PHOENIX FOOTWEAR GROUP INC
Form S-2/A
June 16, 2004

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As filed with the Securities and Exchange Commission on June 16, 2004

Registration No. 333-114109

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to

Form S-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Phoenix Footwear Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**15-0327010**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

5759 Fleet Street, Suite 220

Carlsbad, California 92008
(760) 602-9688
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

James R. Riedman

Chairman
Phoenix Footwear Group, Inc.
5759 Fleet Street, Suite 220
Carlsbad, California 92008
(760) 602-9688
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Gordon E. Forth, Esq. **Gregory W. Gribben, Esq.** **Woods Oviatt Gilman LLP** **700 Crossroads Building** **2 State Street** **Rochester, New York 14614**	**Gregg Amber, Esq.** **Cristy Parker, Esq.** **Rutan & Tucker, LLP** **611 Anton Boulevard, Suite 1400** **Costa Mesa, California 92626**

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: o

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this Form, check the following box: o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share(2)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, par value $0.01 per share	2,875,000(1)	$11.18	(3)	$3,258(3)

(1) Includes 375,000 shares that the underwriters have an option to purchase to cover over-allotments, if any.

(2) This estimate is made pursuant to Rule 457(c) of the Securities Act of 1933, as amended, solely for the purposes of determining the registration fee. The above calculation is based on the average of the high and low sales price of the registrant s common stock on the American Stock Exchange on June 9, 2004.

(3) The Company is registering an additional 2,300,000 shares of common stock and paying the additional registration fee computed pursuant to Rule 457(a) on the basis of the proposed maximum offering price of the additional securities being registered of $25,714,000. The Company has previously paid a registration fee of $659.35 pursuant to Rule 457(a), based upon a proposed maximum offering price per share of $9.05, and an amount to be registered of 575,000 shares.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a) MAY DETERMINE.

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SUBJECT TO COMPLETION, DATED JUNE 15, 2004

PROSPECTUS

2,500,000 Shares of Common Stock

We are selling 2,500,000 shares of our common stock. Our common stock is listed for trading on the American Stock Exchange under the symbol PXG. On , 2004, the last reported sale price of our common stock on the American Stock Exchange was $ per share.

We plan to use the net proceeds of this offering, together with borrowings under our proposed amended credit facility, to pay the cash portion of the purchase price for our pending acquisition of all of the outstanding capital stock of Altama Delta Corporation, to refinance Altama s funded indebtedness and to pay related fees and expenses. Completion of this offering is subject to the concurrent consummation of the Altama acquisition.

Investing in our shares involves a high degree of risk. See Risk Factors beginning on page 12 for some of the factors you should consider before buying shares of our common stock.

	Per Share	Total
Price to the public	$	$
Underwriting discounts and commissions(1)	$	$
Proceeds to us before expenses	$	$

(1) We have agreed to pay the managing underwriters additional compensation described in Underwriting.

The underwriters may also purchase up to an additional 375,000 shares of our common stock from us at the price to the public, less the underwriting discount, within 45 days from the date of this prospectus to cover over-allotments, if any.

Delivery of the shares of common stock will be made on or about , 2004.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

Wedbush Morgan Securities Inc. **First Albany Capital**

The date of this prospectus is , 2004.

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We own the Trotters®, Soft-Walk® (SoftWalk), H.S. Trask®, Royal Robbins® and Strol™ trademarks and have rights to the Ducks Unlimited® and Audubon® trademarks. Upon consummation of the pending Altama acquisition, we will own the Altama® trademark. Any other trademarks or trade names referred to in this prospectus are the property of their respective owners.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

We have derived some information in this prospectus from industry sources. Although we believe this information is reliable, we have not independently verified it.

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PROSPECTUS SUMMARY

This summary highlights certain material information contained or incorporated by reference in this prospectus. You should read carefully the entire prospectus and the documents incorporated by reference in this prospectus from our filings with the Securities and Exchange Commission, or SEC. Unless the context otherwise requires, all references to Phoenix Footwear, we, us, and our refer to Phoenix Footwear Group, Inc. and its subsidiaries. The term you refers to a prospective investor.

