

PHOENIX FOOTWEAR GROUP INC

Form 10-Q

August 15, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended July 1, 2006**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-31309**

**PHOENIX FOOTWEAR GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**15-0327010**

(I.R.S. Employer  
Identification No.)

**5759 Fleet Street, Suite 220**

**Carlsbad, California**

(Address of principal executive offices)

**92008**

(Zip Code)

**(760) 602-9688**

(Registrant's telephone number, including area code)

**[None]**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at July 31, 2006

Common Stock, \$.01 par value per share

8,382,762 shares

**PHOENIX FOOTWEAR GROUP, INC.  
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**PHOENIX FOOTWEAR GROUP, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**

|  | <b>July 1,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|--|-------------------------|----------------------------------|
|  | (Unaudited)             |                                  |
| <b>ASSETS</b>  |                         |                                  |
| <b>CURRENT ASSETS:</b>   |                         |                                  |
| Cash   | \$ 1,054,000            | \$ 566,000                       |
| Accounts receivable (less allowances of \$1,401,000 in 2006 and \$1,313,000 in 2005) | 26,764,000              | 21,803,000                       |
| Inventories net  | 38,572,000              | 37,232,000                       |
| Other current assets   | 3,418,000               | 1,915,000                        |
| Deferred income tax asset  | 473,000                 | 473,000                          |
| <br>   |                         |                                  |
| Total current assets   | 70,281,000              | 61,989,000                       |
| PLANT AND EQUIPMENT Net  | 4,421,000               | 4,538,000                        |
| <b>OTHER ASSETS:</b>   |                         |                                  |
| Goodwill   | 33,669,000              | 35,976,000                       |
| Unamortizable intangibles  | 22,992,000              | 22,992,000                       |
| Intangible assets, net   | 10,223,000              | 12,082,000                       |
| Other assets net   | 924,000                 | 1,314,000                        |
| <br>   |                         |                                  |
| Total other assets   | 67,808,000              | 72,364,000                       |
| <br>   |                         |                                  |
| TOTAL ASSETS   | \$ 142,510,000          | \$ 138,891,000                   |
| <br>   |                         |                                  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                         |                                  |
| <b>CURRENT LIABILITIES:</b>  |                         |                                  |
| Accounts payable   | \$ 13,470,000           | \$ 13,215,000                    |
| Accrued expenses   | 6,634,000               | 3,752,000                        |
| Notes payable current  | 56,541,000              | 9,425,000                        |
| Other current liabilities  | 1,047,000               | 1,466,000                        |
| Income tax payable   |                         | 79,000                           |
| <br>   |                         |                                  |
| Total current liabilities  | 77,692,000              | 27,937,000                       |
| <b>OTHER LIABILITIES:</b>  |                         |                                  |
| Notes payable noncurrent   |                         | 25,025,000                       |
| Note payable, line of credit   |                         | 21,091,000                       |
| Other long-term liabilities  | 1,699,000               | 2,685,000                        |
| Deferred income tax liability  | 8,129,000               | 8,129,000                        |

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|  |                       |                       |
|--|-----------------------|-----------------------|
| Total other liabilities  | 9,828,000             | 56,930,000            |
| Total liabilities  | 87,520,000            | 84,867,000            |
| STOCKHOLDERS' EQUITY:  |                       |                       |
| Common stock, \$.01 par value 50,000,000 shares authorized; 8,383,000 and 8,367,000 shares issued in 2006 and 2005, respectively | 84,000                | 84,000                |
| Additional paid-in-capital   | 45,988,000            | 45,520,000            |
| Retained earnings  | 12,182,000            | 9,494,000             |
| Accumulated other comprehensive loss   | (2,000)               | (4,000)               |
|  | 58,252,000            | 55,094,000            |
| Less: Treasury stock at cost, 455,000 and 378,000 shares in 2006 and 2005, respectively  | (3,262,000)           | (1,070,000)           |
| Total stockholders' equity   | 54,990,000            | 54,024,000            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>  | <b>\$ 142,510,000</b> | <b>\$ 138,891,000</b> |

See notes to consolidated condensed financial statements.

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**PHOENIX FOOTWEAR GROUP, INC.**  
**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**  
(Unaudited)

|   | <b>Three Months Ended</b> |                         | <b>Six Months Ended</b> |                         |
|---|---------------------------|-------------------------|-------------------------|-------------------------|
|   | <b>July 1,<br/>2006</b>   | <b>July 2,<br/>2005</b> | <b>July 1,<br/>2006</b> | <b>July 2,<br/>2005</b> |
| NET SALES                                     | \$ 34,871,000             | \$ 15,353,000           | \$ 75,213,000           | \$ 41,753,000           |
| COST OF GOODS SOLD                            | 21,694,000                | 9,481,000               | 46,333,000              | 25,323,000              |
| <br>GROSS PROFIT                              | <br>13,177,000            | <br>5,872,000           | <br>28,880,000          | <br>16,430,000          |
| OPERATING EXPENSES:                           |                           |                         |                         |                         |
| Selling, general and administrative expenses  | 11,413,000                | 7,063,000               | 23,100,000              | 14,608,000              |
| Other expenses (income) net                   | 829,000                   | 2,000                   | (565,000)               | 615,000                 |
| <br>Total operating expenses                  | <br>12,242,000            | <br>7,065,000           | <br>22,535,000          | <br>15,223,000          |
| <br>OPERATING INCOME (LOSS)                   | <br>935,000               | <br>(1,193,000)         | <br>6,345,000           | <br>1,207,000           |
| INTEREST EXPENSE                              | 1,470,000                 | 533,000                 | 2,839,000               | 965,000                 |
| <br>EARNINGS (LOSS) BEFORE INCOME<br>TAXES    | <br>(535,000)             | <br>(1,726,000)         | <br>3,506,000           | <br>242,000             |
| INCOME TAX PROVISION (BENEFIT)                | (193,000)                 | (685,000)               | 818,000                 | 102,000                 |
| <br>NET EARNINGS (LOSS)                       | <br>\$ (342,000)          | <br>\$ (1,041,000)      | <br>\$ 2,688,000        | <br>\$ 140,000          |
| <br>NET EARNINGS (LOSS) PER SHARE<br>(Note 5) |                           |                         |                         |                         |
| Basic   | \$ (.04)                  | \$ (.14)                | \$ .34                  | \$ .02                  |
| Diluted                                       | \$ (.04)                  | \$ (.14)                | \$ .33                  | \$ .02                  |
| <br>SHARES OUTSTANDING:                       |                           |                         |                         |                         |
| Basic   | 7,911,531                 | 7,630,056               | 7,893,543               | 7,532,290               |