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**<br>*(State or other jurisdiction of incorporation or organization)* | **15-0327010**<br>*(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.**<br>**Gregory W. Gribben, Esq.**<br>**Woods Oviatt Gilman LLP**<br>**700 Crossroads Building**<br>**2 State Street**<br>**Rochester, New York 14614** | **Gregg Amber, Esq.**<br>**Cristy Parker, Esq.**<br>**Rutan & Tucker, LLP**<br>**611 Anton Boulevard, Suite 1400**<br>**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 assessing operating performance because it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. We also believe that it is useful to provide greater comparability between periods as well as an indication of our results on an ongoing basis. Our method of

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calculating Adjusted EBITDA, however, may differ from methods used by other companies, and, as a result, Adjusted EBITDA measures disclosed herein may not be comparable to other similarly titled measures used by other companies.

The following table reconciles pro forma net earnings to Adjusted EBITDA for each period presented:

| | Fiscal Year Ended December 27, 2003 | | | Three Months Ended March 27, 2004 | |
|---|---|---|---|---|---|
| | Phoenix Footwear Actual | Pro Forma Phoenix Footwear and 2003 Acquisitions | Pro Forma Phoenix Footwear, 2003 Acquisitions, Altama & Offering | Phoenix Footwear Actual | Pro Forma Phoenix Footwear, Altama and Offering |
| | | | (In thousands) | | |
| Net earnings | $ 941 | $1,468 | $ 3,981 | $1,236 | $3,340 |
| Interest expense | 620 | 998 | 1,618 | 170 | 336 |
| Income tax expense | 986 | 1,386 | 2,726 | 895 | 940 |
| Depreciation and amortization | 317 | 466 | 1,557 | 164 | 459 |
| Other expense, net | 1,377 | 1,377 | 1,377 | 34 | 34 |
| 401(k) stock allocation | 402 | 402 | 402 | 214 | 214 |
| Adjusted EBITDA | $4,643 | $6,097 | $11,661 | $2,713 | $5,323 |

401(k) stock allocation represents the compensation expense we are required to record based on the market value of our shares held by our 401(k) plan that are allocated each year to the accounts of plan participants.

(8) The pro forma balance sheet data give effect to: the pending Altama acquisition; estimated borrowings of $12.9 million under our newly proposed amended credit facility that we anticipate we will need to complete the pending Altama acquisition; and our receipt of estimated net proceeds of $27.2 million from the sale of 2,500,000 shares of common stock at an assumed price to the public of $11.91 per share (the last sale price on May 28, 2004) after deducting underwriting discounts and estimated offering expenses, and the application of those net proceeds. In giving effect to the Altama acquisition, we included 209,907 shares of our common stock which we estimate we will issue in payment of $2.5 million of the purchase price due Altama s sole stockholder 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.

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## RISK FACTORS

*The following discussion summarizes material risks that you should carefully consider before you decide to buy our common stock. Any of the following risks, if they actually occur, would likely harm our business. The trading price of our common stock could then decline, and you may lose all or part of the money you paid to buy our common stock.*

### Risks Related to Our Business

***Our acquisitions or acquisition efforts, which are important to our growth, may not be successful, which may limit our growth or adversely affect our results of operations and financial condition***

Acquisitions have been an important part of our development to date. During fiscal 2003, we acquired Royal Robbins and H.S. Trask. As part of our business strategy, we intend to make additional acquisitions in the footwear and apparel industry, such as the pending Altama acquisition, that we feel could complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. If we identify an appropriate acquisition candidate, we may not be able to negotiate successfully the terms of or finance the acquisition. Unsuccessful acquisition efforts, such as our attempted acquisition of Antigua Enterprises Inc. last year, may result in significant additional expenses that would not otherwise be incurred. In fiscal 2003, we incurred $285,000 of such costs. In addition, we cannot assure you that we will be able to integrate the operations of our acquisitions without encountering difficulties, including unanticipated costs, possible difficulty in retaining customers and supplier or manufacturing relationships, failure to retain key employees, the diversion of management attention or failure to integrate our information and accounting systems. Following an acquisition, we may not realize the revenues and cost savings that we expect to achieve or that would justify the acquisition investment, and we may incur costs in excess of what we anticipate. These circumstances could adversely affect our results of operations or financial condition.

***Our future success depends on our ability to respond to changing consumer preferences and fashion trends and to develop and commercialize new products successfully***

Our principal business is the design, development and marketing of footwear and apparel. Although our focus is on traditional and sustainable niche brands, our brands may still be subject to rapidly changing consumer preferences and fashion trends. For example, in fiscal 2002, our Trotters brand experienced decreased retail acceptance of certain styles, which adversely affected our net sales. Accordingly, we must identify and interpret fashion trends and respond in a timely manner. Demand for and market acceptance of new products, such as our H.S. Trask women s and Strol brands, are uncertain, and achieving market acceptance for new products generally requires substantial product development and marketing efforts and expenditures. Any failure on our part to regularly develop innovative products and update core products could limit our ability to differentiate and appropriately price our products, adversely affect retail and consumer acceptance of our products, and limit sales growth. Each of these risks could adversely affect our results of operations or financial condition.

***We face intense competition, including competition from companies with greater resources than ours, and if we are unable to compete effectively with these companies, our market share may decline and our business and stock price could be harmed***

We face intense competition in the footwear and apparel industry from other companies, such as Brown Shoe Company, which markets the Naturalizer® brand, and Columbia Sportswear Company®. Many of our competitors have greater financial, distribution or marketing resources, as well as greater brand awareness. In addition, the overall availability of overseas manufacturing opportunities and capacity allow for the introduction of competitors with new products. Moreover, new companies may enter the markets in which we compete, further increasing competition in the footwear and apparel industry.

We believe that our ability to compete successfully depends on a number of factors, including 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 our products, providing strong and effective marketing support, ensuring product availability and maintaining and effectively assessing our distribution channels, as well as many other factors beyond our control. Due to these factors within and beyond our control, we may not be able to compete successfully in the future. Increased competition may result in price reductions, reduced profit margins, loss of market share, and an inability to generate cash flows that are sufficient to maintain or expand our development and marketing of new products, each of which would adversely affect the trading price of our common stock.

***A large portion of our sales are to a relatively small group of customers with whom we do not have long-term purchase orders, therefore the loss of any one or more of these customers could adversely affect our business***

Ten major customers represented approximately 39% of net sales in fiscal 2003; and most of these same customers represented 34% of net sales in fiscal 2002 and 38% of net sales in fiscal 2001. Sales to any one customer in fiscal 2003, 2002 and 2001 did not exceed 10% of our net sales, except for Dillard s department stores, which accounted for 11%, 12% and 11% of our net sales in fiscal 2003, 2002 and 2001, respectively. Although we have long-term relationships with many of our customers, our customers do not have a contractual obligation to purchase our products, and we cannot be certain that we will be able to retain our existing major customers. The retail industry can be uncertain due to changing customer buying patterns and consumer preferences, and customer financial instability. These factors could cause us to lose one or more of these customers, which could adversely affect our business.

***The financial instability of our customers could adversely affect our business and result in reduced sales, profits and cash flows***

We sell our merchandise to major department stores and specialty retailers across the U.S. and extend credit based on an evaluation of each customer s financial condition, usually without requiring collateral. However, the financial difficulties of a customer could cause us to curtail business with that customer. We may also assume more credit risk relating to that customer s receivables due us. Two of our customers constituted 20% of trade accounts receivable outstanding at December 27, 2003. Our inability to collect on our trade accounts receivable from any of our major customers could adversely affect our business or financial condition.

***Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights or if we are sued for intellectual property infringement***

We believe that we derive a competitive advantage from our ownership of the Trotters, SoftWalk, H.S. Trask and Royal Robbins trademarks, and our patented footbed technology. In addition, we own and license other trademarks that we utilize in marketing our products. We vigorously protect our trademarks against infringement. We believe that our trademarks are generally sufficient to permit us to carry on our business as presently conducted. We cannot, however, know whether we will be able to secure trademark protection for our intellectual property in the future or that protection will be adequate for future products. Further, we face the risk of ineffective protection of intellectual property rights in the countries where we source our products. We cannot be sure that our activities do not and will not infringe on the proprietary rights of others. If we are compelled to prosecute infringing parties, defend our intellectual property, or defend ourselves from intellectual property claims made by others, we may face significant expenses and liability that could divert our management s attention and resources and otherwise adversely affect our business or financial condition.

***Our international manufacturing operations are subject to the risks of doing business abroad, which could affect our ability to manufacture our products in international markets, obtain products from foreign suppliers or control the costs of our products***

We currently rely on foreign sourcing of our products. We believe that one of the key factors in our growth has been our strong relationships with manufacturers capable of meeting our requirements for quality and price in a timely fashion. We source our products primarily from independent third-party manufacturing facilities located in Brazil, Asia and South America. As a result, we are subject to the general risks of doing business outside the U.S., including, without limitation, work stoppages, transportation delays and interruptions, political instability, expropriation, nationalization, foreign currency fluctuation, changing economic conditions, the imposition of tariffs, import and export controls and other non-tariff barriers, and changes in local government administration and governmental policies, and to factors such as the short-term and long-term effects of severe acute respiratory syndrome, or SARS, and the outbreak of avian influenza in China. Although a diverse domestic and international industry exists for the kinds of merchandise sourced by us, there can be no assurance that these factors will not adversely affect our business, financial condition or results of operations.

***Our reliance on independent manufacturers, with whom we do not have long-term written agreements, could cause delay and damage customer relationships***

In fiscal 2003, 13 manufacturers accounted for 100% of our footwear volume. We do not have long-term written agreements with any of our third-party manufacturers. As a result, any of these manufacturers may unilaterally terminate their relationships with us at any time. Establishing relationships with new manufacturers would require a significant amount of time and would cause us to incur delays and additional expenses, which would also adversely affect our business and results of operations.

In addition, in the past, a manufacturer s failure to ship products to us in a timely manner or to meet the required quality standards has caused us to miss the delivery date requirements of our customers for those items. This, in turn, has caused, and may in the future cause, customers to cancel orders, refuse to accept deliveries or demand reduced prices. This could adversely affect our business and results of operation.

***We depend on our senior executives to develop and execute our strategic plan and manage our operations, and if we are unable to retain them, our business could be harmed***

Our future success depends upon the continued services of James Riedman, our Chairman of the Board, who has played a key role in developing and implementing our strategic plan. We also rely on Greg Tunney, our President and Chief Operating Officer, to manage our overall operations. Our loss of any of these individuals would harm us if we are unable to employ a suitable replacement in a timely manner. We do not maintain key man insurance on Messrs. Riedman or Tunney or any of our other senior executives.

***Fluctuations in the price, availability and quality of raw materials could adversely affect our gross profit***

Fluctuations in the price, availability and quality of raw materials, such as leather and bison hides, used to manufacture our products, could adversely affect our cost of goods or our ability to meet our customers demands. Although we do not expect our foreign manufacturing partners, or Altama following completion of the pending acquisition, to have any difficulty in obtaining the raw materials required for footwear production, certain sources may experience some difficulty in obtaining raw materials. For example, in fiscal 2002, the availability of leather decreased as a result of destruction of livestock due to concerns about mad cow disease and hoof and mouth disease. We generally do not enter into long-term purchase commitments. In the event of price increases in these raw materials in the future, we may not be able to pass all or a portion of these higher raw materials prices on to our customers, which would adversely affect our gross profit.

***A decline in general economic conditions could lead to reduced consumer demand for our products and could lead to a reduction in our net sales, and thus in our ability to obtain credit***

In addition to consumer fashion preferences, consumer spending habits are affected by, among other things, prevailing economic conditions, levels of employment, salaries and wage rates, consumer confidence and consumer perception of economic conditions. For example, in fiscal 2002 and fiscal 2003, the U.S. economy, and more specifically the retail environment, experienced a general slowdown, and adversely affected consumer spending habits, which we believe contributed to the decline in the net sales of our Trotters brand that fiscal year. Future slowdowns would likely cause us to delay or slow our expansion plans and result in lower net sales than expected on a quarterly or annual basis, which could lead to a reduction in our stockholders equity and thus our ability to obtain credit as and when needed.

***Our recently completed acquisitions and pending Altama acquisition make evaluating our operating results difficult given the significance of these acquisitions to our operations, and our historical results do not give you an accurate indication of how we will perform in the future***

Our historical results of operations do not give effect for a full fiscal year to our 2003 acquisitions of H.S. Trask and Royal Robbins or our pending Altama acquisition. Accordingly, the historical financial information that we have included in this prospectus does not necessarily reflect what our financial position, operating results and cash flows will be in the future as a result of these acquisitions. The pro forma financial information included in this prospectus is based in part on the separate pre-acquisition financial reports of H.S. Trask, Royal Robbins and Altama. Consequently, our historical results of operations and pro forma financial information do not give you an accurate indication of how Phoenix Footwear, including the H.S. Trask, Royal Robbins and Altama operations, will perform in the future.

Additionally, we do not have experience in selling to the government, which comprises a significant amount of Altama s net sales. We plan to continue the employment of Altama employees who do have such experience. There can be no assurance that any or all of the employees of Altama with this experience will continue with us after the acquisition.

***The financing of any future acquisitions we make may result in dilution to your stock ownership and/or could increase our leverage and our risk of defaulting on our bank debt***

Our business strategy is to expand into new markets and enhance our position in existing markets through acquisitions. In order to successfully complete targeted acquisitions or to fund our other activities, we may issue additional equity securities that could dilute your stock ownership. We may also incur additional debt if we acquire another company, which could significantly increase our leverage and hence our risk of default under our secured credit facility. For example, the financing for the pending Altama acquisition contemplates the issuance in a private placement of $2.5 million of our common stock based on the average closing price during the 20 trading days ending on the second-to-last trading day prior to the closing of the acquisition. Additionally, we intend to incur approximately $12.9 million of additional debt under our proposed amended credit facility to pay the purchase price and to refinance Altama s funded indebtedness.

***Defaults under our secured credit arrangement could result in a foreclosure on our assets by our bank***

We have a $24.8 million secured credit facility with our bank, which we expect to increase to a $33.4 million facility concurrently with the closing of the pending Altama acquisition. As of May 28, 2004, we had $10.9 million outstanding under this facility. We expect to incur $12.9 million of additional indebtedness in connection with the pending Altama acquisition. In the future, we may incur additional indebtedness in connection with other acquisitions or for other purposes. All of our assets are pledged as collateral to secure our bank debt. Our credit facility includes a number of covenants, including financial covenants. If we default under our credit arrangement and are unable to cure the default, obtain appropriate waivers or refinance the defaulted debt, our bank could declare our debt to be immediately due and payable and foreclose on our assets, which may result in a complete loss of your investment.

***We may be required to recognize impairment charges that could adversely affect our reported earnings in future periods***

Our business acquisitions typically result in goodwill and other intangible assets. As of March 27, 2004, we had $9.1 million of goodwill and unamortizable intangibles. We expect this figure to increase to $35.2 million upon completion of the Altama acquisition. We expect this figure to continue to increase with additional acquisitions. Pursuant to generally accepted accounting principles, we are required to perform impairment tests on our intangible assets annually or at any time when events occur that could impact the value of our business. Our determination of whether an impairment has occurred is based on a comparison of each of our reporting units fair market value with its carrying value. Significant and unanticipated changes could require a provision for impairment in a future period that could adversely affect our reported earnings in a period of such change.

***The exercise of outstanding stock options and warrants, and the allocation of unallocated shares held by our 401(k) plan, would cause dilution to our stockholders ownership percentage and/or a reduction in earnings per diluted share***

As of May 28, 2004, we had outstanding 5,154,093 shares of common stock, including 478,513 unallocated shares held by our 401(k) plan, which despite the fact they are outstanding for voting and other legal purposes, are classified as treasury shares for financial statement reporting purposes and are not taken into account in determining our earnings per share or earnings per diluted share. The 478,513 unallocated shares will be allocated at the rate of approximately 120,000 shares annually until they are fully allocated to the accounts of plan participants. After each allocation these additional shares will be included in the weighted average shares outstanding for purposes of determining our earnings per share and earnings per diluted share. In addition, as of that date, we had outstanding options to purchase 1,301,261 shares at exercise prices ranging from $1.725 to $13.325 per share. On June 15, 2004, we granted an option to purchase up to 200,000 shares at an exercise price of $11.40 per share to Richard E. White upon his hiring as our new Chief Executive Officer. We plan to grant Mr. White options to purchase up to an additional 285,000 shares of our common stock over the next two years. Also, upon the closing of this offering, we will issue five-year managing underwriters warrants to purchase up to an aggregate of 50,000 shares of our common stock at an exercise price equal to 120% of the price to the public. The exercise of all or part of these options or warrants would cause our stockholders to experience a dilution in their percentage ownership for legal purposes.

***The charge to earnings from the compensation to employees under our employee retirement plan could adversely affect the value of your investment in our common stock***

As of May 28, 2004, our 401(k) plan held 478,513 unallocated shares of our common stock, which constituted approximately 9% of our outstanding shares as of that date. Under the terms of the plan, approximately 120,000 of these shares will be allocated to plan participants in February of each year until fully allocated. We are required to record an expense for compensation based on the market value of the amount allocated to employees each year. For fiscal 2002 and 2003, we recorded expenses for this allocation of $237,000 and $402,000, respectively, and for fiscal 2004 we expect to record $852,000 in expenses for this allocation. As our stock price increases, we must take a higher charge for this allocation and thereby decrease our reported earnings. This could adversely affect the value of your investment in our common stock.

