection of sizes and widths for this brand fills an important need for the Company's customers by emphasizing quality and fit with the continuity of style from season to season.

SoftWalk. SoftWalk competes in the women's comfort footwear segment at moderate retail price points from $89 to $159. Utilizing its patented footbed in a number of its own styles, which fundamentally differentiates SoftWalk from its competitors, the Company believes SoftWalk's consumer acceptance and popularity is attributable, in part, to its unique combination of comfort and contemporary styling. The Company's patented footbed technology provides the consumer with exceptional comfort without compromising style and is utilized in many of its SoftWalk products.

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

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

SAVA. SAVA is a life-inspired brand for the modern woman with eye-catching colors, premium materials and easy-to-wear styles. SAVA competes in the women's comfort footwear segment at retail price points from $120 to $275. With European sizing, on-trend styling and integrated comfort features, SAVA separates itself from competitors such as Dolce Vita and Eileen Fisher.

During the first fiscal quarter ended July 2, 2022, and the fiscal years ended January 1, 2022, ("fiscal 2021") and January 2, 2020, ("fiscal 2020"), the Company had one reportable segment consisting of its operations of Trotters, SoftWalk, SAVA, and Bueno. The second fiscal quarter ended July 2, 2022 also included Pendleton.

***Distribution Methods of Issuer's Products*.**

Historically, a majority of the Company's revenue is generated by the sale of women's footwear. Trotters, SoftWalk, and SAVA 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 an independent sales force that covers 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. The footwear is sold by an independent sales force that covers the entire U.S. market and Canada.

During the three months ended July 2, 2022, the Company's products were carried by approximately 443 customers in over 774 retail locations throughout the United States. The Company's distribution channels include leading specialty and independent retail stores, mail order catalogues, and internet retailers. The Company also operates its own direct to consumer internet retail business for all of its brands. The Company's top ten customers represented approximately 76%, 76%, and 72% of net sales from operations for the fiscal quarter ended July 2, 2022 and the fiscal years ended January 1, 2022 and January 2, 2021 respectively. Zappos.com, accounted for 21%, 15% and 15%, of net sales during the fiscal quarter ended July 2, 2022 and the fiscal years ended January 1, 2022 and January 2, 2021, respectively. Nordstrom accounted for 13%, 15%, 10% of net sales during the quarter ended July 2, 2022 and the fiscal years ended January 1, 2022 and January 2, 2021, respectively while Macy's.com account for 9%, 11%, and 9%, respectively, during those same periods.

Consumer Direct.

The Company believes its e-commerce web sites complement the Company's existing wholesale business by increasing consumer awareness of the Company's brands. Sales through the Company's internet web sites represented approximately 8%, 9% and 10% of its net sales for the fiscal quarter ended July 2, 2022, and the fiscal years ended January 1, 2022 and January 2, 2021, respectively. The products marketed through the Company's web sites are sold at their suggested retail price, enabling the Company to maintain the full retail margins on in-line products. The Company's footwear can be purchased at *www.SoftWalkshoes.com*., *www.Trotters.com*., *www.Buenofootwear.com*., and *www.Savashoes.com.*

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

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

- anticipating and responding to changing consumer demands in a timely manner;
- maintaining brand reputation and authenticity;
- developing high quality products that appeal to consumers;
- appropriately pricing products;
- providing strong and effective product marketing support;
- ensuring product availability; and
- maintaining and effectively accessing the Company's distribution channels.

Trotters primarily competes with the Naturalizer®, EasySpirit®, and Munro America® brands, as well as 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®, SAVA competes with Dolce Vita® and Eileen Fisher® and Pendleton competes with Patagonia®, The North Face®, and Columbia®.

The Company believes that its brands are positioned to compete effectively in the footwear industry. By emphasizing traditional style, quality and fit, the Company believes these product lines will continue to maintain a loyal consumer following that is less susceptible to fluctuations due to changing fashions and changes in consumer preferences.

<u>Issuer's Business Risks</u>

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

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

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

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

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

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

Public health crises could harm our business

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

Product Development.

The Company has a team of development specialists who commercialize product designs and procure footwear that adheres to the Company's fit, quality and construction standards. They closely manage the production and quality processes with the Company's independent manufacturers in China to ensure timely delivery of goods to the marketplace. The development and commercialization of new product designs include capital outlays for the tooling of dies, molds and lasts, the costs of which are amortized into cost of goods sold over a twelve month period beginning in the season the new design is first distributed. The Company incurred product design and development costs of approximately $99,000, $162,000 and $200,000 during the fiscal quarter ended July 2, 2022, and the fiscal years ended January 1, 2022 and January 2, 2021, 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 performs multiple inspection procedures at various stages of the production process. These include examining key raw materials prior to manufacture, samples and materials at various stages of production and final products prior to shipment. The Company's staff is often on site at each of its manufacturers to oversee production. Third party manufacturers located in China, 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 inabilities to fulfill customer demand and orders. The Company cannot guarantee that any third party manufacturer will have sufficient production capacity, meet the Company's production deadlines or meet its quality standards. In addition, from time to time, these manufacturers may 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 76%, 76%, and 72% of net sales from operations for the fiscal quarter ended July 2, 2022, and the fiscal years ended January 1, 2022, and January 2, 2021, respectively. Zappos.com, accounted for 21%, 15% and 15%, of net sales during the fiscal quarter ended July 2, 2022, , and the fiscal years ended January 1, 2022, and January 2, 2021, respectively. Nordstrom accounted for 13%, 15%, 10% of net sales during the quarter ended July 2, 2022, and the fiscal years ended January 1, 2022 and January 2, 2021, respectively while Macy's.com account for 9%, 11%, and 9%, respectively, during those same periods.

Although the Company has enjoyed long-term relationships with many of its customers, they do not have a contractual obligation to purchase the Company's products. The Company cannot be certain that it will be able to retain its existing major customers. The retail industry can be uncertain due to changing customer buying patterns and consumer preferences. These factors could cause the Company to lose one or more of these customers, which could adversely affect its business.

Patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts.

The Company regards its proprietary rights as valuable assets and important to its competitive advantage. The Company's trademarks which have been registered in the U.S. and a number of foreign countries include; Trotters and SoftWalk. The Company's SoftWalk brand contains a proprietary technology in the footbed of the shoe, for which the Company owns a patent in the U.S. The Company vigorously protects its intellectual property against infringement. The Company's patents expire at various times through August 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. 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 and 5% on net invoiced direct to consumer sales. Payments are due at the end of each quarter over the term of the agreement. The licensing agreement guarantees a minimum royalty payment of $393,000 over its term. In addition to, and not included in the minimum royalties outlined previously, the Company 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 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.

6) Describe the Issuer's Facilities

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

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

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

The Company also leases land and a warehouse located in Old Town, Maine. It also leases an office space in Dongguan, China to maintain staff to oversee its manufacturing operations in China. The Old Town Maine lease expires in June 2023. The lease in China expired in March 2022 and was renewed for another 1 year term beginning in April 2022 and expiring in March 2023.

The Company also owned 31 acres of vacant land, which had been unused, in Dolgeville, New York. On December 17, 2021, the Company sold its interest in 31 acres of vacant land, in Dolgeville, New York for $27,000 less customary broker and other closing costs.

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

7) Officers, Directors, and Control Persons

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following tables show the number of shares of common stock beneficially owned by directors, executive officers, by directors and executive officers as a group, and by persons known to the Company to beneficially own more than five percent of the outstanding shares of common stock as of August 15, 2022. For the purposes of computing a person's beneficial ownership, shares of common stock issuable upon the exercise of securities exercisable within 60 days of August 15, 2022, are deemed outstanding for the purposes of computing the share ownership and percentage ownership of the person holding such securities, but are not deemed outstanding for the purposes of computing the percentage ownership of any other person.

