

PHOENIX FOOTWEAR GROUP INC

Form 10-Q

August 12, 2008

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**þ** **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarterly Period Ended June 28, 2008

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)*

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**Delaware**  
(State or Other Jurisdiction of

Incorporation or Organization)  
**5840 El Camino Real, Suite 106**

**Carlsbad, California**  
(Address of Principal Executive Offices)

**(760) 602-9688**

(Registrant's Telephone Number, Including Area Code)

**None**

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

**15-0327010**  
(I.R.S. Employer

Identification No.)

**92008**  
(Zip Code)

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, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 22, 2008
Common Stock, \$.01 par value per share	8,382,762 shares

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**QUARTERLY REPORT ON FORM 10-Q**

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**Table of Contents****Part I Financial Information****Item 1. Condensed Consolidated Financial Statements and Notes to Financial Statements  
PHOENIX FOOTWEAR GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****JUNE 28, 2008 AND DECEMBER 29, 2007****(In thousands, except for share data)**

	(Unaudited) June 28, 2008	December 29, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,085	\$ 2,355
Restricted cash	3,000	
Accounts receivable (less allowances of \$1,239 and \$1,999 in 2008 and 2007, respectively)	13,888	14,323
Inventories (less provision of \$1,623 and \$2,321 in 2008 and 2007, respectively)	17,679	19,874
Notes receivable		13,303
Other current assets	1,619	1,661
Income tax receivable	542	2,657
<b>Total current assets</b>	<b>37,813</b>	<b>54,173</b>
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	<b>2,258</b>	<b>1,996</b>
<b>OTHER ASSETS:</b>		
Goodwill	5,850	5,850
Unamortizable intangibles	340	340
Intangible assets, net	4,963	5,268
Other assets, net	113	50
<b>Total other assets</b>	<b>11,266</b>	<b>11,508</b>
<b>TOTAL ASSETS</b>	<b>\$ 51,337</b>	<b>\$ 67,677</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable, current	\$ 11,071	\$ 22,666
Accounts payable	6,372	7,032
Accrued expenses	3,090	3,833
Other current liabilities	1,090	1,467
Income taxes payable	10	444
<b>Total current liabilities</b>	<b>21,633</b>	<b>35,442</b>
<b>OTHER LIABILITIES:</b>		
Other long-term liabilities	835	1,127
Deferred income tax liability	21	21
<b>Total other liabilities</b>	<b>856</b>	<b>1,148</b>

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Total liabilities	22,489	36,590
Commitments and contingencies (Note 8)		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.01 par value 50,000,000 shares authorized; 8,383,000 and 8,383,000 shares issued and outstanding in 2008 and 2007, respectively	84	84
Additional paid-in-capital	46,072	46,161
Accumulated deficit	(14,819)	(12,380)
Accumulated other comprehensive earnings	154	168
	31,491	34,033
Less: Treasury stock at cost, 217,000 and 338,000 shares in 2008 and 2007, respectively	(2,643)	(2,946)
Total stockholders' equity	28,848	31,087
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 51,337</b>	<b>\$ 67,677</b>

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

**Table of Contents****PHOENIX FOOTWEAR GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS)****(Unaudited)****(In thousands, except per share data)**

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net sales	\$ 17,924	\$ 19,815	\$ 39,922	\$ 41,143
Cost of goods sold	11,811	13,146	25,918	26,140
Gross profit	6,113	6,669	14,004	15,003
Operating expenses:				
Selling, general and administrative expense	8,223	8,081	16,763	17,185
Other (income) expense, net	(750)		(1,500)	2
Total operating expenses	7,473	8,081	15,263	17,187
Operating loss	(1,360)	(1,412)	(1,259)	(2,184)
Interest expense, net	859	319	1,223	666
Loss before income taxes and discontinued operations	(2,219)	(1,731)	(2,482)	(2,850)
Income tax provision (benefit)	21	(685)	38	(824)
Loss before discontinued operations	(2,240)	(1,046)	(2,520)	(2,026)
Earnings from discontinued operations, net of tax (Note 3)	81	117	81	1,511
Net loss	\$ (2,159)	\$ (929)	\$ (2,439)	\$ (515)
<b>NET LOSS PER SHARE (Note 7)</b>				
Basic:				
Continuing Operations	\$ (.27)	\$ (.13)	\$ (.31)	\$ (.25)
Discontinued Operations	.01	.01	.01	.19
Net loss	\$ (.26)	\$ (.12)	\$ (.30)	\$ (.06)
Diluted:				
Continuing Operations	\$ (.27)	\$ (.13)	\$ (.31)	\$ (.25)
Discontinued Operations	.01	.01	.01	.19
Net loss	\$ (.26)	\$ (.12)	\$ (.30)	\$ (.06)
Weighted average shares outstanding used to calculate per share information:				
Basic	8,166,191	8,044,871	8,120,863	8,016,207
Diluted	8,166,191	8,044,871	8,120,863	8,016,207
Net loss	\$ (2,159)	\$ (929)	\$ (2,439)	\$ (515)
Other comprehensive earnings (loss), net of tax:				

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Foreign currency translation adjustments, net of income taxes of \$0 and \$0 and \$0 and \$0 for the three and six months ended June 28, 2008 and June 30, 2007, respectively	30	138	(14)	153
Comprehensive loss	\$ (2,129)	\$ (791)	\$ (2,453)	\$ (362)

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

**Table of Contents****PHOENIX FOOTWEAR GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Six Months Ended</b>	
	<b>June 28, 2008</b>	<b>June 30, 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$ (2,439)	\$ (515)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Earnings from discontinued operations	(81)	(1,511)
Depreciation and amortization	574	747
Net provision for losses on accounts receivable	(760)	(95)
Deferred income taxes		(652)
Allocation of shares in defined contribution plan	86	267
Share-based compensation	8	62
Debt issuance cost amortization	767	284
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,195	749
Inventories, net	2,195	(1,313)
Other current assets	(626)	(373)
Other non-current assets	(4)	
Income taxes receivable	2,115	(363)
Increase (decrease) in:		
Accounts payable	(660)	(1,520)
Accrued expenses	(708)	1,726
Other long-term liabilities	(865)	(272)
Income taxes payable	(434)	122
Net cash provided by (used in) operating activities from continuing operations	363	(2,657)
Net cash provided by operating activities from discontinued operations	81	5,983
Net cash provided by operating activities	444	3,326
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of equipment	(530)	(211)