Where used, pro forma means the information presented gives effect to our acquisition of H.S. Trask & Co., our acquisition of Royal Robbins, Inc., and our proposed acquisition of Altama Delta Corporation, as if they had occurred at the beginning of the period presented. All pro forma information is presented for illustrative purposes only and is not necessarily indicative of what the combined operating results actually would have been had the entities been a single entity during these periods. References to our fiscal 2000 refer to our fiscal year ended December 31, 2000, references to our fiscal 2001 refer to our fiscal year ended December 31, 2001, references to our fiscal 2002 refer to our fiscal year ended December 31, 2002, references to our fiscal 2003 refer to our fiscal year ended December 27, 2003, and references to our fiscal 2004 refer to our fiscal year ending January 1, 2005. References to Altama s fiscal 2001 refer to Altama s fiscal year ended September 29, 2001, references to Altama s fiscal 2002 refer to Altama s fiscal year ended September 28, 2002, and references to Altama s fiscal 2003 refer to Altama s fiscal year ended September 27, 2003.

Our Company

We design, develop and market men s and women s branded footwear and apparel. We sell over 80 different styles of footwear and over 250 different styles of apparel products. By emphasizing traditional style, quality and fit, we believe we can better maintain a loyal consumer following that is less susceptible to fluctuations due to changing fashion trends and consumer preferences. As a result, a significant number of our product styles carry over from year-to-year. In addition, our design and product development teams seek to create and introduce new products and styles that complement these longstanding core products, are consistent with our brand images and meet our high quality standards. We believe our brands have significant potential for growth through increases in product assortment, brand extensions and expansion of our retail channels.

We currently outsource entirely the production of our products. We source our footwear products from our foreign manufacturing partners primarily located in Brazil, and we source our apparel products primarily from Asia and South America.

Approximately 6,000 stores in the U.S. carry our products. We sell our footwear products primarily through department stores, national chain stores, independent retailers and third-party catalog companies. We distribute our apparel products primarily to specialty retailers, and directly to consumers at our retail outlet stores in Berkeley and Modesto, California. We also distribute our products directly to consumers over our Internet web sites and through our own direct mail catalogs.

Our Brands

Through a series of acquisitions, we have built a portfolio of niche brands that we believe exhibit consistent cash flow and brand growth potential. We intend to continue to build our portfolio of brands through acquisitions of footwear and apparel companies and product lines that we believe will complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. Our current brands include Trotters, SoftWalk, Strol, H.S. Trask and Royal Robbins. We also design and market a line of men s casual footwear through an exclusive footwear licensing agreement with Ducks Unlimited, Inc., the world s largest wetlands and waterfowl conservation organization.

Trotters. The Trotters brand primarily competes in the women s traditional footwear classification at key price points between $59 and $99. The footwear niche that we target with this product line is a wide array of sizes and widths for the female customer. This line emphasizes quality and fit with continuity of style from season to season.

SoftWalk. SoftWalk primarily competes in the women s comfort footwear niche. Key price points are between $89 and $129. All of our SoftWalk products utilize our patented footbed technology, which provides the consumer with exceptional comfort without compromising style. This product line has exhibited strong growth since its launch in fiscal 2000. We believe SoftWalk s popularity is attributable to its unique combination of comfort and contemporary styling.

Strol. We are currently in the process of launching our newly developed Strol brand. Strol is a premium tailored and casual men s line with contemporary styling based upon our patented footbed technology used in our SoftWalk product line. Key price points for the Strol brand are between $89 and $129.

H.S. Trask. H.S. Trask has historically been a men s footwear brand based on a romantic western image. Our H.S. Trask styles emphasize bison, longhorn and elk leather materials and rugged construction. Key price points are between $99 and $199. Our H.S. Trask women s line is a brand extension of our H.S. Trask brand with key price points between $99 and $139. We believe the H.S. Trask brand has significant growth potential due to its strong brand image. This growth could result from brand extensions such as the H.S. Trask women s line, the introduction of apparel, luggage and other accessories, as well as from a broader product assortment in the traditional men s target market.