Percentage of beneficial ownership is calculated assuming 13,582,609 shares of the Company's stock (net of treasury shares) were outstanding as of August 15, 2022. Except as otherwise indicated, known to the Company, the beneficial owners of common stock listed below have sole or shared investment and voting power with respect to such shares

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/Director/Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned(1)(2)(3)	Share type/class	Ownership Percentage of Class Outstanding	Note
James R. Riedman	Executive Officer, Director	Rancho Santa Fe, CA	29,386,209	Common	81.1%	(2) (3), (4), (5), (6),(7)
Steven Tannenbaum and Greenwood Investments, Inc.	Director and Control Person	Nantucket, MA	29,386,209	Common	81.1%	(2) (4), (5), (7)
Frederick R. Port	Director	Rancho Santa Fe, CA	245,000	Common	1.8%	(2)
Steven M. DePerrior	Director	Rochester, NY	240,000	Common	1.8%	(2)
Stephanie E. Pianka	Director	Lake Placid, NY	240,000	Common	1.8%	(2)
John M. Dillen	Executive Officer	Cascade, ID	309,329	Common	2.3%	

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

(1) Unless otherwise noted, and subject to applicable community property laws, each person has sole voting and dispositive power with respect to all shares of common stock beneficially shown as owned by that person.

(2) Includes shares issuable upon the exercise of outstanding stock options and performance-based deferred stock awards (includes shares shown in Table 3 Share Issuance above) as follows:

James R. Riedman	450,477
John M. Dillen	154,665
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 (6 persons)	685,142

(3) Includes the following shares held in such person's account under the Company's 401(k) Plan over which, by the terms of the plan, each has investment control: Voting control over the share is held by the Board's Retirement Plan committee which serves as the fiduciary for the Company's 401(k) Plan, and of which Mr. Riedman is a member.

(4) Includes: (i) 1,261,600 shares owned directly by Mr. Riedman; (ii) 350,000 shares underlying outstanding stock options held by Mr. Riedman; (iii) 3,360,430 shares issuable upon conversion of a promissory note held by Mr. Riedman in the aggregate principal amount of $336,043; (iv) 203,804 shares owned directly by CE Capital, LLC, an entity over which Mr. Riedman has managerial control; and (v) 87,337 shares owned by Mr. Riedman's children; (vi) 37,673 shares held by the Company's 401(k) Plan. Mr. Riedman is a member of the Board of Director's Retirement Plan Committee, which serves as fiduciary for the Company's 401(k) Plan, and through that committee he shares voting control over such shares, (vii) 100,477 shares issued to Mr. Riedman pursuant to a restricted stock award as compensation for his services as an employee to the Company, and, (viii) 100,476 shares issuable to Mr. Riedman pursuant to a restricted stock award as compensation for his services as an employee to the Company, and The plan's mailing address is c/o Phoenix Footwear Group, Inc., 2236 Rutherford Road, Suite 113, Carlsbad, California 92008.

(5) Includes: (i) 4,812,050 shares owned directly by Greenwood Capital, LP; (ii) 16,508,412 shares issuable upon conversion of three promissory notes held by Greenwood Capital, LP in the aggregate original principal amount of $1,650,841 (the "Greenwood Notes"); (iii) 2,443,950 shares issuable upon conversion of a promissory note held by Steven Tannenbaum in the aggregate principal amount of $244,395; and (iv) 120,000 shares issued to Mr. Tannenbaum pursuant to a restricted stock award as compensation for serving on the Company's Board of Directors, and (v) 20,000 shares issuable to Mr. Tannenbaum upon the exercise of performance-based stock awards. Also includes shares held by the Riedman Parties that may be deemed to be beneficially owned by Mr. Tannenbaum, Greenwood Capital, LP and Greenwood Investments, Inc. under the Voting Agreement as described in Note 8 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.

(6) The members of the Board's Retirement Plan Committee, which serves as fiduciary for the Company's 401(k) Plan, share voting control over these shares. The Plan's mailing address is c/o Phoenix Footwear Group, Inc., 2236 Rutherford Road Suite 113, Carlsbad, California 92008.

(7) In connection with the purchase of the Greenwood Notes, the Greenwood Parties entered into a Voting Agreement on July 21, 2011 with James Riedman and Riedman Corporation (together, the "Riedman Shareholders") and the Company, as amended on July 23, 2015 (the "Voting Agreement"). The Voting Agreement provides, among other things, for the parties to vote on one candidate of the Riedman Shareholders and one candidate of the Greenwood Parties as directors of the Company's Board of Directors. As a result of the Voting Agreement and as of the date hereof, (i) the Riedman Shareholders may be deemed to beneficially own 23,884,412 shares beneficially owned by the Greenwood Parties and (ii) the Greenwood Parties may be deemed to beneficially own 5,501,797 shares beneficially owned by the Riedman Shareholders. Both the Riedman Shareholders and Greenwood Parties expressly disclaim being a member of Section 13(d)(3) "group" with any of the reporting persons of the other party, and further expressly disclaim any beneficial ownership of the shares of the other. As of January 1, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

8) Legal/Disciplinary History

None of the persons listed in Item 7 above have, in the past 10 years, been the subject of:

(1) a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

(2) 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, or banking activities;

(3) a finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

(4) the entry of 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

(5) Material Pending Legal Proceedings: None.

9) Party Providers

Securities Counsel:	Woods Oviatt Gilman LLP 1900 Bausch & Lomb Place Rochester, NY 14604 (585) 987-2800 Greg Gribben, Partner administrator@woodsoviatt.com
Accounting Firm:	Mayer Hoffman McCann P.C. 13500 Evening Creek Drive N#450 San Diego, CA 92128 (858) 795-2017 Stuart Starr, Engagement Partner sstarr@cbiz.com
Investor Relations:	John Dillen, Chief Financial Officer, Secretary and Treasurer 2236 Rutherford Road, Suite113, Carlsbad, CA 92008 760-602-9688 jdillen@phxg.com

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

Item 10) Issuer's Certifications.

I, James R. Riedman, certify that:

1. I have reviewed this quarterly disclosure statement of Phoenix Footwear Group, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 15, 2022

/s/ James R. Riedman,
Chief Executive Officer

I, John M. Dillen, certify that:

1. I have reviewed this quarterly disclosure statement of Phoenix Footwear Group, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: August 15, 2022

/s/ John M. Dillen,
Chief Financial Officer

Exhibit A

PHOENIX FOOTWEAR GROUP, INC.