***We are controlled by a principal stockholder who may exert significant control over us and our significant corporate decisions in a manner adverse to your personal investment objectives, which could depress the market value of our stock***

James R. Riedman, our Chairman of the Board, is the largest beneficial owner of our stock. Through his personal holdings and shares over which he is deemed to have beneficial ownership held by Riedman Corporation (of which he is a shareholder, President and a director), our employee retirement plan, his children, and an affiliated entity, he beneficially owned approximately 44.3% of our outstanding shares as of May 28, 2004. He and his affiliates also have indicated an interest in purchasing shares of our common stock in this offering valued at up to $250,000. As a result, his beneficial ownership could be 29.3% after the completion of our offering and the pending Altama acquisition, based on an estimated 2,500,000 shares being issued in this offering, 209,907 shares being issued in the Altama transaction, and 20,990 shares being purchased by Mr. Riedman and his affiliates. Mr. Riedman also has beneficial ownership of shares underlying options which, if exercised, would increase his percentage beneficial ownership to approximately 48.7% as of May 28, 2004, and 33.1% after the offering and the pending Altama acquisition, assuming no other exercises of outstanding options or warrants and his and his affiliates purchases of shares in this offering. Through this beneficial ownership, Mr. Riedman can direct our affairs and significantly influence the election or removal of our directors and the outcome of all matters submitted to a vote of our stockholders, including amendments to

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our certificate of incorporation and bylaws and approval of mergers or sales of substantially all of our assets. The interest of our principal stockholder may conflict with interests of other stockholders. This concentration of ownership may also harm the market price of our common stock by, among other things:

- delaying, deferring or preventing a change in control of our company;
- impeding a merger, consolidation, takeover or other business combination involving our company;
- causing us to enter into transactions or agreements that are not in the best interests of all stockholders; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our company.

***Our inventory levels may exceed our actual needs, which could adversely affect our operating results by requiring us to make inventory write-downs***

If we order more product than we are able to sell, we could be required to write-down this inventory, adversely affecting our margins and in turn, our operating results. This could occur as the result of change in customer order patterns, general sales activity, orders subject to cancellation by customers, misforecasting and consumer demand. Write-downs of inventory could adversely affect our gross profit and operating results.

***Our financial results may fluctuate from quarter to quarter as a result of seasonality in our business, and if we fail to meet expectations, the price of our common stock may fluctuate***

The footwear and apparel industry generally, and our business specifically, are characterized by seasonality in net sales and results of operations. Our business is seasonal, with the first and third quarters generally having stronger sales and operating results than the other two quarters. These events could cause the price of our common stock to fluctuate.

**Risks Related to Altama s Business**

***Altama depends upon a single customer, the DoD, for over 60% of its net sales, which could represent over 30% of our net sales after the proposed acquisition, and a decrease in the DoD s demand for Altama s products or the early termination of its contracts might adversely affect our consolidated operating results***

The majority of Altama s business at the present time is with the Defense Support Center Philadelphia, or DSCP, an agency of the DoD. Even though Altama s level of business with this customer has grown over the past few years, due largely to increased deployment of armed forces, there is no certainty that this will continue after our proposed acquisition.

Altama s contracts with the DoD are subject to partial or complete termination under specified circumstances including, but not limited to, the following circumstances:

- the convenience of the government;
- the lack of funding; or
- Altama s actual or anticipated failure to perform its contractual obligations.

Further, there could be changes in government policies as a result of election results or changes in political conditions or other factors that could significantly affect the level of troop deployment. Any of these occurrences could adversely affect the level of business the DoD does with Altama and, consequently, our operating results. In addition, there is no certainty that the DSCP will exercise renewal options on any contract Altama may have or that Altama will be awarded future DSCP boot solicitations. Most boot contracts are for multi-year periods. Therefore, a bidder not receiving an award from a significant solicitation could be adversely affected for several years.

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Based on past performance, we anticipate that revenue from the DoD could represent over 30% of our combined net sales. Material reductions in the level of orders from the DoD would harm our operating results and deprive us of the benefits that we expect to receive from the proposed Altama acquisition.

Furthermore, the DSCP and other DoD agencies with which Altama may do business are also subject to unique political and budgetary constraints and have special contracting requirements that may affect the contract or Altama s ability to obtain new government customers. These agencies often do not set their own budgets and therefore have little control over the amount of money they can spend. In addition, these agencies experience political pressure that may dictate the manner in which they spend money. Due to political and budgetary processes and other scheduling delays that frequently occur in the contract or bidding process, some government agency orders may be canceled or substantially delayed, and the receipt of revenues or payments may be substantially delayed.

***If Altama is unable to replace revenues from sales to the DoD of products planned to be discontinued, Altama s net sales and our consolidated operating results would be adversely affected***

Under Altama s current contract with the DoD, it manufactures three models of mil-spec combat boots. One of these models, the all-leather combat boot, is being discontinued by the DoD, in favor of a new waterproof infantry combat boot. Altama s sales of the all-leather combat boot to the DoD were $8.1 million and $2.9 million, representing approximately 40% and 19% of Altama s net sales from sales to the DoD for fiscal 2003 and the six months ended April 3, 2004, respectively.

In March 2003, DSCP awarded contracts to supply the infantry combat boot. To date, Altama has not been awarded a contract to produce the new infantry combat boot. While there may be additional opportunities to bid on infantry combat boot and other waterproof boot contracts in the future, particularly as the U.S. Army transitions from the all-leather combat boot, Altama s failure to be awarded a contract in March 2003 may be a significant disadvantage in bidding on future contracts. Furthermore, Altama s ability to bid successfully for waterproof boot contracts may depend on its ability to license waterproof technology from suppliers qualified by the government. This would require that Altama s manufacturing process be certified for the use of such technology, and there can be no assurance that Altama will obtain such certification. Consequently, we anticipate that Altama s net sales to the DoD will decline if it is not able to obtain awards of contracts for infantry combat boots or any other new models or increased percentages of awards for existing mil-spec boots it currently manufactures.

***Doing business with the U.S. government entails many risks that could adversely affect us by interfering with Altama s ability to obtain future government contracts***

Government agencies have the power, based on financial difficulties or investigations of their contractors, to deem contractors unsuitable for new contract awards. Because Altama engages in the governmental contracting business, it has been and will be subject to audits and may be subject to investigation by governmental entities. Failure to comply with the terms of any of Altama s government contracts could result in substantial civil and criminal fines and penalties, as well as Altama s suspension from future government contracts for a significant period of time, any of which could adversely affect our business by requiring us to spend money to pay the fines and penalties and prohibiting us from earning revenues from government contracts during the suspension period.

Additionally, Altama s failure to qualify as a small business under federal regulations following the pending acquisition could reduce the likelihood of its ability to received awards of future DoD contracts. Altama qualified as a small business at the time of its bid for the current DoD contract. Small business status, having less than 500 employees, is a factor that the DoD considers in awarding its military boot contracts. Our combined employment with Altama could exceed 500 employees in the future, which could adversely affect its ability to obtain future contract awards.

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***Altama has grown at significant rates over the past three years, and there can be no assurance that its net sales growth will continue at this rate***

In the last three fiscal years, Altama s net sales from sales to the commercial market have grown significantly. This has contributed in part to Altama s overall growth in net sales over that period. This growth has been due in part to added customer demand, increased pricing and expansion of customers, and in particular, higher international demand as the result of increasing military and security personnel to fight the war on terrorism. There is no assurance that this level of demand will continue or that we will be able to achieve or maintain this level of growth in the commercial market after our proposed acquisition.

***Altama manufactures approximately 84% of the products it sells, and our results could be adversely affected following the proposed transaction by disruptions in Altama s manufacturing system***

During fiscal 2003, Altama s manufacturing operations produced approximately 84% of the products Altama sold. Following the proposed acquisition, we expect that these products could represent over 30% of our combined net sales. Any significant disruption in those operations for any reason, such as power interruptions, fires, hurricanes, war or other force majeure, could adversely affect our sales and customer relationships and therefore adversely affect our business.

**Risks Related to This Offering**

***Our stock price has increased significantly during the past 12 months and may fluctuate or decline in the future, which could result in litigation against us and significant losses for investors purchasing shares in this offering***

Our stock price has increased significantly during the past 12 months and in the future may not continue to increase at the same rate or may decline. This may occur in response to a number of factors, including the following:

- the failure of our quarterly operating results or those of similarly situated companies to meet expectations;
- adverse developments in the footwear or apparel markets and the worldwide economy;
- changes in interest rates;
- our failure to meet investors expectations;
- changes in accounting principles;
- sales of common stock by existing stockholders or holders of options;
- announcements of key developments by our competitors;
- the reaction of markets to announcements and developments involving our company, including future acquisitions and related financing activities; and
- natural disasters, riots, wars, geopolitical events or other developments affecting us or our competitors.

Our offering price may not be indicative of the price of our stock that will prevail in the trading market following the offering. In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, regardless of our operating results. In the past, securities class action litigation often has been brought against a company following periods of volatility in the market price of its securities. We may in the future be the target of similar litigation. Securities litigation could result in substantial costs and liabilities and could divert management s attention and resources. Consequently, you may be unable to sell your shares of common stock at or above the offering price, which may result in substantial losses to you.

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***Delaware law, our charter documents and agreements with our executives may impede or discourage a takeover, even if a takeover would be in the interest of our stockholders***

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third-party to acquire control of us, even if a change in control would be beneficial to our existing stockholders. In addition, our board of directors has the power, without stockholders approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock, which could be used defensively if a takeover is threatened. All options issued under our stock option plans automatically vest upon a change in control unless otherwise determined by the compensation committee. In addition, several of our executive officers have employment agreements that provide for significant payments on a change in control. These factors and provisions in our certificate of incorporation and bylaws could impede a merger, takeover or other business combination involving us or discourage a potential acquirer from making a tender offer for our common stock or reduce our ability to achieve a premium in such sale, which could limit the market value of our common stock and prevent you from maximizing the return on your investment.

***Shares of our common stock eligible for public sale after this offering could cause the market price of our stock to drop, even if our business is doing well***

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales could occur, could adversely affect the market price for our common stock. After this offering and completion of the pending Altama acquisition, assuming full exercise of the underwriter s over-allotment option, we will have outstanding 8,239,000 shares of common stock. This amount includes an estimated 209,907 shares to be issued in the Altama acquisition in partial payment of the purchase price that will be due and an estimated 20,990 shares to be purchased by James Riedman and certain of his affiliates in this offering, based on an assumed value per share of $11.91. Of these shares, 4,720,449 shares will be freely tradable without restriction or further registration under federal securities laws, including the shares sold in this offering unless purchased by our affiliates. The remaining 3,518,551 shares (including the 209,907 shares we estimate will be issued in the Altama acquisition) are held by our affiliates or were issued in a private placement and are considered restricted or control securities and are subject to the trading restrictions of Rule 144 under the Securities Act of 1933, as amended, or the Securities Act. These securities cannot be sold unless they are registered under the Securities Act or unless an exemption from registration is otherwise available.

Of the restricted shares, 699,980 shares have been registered for resale pursuant to our obligations to former H.S. Trask stockholders, and we are required to keep those shares registered until August 7, 2004, subject to permitted blackout and required extension periods. On May 25, 2004, we exercised our right to declare a blackout period for 25 days, extending our registration obligation to September 1, 2004. In addition, following this offering, we plan to register 320,334 shares held by our 401(k) plan for resale by the plan and plan account holders who have been allocated shares under the plan. We also have in effect a registration statements on Form S-8 covering 1,500,000 shares of common stock, under our 2001 Long-Term Incentive Plan, 1,007,261 shares of which are subject to previously granted options and the remainder of which are available for future awards under that plan.

Our principal stockholders, James Riedman and Riedman Corporation, who beneficially own in the aggregate 2,285,565 shares of our common stock and vested options to acquire an additional 437,862 shares plus an estimated 20,990 shares to be purchased in this offering, have demand registration rights covering 1,152,710 of the shares they beneficially own. In connection with the Altama acquisition, we are required to enter into a registration rights agreement with Altama s sole shareholder who will be issued in a private placement shares of our common stock valued at $2.5 million based on the average closing price during the 20 trading days ending on the second-to-last trading day prior to the closing of the acquisition. The registration rights agreement will grant to Altama s sole shareholder, subject to certain conditions, one demand registration exercisable between 180 days and three years after the acquisition closing and unlimited piggyback registration rights for registration statements we file with the SEC during the three years following the closing except in limited circumstances.

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Certain of our executive officers, directors and principal stockholders have entered into an agreement with the managing underwriters not to sell any shares of stock for a period of 180 days after this offering, and we plan to enter into a similar lock-up agreement not to sell or issue any equity securities. Riedman Corporation has also entered into an agreement with the managing underwriters not to sell or transfer any shares of our common stock for a period of 90 days after this offering. The managing underwriters may waive the lock-up restriction in their sole discretion. As this restriction ends, significant resales of these shares could cause the market price of our common stock to decline regardless of the performance of our business. These sales also might make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the SEC filings that are incorporated by reference into this prospectus contain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. We intend that these forward-looking statements be subject to the safe harbors created by those sections.

These forward-looking statements include, but are not limited to, statements relating to our anticipated financial performance, business prospects, new developments, new merchandising strategies and similar matters, and/or statements preceded by, followed by or that include the words believes, could, expects, anticipates, estimates, intends, plans, projects, seeks, or similar expressions. We have based these forward-looking statements on our current expectations and projections about future events, based on the information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including those described under the heading Risk Factors, that may affect the operations, performance, development and results of our business. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date stated, or if no date is stated, as of the date of this prospectus.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason, except as we may be required to do under applicable law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus may not occur.

## USE OF PROCEEDS

We estimate the net proceeds from the sale of shares of common stock we are offering to be approximately $ , or $ if the underwriters exercise in full their over-allotment option to purchase shares from us at an assumed offering price of $ per share (the last sale price on ) and after deducting the underwriting discounts and commissions and estimated offering expenses we will pay.

We intend to use the net proceeds from this offering and approximately $12.9 million of additional borrowings under our proposed amended credit facility to finance the estimated $36.5 million cash portion of the purchase price due at the closing of the pending Altama acquisition, to refinance Altama s funded indebtedness and to pay related fees and expenses. As of May 1, 2004 Altama had $2.7 million outstanding on its credit facility with Wachovia Bank, N.A. Altama s indebtedness that we plan to refinance, accrues interest at the one-month LIBOR rate plus 175 basis points, which was 2.85% as of May 1, 2004. Altama incurred this indebtedness to fund working capital needs and new equipment purchases.

## DIVIDEND POLICY

We do not pay cash dividends on our capital stock. We do not anticipate paying cash dividends on our capital stock in the foreseeable future. We currently anticipate that we will retain all of our future earnings for use in funding the expansion of our business and general corporate purposes. In addition, our bank credit agreement restricts our ability to declare or pay dividends on our common stock without the bank s consent.

Any future determination as to the payment of dividends will be subject to applicable limitations, will be at the discretion of our board of directors and will depend on our results of operations, financial condition, capital requirements and other factors deemed relevant by our board of directors. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

**PENDING ALTAMA ACQUISITION**

On June 15, 2004, we entered into a definitive stock purchase agreement to acquire all of the outstanding capital stock of Altama Delta Corporation, a provider of boots to the military and commercial markets under its Altama brand. Altama is a leading designer, manufacturer, marketer and distributor of mil-spec and commercial combat and uniform boots. Below is a summary of the stock purchase agreement and ancillary agreements we are entering into in connection with the acquisition. These agreements are filed as exhibits to the registration statement of which this prospectus forms a part and should be reviewed for a more complete understanding of their terms.

Under the stock purchase agreement, we have agreed to pay a purchase price of $39.0 million, plus an earnout payment of $2.0 million that is subject to Altama meeting certain sales requirements. As part of the transaction, we will refinance Altama s indebtedness as of the date of closing. Payment of the purchase price at closing is to be made by delivery of $36.5 million in cash, and shares of our common stock valued at $2.5 million based on the average closing price during the 20 trading days ending on the second-to-last trading day prior to the closing of the acquisition. 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.

The stock purchase agreement contains customary representations and warranties and requires Altama s sole shareholder and President and Chief Executive Officer, W. Whitlow Wyatt, and us to indemnify each other for various liabilities arising under the agreement, subject to various limitations and conditions. At the closing, Mr. Wyatt is required to deposit into escrow for 18 months the shares we will issue to him in the acquisition to secure his indemnification and other obligations under the stock purchase agreement. Absent an event of default under the terms of the escrow agreement, Mr. Wyatt will have voting rights with respect to the shares while held in escrow. If an event of default occurs, the escrow agent will have voting rights with respect to the shares while held in escrow.

Under the terms of the stock purchase agreement, we have agreed to pay Mr. Wyatt $2.0 million in consideration for a five-year covenant-not-to-compete and other restrictive covenants. We have also agreed to enter into a two-year consulting agreement with Mr. Wyatt which provides for an annual consulting fee of $100,000. Additionally, subject to specified conditions, we have agreed to grant to Mr. Wyatt one demand registration, exercisable between 180 days and three years after the acquisition closing, and unlimited piggyback registration rights for registration statements we file with the SEC during the three years following the closing except in limited circumstances.

