

PHOENIX FOOTWEAR GROUP INC
Form 10-Q
August 12, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **July 3, 2010**

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)*

15-0327010
*(I.R.S. Employer
Identification No.)*

5840 El Camino Real, Suite 106

Carlsbad, CA 92008

(Address of principal executive offices, including zip code)

(760) 602-9688

(Registrant's telephone number, including area code)

(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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

As of **August 2, 2010**, the number of shares of the registrant's common stock outstanding was **8,166,191**.

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Table of Contents**Part I Financial Information****Item 1. Financial Statements.****PHOENIX FOOTWEAR GROUP, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except for per share data)**

	(Unaudited) July 3, 2010	January 2, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 436	\$ 356
Accounts receivable (less allowances of \$538 and \$768 in 2010 and 2009, respectively)	1,904	2,559
Inventories (less provision of \$303 and \$350 in 2010 and 2009, respectively)	7,005	6,392
Other current assets	1,630	2,108
Income tax receivable	156	2,205
Current assets of discontinued operations	4	13
Total current assets	11,135	13,633
PROPERTY, PLANT AND EQUIPMENT, net	876	1,021
OTHER ASSETS	22	48
TOTAL ASSETS	\$ 12,033	\$ 14,702
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	\$ 2,158	\$ 2,956
Accounts payable	2,937	3,124
Accrued expenses	770	1,216
Other current liabilities	456	453
Current liabilities of discontinued operations	245	2,076
Total current liabilities	6,566	9,825
OTHER LONG-TERM LIABILITIES	316	376
Total liabilities	6,882	10,201
Commitments and contingencies (Note 4)		
STOCKHOLDERS EQUITY:		
Common stock, \$0.01 par value 50,000 shares authorized; 8,383 and 8,383 shares issued and outstanding in 2010 and 2009, respectively	84	84
Additional paid-in-capital	46,100	46,092
Accumulated deficit	(38,190)	(38,831)
Accumulated other comprehensive loss	(200)	(201)
Treasury stock at cost, 217 and 217 shares in 2010 and 2009, respectively	(2,643)	(2,643)
Total stockholders equity	5,151	4,501
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 12,033	\$ 14,702

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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)****(In thousands, except per share data)**

	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended	
	July 3, 2010	July 4, 2009	July 3, 2010	July 4, 2009
Net sales	\$ 3,779	\$ 3,961	\$ 9,672	\$ 10,052
Cost of goods sold	3,041	3,443	6,857	7,467
Gross profit	738	518	2,815	2,585
Operating expenses:				
Selling, general and administrative	1,767	2,480	4,458	6,262
Other expense, net				1,018
Total operating expenses	1,767	2,480	4,458	7,280
Operating loss	(1,029)	(1,962)	(1,643)	(4,695)
Interest expense, net	75	135	136	151
Loss before income taxes and discontinued operations	(1,104)	(2,097)	(1,779)	(4,846)
Income tax expense (benefit)	(8)	37		9
Loss from continuing operations	(1,096)	(2,134)	(1,779)	(4,855)
Earnings (loss) from discontinued operations, net of tax (including net gain (loss) on sale of \$1,201 and \$(1,495) and \$2,534 and \$(1,531) for the three and six months ended July 3, 2010 and July 4, 2009, respectively)	1,297	(2,981)	2,420	(3,222)
Net earnings (loss)	\$ 201	\$ (5,115)	\$ 641	\$ (8,077)
Net earnings (loss) per share, basic and diluted:				
Continuing Operations	\$ (0.13)	\$ (0.26)	\$ (0.22)	\$ (0.59)
Discontinued Operations	0.16	(0.37)	0.30	(0.40)
Net earnings (loss)	\$ 0.03	\$ (0.63)	\$ 0.08	\$ (0.99)
Weighted average shares outstanding used to calculate per share information, basic and diluted	8,166	8,166	8,166	8,166
Net earnings (loss)	\$ 201	\$ (5,115)	\$ 641	\$ (8,077)
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation adjustments, net of zero income taxes	(26)	68	1	55
Comprehensive earnings (loss)	\$ 175	\$ (5,047)	\$ 642	\$ (8,022)

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

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	(Unaudited)	
	Six Months Ended	
	July 3, 2010	July 4, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	\$ 641	\$ (8,077)
Earnings (loss) from discontinued operations	2,420	(3,222)
Loss from continuing operations	(1,779)	(4,855)
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	145	173
Provision for losses on accounts receivable	(230)	(105)
Loss on disposal of property and equipment		2
Non-cash stock-based compensation	8	8
Amortization of deferred debt issuance costs	31	151
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	886	813
Inventories, net	(612)	3,061
Other assets	457	(362)
Other non-current assets		93
Income taxes receivable	2,049	34
Increase (decrease) in:		
Accounts payable	(187)	588
Accrued expenses	(443)	421
Other long-term liabilities	(60)	(2)
Income taxes payable		(74)
Net cash provided by (used in) operating activities from continuing operations	265	(54)
Earnings (loss) from discontinued operations, net of tax (including net gain (loss) on sale of \$2,534 and \$(1,531), respectively)	2,420	(3,222)
Adjustments to reconcile earnings (loss) from discontinued operations to net cash (used in) provided by operating activities:	(4,895)	6,327
Net cash (used in) provided by operating activities from discontinued operations	(2,475)	3,105
Net cash (used in) provided by operating activities	(2,210)	3,051
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment		(28)
Proceeds from sale of discontinued operations	3,073	
Net cash provided by (used in) investing activities	3,073	(28)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable and line of credit	10,486	26,503
Repayments of notes payable and line of credit	(11,284)	(29,835)
Debt issuance costs	16	