FINANCIAL STATEMENTS

FOR THE FISCAL QUARTER ENDED July 2, 2022

Audited Financial Statements

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

	July 2, 2022	January 1, 2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7	$ 45
Accounts receivable, net (less allowance for bad debt of $112 and $73 in 2022 and 2021, respectively)	3,520	3,976
Inventories (less allowance of $196 and $226 in 2022 and 2021, respectively)	7,484	5,977
Other current assets	804	776
Total current assets	11,815	10,774
PROPERTY, PLANT AND EQUIPMENT, net	78	92
RIGHT OF USE ASSETS, OPERATING	314	379
RIGHT OF USE ASSETS, FINANCED	66	102
OTHER ASSETS	—	—
TOTAL ASSETS	$ 12,273	$ 11,347
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit, current (Note 4)	$ 4,142	$ 3,417
Accounts payable	1,840	1,740
Accrued expenses	872	797
Returns and allowances liability	1,307	1,330
Current portion of right of use obligations, operating	150	145
Current portion of right of use obligations, financed	111	109
Current portion of convertible debt	2,293	2,244
Current portion of long term debt	—	37
Total current liabilities	10,715	9,819
OTHER LONG-TERM LIABILITIES		
Term notes payable, net of current portion (Note 4)	—	—
Convertible debt	—	—
Right of use obligations, operating, net of current portion	228	304
Right of use obligations, financed, net of current portion	13	69
Other non-current liabilities	22	34
Total liabilities	10,978	10,226
Commitments and contingencies (Note 3)		
STOCKHOLDERS' EQUITY:		
Common stock, $0.01 par value — 50,000 shares authorized; 13,799 and 13,380 shares issued and outstanding in 2022 and 2021	138	134
Additional paid-in-capital	48,367	48,315
Accumulated deficit	(44,567)	(44,685)
Treasury stock at cost, 217 shares in 2022 and 2021	(2,643)	(2,643)
Total stockholders' equity	1,295	1,121
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 12,273	$ 11,347

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

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

	(Unaudited) Three Months Ended		(Unaudited) Six Months Ended	
	July 2, 2022	July 3, 2021	July 2, 2022	July 3, 2021
Net sales	$ 4,447	$ 4,314	$ 8,941	$ 6,813
Cost of goods sold	2,447	2,418	4,950	3,946
Gross profit	2,000	1,896	3,991	2,867
Operating expenses:				
Selling, general and administrative	1,657	1,315	3,352	2,383
Other expense, net	—	—	—	—
Total operating expenses	1,656	1,315	3,352	2,383
Operating income	344	581	639	484
Interest expense, net	284	282	521	547
Income (loss) before income taxes	60	299	118	(63)
Income tax expense (benefit)	—	—	—	—
Net income (loss)	$ 60	$ 299	$ 118	$ (63)
Net income (loss) per share	$ 0.00	$ 0.02	$ 0.01	$ (0.01)
Weighted average shares outstanding used to calculate per share information	13,255	13,535	13,210	13,038
Net income (loss)	$ 60	$ 299	$ 118	$ (63)

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

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock		Total
	Shares	Amount			Shares	Amount	
Balance — January 2, 2021	13,141	$ 132	$ 48,284	$ (45,584)	217	$ (2,643)	$ 189
Stock Based Compensation	239	2	31	—	—	—	33
Net income	—	—	—	899	—	—	899
Balance — January 1, 2022	13,380	$ 134	$ 48,315	$ (44,685)	217	$ (2,643)	$ 1,121
Stock Based Compensation	419	4	52	—	—	—	56
Net income	—	—	—	118	—	—	118
Balance — July 2, 2022	13,799	$ 138	$ 48,367	$ (44,567)	217	$ (2,643)	$ 1,295

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

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

	Six Months Ended	
	July 2, 2022	July 3, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 118	$ (63)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	115	117
Provision for losses on accounts receivable	39	(6)
Non-cash stock-based compensation	56	33
Amortization of deferred financing costs	92	96
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	417	(645)
Inventories, net	(1,507)	761
Other current assets	(114)	(1,059)
Other non-current assets	(6)	56
Increase (decrease) in:		
Accounts payable	100	354
Accrued expenses	76	(16)
Returns and allowances liability	(23)	198
Other long-term liabilities	(85)	516
Net cash (provided by) used in operating activities	(722)	342
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment	—	—
Net cash used in investing activities	—	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	10,428	6,953
Convertible debt borrowings	74	62
Payments of line of credit	(9,702)	(7,223)
Payments of notes payable	(62)	(35)
Payments on right of use obligation, financed	(54)	(52)
Net cash provided by (used in) financing activities	684	(295)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(38)	47
CASH AND CASH EQUIVALENTS — Beginning of period	45	12
CASH AND CASH EQUIVALENTS — End of period	$ 7	$ 59

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 ("GAAP") for interim financial information and in accordance with the requirements of Quarterly Reporting of the OTC Markets. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The interim financial information is unaudited, but reflects all normal adjustments and accruals which are, in the Company’s opinion, considered necessary to provide a fair presentation for the interim periods presented. The consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and the footnotes thereto included within the Company’s latest Annual Report for the fiscal year ended January 1, 2022, posted on the OTC Markets web site on March 30, 2022. The Company’s Annual Report may be accessed at http://www.otcmarkets.com/stock/PXFG/financials using the Company’s Ticker Symbol PXFG.

Accounting Period

The Company’s operating and reporting period is on a 52-53 week fiscal year ending on the Saturday nearest to December 31st. The Company refers to the fiscal year ended December 31, 2022, as “fiscal 2022,” and the fiscal year ended January 1, 2022, as “fiscal 2021.” The 52-week fiscal years consist of four equal quarters of 13 weeks each, and the 53-week fiscal years consist of three 13-week fiscal quarters and one 14-week fiscal quarter. The financial results for the 53-week fiscal years and 14-week fiscal quarters will not be exactly comparable to the 52-week fiscal years and 13-week fiscal quarters. Accordingly, the quarters ended July 2, 2022, and July 3, 2021, each consisted of 13 weeks.

Fair Value of Financial Instruments

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

Revenue Recognition

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (“New Revenue Standard”) using the modified retrospective method. This method requires a cumulative effect adjustment to reflect the impact of initially applying the New Revenue Standard as an adjustment to the opening balance of retained earnings. The New Revenue Standard did not result in a material impact to the opening balance of retained earnings, and therefore no adjustment was made. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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.

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

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

2. LIQUIDITY

Cash and cash equivalents at July 2, 2022, decreased by $38,000 to $7,000 compared to $45,000 at January 1, 2022. The cash and cash equivalents balance fluctuates throughout the year due in part to the seasonal change in working capital requirements. Cash outflows supporting inventory purchasing, selling activities and distribution typically increase from December to February, and again, between June and August each year.

2018 Convertible Debt

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

On June 30, 2020, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to waive the Event of Default and amend the Notes to extend the maturity date to July 31, 2022, decrease the conversion price from $0.23

per share to $0.10 per share, as well as agree to the nonpayment and accrual of interest during the Payment Blockage period. The Company concluded the amendments were debt extinguishments in accordance with ASC 470 and that there was no gain or loss as a result.

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

2017 Finance Authority of Maine Term Loan

On April 4, 2017, the Company entered into an Economic Recovery Loan Agreement (the "Equipment Loan") with the Finance Authority of Maine ("FAME"), for a five year term, collateralized by all machinery, equipment, furniture, furnishings, fixtures, tools and leasehold improvements located at the Company's Old Town, Maine warehouse and distribution center. The Equipment Loan in the principal amount of $300,000, bears interest at a fixed per annum rate of 5.75%. Payments of principal and interest in the amount of $5,800 are due commencing one month from the date entered into and continuing on the same day of each month thereafter until April 4, 2022, (the "Maturity Date"), when, unless sooner paid, the remaining principal and accrued and unpaid interest shall be due and payable in full. The Subordinated Loan Agreement was amended in connection with the Equipment Loan to permit the transactions contemplated thereunder. During 2020, the Company and the Financial Authority of Maine agreed the Company could defer payments and extend the termination date of the Loan as needed given the uncertainty caused in retail markets as a result of the Covid-19 pandemic. The Company deferred $19,575 in fiscal 2020 which represents an additional 2 months added to the term of the loan. In so doing the Company did not incur any additional costs or charges. On May 26, 2022, the Company made final payment on its term note with the Financial Authority of Maine.