The acquisition is contingent on customary closing conditions, including the completion of this offering and the effectiveness of a proposed amendment to our credit facility. Our bank has committed to amend our credit facility to increase our available borrowings to $33.4 million, consisting of an $18.0 million revolving line of credit and $15.4 million in term loans. We currently expect to pay the cash portion of the purchase price and to refinance Altama s funded indebtedness with the net proceeds from this offering, an additional $10.0 million term loan and approximately $2.9 million in new borrowings under our revolving line of credit.

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## PRICE RANGE OF COMMON STOCK

Our common stock began trading on the American Stock Exchange on May 20, 2002 under the symbol PXG. Prior to May 20, 2002, our common stock was quoted on The Nasdaq SmallCap Market under the symbol DAGR. The following table sets forth for each calendar quarter the low and high closing sale prices per share of our common stock as reported on the American Stock Exchange and The Nasdaq SmallCap Market for the applicable periods. These prices reflect our 2-for-1 stock split effective at the close of business on June 12, 2003.

| | High | Low |
|---|---|---|
| **Year Ended December 31, 2002:** | | |
| First Quarter | $ 4.87 | $2.25 |
| Second Quarter | $ 5.93 | $4.45 |
| Third Quarter | $ 5.50 | $3.75 |
| Fourth Quarter | $ 3.93 | $2.90 |
| **Year Ended December 27, 2003:** | | |
| First Quarter | $ 3.63 | $2.74 |
| Second Quarter | $ 5.19 | $3.51 |
| Third Quarter | $ 5.92 | $4.80 |
| Fourth Quarter | $ 7.49 | $5.80 |
| **Year Ending January 1, 2005:** | | |
| First Quarter | $10.50 | $7.25 |
| Second Quarter (through May 28, 2004) | $13.20 | $8.49 |

On May 28, 2004, the last reported sale price of our common stock on the American Stock Exchange was $11.91 per share. At May 28, 2004, we had 427 holders of record of our common stock (including Cede & Co., the nominee for the Depositary Trust Company, a registered clearing agency). We believe that we had a substantially greater number of beneficial owners of our common stock on that date.

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## CAPITALIZATION

The following table sets forth our consolidated cash, bank debt and stockholders equity as of March 27, 2004:

on an actual basis; and

on a pro forma as adjusted basis, giving effect to the Altama acquisition and $12.9 million of additional bank debt under our proposed amended credit facility, and to reflect the completion of this offering at an assumed offering price of $11.91 per share (the last sale price on May 28, 2004), after deducting underwriting discounts and estimated offering expenses, and the application of the estimated net proceeds therefrom. See Use of Proceeds.

You should read this table in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and Use of Proceeds and our consolidated financial statements and related notes included elsewhere in this prospectus.

| | March 27, 2004 | |
|---|---|---|
| | Actual | Pro Forma As Adjusted |
| | (In thousands) | |
| Cash | $ | $ 20 |
| Total bank debt | $13,954 | $26,850 |
| Stockholders equity: | | |
| Preferred stock, $0.01 par value per share, 500,000 shares authorized; no shares issued and outstanding; no shares issued and outstanding on a pro forma as adjusted basis | | |
| Common stock, $0.01 par value per share, 50,000,000 shares authorized; 5,098,297 shares issued and outstanding; 7,808,204 shares issued and outstanding on a pro forma as adjusted basis | 51 | 78 |
| Additional paid-in capital | 11,835 | 41,499 |
| Retained earnings | 6,556 | 6,556 |
| Less: Treasury stock at cost, 500,000 shares | (1,380) | (1,380) |
| Total stockholders equity | 17,062 | 46,753 |
| Total stockholders equity and bank debt | $31,016 | $73,603 |

The actual shares and pro forma as adjusted shares listed above:

Includes 209,907 shares that we estimate we will issue in payment of $2.5 million of the purchase price due in the pending Altama acquisition, assuming that a $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 869,057 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 $5.42 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 March 27, 2004. These options were not issued under a stock or other type of plan.

Excludes 174,943 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, plus an additional

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500,000 shares reserved for issuance under an amendment to our 2001 Long-Term Incentive Plan approved by our stockholders on May 11, 2004.

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

Excludes 50,000 shares of common stock that may be purchased by the managing underwriters upon the 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 at March 27, 2004, 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.

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## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

The historical consolidated statements of operations data for the fiscal years ended December 31, 2001 and 2002 and December 27, 2003, and the historical consolidated balance sheet data as of December 31, 2002 and December 27, 2003, have been derived from our audited historical consolidated financial statements, which consolidated financial statements and independent auditors report are included elsewhere in this prospectus. The historical consolidated financial data as of and for the three months ended March 29, 2003 and March 27, 2004, have been derived from our unaudited historical consolidated financial statements included elsewhere in this prospectus. Such unaudited financial statements have been prepared by us on a basis consistent with our annual audited financial statements and, in the opinion of our management, contain all normal recurring adjustments necessary for a fair presentation of the financial position and the results of operations for the applicable periods. Operating results in the three months ended March 27, 2004 are not necessarily indicative of the results that may be expected in the fiscal year ending January 1, 2005 or any other period. The historical consolidated statements of operations data for the fiscal years ended December 31, 1999 and 2000, and the historical balance sheet data as of December 31, 1999, 2000 and 2001, have been derived from our audited historical consolidated financial statements that are not included in this prospectus.

The financial data in the following table was impacted by our fiscal 2000 acquisition of the Penobscot Shoe Company and its Trotters brand, our fiscal 2001 sale of our slipper brands and our fiscal 2003 acquisitions of H.S. Trask and Royal Robbins. The fiscal 2003 acquisitions resulted in additional sales in fiscal 2003 and had a significant impact on our balance sheet.

Historical results are not necessarily indicative of future results, The following information should be read in conjunction with our consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus.

| | For the Fiscal Years Ended | | | | | For the Three Months Ended | |
|---|---|---|---|---|---|---|---|
| | Dec. 31, 1999(1) | Dec. 31, 2000(2) | Dec. 31, 2001(3) | Dec. 31, 2002(4) | Dec. 27, 2003(5) | March 29, 2003(6) | March 27, 2004 |
| | (In thousands, except share and per share data) | | | | | | |
| **Consolidated Statements of Operations Data:** | | | | | | | |
| Net sales | $ 14,867 | $ 33,179 | $ 46,851 | $ 36,161 | $ 39,077 | $ 9,207 | $ 18,638 |
| Cost of goods sold | 11,728 | 22,233 | 31,439 | 22,397 | 22,457 | 5,187 | 10,492 |
| Gross profit | 3,139 | 10,946 | 15,412 | 13,764 | 16,620 | 4,020 | 8,146 |
| Operating expenses: | | | | | | | |
| Selling, general and administrative expenses | 4,646 | 9,705 | 11,917 | 9,661 | 12,696 | 2,853 | 5,811 |
| Other expense, net | 311 | 1,016 | 375 | 442 | 1,377 | 476 | 34 |
| Total operating expenses | 4,957 | 10,721 | 12,292 | 10,103 | 14,073 | 3,329 | 5,845 |
| Operating (loss) income | (1,818) | 225 | 3,120 | 3,661 | 2,547 | 691 | 2,301 |
| Interest expense | 193 | 1,363 | 1,683 | 751 | 620 | 66 | 170 |
| (Loss) earnings before income taxes | (2,011) | (1,138) | 1,437 | 2,910 | 1,927 | 625 | 2,131 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income tax (benefit) expense | (483) | (456) | 67 | 1,207 | 986 | 250 | 895 |
| Net (loss) earnings | $ (1,528) | $ (682) | $ 1,370 | $ 1,703 | $ 941 | $ 375 | $ 1,236 |
| Net (loss) earnings per share(7) | | | | | | | |
| Basic | $ (0.49) | $ (0.22) | $ 0.44 | $ 0.50 | $ 0.24 | $ 0.10 | $ 0.27 |
| Diluted | $ (0.49) | $ (0.22) | $ 0.41 | $ 0.45 | $ 0.22 | $ 0.10 | $ 0.24 |
| Weighted average common shares outstanding(7) | | | | | | | |
| Basic | 3,138,172 | 3,141,190 | 3,137,688 | 3,418,468 | 3,963,382 | 3,666,188 | 4,533,466 |
| Diluted | 3,138,172 | 3,141,190 | 3,444,042 | 3,781,634 | 4,350,132 | 3,863,136 | 5,108,598 |

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| | For the Fiscal Years Ended | | | | | For the Three Months Ended | |
|---|---|---|---|---|---|---|---|
| | Dec. 31, 1999(1) | Dec. 31, 2000(2) | Dec. 31, 2001(3) | Dec. 31, 2002(4) | Dec. 27, 2003(5) | March 29, 2003(6) | March 27, 2004 |
| | (In thousands) | | | | | | |
| **Other Data:** | | | | | | | |
| Gross profit as a percentage of total net sales | 21.1% | 33.0% | 32.9% | 38.1% | 42.5% | 43.7% | 43.7% |
| Adjusted EBITDA(8) | $(1,210) | $1,671 | $4,205 | $4,606 | $4,643 | $1,316 | $2,713 |
| Adjusted EBITDA as a percentage of total net sales | (8.1)% | 5.0% | 9.0% | 12.7% | 11.9% | 14.3% | 14.6% |

| | As of | | | | | As of | |
|---|---|---|---|---|---|---|---|
| | Dec. 31, 1999 | Dec. 31, 2000 | Dec. 31, 2001 | Dec. 31, 2002 | Dec. 27, 2003 | March 29, 2003 | March 27, 2004 |
| | (In thousands) | | | | | | |
| **Consolidated Balance Sheet Data:** | | | | | | | |
| Cash | $ 225 | $ 1 | $ 1,161 | $ 1,265 | $ 1,058 | $ 1,015 | $ |
| Working capital | 4,414 | (1,607) | 5,358 | 8,812 | 13,423 | 10,528 | 17,598 |
| Total assets | 10,252 | 38,424 | 27,577 | 18,954 | 36,411 | 21,215 | 41,967 |
| Contingent liability-earnout | | | | | 1,942 | | 1,942 |
| Total bank debt | 2,849 | 18,926 | 14,829 | 3,000 | 12,082 | 3,000 | 13,954 |
| Total stockholders equity | 6,477 | 5,898 | 7,452 | 10,112 | 14,987 | 10,812 | 17,062 |

(1) We ceased our Dolgeville, New York manufacturing operations completely during fiscal 1999 and as part of the restructuring incurred severance costs of $311,000. Raw material inventory write-offs of $589,000 are also included in cost of goods sold in fiscal 1999 as part of the restructuring.

(2) Includes $808,000 of expenses associated with the relocation of our headquarters and distribution operation from Dolgeville, New York to the newly acquired facilities in Old Town, Maine. Costs associated with this relocation included severance, moving expenses and closing facilities. In addition, we recognized an impairment loss of $208,000.

(3) The net amount of $375,000 in Other expense, net consists primarily of a $1.2 million gain in connection with the divestiture of our slipper business, and a $1.7 million loss incurred in connection with the termination of the Penobscot Shoe Company pension plan and a net gain on the sale of property of $142,000.

(4) The net amount of $442,000 in Other expense, net consists primarily of losses on dispositions and write-offs on asset sales.

(5) The net amount of $1,377,000 in Other expense, net consists primarily of $394,000, or $0.06 per diluted share, of non-capitalized acquisition expenses, $354,000, or $0.05 per diluted share, associated with the relocation of our corporate offices from Old Town, Maine to Carlsbad, California, litigation costs and expenses totaling $733,000, or $0.17 per diluted share, associated with the dissenting stockholders appraisal proceeding resulting from our fiscal 2000 acquisition of Penobscot Shoe Company, and a $163,000, or $0.02 per diluted share, write-off of a non-trade receivable. These amounts were offset partially by an excise tax refund totaling $285,000, or $0.07 per diluted share, which was not taxable, associated with the fiscal 2001 termination of the Penobscot pension plan. Interest expense includes $376,000, or $0.05 per diluted share, of interest expense related to the settlement of the dissenting stockholder s appraisal proceeding. On an aggregate basis, these amounts reduced our fiscal 2003 per diluted share earnings by $0.28.

(6) The net amount of $476,000 in Other expense, net consists primarily of $216,000, or $0.03 per diluted share, of costs associated with the relocation of our corporate headquarters and other miscellaneous expenses, and $260,000, or $0.04 per diluted share, of costs associated with the discontinued Antigua Enterprises acquisition effort. On an aggregate basis, these amounts reduced our per diluted share earnings for the three months ended March 29, 2003 by $0.07.

(7) 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, of which 592,331 and 478,513 shares were not allocated to the accounts of plan participants as of December 27, 2003 and March 27, 2004, respectively, and were classified as treasury shares for financial statement reporting purposes, but are outstanding for voting purposes and other legal purposes, and are excluded from the weighted average shares outstanding.

(8) 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 assessing operating performance because it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. We also believe that it is useful to provide greater comparability between periods as well as an indication of our results on an ongoing basis. Our method of calculating Adjusted EBITDA, however, may differ from methods used by other companies, and, as a result, Adjusted EBITDA measures disclosed herein may not be comparable to other similarly titled measures used by other companies. The following table reconciles net earnings (loss) to EBITDA for each period presented:

| | For the Fiscal Years Ended | | | | | For the Three Months Ended | |
|---|---|---|---|---|---|---|---|
| | **Dec. 31, 1999** | **Dec. 31, 2000** | **Dec. 31, 2001** | **Dec. 31, 2002** | **Dec. 27, 2003** | **March 29, 2003** | **March 27, 2004** |
| | | | | **(In thousands)** | | | |
| Net earnings (loss) | $(1,528) | $ (682) | $1,370 | $1,703 | $ 941 | $ 375 | $1,236 |
| Interest expense | 193 | 1,363 | 1,683 | 751 | 620 | 66 | 170 |
| Income tax expense (benefit) | (483) | (456) | 67 | 1,207 | 986 | 250 | 895 |
| Depreciation and amortization | 297 | 430 | 710 | 266 | 317 | 48 | 164 |
| Other expense, net | 311 | 1,016 | 375 | 442 | 1,377 | 476 | 34 |
| 401(k) stock allocation | | | | 237 | 402 | 101 | 214 |
| Adjusted EBITDA | $(1,210) | $1,671 | $4,205 | $4,606 | $4,643 | $1,316 | $2,713 |

The 401(k) stock allocation represents the compensation expense we are required to record based on the market value of our shares held by our 401(k) plan which are allocated each year to the accounts of plan participants.

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## SELECTED QUARTERLY UNAUDITED FINANCIAL DATA

The following tables present our selected quarterly unaudited statement of operations data for each of the nine quarters ending with the quarter ended March 27, 2004. You should read this selected quarterly unaudited statement of operations data together with Selected Historical Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements appearing elsewhere in this prospectus. This information has been derived from our unaudited financial statements prepared by us on a basis consistent with our annual audited financial statements and, in the opinion of our management, contain all normal recurring adjustments necessary for a fair presentation of the results of operations for the applicable periods. Operating results for any quarter are not necessarily indicative of the results of operations for any future period.

| | Fiscal 2003 For the Three Months Ended | | | | Fiscal 2004 For the Three Months Ended |
|---|---|---|---|---|---|
| | March 29, 2003 | June 28, 2003 | September 27, 2003 | December 27, 2003 | March 27, 2004 |
| | (In thousands, except per share data) | | | | |
| Net sales | $9,207 | $7,552 | $11,002 | $11,316 | $18,638 |
| Gross profit | 4,020 | 3,187 | 4,539 | 4,874 | 8,146 |
| Net earnings (loss) | 375 | (688) | 1,146 | 108 | 1,236 |
| Net earnings (loss) per share(1) | | | | | |
| Basic | $ 0.10 | $ (0.19) | $ 0.28 | $ 0.02 | $ 0.27 |
| Diluted | $ 0.10 | $ (0.19) | $ 0.26 | $ 0.02 | $ 0.24 |

| | Fiscal 2002 For the Three Months Ended | | | |
|---|---|---|---|---|
| | March 31, 2002 | June 30, 2002 | September 30, 2002 | December 31, 2002 |
| | (In thousands, except per share data) | | | |
| Net sales | $10,793 | $8,446 | $9,521 | $7,401 |
| Gross profit | 3,832 | 3,083 | 3,818 | 3,031 |
| Net earnings (loss) | 605 | 343 | 551 | 204 |
| Net earnings (loss) per share(1) | | | | |
| Basic | $ 0.20 | $ 0.10 | $ 0.16 | $ 0.06 |
| Diluted | $ 0.17 | $ 0.09 | $ 0.14 | $ 0.06 |

(1) Net earnings (loss) per share are computed individually for each of the quarters presented; therefore, the sum of the quarterly earnings per share may not necessarily equal the total for the year.