Royal Robbins. Our Royal Robbins product line includes over 250 styles of women s and men s outdoor sportswear and travel apparel emphasizing comfort, rugged style and specialty fabrics. Key price points are between $39 and $120. This brand was originally created by Royal Robbins, an internationally acclaimed climber and traveler who, with his wife, founded their outdoor clothing company over 30 years ago to meet the specialty clothing needs of outdoor enthusiasts. Our Royal Robbins brand has strong customer loyalty and is recognized as a core, authentic brand within its retail channel.

Business Strategy

Our operations are based on a decentralized, brand focused strategy. Each brand manager is responsible for the product development, marketing, sales growth and profitability of his or her brand. Our approach enables us to address individual production and marketing requirements of our brands and respond to changing market dynamics in a timely manner. At the same time, our corporate infrastructure allows us to achieve economies of scale through shared warehousing, finance functions and information systems in the operations of each of our brands. Our focus is on extending existing brands through our investment in design and product development.

Our business strategy is designed to minimize the fluctuations normally associated with the apparel and footwear industry. This strategy includes:

Building a portfolio of brands, which further diversifies our revenue stream and adds to the consistency of our revenue and cash flow.

Emphasizing moderate to premium priced categories of the footwear and apparel markets, which we believe allows us to maintain stronger gross margins.

Reducing inventory risk resulting from changing trends and product acceptance by obtaining orders for at least 50% of our products before each season.

Supporting our footwear retailers and, to a lesser extent, our apparel retailers, by maintaining a limited in-stock inventory position for selected styles, which minimizes the time necessary to fill in season customers orders.

Employing a seasoned management team with extensive industry experience.

Growth Strategies

Our growth will depend upon our broadening of the products offered under each brand, and expanding distribution of our products. Our growth will also depend on our ability to expand our brand portfolio through creation of additional brands, licensing and acquisitions. Specifically, our growth strategies include:

Growth of Existing Brands. We seek to increase sales of products under each of our existing brands through increases in the assortment of products and through brand extensions, such as our newly introduced H.S. Trask women s product line. We believe that certain of our brands are underdeveloped and will benefit from broader product assortment and further investment in the brands, such as further developing the Fall product offerings for Royal Robbins. We also seek to further expand our existing retail opportunities in current channels, such as our recent introduction of the Royal Robbins women s line into Dillard s department stores.

Growth with New Brands. We believe that creating or licensing additional brands from third parties will enable us to increase our sales volumes and fulfill the demands of a wider range of customers. We believe we are well-positioned to continue to pursue this strategy due to the strength of our operating cash flow and management team and our brand development track record. For example, our new Strol brand of men s comfort footwear was developed utilizing our patented footbed technology used in our SoftWalk brand.

Growth Through Acquisitions. We plan to pursue acquisitions of companies and brands that we believe have consistent historical cash flow and brand growth potential and can be purchased at a reasonable price. We believe that brand acquisition opportunities currently exist in the footwear and apparel market place that would allow us to expand our product offerings and improve our market segment participation. We may also acquire businesses that do not meet our exact investment criteria but that we feel could provide us with important relationships or otherwise offer us growth opportunities.

Expand Our Internet and Catalog Operations. We currently sell our products through direct consumer catalog solicitation and our own Internet web sites. Although these sales comprise a small portion of our current net sales, we intend to expand these sales to take advantage of their attractive gross margin. Our catalog and Internet sales also provide opportunities to renew contact with existing consumers of our products, and to acquaint them with our new styles and brands, which enhance our growth.

2003 Acquisitions

During fiscal 2003, we completed two acquisitions of niche brands that we believed had sustainable cash flows. On August 7, 2003, we acquired the H.S. Trask footwear brand and rights to the Ducks Unlimited footwear brand through the purchase of all the outstanding shares of H.S. Trask & Co., a Bozeman, Montana based men s footwear company. On October 31, 2003, we acquired the Royal Robbins apparel brand through the purchase of all the outstanding shares of Royal Robbins, Inc., a Modesto, California based apparel company. With these acquisitions, we added to our portfolio of brands and diversified our product offerings, added significant revenues, and diversified and added to our manufacturer and customer base.