Alterna Capital Solutions Invoice Purchase and Security Agreement

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

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

Intercreditor Agreement

On October 9, 2020, the Company, Penobscot, Alterna Capital Solutions and Iron Horse Credit LLC entered into an Intercreditor Agreement so as to clarify their respective priorities in connection with the Alterna Capital Solutions Invoice and Purchase Agreement and the Iron Horse Credit LLC Credit and Security Agreement in the event there is an Assignment (as further defined in the Intercreditor Agreement) In summary, Alterna Capital will have priority to the proceeds from sales to the Company's accounts and inventory sold which has given rise to the accounts, excluding returned inventory. Iron Horse Credit LLC will have priority over the Company's on-hand inventory, future inventory and returned inventory.

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

Iron Horse Credit LLC Credit and Security Agreement

On October 9, 2020, the Company and Penobscot entered into a Credit and Security Agreement with Iron Horse Credit LLC, ("IHC"). The IHC Credit Agreement provides for up to $3.0 million in borrowing capacity consisting of a revolving line of credit facility (subject to a borrowing base as defined in the IHC Credit Agreement) with a two-year maturity. Interest on the principal amount outstanding under the IHC Credit Agreement accrues at a rate equal to 15.50% per annum. The obligations of the Company as the borrower under the IHC Credit Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the IHC Credit Agreement, the Company and Penobscot have each granted IHC a security interest in all of their personal property subject to the October 9, 2020, Intercreditor Agreement.

On November 1, 2021, concurrent with the Company entering into the IHC California LLC Credit and Security Agreement, the obligations outstanding under the Revolving Credit Facility with Iron Horse Credit LLC were satisfied and Iron Horse Credit LLC Credit and Security Agreement was terminated.

IHC California LLC Credit and Security Agreement

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

CARES Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. On May 11, 2020, the Company was granted a loan from Pacific Western Bank in the aggregate amount of $600,000 pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act. The Loan, which was in the form of a Note dated May 8, 2020, matures on May 7, 2022, and bears interest at a rate of 1.0% per annum, payable monthly commencing on December 8, 2020. The Note may be prepaid by the Company at any time prior to the maturity with no prepayment penalties. The Company has accounted for the Loan under International Accounting Standard *Accounting for Government Grants and Disclosure of Government Assistance*, ("IAS 20"), which outlines a model for the accounting for different forms of government assistance, including forgivable loans. As of January 2, 2021, the Company met the requirements and conditions for forgiveness of the loan. On March 8, 2021, the Small Business Administration ("SBA") confirmed forgiveness of principal in the amount of $600,000, and accrued interest of $4,948. The $600,000 forgiveness was posted to other income, fiscal year ending January 2, 2021, as on offset against selling, general, and other administrative expenses ("SG&A") and is included in the consolidated statement of operations.

On December 27, 2020, the Consolidated Appropriations Act, 2021, was signed into law. A third round of Payroll Protection Program loans was authorized under the Act. On January 26, 2021, the Company was granted a second loan from Pacific Western Bank in the aggregate amount of $600,000 pursuant to the Paycheck Protection Program. The Loan, which was in the form of a Note dated January 26, 2021, matures on January 26, 2026, and bears interest at a rate of 1.0% per annum, payable monthly commencing on November 26, 2021. If the Company submits a loan forgiveness application to its lender within 10 months after the end of the Company's covered period (as defined and interpreted by the PPP Rules, the "Loan Forgiveness Covered Period"), the Company will not be obligated to make any payments of principal or interest before the date on which the SBA remits the loan forgiveness amount to the Company's lender or notifies the Company's lender that no loan forgiveness is allowed. The Note may be prepaid by the Company at any time prior to the maturity with no prepayment penalties. Portions of the loan may be forgivable if they are used for qualifying expenses as more fully described in the Act. On December 6, 2021, the Small Business Administration confirmed forgiveness of the principal in the amount of $600,000, and accrued interest of $5,129. The $600,000 was posted to other income as an offset against selling, general, and other administrative expenses ("SG&A") and is included in the consolidated statement of operations.

3. COMMITMENTS AND CONTINGENCIES

On August 6, 2021, the Company entered into a four year licensing agreement commencing January 1, 2022, with Pendleton Woolen Mills, "PWM", to design, market and distribute Rubber Footwear defined as footwear made with at least 50% rubber or rubber derivatives. Under the terms of the licensing agreement, the Company is required to pay a royalty fee of 7.5% on net invoiced wholesale trade sales and 5% on net invoiced direct to consumer sales. Payments are due at the end of each quarter over the term of the agreement. The licensing agreement guarantees a minimum royalty payment of $393,000 over its term. In addition to, and not included in the minimum royalties outlined previously, the Company 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 Company, from time to time, may be subject to legal proceedings and claims arising in the normal course of business.

4. DEBT

Alterna Capital Solutions Invoice Purchase and Security Agreement

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

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

As of July 2, 2022, the funded balance with Alterna Capital Solutions totaled $1.8 million and the availability was $350,000.

Intercreditor Agreement

On October 9, 2020, the Company, Penobscot, Alterna Capital Solutions and Iron Horse Credit LLC entered into an Intercreditor Agreement so as to clarify their respective priorities in connection with the Alterna Capital Solutions Invoice and Purchase Agreement and the Iron Horse Credit LLC Credit and Security Agreement in the event there is an Assignment (as further defined in the Intercreditor Agreement) In summary, Alterna Capital will have priority to the proceeds from sales to the Company's accounts and inventory sold which has given rise to the accounts, excluding returned inventory. Iron Horse Credit LLC will have priority over the Company's on-hand inventory, future inventory and returned inventory.

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

Iron Horse Credit LLC Credit and Security Agreement

On October 9, 2020, the Company and Penobscot entered into a Credit and Security Agreement with Iron Horse Credit LLC, ("IHC"). The IHC Credit Agreement provides for up to $3.0 million in borrowing capacity consisting of a revolving line of credit facility, ("RLOC"), (subject to a borrowing base as defined in the IHC Credit Agreement) with a two-year maturity. Interest on the principal amount outstanding under the IHC Credit Agreement accrues at a rate equal to 15.50% per annum. The obligations of the Company as the borrower under the IHC Credit Agreement have been guaranteed by Penobscot. As security for the obligations of the Company and Penobscot under the IHC Credit Agreement, the Company and Penobscot have each granted IHC a security interest in all of their personal property subject to the terms of the October 9, 2020, Intercreditor Agreement.

The obligations outstanding under the Credit and Security Agreement may be prepaid at any time. A prepayment premium will be payable to the IHC if the Company prepays the entire amount outstanding under and terminates the credit facility prior to the conclusion of the first 19 months of the Agreement. The prepayment premium is equal to 2% of the RLOC maximum amount.

The IHC Credit Agreement includes various financial and other covenants commencing March 31, 2021, with which the Company has to comply in order to maintain borrowing availability and avoid penalties, including maintaining Debt Service Coverage Ratio and Cash Flow. As of July 2, 2022, and the date of this filing, the Company was in compliance with its financial covenants with IHC.

Other covenants include, but are not limited to, covenants limiting or restricting the Company's ability to incur indebtedness, incur liens, enter into mergers or consolidations, dispose of assets, make investments, pay dividends, enter into transactions with affiliates, or prepay certain indebtedness. The IHC Credit Agreement also contains customary events of default including, but not limited to, payment defaults, covenant defaults, cross-defaults to other indebtedness, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, defects in IHC's security interests, change in control events and material adverse change. As of July 2, 2022, and the date of this filing, the Company was in compliance with its financial covenants with IHC.