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**UNAUDITED CONDENSED COMBINED CONSOLIDATED PRO FORMA FINANCIAL DATA**

The following tables present our unaudited condensed combined consolidated pro forma financial data for the fiscal year ended December 27, 2003 and the three months ended March 27, 2004, and our pro forma as adjusted balance sheet as of March 27, 2004. The unaudited condensed combined consolidated pro forma statements of operations data for the fiscal year ended December 27, 2003, in the table below entitled For the Year Ended December 27, 2003 Pro Forma for 2003 Acquisitions, combine the consolidated statement of operations of Phoenix Footwear for the fiscal year ended December 27, 2003 with:

- the unaudited statement of income of Royal Robbins, and

- the unaudited statement of operations of H.S. Trask,

in each case for the periods from January 1, 2003 through the respective dates of the acquisitions.

The unaudited condensed combined consolidated pro forma statements of operations data for the fiscal year ended December 27, 2003, in the table below entitled For the Year Ended December 27, 2003 Pro Forma for 2003 Acquisitions, Altama Acquisition and the Offering, combine the consolidated statement of operations of Phoenix Footwear for the fiscal year ended December 27, 2003 with:

- the unaudited statement of income of Royal Robbins and the unaudited statement of operations of H.S. Trask, in each case for the periods from January 1, 2003 through the respective dates of the acquisitions; and

- the audited statement of operations for Altama for its fiscal year ended September 27, 2003.

The pro forma financial data for the three months ended March 27, 2004, in the table below entitled As of and for the Three Months Ended March 27, 2004 Pro Forma for Altama Acquisition and the Offering, combines the unaudited balance sheet and statement of operations of Phoenix Footwear as of and for the three months ended March 27, 2004 with the unaudited balance sheet and statement of operations of Altama as of and for the three months ended April 3, 2004.

We acquired H.S. Trask on August 7, 2003 and Royal Robbins on October 31, 2003. We entered into a stock purchase agreement to acquire Altama on June 15, 2004, but the transaction has not been completed. The pro forma financial data has been prepared to give effect to these acquisitions, as described above, and this offering, as if they had occurred at the beginning of the periods presented. Certain reclassifications have been made to conform Royal Robbins , H.S. Trask s and Altama s historical and pro forma amounts to Phoenix Footwear s financial statement presentation.

This pro forma and pro forma as adjusted financial data is based on estimates and assumptions. These estimates and assumptions have been made solely for purposes of developing this pro forma and pro forma as adjusted financial data, which are presented for illustrative purposes only and are not necessarily indicative of the results of operations or the financial condition that actually would have been realized had the entities been a single entity during these periods.

This information should be read together with the audited and unaudited historical financial statements for us, H.S. Trask, Royal Robbins and Altama included in this prospectus. It should also be read with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. The information below does not include cost savings and operational synergies that we expect to achieve upon fully consolidating our completed and pending acquisitions.

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**For the Year Ended December 27, 2003 Pro Forma for 2003 Acquisitions**

| | Phoenix Footwear(1) | Royal Robbins Period from January 1, 2003 to October 31, 2003(2) | H.S. Trask Period from January 1, 2003 to August 7, 2003 | Pro Forma Adjustments | Pro Forma Phoenix Footwear and 2003 Acquisitions |
|---|---|---|---|---|---|
| | (In thousands, except share and per share data) | | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Net sales | $ 39,077 | $15,010 | $4,971 | | $ 59,058 |
| Cost of goods sold | 22,457 | 7,411 | 2,994 | | 32,862 |
| Gross profit | 16,620 | 7,599 | 1,977 | | 26,196 |
| Operating expenses: | | | | | |
| Selling, general and administrative expenses | 12,696 | 5,864 | 2,258 | $ 149(3) | 20,967 |
| Other expense, net | 1,377 | | | | 1,377 |
| Total operating expenses | 14,073 | 5,864 | 2,258 | 149 | 22,344 |
| Operating income (loss) | 2,547 | 1,735 | (281) | (149) | 3,852 |
| Interest expense | 620 | 138 | 19 | 221(4) | 998 |
| Earnings (loss) before income taxes | 1,927 | 1,597 | (300) | (370) | 2,854 |
| Income tax expense (benefit) | 986 | 612 | (64) | (148)(5) | 1,386 |
| Net earnings (loss) | $ 941 | $ 985 | $ (236) | $ (222) | $ 1,468 |
| Net earnings per share | | | | | |
| Basic | $ 0.24 | | | | $ 0.33 |
| Diluted | $ 0.22 | | | | $ 0.30 |
| Weighted average number of shares used in per share calculations | | | | | |
| Basic | 3,963,382 | | | 486,466(6) | 4,452,848 |
| Diluted | 4,350,132 | | | 489,466 | 4,839,598 |

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**For the Year Ended December 27, 2003 Pro Forma for 2003 Acquisitions,**

**Altama Acquisition and the Offering**

| | Pro Forma Phoenix Footwear and 2003 Acquisitions(7) | Altama Year Ended Sept. 27, 2003 | Pro Forma Adjustments | Pro Forma Phoenix Footwear, 2003 Acquisitions, Altama and the Offering |
|---|---|---|---|---|
| | (In thousands, except share and per share data) | | | |
| **Consolidated Statements of Operations Data:** | | | | |
| Net sales | $ 59,058 | $31,583 | | $ 90,641 |
| Cost of goods sold | 32,862 | 23,832 | $ (247)(8) | 56,447 |
| Gross profit | 26,196 | 7,751 | 247 | 34,194 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 20,967 | 4,215 | (690)(9) | 24,492 |
| Other (income) expense, net | 1,377 | (901) | 901(10) | 1,377 |
| Total operating expenses | 22,344 | 3,314 | 211 | 25,869 |
| Operating income | 3,852 | 4,437 | 36 | 8,325 |
| Interest expense | 998 | 135 | 485(11) | 1,618 |
| Earnings (loss) before income taxes | 2,854 | 4,302 | (449) | 6,707 |
| Income tax expense (benefit) | 1,386 | 1,529 | (189)(5) | 2,726 |
| Net earnings (loss) | $ 1,468 | $ 2,773 | $ (260) | $ 3,981 |
| Net earnings per share | | | | |
| Basic | $ 0.33 | | | $ 0.56 |
| Diluted | $ 0.30 | | | $ 0.53 |
| Weighted average number of shares used in per share calculations | | | | |
| Basic | 4,452,848 | | 2,709,907(12) | 7,162,755 |
| Diluted | 4,839,598 | | 2,709,907 | 7,549,505 |

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**As of and for the Three Months Ended March 27, 2004 Pro Forma for**

**Altama Acquisition and the Offering**

| | Phoenix Footwear Three Months Ended March 27, 2004 | Altama Three Months Ended April 3, 2004(13) | Pro Forma Adjustments | Three Months Ended March 27, 2004 Pro Forma |
|---|---|---|---|---|
| | (In thousands, except share and per share data) | | | |
| **Consolidated Statement of Operations Data:** | | | | |
| Net sales | $ 18,638 | $ 12,004 | $ | $ 30,642 |
| Cost of goods sold | 10,492 | 8,502 | | 18,994 |
| Gross profit | 8,146 | 3,502 | | 11,648 |
| Operating expenses: | | | | |
| Selling, general and administrative expenses | 5,811 | 968 | 219(14) | 6,998 |
| Other (income) expense, net | 34 | (152) | 152(10) | 34 |
| Total operating expenses | 5,845 | 816 | 371 | 7,032 |
| Operating income (loss) | 2,301 | 2,686 | (371) | 4,616 |
| Interest expense | 170 | 37 | 129(11) | 336 |
| Earnings (loss) before income taxes | 2,131 | 2,649 | (500) | 4,280 |
| Income tax expense (benefit) | 895 | 255 | (210) (5)(15) | 940 |
| Net earnings (loss) | $ 1,236 | $ 2,394 | $ (290) | $ 3,340 |
| Net earnings per share | | | | |
| Basic | $ 0.27 | | | $ 0.46 |
| Diluted | $ 0.24 | | | $ 0.43 |
| Weighted average number of shares used in per share calculations | | | | |
| Basic | 4,533,466 | | 2,709,907(12) | 7,243,373 |
| Diluted | 5,108,598 | | 2,709,907 | 7,818,505 |

| | Phoenix Footwear as of March 27, 2004 | Altama as of April 3, 2004(13) | Pro Forma Adjustments | Pro Forma Phoenix Footwear Altama and Offering as of March 27, 2004 |
|---|---|---|---|---|
| **Consolidated Pro Forma 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 |

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(1) The net amount of $1,377,000 in Other expense, net, consists primarily of $394,000 of non-capitalized acquisition expenses, $354,000, associated with the relocation of our corporate offices from Old Town, Maine to Carlsbad, California, litigation costs and expenses totaling $733,000 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. These amounts were partially offset by an excise tax refund totaling $285,000, which was not taxable, associated with the fiscal 2001 termination of the Penobscot pension plan. Interest expense includes $376,000, of interest expense related to the settlement of the dissenting stockholders appraisal proceeding.

(2) The pro forma results for Royal Robbins give effect as of January 1, 2003 to the disposition by Royal Robbins of its 5.11, Inc. tactical clothing line business which occurred in June 2003, prior to our acquisition of Royal Robbins.

(3) Represents $149,000 of intangible asset amortization that would have been recorded for the pro forma periods with respect to the customer lists, non-compete agreements and websites obtained in connection with the Trask and Royal Robbins acquisitions. These intangible assets were amortized over their weighted average useful life. In making this pro forma calculation, we ascribed a value to the Trask and Royal Robbins intangible assets of $794,000 and $1,031,000, respectively.

(4) Represents pro forma interest expense on acquisition debt of approximately $9.0 million as if the debt was outstanding throughout the pro forma periods indicated, at an assumed interest rate of 4%.

(5) Based on a 42% effective tax rate, which assumes our current operations, corporate structure and asset base remain constant.

(6) Represents 699,980 shares issued in the H.S. Trask acquisition, 71,889 shares issued in connection with the Royal Robbins acquisition, on a weighted average basis for the periods from January 1, 2003 through the respective acquisition dates.

(7) The net amount of $1,377,000 in Other (income) expense, net, consists primarily of $394,000, or $0.03 pro forma per diluted share, of non-capitalized acquisition expenses, $354,000, or $0.03 pro forma per diluted share, 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 per diluted pro forma share, 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. These amounts were partially offset by an excise tax refund totaling $285,000, or $0.04 pro forma per diluted share, 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, 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 by $0.16.

(8) Represents nonrecurring manufacturing and indirect expenses related to discontinued employee benefits and workers compensation of $106,000, former executive severance of $80,000 and nonrecurring manufacturing expenses of approximately $61,000 which we do not expect that Altama will incur following the acquisition.

(9) The pro forma adjustments to selling, general and administrative expenses are comprised of $1,715,000 nonrecurring expenses which we do not expect that Altama will incur as operating expenses following the acquisition offset by $300,000 of pro forma executive compensation expenses for Altama going forward, and $725,000 of pro forma intangible asset amortization for this period. The 1,715,000 of nonrecurring general and administrative expenses are comprised of $1,559,000 related to salary and bonus paid to Altama s sole shareholder, $92,000 of discontinued employee benefits and $64,000 of other nonrecurring private company expenses. The $300,000 of pro forma executive compensation expenses are comprised of $200,000 in pro forma salary expense for Altama s president and $100,000 to be paid to Mr. Wyatt under his consulting agreement. The pro forma intangible asset amortization of $725,000 is based on management s preliminary estimate of the fair value of Altama s assets and liabilities. $28.3 million, or 80% of the excess purchase price over the net book value, is allocated to

goodwill and is not amortized. $7.2 million, or 20% of the excess purchase price over the net book value, is allocated to other identifiable intangibles and is amortized over an estimated weighted average of 10 years. These intangible asset amounts are estimates as the final allocation between goodwill, unamortizable intangibles and intangible assets will be based upon a third party appraisal or other appropriate allocation method.

(10) Represents the nonrecurring net investment security gains of $901,000 and $152,000 recognized by Altama for the fiscal year ended December 27, 2003 and quarter ended March 27, 2004, respectively, which we do not expect that Altama will incur as other income following the acquisition.

(11) We expect to fund a portion of the purchase price for Altama with $12.9 million in new debt under our proposed amended credit facility, comprised of a new $10.0 million term loan and $2.9 million in increased borrowings under our revolving credit facility. We also expect to refinance Altama s funded indebtedness, which as of April 3, 2004 was $3.5 million, with the increased borrowings from our revolving credit facility. The proposed new term loan calls for monthly principal payments due of $166,667. Pro forma interest expense related to this new debt of $485,000 and $129,000 for the fiscal year ended December 27, 2003 and quarter ended March 27, 2004, respectively, was computed assuming a 4% interest rate.

(12) Represents 2,500,000 shares of common stock issued in the public offering and 209,907 which we estimate we will issue in payment of $2.5 million of the purchase price due Altama s sole stockholder.

(13) Altama s financial data for 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. For the three months ended January 3, 2004, Altama had $10.5 million in net sales and $2.0 million in net earnings.

(14) The pro forma adjustments to selling, general and administrative expenses are comprised of $181,000 of pro forma intangible asset amortization (see Note 9 above for a description of the calculation for this amount), pro forma salary expense of $13,000 for Altama s president and $25,000 to be paid to Mr. Wyatt under his consulting agreement.

(15) Effective October 1, 2003, Altama elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Altama continues to be subject to income tax in jurisdictions that do not recognize S corporation status. As a result, Altama has provided a tax provision for these jurisdictions. In addition, Altama is subject to federal income taxes on the disposal of assets with built-in gains as of the effective date of the S corporation election. The income tax provision for the three months ended April 3, 2004 includes an amount for estimated built-in gains taxes on assets disposed of during the period.

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## MANAGEMENT S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the historical and pro forma consolidated financial statements and the related notes and the other financial information included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth under Risk Factors and under other captions contained elsewhere in this prospectus.*

*Effective January 1, 2003, we changed our accounting year to a 52/53 week period. Our annual accounting period begins on January 1 and ends on the Saturday nearest to December 31. The change in fiscal year end did not materially impact our fiscal 2003 results of operations or year-over-year comparisons.*

*In this presentation we discuss pro forma organic sales growth, which is a non-GAAP financial measure of reported sales based on our pro forma net sales for the first quarter of fiscal 2003. We believe that discussing pro forma organic sales growth provides a better understanding of our net sales performance and trends than reported revenue because it allows for more meaningful comparisons of current-period revenue to that of prior periods on a comparable basis. SEC rules require supplemental explanation and reconciliation of these non-GAAP financial measures, which is provided below at Results of Operations Phoenix Footwear Fiscal Quarter Ended March 27, 2004 Compared to Fiscal Quarter Ended March 29, 2003 Reconciliation.*

### Overview

We are a men s and women s footwear and apparel company. We design, develop and market branded dress and casual 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.

In recent years, we have implemented a number of strategic initiatives that had a positive impact on our revenue growth, business operations and financial condition. In June 1999, to increase our production flexibility and capacity while at the same time allowing us to substantially reduce capital expenditures and avoid the costs of managing a large production work force, we discontinued our domestic manufacturing operations and began to outsource all of our footwear products operations to foreign sources. All of our products are now produced by foreign manufacturers located in Brazil, China, South and Central America and Southeast Asia. We purchase our products with short-term purchase orders denominated in U.S. dollars. Our footwear products are purchased from vendors on credit terms generally payable within 45 days. Our apparel products are purchased mainly through letters of credit arrangements.

During the second quarter of fiscal 2003, we relocated our corporate offices from Old Town, Maine to Carlsbad, California. We believe this relocation assists us in attracting and retaining key personnel and provides us with greater access to our major customers and markets.

### Acquisition Program

In fiscal 2000, we embarked on an acquisition program in order to enhance our growth and increase profitability by leveraging our corporate infrastructure. In fiscal 2000, we acquired L.B. Evans Company s men s slipper business and related brands and Penobscot Shoe Company, including its Trotters brand of traditional women s footwear. In fiscal 2003, we acquired H. S. Trask & Co., a men s footwear company, and Royal Robbins, Inc., an apparel company. As a result of these acquisitions our net sales and Adjusted EBITDA improved significantly. For fiscal 1999, our net sales were approximately $15.0 million and our

Adjusted EBITDA was $(1.2 million). For fiscal 2003, our pro forma net sales were approximately $59.1 million and our pro forma Adjusted EBITDA was $6.1 million. We believe that, in addition to net earnings or loss, Adjusted EBITDA is a useful financial performance measure for assessing operating performance because it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. We also believe that it is useful to provide greater comparability between periods as well as an indication of our results on an ongoing basis. See Note 8 to Selected Historical Consolidated Financial Data for a reconciliation of Adjusted EBITDA to net earnings (loss) and Note 7 to Summary Unaudited Condensed Combined Consolidated Pro Forma Financial Data for a reconciliation of Adjusted EBITDA to pro forma net earnings.

We intend to continue to pursue acquisitions of sustainable niche brands in the footwear and apparel industry that we believe could complement or expand our business, or augment our market coverage. We seek companies or product lines that we believe have consistent historical cash flow and brand growth potential and can be purchased at a reasonable price. We also may acquire businesses that we feel could provide us with important relationships or otherwise offer us growth opportunities. We plan to fund our future acquisitions through bank financing, seller debt or equity financing and public or private equity financing. Although we are actively seeking acquisitions, as of the date of this prospectus we have no agreements with respect to any such acquisitions, other than the pending Altama acquisition, and there can be no assurance that we will be able to identify and acquire other businesses or obtain necessary financing on favorable terms. This offering is subject to the concurrent closing of the Altama acquisition.