Pending Altama Acquisition

On June 15, 2004, we entered into a stock purchase agreement to acquire all of the outstanding capital stock of Altama Delta Corporation, or Altama, a provider of boots to the military and commercial markets under its Altama® brand. Altama is a designer, manufacturer, marketer and distributor of military specification, or mil-spec, and commercial combat and uniform boots. Under the stock purchase agreement, we will pay $39.0 million to W. Whitlow Wyatt, Altama s sole shareholder and President and Chief Executive Officer, plus an earnout payment of $2.0 million subject to Altama meeting certain sales requirements. Additionally, we have agreed to pay Mr. Wyatt $2.0 million in consideration for a five-year covenant-not-to-compete and other restrictive covenants, and to enter into a two-year consulting agreement with him for an annual consulting fee of $100,000. The cash portion of the purchase price is subject to adjustment in the amount of distributions in excess of 39.6% of Altama s net operating profits and the book value of distributions of Altama s real and related personal property located in Kiawah Island, South Carolina, and for any net amount Altama receives from a price adjustment claim it has made with the DoD.

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Altama has manufactured military footwear for the U.S. Department of Defense, or DoD, for 35 consecutive years. From the Vietnam and Persian Gulf Wars to the U.S. military s operations in Afghanistan and Iraq, Altama has been a supplier of combat boots to the U.S. Army and the U.S. Marine Corps., and to a lesser extent, the U.S. Navy and U.S. Air Force. Altama also produces a commercial line of high-performance combat boots for civilian use that are marketed through domestic wholesale channels to serve various retailers such as Army/Navy surplus stores, military catalogs and independent outdoor/ sporting goods stores and to international wholesalers serving the military and other needs of foreign governments and foreign civilian markets. Altama s fiscal 2003 net sales were $31.6 million, consisting of 65% military sales and 35% commercial sales.

The pending acquisition of Altama is consistent with our previously described acquisition strategy. The majority of Altama s products generally are not sensitive to fashion or design risk, and we believe Altama s business model does not expose it to significant inventory risk. We believe that we can further develop Altama s business through growth of the Altama brand, both by expansion of its product sales to the DoD and by expansion of its sales to the broader security market. We believe we are purchasing Altama at a reasonable price based on, among other factors, the pro forma accretion in our earnings per share for the three months ended March 27, 2004. See Unaudited Condensed Combined Consolidated Pro Forma Financial Data.

Strengthening Our Senior Management Team

On June 15, 2004, we hired Richard E. White as our new Chief Executive Officer. Prior to joining us, and since 2002, Mr. White was a consultant to trade associations. From 1999 to 2002, he served as President and Chief Executive Officer of Reed Exhibitions North America, the largest business-to-business event organizing company in North America. From 1997 to 1999, Mr. White was General Manager, Subsidiary Brands, of three of Nike Inc. s four subsidiary companies, including Cole Haan and Bauer-Nike Hockey.

Mr. White was employed for fifteen years by Major League Baseball Properties, Inc. and served as President and Chief Executive Officer for seven of those years. Mr. White entered into a three-year employment agreement with us. James Riedman, who previously acted as both our Chairman of the Board and Chief Executive Officer, will remain our Chairman of the Board.

Corporate Information

We incorporated in March 1912 in the Commonwealth of Massachusetts under the name Daniel Green Felt Shoe Company, changed our name to Daniel Green Company in November 1929 and reincorporated in May 2002 in the State of Delaware under the name Phoenix Footwear Group, Inc. Our principal executive offices are located at 5759 Fleet Street, Suite 220, Carlsbad, California 92008, and our telephone number is (760) 602-9688. Our main Internet address is http://www.phoenixfootwear.com. Information contained on our Internet web sites or that is accessible through our web sites should not be considered to be part of this prospectus.