On November 1, 2021, concurrent with the Company entering into the IHC California LLC Credit and Security Agreement, the obligations outstanding under the Revolving Credit Facility with Iron Horse Credit LLC were satisfied and Iron Horse Credit LLC Credit and Security Agreement was terminated.

IHC California LLC Credit and Security Agreement

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

The obligations outstanding under the Credit and Security Agreement may be prepaid at any time. A prepayment premium will be payable to the IHC CA if the Company prepays the entire amount outstanding under and terminates the credit facility prior to May 9, 2022. The prepayment premium is equal to 2% of the RLOC maximum amount.

The IHC CA Credit Agreement includes various financial and other covenants with which the Company has to comply in order to maintain borrowing availability and avoid penalties, including maintaining Debt Service Coverage Ratio and Cash Flow.

Other covenants include, but are not limited to, covenants limiting or restricting the Company's ability to incur indebtedness, incur liens, enter into mergers or consolidations, dispose of assets, make investments, pay dividends, enter into transactions with affiliates, or prepay certain indebtedness. The IHC CA Credit Agreement also contains customary events of default including, but not limited to, payment defaults, covenant defaults, cross-defaults to other indebtedness, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, defects in IHC CA's security interests, change in control events and material adverse change.

As of July 2, 2022, the balance on the line of credit with IHC CA was $2.4 million and availability was $164,000.

2011 Purchase Agreement:

Convertible Subordinated Secured Notes

On July 21, 2011, the Company completed the sale of the $1.0 million of subordinated secured 1% convertible notes (the "2011 Notes", and collectively with the 2012 and the 2018 Notes, the "Notes") to Greenwood Investors LP ("Investors") and Greenwood Capital LP ("Capital", collectively "Investors, the "Greenwood Purchasers", and together with MGPLA, the "Greenwood Investors"). Capital is an affiliate of and managed by General Partner (defined below), its sole general partner. Steven Tannenbaum, Director, is the President and General Partner (the Greenwood Investors, General Partner and Mr. Tannenbaum are referred to collectedly herein as the "Greenwood Parties"). The 2011 Notes were initially convertible into 2,994,011 shares of the Company's common stock. The 2011 Notes were initially due on October 30, 2015. During 2015, the Company extended the maturity date from October 30, 2015, until July 31, 2020. The 2011 Notes bear interest at the rate of 1.0% per annum. The interest is payable in cash semi-annually in arrears on October 31, and April 30 of each year, commencing October 31, 2011. No prepayment may be made by the Company without Greenwood Purchasers' consent. Capital may convert all or part of the 2011 Notes into common stock of the Company until the maturity date. As a result of the Company's issuance of the 2012 Note, the conversion price of the 2011 Notes was reduced to $0.23, at which price the 2011 Notes are convertible into 4,347,826 shares of the Company's common stock. The conversion price remains subject to adjustment in the event of certain corporate transactions, including but not limited to, certain issuances of common stock at a price below the conversion price of the 2011 Notes. The 2011 Notes also provide for mandatory conversion into common stock in the event certain market conditions are met for the trading of the Company's stock, including a trading price of at least $1.00 per share on each trading day during any period of 90 consecutive days ended within 10 days prior to determination, or in the event a change in control results from the sale of the Company in a merger, stock or asset sale for a cash price of at least $5.00 per share.

The 2011 Notes contain customary events of default including, but not limited to, payment defaults, failure to deliver shares on conversion, cross-defaults to other agreements in the transaction, cross defaults to other indebtedness of $50,000 or more in the aggregate, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, and other occurrences including change in control. The occurrence of an event of default will increase the interest rate to 13.0% and could result in the acceleration of all obligations of the Company to Capital with respect to the 2011 Notes.

The obligation under the 2011 Notes is secured by a pledge of substantially all of the Company's assets, including its intellectual property and stock of Penobscot. The security is provided under the Security Agreement, Intellectual Property Security Agreement and Pledge Agreement between the Company, the Greenwood Investors and Greenwood Investments, Inc., as agent for the Greenwood Investors, each of which were amended and restated as discussed herein.

As required under the terms of the transaction, the Board of Directors approved the Amended and Restated By-Laws of the Company to i) eliminate the restriction on stockholders ability to act by written consent in lieu of a meeting with less than unanimous consent; ii) permit holders of at least 15% of the outstanding stock eligible to vote at a meeting to call a special meeting of stockholders; and iii) to incorporate the reduction of the size of the board from 7 to 4. In addition, the Company entered into (1) an Amendment of the Employment Agreement with James Riedman, the Company's Chief Executive Officer to eliminate its automatic renewal so it will terminate by its terms on December 31, 2012, and to provide that no severance will be paid if the agreement expires by virtue of it reaching the end of its term, and (2) an indemnification agreement with Stephanie Pianka, as a director of the Company.

Other agreements entered into in connection with the transaction with the Greenwood Purchasers, which have each been subsequently replaced or amended and restated as set forth above, included: (1) a Subordination and Intercreditor Agreement, subordinating the security interest of the Greenwood Purchasers to the rights of the Prior Lenders, together with a related Waiver and Consent provided by the Prior Lenders to the Company with respect to certain provisions under its credit facility and related loan agreements, to permit the issuance of the 2011 Notes to the Greenwood Purchasers; (2) the Investors Agreement (as defined below); and (3) the Amended and Restated Voting Agreement dated July 30, 2012, by and among the Company, the Greenwood Investors, James Riedman and Riedman Corporation. As of January 2, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

2012 Convertible Note.

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

The 2012 Note was initially due October 30, 2015 and bore interest at the initial rate of 1.0% per year. During 2015, the Company extended the maturity date from October 30, 2015 until July 31, 2020. The interest is payable in cash semi-annually in arrears on October 31 and April 30 of each year, commencing October 31, 2012, and the rate increases to the applicable interest rate under the Loan Agreement commencing July 30, 2014. No prepayment may be made by the Company without Greenwood Capital, LP's consent. Greenwood Capital LP may convert all or part of the 2012 Note into common stock of the Company at a conversion price equal to $0.23 until the maturity date. The initial conversion price is subject to adjustment in the event of certain corporate transactions, including but not limited to, certain issuances of common stock at a price below the conversion price of the 2012 Note. The 2012 Note also provides for mandatory conversion into common stock in the event certain market conditions are met for the trading of the Company's stock, including a trading price of at least $1.00 per share on each trading day during any period of 90 consecutive days ending within 10 days prior to the date of determination, or in the event a change of control results from a sale of the Company in a merger, stock or asset sale for a cash price of at least $5.00 per share.

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

The 2012 Note contains customary events of default including, but not limited to, payment defaults, failure to deliver shares on conversion, cross-defaults to other agreements in the transaction, cross-defaults to other indebtedness of $50,000 or more in the aggregate, material judgment defaults, inaccuracy of representations and warranties, bankruptcy and insolvency events, defects in the security interests, unresolved judgments of $50,000 or more in excess of insurance coverage and change in control events. The occurrence of an event of default will increase the interest rate to 13.0% and could result in the acceleration of all obligations of the Company to Greenwood Capital, LP with respect to indebtedness.

In addition to the sale of the 2012 Note, the 2012 Purchase Agreement also required that the parties amend and restate the following additional agreements, subject to the Subordination Agreement, to include MGPLA, L.P. as a party.