We funded our acquisitions in fiscal 2000 primarily through bank debt, which at December 31, 2000 totaled $18.9 million. In fiscal 2001, we arranged for a $2.0 million investment in our stock by our 401(k) plan, which was funded through a termination of Penobscot s over-funded pension plan, and a $750,000 investment by our Chairman, and then Chief Executive Officer, James Riedman, in a convertible subordinated debenture that he converted in fiscal 2002 into shares of our common stock. In December 2001, we sold our men s and women s slipper business, which included the Daniel Green , L.B. Evans and Woolrich brands and the related inventory, for a gain of $1.2 million, so that we could concentrate our efforts on the Trotters and SoftWalk brands and on future acquisitions.

During fiscal 2002, we continued our focus on operating our business profitably and reducing our bank debt. By December 31, 2002, we reduced our bank debt to $3.0 million. As a result, we positioned ourselves to continue with our strategy of building our organization and portfolio of brands through acquisitions.

In the last two quarters of fiscal 2003, we acquired H.S. Trask & Co., a men s footwear company, and Royal Robbins, Inc., an apparel company. We paid a total purchase price of $13.2 million for these two acquisitions, of which $9.5 million was cash and the remainder was an issuance of 771,869 shares of our common stock. We also agreed to make potential earn-out payments in the Royal Robbins transaction, subject to certain financial thresholds. See Business Recent Acquisitions. These acquisitions were funded through a combination of bank financing and seller equity and debt financing. We accounted for both of these acquisitions using the purchase method of accounting and, accordingly, the assets acquired, liabilities assumed, and results of operations are included in our consolidated financial statements from the respective dates of the acquisitions. The excess of the purchase price in these acquisitions over the fair value of identifiable net assets acquired represents goodwill and unamortizable intangible assets that must periodically be tested for impairment. Trademarks and trade names are deemed to have an indefinite useful life and are not presently being amortized, but we periodically test them for impairment in accordance with current accounting standards.

Our fiscal 2003 acquisitions added to our portfolio of brands, diversified our product offerings and customer base and provided a base for significant additional revenues in the future. Reflecting the impact of the two acquisitions in fiscal 2003, we had pro forma net sales of $59.1 million, and pro forma per diluted share earnings of $0.30 compared to our reported net sales of $39.1 million and reported per diluted share earnings of $0.22. See Unaudited Condensed Combined Consolidated Pro Forma Financial Data and the pro forma financial data appearing elsewhere in this prospectus. Since making these acquisitions, we have integrated

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their operations with our infrastructure and have rationalized their operations to take advantage of duplicative overhead and operational inefficiencies.

During fiscal 2003, we also focused on investing in our infrastructure to support our newly acquired brands. For example, we hired seasoned personnel in the areas of product design, merchandizing and brand management. To accommodate our newly acquired brands, in March 2004 we expanded our corporate headquarters by adding 5,000 additional square feet at annual additional rent and related costs of $107,000. On June 15, 2004, we strengthened our management team by adding Richard E. White as our Chief Executive Officer.

**Pending Acquisition**

On June 15, 2004 we signed a stock purchase agreement with Altama Delta Corporation and its sole shareholder, W. Whitlow Wyatt. Pursuant to this agreement, we will acquire all of Altama s capital stock in exchange for a purchase price consisting of $36.5 million in cash, shares of our common stock valued at $2.5 million, and an earnout payment of $2.0 million subject to Altama meeting certain sales requirements. We also plan to enter into a consulting agreement with Mr. Wyatt for two years following the acquisition. In addition, in consideration for $2.0 million in total payments, he will also agree not to compete with us for a period of five years following the acquisition. For more information on the acquisition see Pending Altama Acquisition.

Altama s business generates lower gross margins than ours historically has generated. In fiscal 2003, Altama s gross margin percentage was 25%, and ours was 43%. Therefore, we expect that the acquisition will cause our gross margin to be lower in the future. However, Altama s selling, general and administrative expenses as a percentage of net sales in fiscal 2003 was significantly lower than ours. Therefore, we do not expect that our overall operating margin will significantly change as a result of the acquisition.

As a result of its DoD business, Altama has different working capital requirements and lower inventory risks than we do. For its DoD business, Altama produces its inventory only upon receipt of orders under specific contracts. After completion of the manufacturing process, DoD orders are reviewed for quality assurance, and upon approval Altama bills the DoD. Altama s accounts receivable days with DoD orders at April 3, 2004 was 51. In addition to assuming little, if any, inventory risk, Altama has significantly fewer days receivable outstanding.

**Results of Operations Phoenix Footwear**

The following table sets forth selected consolidated operating results for each of the last three fiscal years and for each of the quarterly periods indicated, presented as a percentage of net sales.

| | Fiscal Year Ended | | | Fiscal Quarter Ended | |
|---|---|---|---|---|---|
| | **December 31, 2001** | **December 31, 2002** | **December 27, 2003** | **March 29, 2003** | **March 27, 2004** |
| Net sales | 100% | 100% | 100% | 100% | 100% |
| Costs of goods sold | 67% | 62% | 57% | 56% | 56% |
| Gross margin | 33% | 38% | 43% | 44% | 44% |
| Selling, general and administrative and other expenses | 26% | 28% | 36% | 36% | 31% |
| Operating income | 7% | 10% | 7% | 8% | 13% |
| Interest expense | 4% | 2% | 2% | 1% | 1% |
| Earnings before income taxes | 3% | 8% | 5% | 7% | 12% |
| Income tax expense | | 3% | 3% | 3% | 5% |
| Net earnings | 3% | 5% | 2% | 4% | 7% |

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**Fiscal Quarter Ended March 27, 2004 Compared to Fiscal Quarter Ended March 29, 2003**

***Net Sales.*** Our net sales for the first quarter of fiscal 2004 increased $9.4 million, or 102%, to $18.6 million from $9.2 million for the first quarter of fiscal 2003. Of this increase, $7.7 million is attributable to acquired brand revenue associated with the H.S. Trask, Ducks Unlimited, and Royal Robbins brand acquisitions that occurred during the second half of fiscal 2003. Giving effect to these acquisitions as if they occurred on January 1, 2003, we had $1.8 million in pro forma organic net sales growth for our five brands, or 10%, based on $16.9 million in pro forma net sales in the first quarter of fiscal 2003. The pro forma net sales growth during the current quarter was primarily due to strong acceptance of these brands spring product lines at retail. Some of these product lines included new designs that were developed in fiscal 2003. We expect to continue this level of investment in product design and development throughout fiscal 2004.

***Gross Profit.*** Our gross profit for the first quarter of fiscal 2004 increased 103% to $8.1 million as compared to $4.0 million for the comparable prior year period. Gross margin remained constant at 44% for both periods. The dollar increase in gross profit was primarily related to the addition of the H.S. Trask, Ducks Unlimited, and Royal Robbins product lines.

***Selling, General and Administrative Expenses.*** Our selling, general and administrative expenses, or SG&A expenses, were $5.8 million, or 31% of net sales, for the first quarter of fiscal 2004 as compared to $2.9 million or 31% of net sales for the first quarter of fiscal 2003. This dollar increase was primarily related to increased operating costs associated with supporting a higher sales volume and our recently acquired brands.

***Other Expense, Net.*** Our Other expense, net was $34,000 for the first quarter of fiscal 2004 and consisted primarily of expenses incurred in connection with non-capitalized acquisition activities. Our Other expense, net of $476,000 for the first quarter of fiscal 2003 consisted primarily of costs associated with the relocation of our corporate headquarters from Old Town, Maine to Carlsbad, California and the discontinued Antigua Enterprises acquisition effort.

***Interest Expense.*** Our interest expense for the first quarter of fiscal 2004 was $170,000 as compared to $66,000 in the first quarter of fiscal 2003. This increase was a result of higher average outstanding indebtedness during the current quarter as compared to the prior year period and included $40,000 related to the accelerated expensing of deferred financing costs. This increased indebtedness was incurred to fund our acquisitions in the second half of fiscal 2003.

***Income Taxes.*** We recorded income tax expense for the first quarter of fiscal 2004 of $895,000 as compared to $250,000 for the first quarter of fiscal 2003. Our effective tax rates during the first quarter of fiscal 2004 and 2003 were 42% and 40%, respectively. The increased effective tax rate for the first quarter of fiscal 2004 reflects our current operations, corporate structure and asset base. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the amounts used for income tax purposes.

***Net Earnings.*** Our net earnings for the first quarter of fiscal 2004 were $1.2 million compared to $375,000 for the first quarter of fiscal 2003, a 230% increase. Our net earnings per diluted share for the first quarter of fiscal 2004 were $0.24 compared to $0.10 per diluted share for the first quarter of fiscal 2003, a 140% increase in net earnings per diluted share. This improvement is a result of our increased net sales from the 2003 acquisitions, along with successful integration of these new brands and our continuing efforts of cost controls in inventory management and sourcing.

***Reconciliation.*** Our non-GAAP financial measure of pro forma organic sales growth discussed above under the heading Results of Operations Phoenix Footwear Fiscal Quarter Ended March 27, 2004 Compared to Fiscal Quarter Ended March 29, 2003 Net Sales, and elsewhere in this prospectus, does not replace the presentation of our GAAP financial results and does not necessarily reflect the actual financial results of the combined companies for the periods presented. In our measure of pro forma net sales, we have included unaudited prior year period net sales of H.S. Trask and Royal Robbins. This information is provided to present the combined companies results as if they were combined for the period presented below. A reconciliation of the non-GAAP financial measures contained in this report to the most comparable GAAP measures is as follows:

| | Unaudited Pro Forma Net Sales For the Three Months Ended March 29, 2003 |
|---|---|
| | (In thousands) |
| Phoenix Footwear Group, Inc. (Actual) | $ 9,207 |
| Acquired Brands (H.S. Trask & Co., Royal Robbins, Inc.) | 7,678 |
| Total Net Sales | $16,885 |

**Fiscal 2003 Compared to Fiscal 2002**

***Net Sales.*** Our net sales for fiscal 2003 were $39.1 million compared to $36.2 million for fiscal 2002, an 8% increase. Included in fiscal 2003 net sales are partial year net sales of $4.7 million from fiscal 2003 acquisitions. Excluding these sales, our fiscal 2003 net sales would have decreased $1.8 million, or 5%, compared to fiscal 2002. Against the backdrop of depressed retail and economic conditions, this decrease was primarily associated with decreased sales volume of our Trotters brand, which was partially offset by the growth in the sales volume of our SoftWalk brand. The drop in Trotters sales was due to poor retail acceptance of certain Trotters styles during the Spring and Summer selling seasons. We subsequently increased our investment in new product design, which resulted in a product offering that received increased retailer support for the Trotters brand fiscal 2003 Fall and Winter selling seasons. We expect to continue to increase our investment in product development in future periods, as demonstrated by the recently introduced H.S. Trask women s and Strol product lines. Additionally, the Royal Robbins product line has historically invested significant resources in new product development, and we anticipate this will continue in the future.

***Gross Profit.*** Our gross profit for fiscal 2003 increased to $16.6 million compared to $13.8 million for fiscal 2002. Our gross margin increased to 43% compared to 38% for fiscal 2002. Our gross margin improvement reflects a reduction in the costs of our products through better inventory management and improved sourcing. In addition, this improvement relates to a change in product mix and a reduction in the volume of closeout sales and associated mark-downs from the previous fiscal year.

***Selling, General and Administrative Expenses.*** Our SG&A expenses for fiscal 2003 were $12.7 million, or 32% of net sales, compared to $9.7 million, or 27% of net sales, for fiscal 2002. The increase includes $1.6 million in SG&A expenses associated with our brands acquired in fiscal 2003, $417,000 of employee compensation and benefit costs from additional hires, $516,000 of increased marketing and advertising expenses, and $531,000 of additional occupancy costs. These same items contributed to the increase of SG&A expenses as a percentage of net sales in fiscal 2003. We anticipate that our SG&A expenses for fiscal 2004 as a percentage of net sales should trend slightly lower taking into account the completion of the pending Altama acquisition.

***Other Expense, Net.*** Our other expenses, net, for fiscal 2003 were approximately $1.4 million, compared to $442,000 for fiscal 2002. Fiscal 2003 other expenses, net, primarily consisted of $733,000 in litigation expenses incurred with the dissenting Penobscot stockholders settlement, $394,000 in non-capitalized acquisition costs, $354,000 in expenses related to our corporate headquarters relocation and the write-off of non-trade receivables totaling $163,000. These expenses were partially offset by an excise tax refund of $285,000 associated with the fiscal 2001 Penobscot pension plan termination. Other expense, net, totaled $442,000 for fiscal 2002 and consisted primarily of a loss on the sale of assets and asset impairment charges.

***Interest Expense.*** Interest expense for fiscal 2003 was $620,000, including $376,000 related to the Penobscot litigation compared to $751,000, including $280,000 associated with the Penobscot litigation, in fiscal 2002. Exclusive of the interest for the Penobscot litigation, interest expense would have decreased $227,000 during fiscal 2003 as a result of lower interest rates and lower average borrowings on our revolving credit facility, which was partially offset by new term loans for a portion of the fiscal year in connection with our fiscal 2003 acquisitions. As the result of additional borrowings of $12.9 million under the proposed amended credit facility in connection with the planned Altama acquisition, we expect that our interest expense for fiscal 2004 will be higher than in fiscal 2003.

***Income Taxes.*** Our income tax expense for fiscal 2003 was $986,000 compared to $1.2 million for fiscal 2002. Our effective tax rates were 51% for fiscal 2003 and 42% for fiscal 2002. The increase in the fiscal 2003 effective tax rate was primarily associated with the Penobscot litigation settlement, which was substantially non-deductible for income tax purposes, and an excise tax refund which was substantially non-taxable for income tax purposes. We anticipate our effective income tax rate for fiscal 2004 to be approximately 42% based on our current operations, corporate structure and asset base, and taking into account completion of the pending Altama acquisition. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the amounts used for income tax purposes.

***Net Earnings.*** Our net earnings were $941,000 for fiscal 2003, which was $762,000, or 45%, lower than our net earnings for fiscal 2002. These results represented diluted earnings per share of $0.22, which was $0.23 lower than during fiscal 2002. Poor retail conditions throughout the majority of fiscal 2003 and the items discussed in Other Expense, Net above negatively affected our financial performance. In early fiscal 2004, we have encountered a marginal improvement in retailer optimism as indicated by initial Spring order activity. Although we are cautiously optimistic of the initial fiscal 2004 retail environment and the related reports of increased consumer spending, there is no assurance that a positive economic trend has been established or if established, that it will continue in the future.

**Fiscal 2002 Compared to Fiscal 2001**

***Net Sales.*** Our net sales for fiscal 2002 were $36.2 million compared to $46.9 million for fiscal 2001. Net sales for fiscal 2001 included $12.6 million from the slipper brands we divested in December 2001. Combined net sales for our two then current brands, Trotters and SoftWalk, increased 5% or $1.8 million for fiscal 2002 compared to fiscal 2001, primarily due to increased volume.

***Gross Profit.*** Our gross profit for fiscal 2002 decreased to $13.8 million from $15.4 million for fiscal 2001. The decrease in the dollar amount of our gross profit was primarily due to our reduction in net sales following the divestiture of our slipper brands. Our gross margin increased to 38% for fiscal 2002 compared to 33% for fiscal 2001. The increase in gross margin reflects the fact that the divested slipper brands carried a lower gross margin than our combined Trotters and SoftWalk shoe brands.

***Selling, General and Administrative Expenses.*** Our SG&A expenses for fiscal 2002 were $9.7 million, or 27% of net sales, compared to $11.9 million, or 25% of net sales, for fiscal 2001. The reduction in SG&A expenses and the increase in SG&A expenses as a percentage of net sales during fiscal 2002 was primarily related to divestiture of our slipper brands.

***Other Expenses, Net.*** Our other expenses, net, for fiscal 2002 were $442,000, compared to $375,000 for fiscal 2001. Included in the fiscal 2002 amount was a loss of $254,000 on the sale of property, impairment charges of $84,000 on a building held for sale and a write-off of a $104,000 receivable associated with the sale of our slipper brands in fiscal 2001. Included in the fiscal 2001 amount were costs associated with the termination of the Penobscot pension plan, totaling $1.7 million. During the fiscal quarter ended June 30, 2001, we completed the termination of this pension plan. Upon termination, the plan had $2.4 million in surplus, which was less than the carrying value of our prepaid pension cost asset of $3.7 million. This resulted in a $1.3 million loss. This loss was increased by an excise tax totaling $357,000, which resulted in a total loss on this transaction of $1.7 million. Also included in other expenses, net for fiscal 2001 is a gain of $1.2 million associated with the fiscal 2001 sale of our slipper brands and a $142,000 gain on the sale of property.

***Interest Expense.*** Interest expense for fiscal 2002 was $751,000 compared to $1.7 million for fiscal 2001. This decrease resulted from lower interest rates and lower average outstanding indebtedness.