The Offering

Common stock offered by us	2,500,000 shares
Over-allotment option	375,000 shares offered by us
Common stock to be outstanding after completion of this offering and the pending Altama acquisition	7,864,000 shares
Use of proceeds	We intend to use the net proceeds of the offering, together with borrowings under our proposed amended credit facility, to pay the cash portion of the purchase price for the pending Altama acquisition, to refinance Altama s funded indebtedness and to pay related fees and expenses. See Use of Proceeds.

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American Stock Exchange symbol	PXG
Condition to completion of the offering	The completion of this offering is subject to the concurrent consummation of the pending Altama acquisition.

James Riedman, our Chairman, and certain of his affiliates, have indicated an interest in purchasing shares of our common stock in this offering valued at up to $250,000. We have directed the underwriters to make these shares available to these persons. All of these shares will be subject to the 180-day restriction described under Underwriting Lock-Up Agreements.

The number of shares of common stock outstanding after this offering is based on the 5,154,093 shares outstanding as of May 28, 2004. In addition, this figure:

- Includes 209,907 shares which we estimate we will issue in payment of $2.5 million of the purchase price due in the pending Altama acquisition assuming that $11.91 per share (the last sale price on May 28, 2004) is the applicable price for determining the number of shares to be issued. The applicable price will be the average closing price of our common stock for the 20 trading days ending on the second-to-last trading day before the closing of the acquisition.

- Excludes 903,261 shares reserved for issuance upon the exercise of outstanding options granted under our stock-based employee compensations plans, which had a weighted average exercise price of $6.29 per share as of May 28, 2004, and an additional 200,000 shares underlying an option granted to Richard E. White, our new Chief Executive Officer, on June 15, 2004, which had an exercise price of $11.40 per share.

- Excludes 398,000 shares reserved for issuance upon the exercise of outstanding options issued between 1997 and 2001 to previous guarantors of our debt in consideration for their guarantees, which had a weighted average exercise price of $2.07 per share as of May 28, 2004. These options were not issued under a stock or other type of plan.

- Excludes 384,943 shares reserved for issuance upon exercise of options and other awards that may be granted in the future under our stock-based employee compensation plans.

- Excludes 375,000 shares of common stock that may be purchased from us by the underwriters pursuant to the over-allotment option.

- Excludes 50,000 shares of common stock that may be purchased by the managing underwriters upon exercise of warrants to be issued upon the closing of this offering with an exercise price equal to 120% of the price to the public in this offering.

- Includes 478,513 shares of common stock held by our 401(k) plan, which are outstanding for voting and other legal purposes, but classified as treasury shares for financial statement reporting purposes and therefore not included in weighted average shares outstanding used in the determination of our reported earnings per share. These shares have not yet been allocated to the accounts of participants in our 401(k) plan and will be allocated at the rate of approximately 120,000 shares annually to the accounts of plan participants until all 478,513 shares have been fully allocated.

Unless otherwise indicated in this prospectus, the information in this prospectus:

- assumes no exercise by anyone of outstanding options or warrants; and

- has been adjusted to give effect to our 2-for-1 split of common stock effective at the close of business on June 12, 2003.

Risk Factors

You should carefully consider the Risk Factors beginning on page 12 of this prospectus before making an investment in our common stock.

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Summary Unaudited Condensed Combined Consolidated Pro Forma Financial Data

The following table presents a summary of our unaudited condensed combined consolidated pro forma financial data for the fiscal year ended December 27, 2003 and as of and for the three months ended March 27, 2004. You should read this financial data together with Unaudited Condensed Combined Consolidated Pro Forma Financial Data, Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical audited consolidated financial statements and the related notes and the historical audited and unaudited financial statements of Royal Robbins, H.S. Trask and Altama appearing elsewhere in this prospectus. The unaudited condensed combined consolidated pro forma statements of operations data for the fiscal year ended December 27, 2003 give effect to our 2003 acquisitions of Royal Robbins and H.S. Trask in the second column, and to the 2003 acquisitions, our proposed Altama acquisition and this offering in the third column, as if they had all occurred on January 1, 2003. The unaudited condensed combined consolidated pro forma financial data as of and for the three months ended March 27, 2004, give effect to the proposed acquisition of Altama, and this offering, as if they had both occurred on December 28, 2003. The unaudited condensed combined consolidated pro forma balance sheet data as of March 27, 2004, give effect to the proposed acquisition of Altama and this offering, as if they had both occurred on March 27, 2004. The summary unaudited condensed combined consolidated pro forma financial data are presented for illustrative purposes only and do not represent what our results of operations actually would have been if the transactions referred to above had occurred as of the dates indicated or what our results of operations will be for future periods. The presented information does not include certain cost savings and operational synergies that we expect to achieve upon fully consolidating our completed and pending acquisitions.