Security Agreement, IP Security Agreement, Pledge Agreement. The obligation under the Notes is secured by a pledge of substantially all of the Company's assets, including its intellectual property assets and the stock of its wholly-owned subsidiary, Penobscot. The security interest is provided under the Security Agreement, Intellectual Property Security Agreement and Pledge Agreement between the Company, the Greenwood Investors and Greenwood Investments, Inc., as agent for the Greenwood Investors, each dated July 30, 2012.

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

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

2018 Convertible Debt.

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

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

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

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

Investor Agreement.

Registration Rights. Under the Amended and Restated Investor Agreement between the Company, the Greenwood Investors, James Riedman, and Riedman Corporation dated July 30, 2012, and as amended on July 23, 2015 (the "Investors Agreement"), the Greenwood Investors received registration rights under which they may make a demand for registration of the shares underlying the Notes and other shares held by the Greenwood Investors and their affiliates. The demand may not be made until after the earlier of 3 years after July 21, 2011, or 180 days after the effective date of an initial public offering registration statement. The Company must thereafter file a registration statement within 60 days of a demand. The Greenwood Investors are limited to two demands for a Registration Statement on Form S-1. If the Company is eligible to use Form S-3, it must file a registration statement within 45 days of a demand and there is no limit on the number of such demands. The Greenwood Investors also obtained unlimited piggyback registration rights. Each of the categories of registration rights are subject to an underwriter's cutback. The agreement also obligates the Company make current information available to the public to meet the requirements of Rule 144. As of January 1, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

Matters Requiring Investor Approval. Under the Investors Agreement, the Company may not take certain actions without the approval of Greenwood Investments, Inc., including but not limited to: increase or decrease its authorized capital stock, or authorize new classes or series of capital stock or securities convertible into common stock; amend its certificate of incorporation or by-laws; enter into a merger or sell all or substantially all of the properties or assets of the Company and its subsidiaries; dissolve; declare or pay any dividend; issue or obligate itself to issue any security, other than shares of common stock, except upon certain outstanding obligations; redeem any shares; increase or decrease the authorized size of the Board of Directors, except as expressly contemplated by the Voting Agreement; acquire all or any portion of any business or product line; enter into any material joint ventures, strategic alliances, or major partnerships; incur of any indebtedness outside the ordinary course of business other than under the agreements executed concurrently therewith; hire, terminate, or increase the compensation of James R. Riedman and any other person holding the position of chief executive of the Company; approve or authorize any transaction or series of related transactions outside the ordinary course of business involving $250,000 or more.

Matters Requiring Board Approval. Under the Investors Agreement, management may not take the following actions without approval of the board of directors, including but not limited to: materially modify any existing loans; approve or authorize any material modification to or material deviation from the Company's budget; increase the compensation of any director; approve the settlement by the Company of any material litigation or other proceedings relating to the Company; pay any capital expenditures in excess of $100,000 during any 12-month period other than a specific identifiable line item previously approved in the budget.

Standstill. Under the Investors Agreement, the Greenwood Investors and James R. Riedman and Riedman Corporation (the "Riedman Shareholders") each agreed to a standstill whereby they will not acquire any common stock or other securities of the Company in an open-market transaction unless approved in advance to do so by the Company's board of directors, and (i) in the case of the Riedman Shareholders, unless approved by Greenwood Investments, Inc. ("General Partner"), or (ii) in the case of the Greenwood Investors or any of their affiliates, by a director not appointed by or affiliated in any way with the Investors). The Riedman Shareholders are parties to the Investors Agreement solely for purposes of this standstill provision. As of January 1, 2022, James Riedman no longer has voting rights over the shares held under Riedman Corporation.

Participation Rights. The Greenwood Investors also obtained participation rights so that they shall be entitled to a right to purchase, on a pro rata basis, all or any part of any new securities issued by the Company, with certain exceptions for preexisting obligations by the Company to issue other securities.

Voting Agreement. The Company, the Greenwood Investors and the Riedman Shareholders also amended and restated that certain Voting Agreement dated July 21, 2011, and as amended on July 23, 2015 (the "Voting Agreement"), as part of the transaction. The Riedman Shareholders agreed to elect one designee of the Investors as a member of the board of directors. The Investors agreed to elect one designee of the Riedman Shareholders to the Board. The parties also agreed to vote as necessary to ensure that the size of the board of directors shall be set and remain at four directors until the directors are next elected by stockholders, or at such earlier time as may be requested by the Greenwood Investors upon their written request, on which date the size of the board shall be reduced and set and remain at three directors.

Finance Authority of Maine Term Loan:

2017 Term Loan.

On April 4, 2017, the Company entered into an Equipment Loan with FAME for a five year term, collateralized by all machinery, equipment, furniture, furnishings, fixtures, tools and leasehold improvements located at the Company's Old Town, Maine warehouse and distribution center. The Equipment Loan in the principal amount of $300,000, bears interest at a fixed per annum rate of 5.75%. Monthly payments of principal and interest in the amount of $5,800 are due, commencing one month from the date entered into and continuing on the same day of each month thereafter until April 4, 2022 (the “Maturity Date”), when, unless sooner paid, the remaining principal and accrued and unpaid interest, shall be due and payable in full. During 2020, the Company and the Financial Authority of Maine agreed the Company could defer payments and extend the termination date of the Loan as needed given the uncertainty caused in retail markets as a result of the Covid-19 pandemic. The Company deferred $19,575 in fiscal 2020 which represents an additional 2 months added to the term of the loan. On May 26, 2022, the Company made final payment on its term note with the Financial Authority of Maine.

CARES Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. On May 11, 2020, the Company was granted a loan from Pacific Western Bank in the aggregate amount of $600,000 pursuant to the Paycheck Protection Program under Division A, Title I of the CARES Act. The Loan, which was in the form of a Note dated May 8, 2020, matures on May 7, 2022, and bears interest at a rate of 1.0% per annum, payable monthly commencing on December 8, 2020. The Note may be prepaid by the Company at any time prior to the maturity with no prepayment penalties. Portions of the loan may be forgivable if they are used for qualifying expenses as described more fully in the CARES Act. The Company has accounted for the Loan under International Accounting Standard (IAS) 20, which outlines a model for the accounting for different forms of government assistance, including forgivable loans. Therefore the Company has treated the PPP loan as a liability and relieved the liability to income. As of January 2, 2021, the Company met the requirements and conditions for forgiveness of the loan. On March 8, 2021, the Small Business Administration confirmed forgiveness of principal in the amount of $600,000, and accrued interest of $4,948. The $600,000 forgiveness was posted to other income as on offset against selling, general, and other administrative expenses (“SG&A”) and is included in the consolidated statement of operations.

On December 27, 2020, the Consolidated Appropriations Act, 2021, was signed into law. A third round of Payroll Protection Program loans was authorized under the Act. On January 26, 2021, the Company was granted a second loan from Pacific Western Bank in the aggregate amount of $600,000 pursuant to the Paycheck Protection Program. The Loan, which was in the form of a Note dated January 26, 2021, matures on January 26, 2026, and bears interest at a rate of 1.0% per annum, payable monthly commencing on November 26, 2021. If the Company submits a loan forgiveness application to its lender within 10 months after the end of the Company’s covered period (as defined and interpreted by the PPP Rules, the “Loan Forgiveness Covered Period”), the Company will not be obligated to make any payments of principal or interest before the date on which the SBA remits the loan forgiveness amount to the Company’s lender or notifies the Company’s lender that no loan forgiveness is allowed. The Note may be prepaid by the Company at any time prior to the maturity with no prepayment penalties. Portions of the loan may be forgivable if they are used for qualifying expenses as more fully described in the Act. On December 6, 2021, the Small Business Administration confirmed forgiveness of the principal in the amount of $600,000, and accrued interest of $5,129. The $600,000 was posted to other income as an offset against selling, general, and other administrative expenses (“SG&A”) and is included in the consolidated statement of operations.