***Income Taxes.*** Our income tax expense for fiscal 2002 was $1.2 million compared to $67,000 for fiscal 2001. Our effective tax rate was 42% in fiscal 2002, compared to 5% in fiscal 2001. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities, for financial reporting purposes, and the amounts used for income tax purposes. The difference in the effective tax rates for the two fiscal years resulted from earnings generated in fiscal 2002 and the reduction of the deferred tax asset valuation allowance in fiscal 2001 as a result of our evaluation of the realization of our deferred tax assets.

***Net Earnings.*** Our net earnings were approximately $1.7 million for fiscal 2002, which was $333,000, or 24%, higher than our net earnings for fiscal 2001. These results represented $0.45 per diluted share in fiscal 2002 and $0.41 per diluted share in fiscal 2001. The increase in net earnings during fiscal 2002 was primarily associated with our divestiture during late fiscal 2001 of our slipper brands, which historically generated operating losses, and increased sales and profits during fiscal 2002 of our women s footwear brands.

**Seasonal and Quarterly Fluctuations**

The following sets forth our net sales and income (loss) from operations summary operating results for the quarterly periods indicated (in thousands).

| | Fiscal 2002 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net sales | $10,793 | $8,446 | $9,521 | $7,401 |
| Income from operations | $ 1,240 | $ 675 | $ 992 | $ 754 |

| | Fiscal 2003 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net sales | $9,207 | $7,552 | $11,002 | $11,316 |
| Income (loss) from operations | $ 691 | $ (353) | $ 1,714 | $ 495 |

Our quarterly results of operations have fluctuated, and we expect will continue to fluctuate in the future, as a result of seasonal variances. Net sales and income from operations in our first and third quarters typically are stronger than in our second and fourth quarters.

**Liquidity and Capital Resources**

Our primary liquidity requirements include debt service, capital expenditures, working capital needs and financing for acquisitions. We have historically met these liquidity needs with cash flows from operations, borrowings under our term loans and revolving credit facility, and seller financing in acquisitions.

On October 31, 2003, we obtained a secured $24.8 million credit facility from Manufacturers and Traders Trust Company. The proceeds of this credit facility were used to fund the cash portion of the purchase price due in the Royal Robbins acquisition and to refinance our then-existing credit facility, including the debt previously incurred with the H.S. Trask acquisition, and to pay related fees and expenses. This credit facility includes three term loans totaling $6.8 million in principal and a revolving credit facility with maximum availability running from $15.0 million during the months of June through the following January to $18.0 million during the months from February through the following May.

Through May 28, 2004, amounts borrowed under our revolving credit facility bear interest at a rate, as selected by us, equal to LIBOR plus 2.75%, or the prime rate plus .25%. At May 28, 2004, LIBOR with a 90-day maturity was 1.30% and the prime rate was 4.0%. The weighted average interest rate on the balance of our revolver was 3.65% at May 28, 2004. The term loans bear interest at a rate, as selected by us, equal to LIBOR plus 3.00%, or the prime rate plus .375%. At May 28, 2004, the weighted average interest rate on the term loans was 3.69%.

The outstanding balances for the revolving credit facility and our term loans at May 28, 2004 were $5.5 million and $5.4 million, respectively. The available borrowing capacity under the revolving credit facility, net of outstanding letters of credit of $4.2 million, was approximately $900,000 at May 28, 2004. Future uses of proceeds of the revolving credit facility are restricted to funding our working capital requirements and capital expenditures.

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The revolving credit facility matures on June 30, 2005. On our first term loan, $1.5 million remained to be paid as of May 28, 2004 in two remaining consecutive $750,000 installments due on the first day of May in each subsequent year. On our second term loan, $2.5 million remained to be paid as of May 28, 2004 in 17 remaining consecutive quarterly $150,000 installments, due on May 1, August 1, November 1 and February 1 of each year. On our third term loan, $1.4 million remained to be paid as of May 28, 2004 in 54 remaining monthly $25,000 installments due on the first day of each month.

We have received a commitment from our bank to increase our existing credit facility to a maximum of $33.4 million and to extend the maturity date until June 30, 2006 in connection with the pending Altama acquisition. We plan to close this amended credit facility concurrently with the completion of the acquisition and this offering. The new facility will include an $18.0 million revolving line of credit and $15.4 million in term loans, including a new $10.0 million term loan which will be repayable in equal monthly installments maturing in July 2009. Upon completion of the Altama acquisition and related financing, we expect to have approximately $4.0 million of available capacity under our proposed amended credit facility. Our obligations under our proposed amended credit facility, which are currently secured by all of our assets, will be further secured by Altama s assets.

The proposed amended credit facility contains a borrowing base formula, security agreement, and covenants that are similar to those of our existing credit facility. The aggregate amount that we may borrow under our existing credit facility at any time is limited by a borrowing base formula, which is generally determined according to our inventory and accounts receivable levels. Our existing credit facility contains covenants that restrict, among other things, our ability to incur additional indebtedness, pay dividends, create certain liens and make acquisitions. It also contains certain financial maintenance covenants, which, among other things, specify capital expenditure limits, a maximum average borrowed funds to EBITDA ratio, current ratios and minimum cash flow coverage ratio and net earnings requirements. If we violate any of these covenants, or violate any other provision of our existing lending arrangement, our credit agreement provides that our lender has the right to accelerate repayment of all amounts outstanding under the agreement and/or to commence foreclosure proceedings on our assets. We were in compliance with all covenants under our existing credit facility at December 27, 2003 and remain so as of the date of this prospectus.

***Cash Flows Provided By Operations.*** During the first quarters ended March 27, 2004 and March 29, 2003, our net cash used by operations was $2.7 million and $591,000, respectively. Our increase in cash used by operating activities was primarily due to the increase in accounts receivable related to increased sales.

During fiscal 2003 and fiscal 2002, we generated $282,000 and $9.9 million, respectively, in cash flows from operations. The $9.6 million decline in cash flows provided by operations resulted from our payment of settlement expenses relating to the Penobscot dissenting stockholders action and the lack of any carry-over receivables from our divested slipper business. Net cash provided by operating activities for fiscal 2002 was due primarily to the decrease in working capital resulting from the fiscal 2001 divestiture of our slipper brands, including the liquidation of approximately $5.0 million in receivables that we retained when we divested our slipper business. Our fiscal 2003 acquisitions resulted in increases in our in-stock inventory position as well as our trade receivables. In addition, non-capitalized expenses associated with our acquisition activities contributed to the decline in cash provided by operations during fiscal 2003.

Working capital at the end of the first quarter of fiscal 2004 was approximately $17.6 million, as compared to approximately $13.4 million at the end of fiscal 2003 and approximately $8.8 million at the end of fiscal 2002. Our working capital varies from time to time as a result of the seasonal requirements of our brands, which have historically been heightened during the first and third quarters, the timing of factory shipments, the need to increase inventories and support an in-stock position in anticipation of customers orders, and the timing of accounts receivable collections. Our working capital at the end of the first quarter of fiscal 2004 compared to the end of fiscal 2003 increased due primarily to the impact of our fiscal 2003 acquisitions. The increase in working capital at the end of fiscal 2003 compared to the end of fiscal 2002 is due primarily to the impact of our fiscal 2003 acquisitions. These acquisitions caused us to increase our short and long term debt and caused increases in our year-end inventory and accounts receivable balances.

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Our current ratio, the relationship of current assets to current liabilities, increased to 2.55 at the end of the first quarter of fiscal 2004 from 2.37 at the end of fiscal 2003 due primarily to our fiscal 2003 acquisitions. Our current ratio had also decreased at December 27, 2003 from 2.58 at December 31, 2002 due primarily to our fiscal 2003 acquisitions and the dissenting stockholders litigation settlement.

Accounts receivable days decreased from 76 days at the end of fiscal 2003 to 57 days at the end of the first quarter 2004, reflective of reduced payment terms and a higher ratio of quarterly sales to average accounts receivables. Accounts receivable days had increased from 72 days in fiscal 2002. This was reflective of extended payment terms, and slower collection activity partially offset by higher consumer direct sales, which are predominantly settled through credit card payments.

***Investing Activities.*** In the first quarter of fiscal 2004, our cash used in investing activities totaled $454,000 compared to cash provided by investing activities in the first quarter of fiscal 2003 of $418,000. During the first quarter of fiscal 2004 cash used in investing activities was primarily due to purchases of equipment. Cash provided by investing activities in the first quarter of fiscal 2003 consisted mostly of net proceeds from the disposal of property and equipment.

In fiscal 2003, our cash used in investing activities totaled $7.8 million compared to cash provided by investing activities in fiscal 2002 and fiscal 2001 of $1.3 million and $2.0 million, respectively. During fiscal 2003, most of our cash used in investing activities consisted of the purchase price payments we made for our fiscal 2003 acquisitions. Cash provided by investing activities in fiscal 2002 consisted mostly of the $1.6 million in note receivable proceeds we received related to the sale of our slipper brands. Cash provided by investing activities in fiscal 2001 consisted primarily of the $1.5 million in proceeds we received related to the sale of our slipper brands.

For fiscal 2003, our capital expenditures were $326,000 compared to $309,000 for fiscal 2002. These capital expenditures consisted mostly of furniture, fixtures and computer equipment associated with the relocation of our headquarters from Maine to California. In addition, we renovated portions of our distribution center in Maine to decrease the amount of office space and increase our warehouse storage capacity. We currently have no material commitments for future capital expenditures. For the current fiscal year, we anticipate capital expenditures of approximately $560,000, which will consist generally of new computer hardware and software, a trade show booth and a new roof for our Maine distribution center. We also anticipate that Altama s business will require capital expenditures of approximately $100,000 for fiscal 2004, primarily for equipment upgrades. The actual amount of capital expenditures for fiscal 2004 may differ from this estimate, largely depending on acquisitions we may complete or unforeseen needs to replace existing assets.

***Financing Activities.*** For the first quarter of fiscal 2004, our net cash provided by financing activities was $2.1 million compared to cash used by financing activities of $77,000 for the first quarter of fiscal 2003. The cash provided in the current year quarter was primarily generated from net borrowings of $2.1 million. Cash used for financing activities in the comparable prior year quarter relates primarily to the repurchase of common stock from our 401(k) plan upon the election of terminated plan participants, partially offset by cash received from stock option exercises. This increase was primarily due to additional cash requirements associated with our newly-acquired brands.

For fiscal 2003, our net cash provided by financing activities was $7.3 million compared to $11.1 million and $2.1 million for fiscal 2002 and fiscal 2001, respectively. The difference resulted primarily from $4.0 million in additional advances under our revolving credit facility and $4.5 million in new term loan proceeds in fiscal 2003, both of which were partially offset by $928,000 in repayments of notes payable and $201,000 in repurchases of common stock. We incurred the additional indebtedness generally to fund the Penobscot litigation settlement and our new acquisitions, including the payment of the cash portion of the purchase price due and to refinance working capital indebtedness of the acquired businesses. This additional indebtedness was provided to us by our bank under our $24.8 million credit facility described above. In comparison, during fiscal 2002 we used cash flow from operations and note receivable proceeds from the sale of our slipper brands to pay down $8.2 million on our revolving credit facility and a net $2.9 million on our term loans. In fiscal 2001, we used cash flow from operations, proceeds from the sale of our slipper brands and the net cash surplus contributed to our 401(k) plan following termination of the Penobscot pension plan to pay down $4.3 million on our revolving credit facility.

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, for an aggregate purchase price of $6.4 million, consisting of $2.9 million in cash, common stock valued at $3.2 million and $300,000 in acquisition related expenses. The value of the 699,980 shares issued was based on the average closing market price of our common stock over the three day period before the terms of the acquisition were agreed upon and announced. Concurrent with the acquisition, Harrison Trask entered into an employment agreement with us which expired on December 31, 2003 and a consulting agreement which continues through December 31, 2005. The consulting agreement provides for an annual fee of $90,000. Mr. Trask agreed not to compete with us through December 31, 2005.

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, for an aggregate purchase price of $6.8 million, consisting of $6.0 million in cash and 71,889 shares of common stock valued at approximately $500,000 and $300,000 in acquisition related expenses, plus potential contingent earnout cash payments. The potential contingent earnout payments equal 25% of the Royal Robbins product line s gross profit over the 12-month periods ending May 31, 2004 and 2005, respectively, so long as minimum thresholds are achieved. We expect that the earn-out payment that is due for the 12 months ended May 31, 2004 and payable on or before June 30, 2004 will be approximately $2.5 million, which we will fund either from operations or our revolving credit facility. However, in accordance with SFAS No. 141, Business Combinations, we recorded a contingent liability in the amount of $1.9 million at December 27, 2003. For a further explanation, see Note 5 to our Consolidated Financial Statements included elsewhere in this prospectus. Payments in excess of this amount will result in an increase to the purchase price and goodwill for this acquisition. Concurrent with the acquisition, we entered into a consulting agreement with Dan Costa, former chief executive officer and previous controlling stockholder of Royal Robbins, Inc., through October 31, 2005, which provides for an annual fee of $150,000. Mr. Costa agreed not to compete with us through October 31, 2008.

In connection with the pending Altama acquisition, we have agreed to pay a purchase price of $39.0 million, plus an earnout payment of $2.0 million subject to Altama meeting certain sales requirements. As part of the transaction, we will refinance Altama s working capital indebtedness as of the date of closing. Payment of the purchase price is to be made by delivery of $36.5 million in cash, and shares of our common stock valued at $2.5 million. We have also agreed to pay Mr. Wyatt $2.0 million in consideration for a five-year covenant-not-to-compete and other restrictive covenants, payable $400,000 per year over five years, and to enter into a two-year consulting agreement with him that provides for an annual consulting fee of $100,000. We plan to pay the cash portion of the purchase price and to refinance Altama s funded indebtedness with the net proceeds from this offering, and a $10.0 million term loan and approximately $2.9 million borrowings under our proposed amended credit facility. 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.

Our liquidity and capital resources have been significantly impacted by acquisitions and may be impacted in the foreseeable future by additional acquisitions. Additional financing will have to be obtained for any future acquisitions that we may make. We have historically financed acquisitions with borrowings, cash flows from operations, issuances of our stock and through deferred contingent earn-out payments. We expect this financing for future acquisitions could be a combination of these methods along with seller financing or the issuance of debt securities. Seller financing depends upon the sellers willingness to accept our shares as part of the consideration for an acquisition and our willingness to issue our common shares, which will be impacted by the market value of our common shares. If seller financing is not available, we may be required to use cash from operations, borrowings under our financing facilities and/or issuances of additional equity or debt securities. Using cash from operations to finance acquisitions would reduce the funds we have available for other corporate purposes. To the extent we use additional borrowing under our financing facilities, the resulting increase in debt and interest expense could have a negative impact on liquidity. The additional borrowings could also require us to commit to additional covenants that further limit our financial and operational flexibility.

In May 2002, our board of directors authorized us to repurchase shares of our outstanding common stock in the open market or privately negotiated transactions from time to time. We repurchased 8,000 and zero shares during fiscal 2003 and fiscal 2002, respectively, under this program at a total cost of $27,000. This program has been terminated. Our board of directors has authorized us to repurchase, and from time to time we have repurchased, shares in private transactions from our 401(k) plan upon the election of plan participants. During fiscal 2003, we repurchased 49,833 shares from the 401(k) plan at a total cost of $174,000. During the first quarter of fiscal 2004, we repurchased 11,040 shares from the 401(k) plan at a total cost of $99,636. We place repurchased shares in treasury, and they are subsequently retired.

Our ability to generate sufficient cash to fund our operations depends generally on the results of our operations and the availability of financing. Our management believes that cash flows from operations in conjunction with the available borrowing capacity under our proposed amended credit facility, net of outstanding letters of credit, of approximately $4.2 million at May 28, 2004, will be sufficient after our proposed Altama acquisition and for the foreseeable future to fund operations, meet debt service and contingent earnout payment requirements and fund capital expenditures other than future acquisitions.

**Inflation**

We believe that the relatively moderate rates of inflation in recent years have not had a significant impact on our net sales or profitability.

**Contractual Obligations**

The following table summarizes our contractual obligations at December 27, 2003 and the effects we expect such obligations to have on liquidity and cash flow in future periods.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| | | | (In thousands) | | |
| Long-term debt obligations | $12,082 | $1,661 | $8,792 | $1,629 | |
| Operating leases | 1,052 | 484 | 349 | 219 | |
| Potential earnout payments(1) | $ 5,000 | $2,500 | $2,500 | | |

(1) In connection with our acquisition of Royal Robbins, we agreed to pay as part of the purchase price potential earn-out cash payments equal to 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 by the acquired business during these periods. The $5.0 million represents management s current estimate of the potential earnout cash payments we may be required to pay. Actual payments may vary from these estimated amounts.

There were no material changes in our contractual obligations out of the ordinary course of business during the quarter ended March 27, 2004.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements other than operating leases. See Contractual Obligations above. We do not believe that these operating leases are material to our current or future financial condition, results of operations, liquidity, capital resources or capital expenditures.

**Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to interest rate changes primarily as a result of our line of credit and long-term debt, which we use to maintain liquidity and to fund capital expenditures and expansion. Our market risk exposure with respect to this debt is to changes in the prime rate in the U.S. and changes in LIBOR. Our revolving line of credit and our term loans provide for interest on outstanding borrowings at rates tied to the prime rate

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or, at our election, tied to LIBOR. At December 27, 2003 and May 28, 2004, we had $12.1 million and $10.9 million, respectively, in outstanding borrowings under our credit facility. A 1.0% increase in interest rates on our current borrowings would have had a $109,000 impact on income (loss) before income taxes on an annual basis. We do not enter into derivative or interest rate transactions for speculative purposes.