	Fiscal Year Ended December 27, 2003			Three Months Ended March 27, 2004	
	Phoenix Footwear	Pro Forma Phoenix Footwear and 2003 Acquisitions(1)(2)(3)	Pro Forma Phoenix Footwear, 2003 Acquisitions, Altama and Offering(1)(2)(3)(4)	Phoenix Footwear	Pro Forma Phoenix Footwear, Altama and Offering(5)
	(In thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Net sales	$39,077	$59,058	$90,641	$18,638	$30,642
Cost of goods sold	22,457	32,862	56,447	10,492	18,994
Gross profit	16,620	26,196	34,194	8,146	11,648
Operating expenses:					
Selling, general and administrative expenses	12,696	20,967	24,492	5,811	6,998
Other (income) expense, net	1,377	1,377	1,377	34	34
Total operating expenses	14,073	22,344	25,869	5,845	7,032
Operating income	2,547	3,852	8,325	2,301	4,616
Interest expense	620	998	1,618	170	336
Earnings before income taxes	1,927	2,854	6,707	2,131	4,280
Income tax expense	986	1,386	2,726	895	940
Net earnings	$ 941	$ 1,468	$ 3,981	$ 1,236	$ 3,340

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	Fiscal Year Ended December 27, 2003			Three Months Ended March 27, 2004	
	Phoenix Footwear	Pro Forma Phoenix Footwear and 2003 Acquisitions(1)(2)(3)	Pro Forma Phoenix Footwear, 2003 Acquisitions, Altama and Offering(1)(2)(3)(4)	Phoenix Footwear	Pro Forma Phoenix Footwear, Altama and Offering(5)
	(In thousands, except share and per share data)				
Net earnings per share (6)					
Basic	$ 0.24			$ 0.27	
Diluted	$ 0.22			$ 0.24	
Weighted average number of shares used in per share calculations(6)					
Basic	3,963,382			4,533,466	
Diluted	4,350,132			5,108,598	
Pro forma net earnings per share(6)					
Basic		$ 0.33	$ 0.56		$ 0.46
Diluted		$ 0.30	$ 0.53		$ 0.43
Pro forma weighted average shares outstanding(6)					
Basic		4,452,848	7,162,755		7,243,373
Diluted		4,839,598	7,549,505		7,818,505
Other Data:					
Gross profit as a percentage of total net sales	42.5%	44.4%	37.7%	43.7%	38.0%
Adjusted EBITDA(7)	$ 4,643	$ 6,097	$ 11,661	$ 2,713	$ 5,323
Adjusted EBITDA as a percentage of total net sales	11.9%	10.3%	12.9%	14.6%	17.4%

	Phoenix Footwear as of March 27, 2004	Altama as of April 3, 2004	Pro Forma Adjustments	Pro Forma Phoenix Footwear, Altama and Offering as of March 27, 2004(8)
Consolidated Balance Sheet Data:				
Cash	$	$ 20	$	$ 20
Working capital	17,598	5,346	(448)	22,496
Total assets	41,967	15,535	35,517	93,019
Contingent liability-earnout	1,942		2,000	3,942
Total bank debt	13,954	3,552	9,344	26,850
Total stockholders equity	17,062	7,518	22,173	46,753

(1) In October 2003, we acquired Royal Robbins in a stock purchase for an aggregate purchase price of $6.8 million, consisting of $6.0 million in cash, 71,889 shares of our common stock valued at $500,000, and $300,000 in acquisition related expenses plus contingent earnout cash payments. The potential earnout cash payments equal 25% of the gross profit of the Royal Robbins product lines for the 12-month periods ending May 31, 2004 and 2005, respectively, so long as minimum thresholds are achieved. In August 2003, we acquired

H.S. Trask for an aggregate purchase price of $6.4 million, including

$2.9 million in cash and 699,980 shares of our common stock valued at $3.2 million and $300,000 in acquisition related expenses. In connection with these transactions, $109,000, or $0.01 pro forma per diluted share, in transaction expenses were not capitalized.