As of July 2, 2022, and January 1, 2022, debt consisted of the following:

	July 2, 2022	January 1, 2022
	(In thousands)	
2017 Term loan facility with Finance Authority of Maine; secured by the Company's personal property in the Maine warehouse and distribution center; interest payable monthly at a rate of 5.75% per annum…………………………………………..	$ —	$ 37
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 of 5% per annum until July 30, 2022, and 7% PIK to be added to the principal of the loan semi-annually on October 31st and April 30th…………………………………………………..	642	649
Invoice and Purchase and Security Agreement with Alterna Capital Solutions; secured by all the Company's personal property; fees equal to 0.20% of the amount due on a purchased account and 0.0278% of the unpaid amounts due on all purchased accounts ………………...	1,723	1,378
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 5% per annum until July 30, 2022, and 7% PIK to be added to the principal of the loan semi-annually on October 31st and April 30th…………………………………………………..	1,651	1,595
Credit and Security Agreement with Iron Horse CA (Iron Horse LLC) secured by all of the Company's personal property; interest payable monthly and bears rate of 14.50% per annum….	2,419	2,039
	$ 6,435	$ 5,698
Current portion of long term debt	6,435	5,698
Long term debt, net of current portion	$ —	$ —

On October 20, 2020, concurrent with the Company entering into the Alterna Capital Solutions Invoice and Purchase Agreement and the Iron Horse Credit LLC Credit and Security Agreement, the obligations outstanding under the Revolving Credit Facility with the Company's current lender were satisfied and the agreement was terminated.

The Company incurred $297,000 in prepaid debt issuance costs in connection with Alterna Capital Solutions and Iron Horse Credit LLC agreements. The prepaid debt issuance costs include legal, appraisal and other loan document fees. In addition, the Company also incurred a $60,000 facility fee upon the closing date of the agreement with Iron Horse Credit LLC which will continue to be charged annually on the anniversary date of the agreement. The Company also paid broker fees of $165,000. The capitalized debt issuance costs are amortized into expense over the loan term and totaled $92,000 and $96,000 during the first half of 2022 and 2021, respectively. Debt issuance costs incurred during 2022 and 2021 were mostly attributed to the amortization of prepaid debt costs associated with the loan agreements with Alterna Capital Solutions and Iron Horse Credit LLC.

5. LEASES

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

The new standard was effective for us on December 30, 2018, with early adoption permitted. We adopted the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. We adopted the new standard on December 30, 2018 and used the effective date as our date of initial application.

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

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

The new standard also provides practical expedients for an entity's ongoing accounting. We elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, we will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. We also elected the practical expedient to not separate lease and non-lease components for our leases.

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

<u>Financed Lease Agreements</u>

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 is now 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.

LEAF Capital LLC Right of Use Obligation

On December 12, 2017, the Company entered into a 5 year financed lease agreement with LEAF Capital Funding, LLC to purchase 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, the Company recorded an asset and liability in the amount of $28,212.

Toshiba Financial Services Right of Use Obligation

On May 31, 2017, the Company entered into a five year and three month financed lease agreement with Toshiba Financial Services for use of printer hardware in the principal amount of $23,034 bearing an imputed per annum interest rate of 4.75% with 63 periodic payments in the amount of $366 due through September 2022. The printers were placed into service during the second quarter of fiscal 2017. Upon adoption, the Company recorded an asset and liability in the amount of $23,304.

Operating Lease Agreements

China Lease Right of Use Obligation

On February 21, 2019, the Company entered into a two year operating lease agreement, totaling $41,682 with Luo RunFang to rent property in Dongguan, People's Republic of China. The agreement, which began on April 1, 2019 and expired on March 31, 2021, required monthly payments of $1,779 and $1,853 during the first and second year, respectively. On March 29, 2021, the Company entered into a one year operating lease agreement, totaling $11,064 plus tax to rent property in Dongguan, People's Republic of China. The agreement began on April 1, 2021, and expires on March 31, 2022, requires monthly payment of $922 plus tax. This agreement was renewed on March 25, 2022, for another one year term. This lease is currently not classified as an ROU liability.

Carlsbad Lease Right of Use Obligation

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

As of July 2, 2022, and January 1, 2022, the Company had the following right of use obligations:

	July 2, 2022 (In thousands)	January 1, 2022 (In thousands)
Right of use obligation: 5 year finance lease with Leaf Capital Funding, LLC matures on January 26, 2023. Lease payments are allocated to the reduction of the right of use liability and the interest expense with an imputed per annum rate of 4.75%...........................	$ 4	$ 6
Right of use obligation: 63 month finance lease with Toshiba Corporation, matures on September 1, 2023. Lease payments are allocated to the reduction of the liability and the interest expense with an imputed per annum rate of 4.75%........................	1	3
Right of use obligation: 65 month operating lease with A&M Capre RCP, LLC. The lease expires on September 1, 2023. Lease payments are allocated to the reduction of the right of use obligation and lease expense with a discount rate of 4.75%...........................	378	449
Right of use obligation: 10 year finance lease with Old Town Partners, LLC terminating on June 30, 2023. Lease payments are allocated to the reduction of the lease obligation and the interest expense with an imputed per annum rate of 9.5%...	119	169
	$ 502	$ 627
Current portion of right of use obligations	$ 261	254
Right of use obligations, net of current portion	$ 241	$ 373

As of July 2, 2022, the ROU assets and financed lease liabilities were as follows:

($ in thousands)		July 2, 2022	Financial Statement Line Item
Assets:			
Right of use assets	$	66	Right of use assets, financed, net
Liabilities:			
Current			
financed	$	111	Current portion of right of use obligations, financed, net
Noncurrent			
financed		13	Right of use obligations, financed, net
Total leased liabilities	$	124	

As of January 1, 2022, the ROU assets and financed lease liabilities were as follows:

($ in thousands)		January 1, 2022	Financial Statement Line Item
Assets:			
Right of use assets	$	102	Right of use assets, financed, net
Liabilities:			
Current			
financed	$	109	Current portion of right of use obligations, financed, net
Noncurrent			
financed		69	Right of use obligations, financed, net
Total leased liabilities	$	178	

As of July 2, 2022, the ROU assets and operating lease liabilities were as follows:

($ in thousands)	July 2, 2022	Financial Statement Line Item
Assets:		
Right of use assets	$ 314	Right of use assets, operating, net
Liabilities:		
Current		
Operating	$ 150	Current portion of right of use obligations, operating, net
Noncurrent		
Operating	228	Right of use obligations, operating, net
Total leased liabilities	$ 378	

As of January 1, 2022, the ROU assets and operating lease liabilities were as follows:

($ in thousands)	January 1, 2022	Financial Statement Line Item
Assets:		
Right of use assets	$ 379	Right of use assets, operating, net
Liabilities:		
Current		
Operating	$ 145	Current portion of right of use obligations, operating, net
Noncurrent		
Operating	304	Right of use obligations, operating, net
Total leased liabilities	$ 449	

The maturity of our financed lease liabilities are as follows:

($ in thousands)	Financed Leases	
2022	$	66
2023	$	68
2024	$	—
Total value of lease liabilities	$	134
Less: amount representing interest		(11)
Present value of lease liabilities	$	123

As of July 2, 2022, and January 1, 2022, the weighted-average remaining lease term for the Company's finance leases was 1.06 years and 1.63 years, respectively. As of July 2, 2022, and January 1, 2022, the weighted-average discount rate was 9.60% and 9.52%, respectively.