**Critical Accounting Policies**

Management s discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates, including those related to bad debts, inventories, intangible assets, income taxes, and contingencies and litigation, on an ongoing basis. We base these estimates on historical experiences and on various assumptions that we believe are reasonable under the circumstances. These assumptions form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies and the related estimates and assumptions discussed below are among those most important to an understanding of our consolidated financial statements.

*Accounts receivable.* We maintain allowances for doubtful accounts, discounts and claims resulting from the inability of customers to make required payments and any claims customers may have for merchandise. We initially record a provision for doubtful accounts based on historical experience of write-offs and then adjust this provision at the end of each reporting period based on a detailed assessment of our accounts receivable and allowance for doubtful accounts. In estimating the provision for doubtful accounts, our management considers the age of the accounts receivable, our historical write-offs, the credit-worthiness of the customer, the economic conditions of the customer s industry, and general economic conditions, among other factors. Should any of these factors change, the estimates made by management will also change, which could impact the level of our future provision for doubtful accounts. Specifically, if the financial condition of our clients were to deteriorate, affecting their ability to make payments, additional provisions for doubtful accounts may be required. At December 27, 2003, our gross trade accounts receivable balance was $9.1 million and our allowance for doubtful accounts was $1.0 million. At March 27, 2004, our gross trade accounts receivable balance was $15.6 million and our allowance for doubtful accounts was $868,000.

*Inventory.* We write down inventory for estimated obsolescence or unmarketable inventory in an amount equal to the differences between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. At December 27, 2003, inventories were $13.6 million and our inventory obsolescence reserve was $878,000. At March 27, 2004, our inventories were $12.4 million and our inventory obsolescence reserve was $440,000. Our use of different estimates and assumptions could produce different financial results. For example, if we had assumed a 10.0% reduction in our estimated selling prices, our inventory obsolescence reserve at December 27, 2003 would have increased by $110,000 to $988,000. Our inventory obsolescence at March 27, 2004, under the same assumption, would have increased by $57,000 to $496,000.

*Business Combinations.* Acquisitions require significant estimates and judgments related to the fair value of assets acquired and liabilities assumed to which the transaction costs are allocated under the purchase method of accounting. Certain liabilities are subjective in nature. We reflect such liabilities based upon the most recent information available. The ultimate settlement of such liabilities may be for amounts that are different from the amounts initially recorded. A significant amount of judgment also is involved in determining the fair value of assets acquired. Different assumptions could yield materially different results.

*Goodwill and Intangible Assets.* Certain of our identifiable intangible assets, including non-compete agreements and customer lists, are being amortized on the straight-line method over their estimated useful lives, which range from 2 to 13 years. Additionally, we have recorded goodwill and trademarks and trade names, all of which have indefinite useful lives and are therefore not amortized. All of our intangible assets and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and goodwill and intangible assets with indefinite lives are reviewed for impairment at least annually. Among other considerations, we consider the following factors:

- the assets ability to continue to generate income from operations and positive cash flow in future periods;
- our future plans regarding utilization of the assets;
- changes in legal ownership of rights to the assets; and
- changes in consumer demand or acceptance of the related brand names, products or features associated with the assets.

If we consider the assets to be impaired, we recognize an impairment loss equal to the amount by which the carrying value of the assets exceeds the estimated fair value of the assets. In addition, as it relates to long-lived assets, we base the useful lives and related amortization or depreciation expenses on the estimate of the period that the assets will generate sales or otherwise be used by us. At December 27, 2003, we had goodwill and other intangible assets of $10.8 million. We determined that there was no impairment of goodwill to be recorded during the years ended December 27, 2003 or December 31, 2002.

**Recent Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board ( FASB ), issued Statement of Financial Accounting Standards ( SFAS ) No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires us to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. We also record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. We adopted SFAS No. 143 on January 1, 2003. The adoption of SFAS No. 143 did not have a material effect on our consolidated financial position or results from operations.

Effective January 1, 2002, we adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that statement. The adoption of this statement did not materially affect our consolidated financial position or results from operations.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 amends existing guidance on reporting gains and losses on the extinguishment of debt to prohibit the classification of the gain or loss as extraordinary, as the use of such extinguishments have become part of the risk management strategy of many companies. SFAS No. 145 also amends SFAS No. 13 to require sale-leaseback accounting for certain lease modifications that have economic effects similar to sale-leaseback transactions. The provisions of the Statement related to the rescission of SFAS No. 4 are applied in fiscal years beginning after May 15, 2002. We adopted SFAS No. 145 on January 1, 2003. The adoption of SFAS No. 145 did not have a material effect on our consolidated financial position or results from operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The adoption of SFAS No. 146 did not have a material effect on our consolidated financial position or results from operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57, and 107 and a rescission of FASB Interpretation No. 34. This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the interpretation are applicable to guarantees issued or modified after December 31, 2002 and have not had a material effect on our consolidated financial position or results from operations. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 31, 2002 and are included in the notes to our consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending after December 15, 2002 and are included in the notes to our consolidated financial statements.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51, which was revised December 2003. This interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The interpretation generally applies immediately to variable interests in variable interest entities created after January 31, 2003 and to variable interests in variable interest entities obtained after March 15, 2004. The application of this interpretation did not have a material effect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities. The statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. This statement amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group process that effectively required amendments to SFAS No. 133, in connection with other board projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative. The adoption of this statement has not had a material effect on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability. Many of those instruments were previously classified as equity. The adoption of this statement has not materially affected our consolidated financial statements.

**Results of Operations Altama**

Altama has manufactured military footwear for the DoD for over 35 consecutive years. Altama also produces a commercial line of high-performance combat boots for civilian use which 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. For Altama s fiscal year ended September 27, 2003,

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Altama s net sales were $31.6 million. Altama s fiscal 2003 net sales consisted of 65% military sales and 35% commercial sales. Commercial sales in fiscal 2003 grew by 40% over fiscal 2002.

In 2002, the U.S. Army announced that it would replace its all-leather combat boot, one of the three mil-spec boots supplied by Altama, with the infantry combat boot. Altama s sales of the all-leather combat boot to the DoD were $8.1 million and $2.9 million, representing approximately 40% and 19% of Altama s net sales from sales to the DoD for fiscal 2003 and for the six months ended April 3, 2004, respectively. To date, Altama has not been awarded a contract to produce the new infantry combat boot. Consequently, we anticipate that Altama s net sales to the DoD will decline if it is not able to obtain awards of contracts for infantry combat boots or any other new models or increased percentages of awards for existing mil-spec boots it currently manufactures.

**Altama Selected Historical Consolidated Financial Data**

Altama s historical consolidated statements of operations data for the fiscal years ended September 29, 2001, September 28, 2002 and September 27, 2003, and the historical consolidated balance sheet data as of September 28, 2002 and September 27, 2003, have been derived from Altama s audited historical consolidated financial statements, which consolidated financial statements and independent auditors report are included elsewhere in this prospectus. The historical consolidated financial data as of and for the six months ended March 29, 2003 and April 3, 2004, have been derived from Altama s unaudited consolidated financial statements included elsewhere in this prospectus. Altama s historical balance sheet data as of September 29, 2001 have been derived from Altama s audited historical consolidated financial statements that are not included in this prospectus. Altama s audited and unaudited financial statements have been prepared by Altama s management.

Historical results are not necessarily indicative of future results. The following information should be read in conjunction with Altama s consolidated financial statements and the related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this prospectus.

| | For the Fiscal Years Ended | | | For the Six Months Ended | |
|---|---|---|---|---|---|
| | **Sept. 29, 2001** | **Sept. 28, 2002** | **Sept. 27, 2003** | **March 29, 2003** | **April 3, 2004** |
| | | | (In thousands, except share and per share data) | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Net sales | $14,717 | $21,862 | $31,583 | $13,224 | $22,530 |
| Cost of goods sold | 12,239 | 17,285 | 23,832 | 10,264 | 16,104 |
| Gross margin | 2,478 | 4,577 | 7,751 | 2,960 | 6,426 |
| Selling, general and administrative expenses | 3,190 | 3,311 | 4,215 | 1,906 | 1,982 |
| Operating income (loss) | (712) | 1,266 | 3,536 | 1,054 | 4,444 |
| Other expense (income) | 1,170 | 161 | (901) | (355) | (344) |
| Interest expense | 140 | 133 | 135 | 65 | 73 |
| (Loss) income before income taxes | (2,022) | 972 | 4,302 | 1,344 | 4,715 |
| Provision (benefit) for income taxes | (747) | 304 | 1,529 | 484 | 341(1) |
| Net (loss) income | $ (1,275) | $ 668 | $ 2,773 | $ 860 | $ 4,374 |

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| | For the Fiscal Years Ended | | | For the Six Months Ended | |
|---|---|---|---|---|---|
| | Sept. 29, 2001 | Sept. 28, 2002 | Sept. 27, 2003 | March 29, 2003 | April 3, 2004 |
| | | | (In thousands) | | |
| **Other Data:** | | | | | |
| Gross margin | 16.8% | 20.9% | 24.5% | 22.4% | 28.5% |
| EBITDA[(2)] | $(1,640) | $1,340 | $4,646 | $1,496 | $4,914 |
| EBITDA as a percentage of total net sales | (11.1)% | 6.1% | 14.7% | 11.3% | 21.8% |

| | As of | | | As of | |
|---|---|---|---|---|---|
| | Sept. 29, 2001 | Sept. 28, 2002 | Sept. 27, 2003 | March 29, 2003 | April 3, 2004 |
| | | | (In thousands) | | |
| **Consolidated Balance Sheet Data:** | | | | | |
| Cash | $ 191 | $ 265 | $ 185 | $ 90 | $ 20 |
| Investment securities | 472 | 349 | 1,418 | 1,039 | |
| Working capital | 1,756 | 2,782 | 4,816 | 3,947 | 5,346 |
| Total assets | 8,042 | 11,405 | 15,365 | 11,177 | 15,535 |
| Total bank debt | 1,922 | 3,359 | 3,799 | 2,845 | 3,552 |
| Total stockholders equity | 4,060 | 4,727 | 7,500 | 5,587 | 7,518 |

(1) Effective October 1, 2003, Altama, with the consent of its sole shareholder, elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Altama continues to be subject to income tax in jurisdictions that do not recognize S corporation status. As a result, Altama has provided a tax provision for these jurisdictions. In addition, Altama is subject to federal income taxes on the disposal of assets with built-in gains as of the effective date of the S corporation election. The income tax provision for the six months ended April 3, 2004 includes an amount for estimated built-in gains taxes on assets disposed of during the period.

(2) EBITDA refers to net income before provision for income taxes plus interest expense and depreciation and amortization expense less interest income. EBITDA should not be considered as an alternative to net income 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 income or loss, EBITDA is a useful financial performance measure for assessing operating performance because it provides an additional basis to evaluate Altama s ability to incur and service debt and to fund capital expenditures. We also believe that it is useful to provide greater comparability between periods as well as an indication of our results on an ongoing basis. The following table reconciles Altama s net income to its EBITDA for each period presented:

| | For the Fiscal Years Ended | | | For the Six Months Ended | |
|---|---|---|---|---|---|
| | Sept. 29, 2001 | Sept. 28, 2002 | Sept. 27, 2003 | March 29, 2003 | April 3, 2004 |
| | | (In thousands, except share and per share data) | | | |
| **Consolidated Statements of Operations Data:** | | | | | |
| Net income (loss) | $(1,275) | $ 668 | $2,773 | $ 860 | $4,374 |
| Interest expense | 140 | 133 | 135 | 65 | 73 |
| Provision (benefit) for income taxes | (747) | 305 | 1,529 | 484 | 341 |
| Depreciation and amortization | 242 | 234 | 209 | 87 | 126 |

| | | | | | |
|---|---|---|---|---|---|
| EBITDA | $(1,640) | $1,340 | $4,646 | $1,496 | $4,914 |

**Six Months Ended April 3, 2004 Compared to Six Months Ended March 29, 2003**

***Net Sales.*** Altama s net sales for the six months ended April 3, 2004 were $22.5 million, a 70% increase from net sales of $13.2 million for the comparable period ended March 29, 2003. This growth in net sales was the result of increases in both DoD sales and commercial market sales. Increased DoD sales were the result of increased requirements for military boots by the DoD which we believe was primarily attributable to the U.S. military s deployment of troops in Iraq and Afghanistan and the invocation of the surge option. In late March 2003, the DoD invoked its surge option under its 1997 contract with Altama. In addition, on October 1, 2003, the DoD invoked the surge option under its 2003 contract with Altama, which contract had been awarded in September 2003 after the 1997 contract had expired. We believe the DoD invoked the surge option in response to the need for desert boots used by U.S. armed forces personnel in Iraq. The surge option requires that Altama increase the number of pairs produced and accelerate the delivery time until discontinued. The DoD may discontinue the surge option at any time, which would, in turn, result in lower sales to the DoD. Commercial market sales expanded across the domestic and international wholesale channels, agencies and web retail due to the heightened need for security personnel around the world.

***Gross Margin.*** Altama s gross margin was $6.4 million for the six months ended April 3, 2004 compared to $3.0 million for the six months ended March 29, 2003. Gross margin percentage increased to 29% for the six months ended April 3, 2004 from 22% for the six months ended March 29, 2003. Although Altama s gross margins for DoD sales during the first six months of fiscal 2004 declined as a result of lower prices under its current DoD contract, this decline was more than offset by increased commercial market sales, which are foreign sourced and carry a higher gross margin.

***Selling, General and Administrative Expenses.*** Altama s SG&A expenses were $2.0 million for the six months ended April 3, 2004 compared to $1.9 million for the six months ended March 29, 2003. As a percentage of net sales, these expenses declined from 14% to 9% in the respective periods reflecting Altama s efficient utilization of sales personnel and tighter expense controls.

***Provision (Benefit) for Income Taxes.*** Effective October 1, 2003, Altama, with the consent of its sole shareholder, elected to be taxed as an S corporation under the provisions of the Internal Revenue Code. Altama continues to be subject to income tax in jurisdictions which do not recognize the S corporation status. As a result, Altama has provided a tax provision for these jurisdictions. In addition, Altama is subject to federal income taxes on the disposal of assets with built-in gains as of the effective date of the S corporation election. The income tax provision for the six months ended April 3, 2004 includes an amount for estimated built-in gains taxes on assets disposed of during the period. This S corporation status will terminate upon consummation of the acquisition, when Altama would become part of our consolidated tax reporting group. Therefore, the income tax provision for Altama and its sole shareholder for the six months ended April 3, 2004, is not necessarily indicative of what Altama s income tax provision would be as a part of our consolidated tax reporting group. For the six months ended March 29, 2003, Altama s provision for income taxes of $484,000 is based on an annual effective rate of 36%.

***Net Income.*** Altama s net income was $4.4 million for the six month period ended April 3, 2004 compared to $860,000 for the prior year period, a 409% increase. This increase was primarily attributable to increased sales volume.

**Fiscal 2003 Compared to Fiscal 2002**

***Net Sales.*** Altama s net sales for fiscal 2003 were $31.6 million, a 44% increase from net sales of $21.9 million for fiscal 2002. The growth in net sales resulted from increased requirements for military boots by the DoD which we believe was primarily attributable to U.S. military operations in Afghanistan and Iraq. In late March 2003, the DSCP invoked its surge option under its 1997 contract with Altama. The DSCP invoked this option in response to the need for desert boots used by U.S. Armed Forces personnel in Iraq. The surge option required Altama to significantly increase its quantity and rate of boot production.

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In addition, Altama s commercial market sales increased across the domestic and international wholesale channels, law enforcement agencies and web retail due to added customer demand, increased pricing and expansion of customers.

***Gross Margin.*** Altama s gross margin was $7.8 million for fiscal 2003 compared to $4.6 million for fiscal 2002. Altama achieved greater gross margin in fiscal 2003 as a result of increased net sales. Gross margin percentage improved to 25% in fiscal 2003 from 21% in fiscal 2002, primarily as a result of continued growth in the commercial market where margins are typically approximately 15% higher than for DoD contract sales.

***Selling, General and Administrative Expenses.*** Altama s SG&A expenses for fiscal 2003 were $4.2 million compared to $3.3 million for fiscal 2002, reflecting an increase in compensation to Altama s sole shareholder and additional commissions paid to Altama s direct sales force. However, SG&A expenses decreased as a percentage of net sales from 15% in fiscal 2002 to 13% in fiscal 2003, reflecting efforts to control internal expenses. Altama s SG&A expenses for fiscal 2003 included $2.1 million in compensation expenses, $733,000 in employee-related expenses and $398,000 in marketing expenses.

***Other Income (Expense).*** Altama s other income represented unrealized gains on investment securities held and mark to market gains realized on the sale of marketable securities during fiscal 2003, which were partially offset by interest expense on borrowings incurred by Altama for working capital purposes. These investment securities were distributed to Altama s sole shareholder following its fiscal year end and we do not plan to acquire these as part of the proposed transaction.