(2) The pro forma results for Royal Robbins give effect to the disposition by Royal Robbins of its 5.11, Inc. tactical clothing line business in June 2003, prior to our acquisition of Royal Robbins.

(3) The net amount of $1,377,000 in Other expense, net, consists primarily of $394,000, or $0.03 pro forma per diluted share following the Altama acquisition, of non-capitalized acquisition expenses, $354,000, or $0.03 pro forma per diluted share following the Altama acquisition, associated with the relocation of our corporate offices from Old Town, Maine to Carlsbad, California, litigation costs and expenses totaling $733,000, or $0.10 pro forma per diluted share following the Altama acquisition, associated with the dissenting stockholders appraisal proceeding resulting from our fiscal 2000 acquisition of Penobscot Shoe Company and a write-off of non-trade receivables of $163,000, or $0.01 pro forma per diluted share following the Altama acquisition. These amounts were partially offset by an excise tax refund totaling $285,000, or $0.04 pro forma per diluted share following the Altama acquisition, which was not taxable, associated with the fiscal 2001 termination of the Penobscot pension plan. Interest expense includes $376,000, or $0.03 pro forma per diluted share following the Altama acquisition, of interest expense related to the settlement of the dissenting stockholders appraisal proceeding. On an aggregate basis, these amounts reduced our fiscal 2003 pro forma per diluted share earnings following the Altama acquisition by $0.16.

(4) On June 15, 2004, we entered into a stock purchase agreement to purchase all of the outstanding capital stock of Altama for $39.0 million, consisting of $36.5 million in cash and $2.5 million in shares of our common stock based on the average closing price of our shares during the 20 trading days ending on the second-to-last trading day prior to the consummation of the acquisition. In addition to paying the purchase price, we have agreed to make a contingent earnout payment of $2.0 million on or before October 30, 2005, subject to Altama meeting certain sales requirements. The cash portion of the purchase price is subject to adjustment in the amount of distributions in excess of 39.6% of Altama s net operating profits and the book value of distributions of Altama s real and related personal property located in Kiawah Island, South Carolina, and for any net amount Altama receives from a price adjustment claim it has made with the DoD.

(5) Altama s financial data utilized in this column are as of and for its second quarter ended April 3, 2004 and are combined with our first quarter financial data. Although these pro forma results combine different fiscal quarters, we believe that this combination provides useful information to investors because of the similar calendar quarters presented. Additionally, we do not believe that there were any material differences between Altama s first and second quarter financial data.

(6) Per share and share data have been adjusted to reflect the 2-for-1 stock split effective at the close of business on June 12, 2003. Our 401(k) plan holds 798,847 shares of our common stock. A total of 592,331 and 478,513 shares remained unallocated as of December 27, 2003 and March 27, 2004, respectively, and are classified as treasury shares for financial statement reporting purposes, but are outstanding for voting and other legal purposes, and excluded from the weighted average shares outstanding.

(7) EBITDA refers to earnings before provision for income taxes plus interest expense and depreciation and amortization expense less interest income. Adjusted EBITDA is defined as EBITDA further adjusted to exclude our other expenses, net and the expenses incurred in connection with the allocation of our stock to employees under our 401(k) plan. Adjusted EBITDA should not be considered as an alternative to net earnings or loss (as an indicator of operating performance) or as an alternative to cash flow (as a measure of liquidity or ability to service debt obligations), and is not a measure of performance or financial condition under accounting principles generally accepted in the U.S. We believe that, in addition to net earnings or loss, Adjusted EBITDA is a useful financial performance measure for