The maturity of our operating lease liabilities are as follows:

($ in thousands)	Operating Leases	
2022	$	82
2023	$	167
2024	$	149
2025	$	—
Total value of lease liabilities	$	398
Less: amount representing interest		(20)
Present value of lease liabilities	$	378

As of July 2, 2022, and January 1, 2022, the weighted-average remaining lease term for the Company's operating leases was 2.42 years and 2.83 years, respectively. As of July 2, 2022, and January 1, 2022, the weighted-average discount rate was 4.75% and 4.75%, respectively.

6. STOCK-BASED COMPENSATION

Effective July 1, 2021, the Board of Directors adopted and approved the 2021 Long-Term Incentive Plan of Phoenix Footwear Group, Inc. (the "2021 Plan"), 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. The 2021 Plan replaced the 2011 Long-Term Incentive Plan of Phoenix Footwear Group, Inc. which expired by its terms. Shares available for future options and restricted stock grants under the 2021 Plan subject to stockholder approval totaled 1,882,626 as of July 2, 2022.

At July 2, 2022, outstanding stock-based awards consisted of the following:

	Vested	Unvested
	(In thousands)	
Service-based stock options	560	—
Service-based restricted stock rights	—	—
Performance-based restricted stock rights	—	778
Total outstanding stock-based awards	560	778

Total stock-based compensation expense recognized for the quarter ended July 2, 2022, and the quarter ended July 3, 2021, was as follows:

	Three Months ended	
	July 2, 2022	July 3, 2021
	(In thousands)	
Selling, general and administrative	$ 33	$ 27
Pre-tax stock-based compensation expense	33	27
Total stock-based compensation expense	$ 33	$ 27

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.

Options outstanding and exercisable under these arrangements totaled 560,000 and 560,000 as of July 2, 2022, and July 3, 2021.

Restricted Stock Shares

In general, service-based stock shares vest over a two-year period from the grant date. Performance-based stock rights cliff vest based on specifically defined performance criteria consisting primarily of revenue, income and shareholder value targets and expire generally within a three to five-year period if the performance or service criteria have not been met. The Company deems stock rights to be equivalent to a stock option for the purpose of calculating dilutive shares.

Compensation cost for restricted stock rights is measured as the excess, if any, of the quoted market price of the Company's stock at the grant date over the amount the holder must pay to acquire the stock (which is generally zero). Compensation cost, net of projected forfeitures, is recognized over the period between the grant date and the date any restrictions lapse, with compensation cost for grants with a graded vesting schedule (service-based) recognized on a straight-line basis over the requisite service period for the total award. In any event, compensation expense is not recognized, if at all, until vesting is considered probable.

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

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

On May 18, 2022, the Company granted to several employees a total of 358,875 shares to several of its employees. The issuance of the shares is contingent upon the successful completion of certain performance metrics by the end of 2022.

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 in the period in which the performance goals are met or when achievement of the goals is deemed probable. As of July 2, 2022, and July 3, 2021, there were 778,127 and 758,496 performance-based stock grants to both employees and non-employee directors outstanding, respectively.

As of July 2, 2022, the total compensation cost related to stock-based awards granted to either employee or non-employee directors, but not yet recognized, was $88,000.

In addition to the stock options and restricted stock rights outstanding under the 2021 Plan, the Company granted options to one separate major stockholder in consideration for debt and debt guarantees. Options outstanding and exercisable under these arrangements totaled $50,000 and $50,000 as of July 2, 2022, and July 3, 2021, respectively.

7. EARNINGS (LOSS) PER SHARE

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

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

Reconciliation of the numerators and denominators of basic and diluted loss per share for the three months ended July 2, 2022, and July 3, 2021, is as follows:

	July 2, 2022	July 3, 2021
	(In thousands, except per share data)	
Income (Loss) per share from operations, basic:		
Net income (loss)	$ 60	$ 299
Basic: Weighted average common shares outstanding	13,255	13,535
Earnings (loss) per share from operations, basic	$ 0.01	$ 0.02

	July 2, 2022	July 3, 2021
	(In thousands, except per share data)	
Income (Loss) per share from operations, diluted:		
Net income (loss)	$ 60	$ 299
1% Subordinated convertible notes interest	68	65
Income (loss) adjusted for assumed conversion	$ 128	$ 364
Basic: Weighted average common shares outstanding	13,255	13,535
Shares related to assumed conversion of convertible notes	23,712	21,664
Diluted: Weighted average common shares outstanding	36,967	35,199
Earnings (loss) per share from operations, diluted	$ 0.00	$ 0.01

Reconciliation of the numerators and denominators of basic and diluted loss per share for the six months ended July 2, 2022, and July 3, 2021, is as follows:

	July 2, 2022	July 3, 2021
	(In thousands, except per share data)	
Income per share from operations, basic:		
Net income	$ 118	$ (63)
Basic: Weighted average common shares outstanding	13,210	13,038
Earnings share from operations, basic	$ 0.01	$ (0.01)

	July 2, 2022	July 3, 2021
	(In thousands, except per share data)	
Income per share from operations, diluted:		
Net income	$ 118	$ (63)
1% Subordinated convertible notes interest	136	-
Income adjusted for assumed conversion	$ 254	$ (63)
Basic: Weighted average common shares outstanding	13,210	13,038
Shares related to assumed conversion of convertible notes	23,712	-
Diluted: Weighted average common shares outstanding	36,922	13,038
Earnings per share from operations, diluted	$ 0.01	$ (0.01)

Options, stock rights and convertible notes outstanding to purchase $830,000 and $22.0 million shares of common stock were excluded from the computation of dilutive earnings per share for the quarter ended July 2, 2022, and July 3, 2021, because their inclusion would have been anti-dilutive.

8. INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes, in accordance with ASC 740-10 (formerly SFAS 109), which requires that the Company recognize deferred tax liabilities for taxable temporary differences and deferred tax assets for deductible temporary differences and operating loss carry-forwards using enacted tax rates in effect in the years the differences are expected to reverse. Deferred income tax benefit or expense is recognized as a result of changes in net deferred tax assets or deferred tax liabilities. A valuation allowance is recorded when it is more likely than not that some or all of any deferred tax assets will not be realized. As of January 1, 2022, and January 2, 2021, the Company had a full valuation allowance on its deferred tax assets.

9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through August 15, 2022, which is the date the consolidated financial statements were available to be issued. As of August 15, 2022, the following subsequent events occurred:

On July 31, 2022, the Company, Greenwood, and the 2018 Subordinated Note Holders agreed to amend the interest rate to be equal to the interest rate paid on the Company's senior credit facility, remove the payable in kind ("PIK Interest") component and extend the maturity of the notes until July 31, 2024.

On August 6, 2022, the Company and Alterna Capital Solutions LLC amended the Invoice and Purchase Security Agreement (the "IPSA") and entered into an Inventory Finance Rider. The IPSA was amended to increase the maximum borrowing capacity to $7,000,000, change the funds daily usage fee to be .0208% plus the Prime Rate, eliminate certain fees as well as decrease the Required Reserve Amounts. The Inventory Finance Rider provides borrowing capacity, secured by the Company's Eligible Inventory, in an amount equal to the amount of Accounts as defined in the IPSA with seasonal increases as may be agreed upon between Alterna Capital Solutions LLC and the Company.

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