***Provision (Benefit) for Income Taxes.*** Altama s provision for income taxes for fiscal 2003 was $1.5 million compared to $305,000 for fiscal 2002. Altama s effective tax rate was 36% for fiscal 2003 compared to 31% for fiscal 2002. The lower effective tax rate during fiscal 2002 was due to a reduction in the deferred tax assets valuation allowance totaling $120,000 as a result of the utilization of net operating loss carryforwards used during fiscal 2002.

***Net Income.*** Altama s net income was $2.8 million for fiscal 2003 compared to $668,000 for fiscal 2002, a 315% increase. This increase was primarily attributable to increased sales volume.

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## BUSINESS

### General

We are a men s and women s footwear and apparel company. We design, develop and market dress and casual footwear and apparel with an emphasis on traditional style, quality and fit. We target the moderate to premium-priced categories of the footwear and apparel markets in order to pursue our strategy of maintaining strong gross margins. Our current brands include Trotters, SoftWalk, H.S. Trask, Strol and Royal Robbins. We also design and market a line of men s casual footwear through a licensing agreement with Ducks Unlimited, Inc., the world s largest wetlands and waterfowl conservation organization.

In fiscal 1999, in line with industry trends, we made a corporate decision to outsource entirely the production of our footwear products. We decided to shut down our domestic production facilities and utilize manufacturing operations offshore. Our foreign footwear manufacturing partners are primarily located in Brazil and our apparel products are primarily sourced from Asia and South America. We believe this decision allowed us to remain cost competitive while maintaining the high quality of our products.

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 fashions and changes in consumer preferences. Our design and product development teams seek to create and introduce new products and styles that complement our core products, are consistent with our brand images and meet our high standards.

We intend to continue to pursue acquisitions of sustainable niche brands in the footwear and apparel industry that we believe could complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. Although we are actively seeking acquisitions that will expand our existing brands, as of the date of this prospectus we have no agreements with respect to any such acquisitions, other than the pending Altama acquisition, and there can be no assurance that we will be able to identify and acquire such businesses or obtain necessary financing on favorable terms.

### History

We have been engaged in the manufacture or importation and sale of quality footwear since 1882. Prior to 1996, we were predominantly a manufacturer and seller of women s slippers based in Dolgeville, New York. In 1996, James Riedman and Riedman Corporation acquired a 35% ownership position in our common stock, and Mr. Riedman became our Chairman and Chief Executive Officer. Under Mr. Riedman s leadership, we began to streamline our operations and focus on our core competencies of brand specific sales, design and customer service support. We developed a strategy to enhance profitability and growth through recruiting strong management, reducing costs and overhead and acquiring complementary brands. As part of this strategy, in 1998, we hired Greg Tunney as President and Chief Operating Officer. Mr. Tunney had extensive experience in the footwear industry. In June 1999, we completed the transition to outsourcing the entire production of our footwear operations to foreign sources and discontinued our domestic manufacturing operations.

Also, as part of our transformation, we entered into other areas of the footwear business. In early fiscal 2000, we entered the men s slipper business with the acquisition of brands from the L.B. Evans Company. Also in early fiscal 2000, we entered the women s footwear market by acquiring the Penobscot Shoe Company and its Trotters brand of traditional footwear. Later that year we also introduced our new SoftWalk brand of women s comfort footwear. We also moved our headquarters and distribution operations to the Penobscot facilities in Old Town, Maine.

In fiscal 2001, in the course of consolidating these new elements of our footwear business, we elected to focus our efforts on the two product lines that were experiencing growth, namely the Trotters and SoftWalk brands. As a result, in December 2001 we sold the men s and women s slipper business, which included the trademarks Daniel Green, L.B. Evans and Woolrich and the inventory related thereto.

During the second quarter of fiscal 2003, we relocated our corporate offices from Old Town, Maine to Carlsbad, California. We believe this relocation assists us in attracting and retaining key personnel and provides us with greater access to our major customers and markets.

On August 7, 2003, we entered the men s dress and casual footwear business through our acquisition of the H.S. Trask brand and its license rights to the Ducks Unlimited footwear brands. This product line is based on a romantic western image. The H.S. Trask styles emphasize bison, longhorn and elk leather materials and rugged construction. We believe this brand fit our acquisition criteria due to its strongly developed niche, its potential for consistent cash flow, its potential for growth and its reasonable purchase price.

On October 31, 2003, we entered the apparel business through our acquisition of the Royal Robbins apparel brand. The Royal Robbins brand consists of an authentic outdoor and travel clothing line for men and women emphasizing comfort, rugged style, and specialty fabrics. This product line includes over 250 styles of women s and men s outdoor sportswear and travel apparel. We believe this brand also fit our acquisition criteria due to its strongly developed niche, its potential for growth and its reasonable purchase price.

On June 15, 2004, we hired Richard E. White as our Chief Executive Officer. Prior to joining us, and since 2002, Mr. White was a consultant to trade associations. From 1999 to 2002, he was 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 he was General Manager, Subsidiary Brands, of three of Nike Inc. s four subsidiary companies, including Cole Haan and Bauer Nike Hockey. Mr. White also was employed for fifteen years by Major League Baseball Properties, Inc. and served as President and Chief Executive Officer for seven of those years James Riedman, who previously served as both our Chairman and Chief Executive Officer, will remain our Chairman of the Board.

On June 15, 2004, we entered into an agreement to acquire Altama Delta Corporation. Altama is a provider of combat and uniform boots to the military and commercial markets under its Altama brand. We plan to use the net proceeds from this offering to complete the acquisition concurrently with the completion of this offering.

**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. We also seek to expand our brand portfolio through creation of additional brands, licensing and acquisitions.

We have developed core strengths that we believe have been significant contributors to our growth to date and will help support future growth. These strengths include:

*Portfolio of Current Brands.* Through product design, innovation, quality and fit, our brands have built a high degree of consumer and retailer loyalty. We believe our portfolio approach reduces business risk by creating greater diversity and consistency to our revenue and cash flow. We believe this portfolio of brands also provides us with access to a broader array of retailers than could be achieved by any of our brands on a standalone basis. We continue to seek brand acquisition opportunities that complement our existing brands and meet minimum operational, growth and cash flow investment criteria.

*Manufacturing Relationships.* We believe that one of the key factors in our recent growth has been our strong relationships with overseas manufacturers that are capable of meeting our requirements for quality and price in a timely fashion. We source our footwear products primarily from Brazil, and our apparel products primarily from Asia and South America.

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*Emphasis on Moderate- to Premium-Priced Categories of the Footwear and Apparel Markets.* Our portfolio of current brands is sold through independent retailers, specialty retailers and better department stores. This distribution strategy distinguishes us from footwear and apparel companies that supply the discount or mass merchant channel. We believe our emphasis on providing high-quality premium products allows us to maintain stronger gross profit margins.

*Pre-Season Sales Approach.* We attempt to reduce the inventory risk resulting from changing trends and product acceptance by obtaining orders for at least 50% of our products before each season. We believe that this approach mitigates the risks of carrying obsolete inventory and poor retail sell-through.

*Customer Relationships.* We support 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. In addition, we provide our wholesale customers with brand specific sales forces, EDI capability, co-op advertising, point-of-sale displays and assistance in evaluating which products are likely to appeal to their retail customer base.

*Seasoned Management Team.* We believe our management team, members of which possess on average 20 years of footwear and apparel experience in the areas of design, product development, sourcing and distribution, represents a significant competitive advantage. We also believe that the strength of our management team, our portfolio of brands and our focused business strategy improve our ability to attract and retain key industry personnel.

**Growth Strategies**

Our growth will depend upon our broadening of the products offered under each brand, expanding distribution of our products and developing or acquiring new brands. Specifically, our growth strategies include:

*Growth of Existing Brands.* We seek to increase sales of products under each of our existing brands by increasing the assortment of products and through brand extensions, such as our newly introduced H.S. Trask women s product line. We believe that certain areas of our brands are underdeveloped and will benefit from broader product assortment and additional 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 satisfy the needs of a wider range of customers. We believe we are well-positioned to continue pursuing this strategy due to the strength of our operating cash flow and management team and our brand development track record. As an example, the new Strol brand of men s comfort style footwear was developed utilizing the patented footbed technology used in our women s SoftWalk brand.

*Growth Through Acquisitions of Footwear and Apparel Companies.* We continue to seek acquisition opportunities that we believe complement our existing brands. We seek companies or product lines 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 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 only a small portion of our net sales, we intend to expand these sales to take advantage of their low overhead opportunity for growth. 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.

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**Recent 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, for an aggregate purchase price of $6.4 million, consisting of $2.9 million in cash, 699,980 shares of common stock valued at $3.2 million and $300,000 in acquisition related expenses.

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, for an aggregate purchase price of $6.8 million, consisting of $6.0 million in cash, 71,889 shares of common stock valued at $500,000 and $300,000 in acquisition-related expenses, plus potential contingent earn-out cash payments. The potential contingent earn-out payments equal 25% of the Royal Robbins product line s gross profit over the 12-month periods ended May 31, 2004 and 2005, respectively, so long as a minimum gross profit (as adjusted pursuant to the terms of the purchase agreement) is achieved. These thresholds require that Royal Robbins have gross profits of at least $7.8 million for the 12-month period ending May 31, 2004, and at least $8.6 million for the 12-month period ending May 31, 2005.

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. We intend to continue to pursue acquisitions of sustainable niche brands in the footwear and apparel industry that we believe could complement or expand our business, augment our market coverage, provide us with important relationships or otherwise offer us growth opportunities. Although we are actively seeking acquisitions that will expand our existing brands, as of the date of this prospectus we have no agreements to consummate an acquisition, other than the pending Altama acquisition, and there can be no assurance that we will be able to identify and acquire such businesses or obtain necessary financing on favorable terms.

**Pending Acquisition**

On June 15, 2004 we signed a stock purchase agreement with Altama Delta Corporation and its sole shareholder, W. Whitlow Wyatt. Pursuant to this agreement, we will acquire all of Altama s outstanding capital stock in exchange for $36.5 million in cash and shares of our common stock valued at $2.5 million, plus a contingent earnout payment of $2.0 million. In addition, we will pay $2.0 million to Mr. Wyatt over a five-year period in consideration of his agreement not to compete with us during this period, and enter into a two-year consulting agreement with him for a $100,000 per year consulting fee. The closing of the offering is contingent upon the concurrent consummation of the Altama acquisition.

The acquisition would add a new brand to our portfolio, Altama, and its lines of combat and uniform boots. Altama is a leading manufacturer, designer, marketer and distributor of mil-spec and commercial combat and uniform boots. Altama is one of four primary mil-spec footwear contractors for the DoD, stemming from a manufacturing relationship with the DoD that began in 1969. Since that time, Altama has continued to expand in an effort to meet the increasing needs of the DoD while also developing its commercial business. See Altama s Business, below.

**Product Lines**

Our current product lines consist of women s dress and casual footwear sold under the Trotters and SoftWalk brand names, men s dress and casual footwear sold under the Strol, H.S. Trask and Ducks Unlimited brand names, and outdoor sportswear and travel apparel for both men and women sold under the Royal Robbins brand name. Our products emphasize quality, fit and traditional and authentic styles. Our products emphasize the moderate-to-premium-priced categories of the footwear and apparel markets. Many of our products include our patented footbed technology and others patented materials, including performance

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fabrics made with Gore Tex®, Lycra Spandex®, Cordura® nylon and Dri-X-Treme™ wicking finish and Vibram® soles. The following table summarizes our product lines:

| Product Line | Brands | Target Market | Suggested Retail Price |
|---|---|---|---|
| Women s Dress and Casual Footwear | Trotters, SoftWalk, H.S. Trask | Female Consumer  Ages 35-60. Medium income, prefers quality and value over price. Comfort and fit are of key importance. | $59-$139 |
| Men s Dress and Casual Footwear | H.S. Trask, Ducks Unlimited, Strol | Male Consumer  Ages 40-60. Medium income, professional, wants and demands the highest quality in products purchased. | $69-$199 |
| Outdoor Sportswear and Travel Apparel | Royal Robbins | Male and Female Consumer  Ages 25-55. Outdoor and travel enthusiast, looks for performance features in their casual and outdoor apparel. | $39-$120 |

*Women s Dress and Casual Footwear.* Women s dress and casual footwear is our largest product line. Our women s dress and casual footwear consists of the Trotters and SoftWalk brands and the newly-introduced H.S. Trask women s brand.

The Trotters brand primarily competes in the  women s traditional  footwear classification at key price points between $59 and $99. The broad selection of sizes and widths for our Trotters brand fills an important niche for our female customers. This line emphasizes quality and fit with continuity of style from season to season.

SoftWalk 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 which fills a niche of comfort footwear for our retail customer base.

Our H.S. Trask women s line is a brand extension of our H.S. Trask brand, which historically addressed the men s footwear market, and is positioned in the  premium  footwear classification. Key price points are between $99 and $139. Key classifications include driving moccasins, casual, tailored and slippers.

*Men s Dress and Casual Footwear.* Our primary men s footwear brand, H.S. Trask, is based on a  romantic western  image. Our H.S. Trask styles emphasize bison, longhorn and elk leather materials and rugged construction. Our special tanning techniques and the combination of softness and durability found in these leathers enable us to ensure high standards of quality and comfort. Key price points are between $99 and $199. We believe this 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, introduction of apparel, luggage and other accessories, as well as from a broader product assortment in the traditional men s target market.

We are developing the Ducks Unlimited active outdoor footwear line through an exclusive licensing agreement with Ducks Unlimited, Inc., the world s largest wetlands and waterfowl conservation organization. Key price points for the Ducks Unlimited brand are between $69 and $99. Currently, sales of this brand represent a relatively small percentage of our total net sales.

We are currently in the process of launching our newly developed Strol brand. Strol is intended to be 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.

*Outdoor Sportswear and Travel Apparel.* Our Royal Robbins brand 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.

The Royal Robbins brand has strong customer loyalty and is recognized as a core or authentic brand within its retail channel. In fiscal 2003, Royal Robbins was nominated to compete in the  Vendor of the Year  competition by its largest customer, REI. This honor was bestowed on only 10 out of a total of 800 vendors. We believe that this strong brand heritage provides us with several promising growth opportunities, including:

- increasing sales within the men s product offering (currently women s products account for approximately 60% of the brand s offerings);
- increasing the sales of the brand s Fall offering (currently the Fall season accounts for approximately 33% of the brands sales);
- introducing a line of Royal Robbins footwear; and
- broadening our distribution channel for this product line, such as the recent introduction of the Royal Robbins women s line into Dillard s department stores.

**Product Design and Development**

We employ separate design and development teams for each of our product lines. Our management believes this approach results in a more responsive design and product development process, which reduces new product introduction lead times. Our sales management and marketing departments also actively participate in the design and product development process by collaborating on opportunities related to new styles, patterns, design improvements and the incorporation of new materials.

We have also developed a patented technology utilized in our SoftWalk and Strol brands. We believe this technology enhances our competitive position. The patented technology claims an insole construction for footwear comprising an intermediate member having raised cushioning elements of a height, size and spacing so as to be self-adjusting to the foot. These elements combine to create a shoe with comfort and support that acts like a mattress for the foot.

We incurred design and product development costs of approximately $333,000 in the first three months of fiscal 2004, $556,000 in fiscal 2003, $315,000 in fiscal 2002 and $229,000 in fiscal 2001.

**Sales and Distribution**

Our footwear products are primarily sold to retailers and catalog companies through our own employee sales force that covers much of the U.S. The Trotters and SoftWalk brands are sold primarily through independent retailers and department stores. Our H.S. Trask line is sold predominantly through independent retailers and catalog sales. We also sell footwear products in Canada and the Caribbean through independent distributors.

Our apparel products are sold in the U.S. primarily through specialty retailers utilizing an independent sales force and two retail stores. We also plan to distribute our apparel products through department stores and have recently begun selling our women s line of Royal Robbins through Dillard s department stores. In Canada, the United Kingdom, Japan and Germany, our apparel products are sold under licensing agreements with third parties.

Approximately 6,000 stores in the U.S. carry our products, including many major department stores, mail order companies, and specialty footwear and apparel retailers. Ten major customers represented approximately 39% of our net sales in fiscal 2003. Most of these same customers represented approximately 34% of our net sales in fiscal 2002 and 38% of our net sales in fiscal 2001. Sales to Dillard s department stores represented 11%, 12% and 11% of our net sales in fiscal 2003, 2002 and 2001, respectively, and no other customer exceeded 10% of our net sales during those fiscal years. We sell private label products to a small number of customers in amounts that represent an insignificant portion of our total net sales. See  Risk Factors  A large portion of

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our sales are to a relatively small group of customers with whom we do not have long-term purchase orders, therefore, the loss of any one or more of these customers could adversely affect our business.

**Consumer Direct**

We offer direct sales to consumers through our own www.SoftWalkshoes.com, www.trotters.com, www.hstrask.com and www.royalrobbins.com web sites. We also distribute print catalogs for H.S. Trask, Trotters and SoftWalk. During fiscal 2003, catalog sales represented approximately 30% of net sales of H.S. Trask. During fiscal 2004, we began to offer catalog sales for our Trotters and SoftWalk brands.

We believe our catalogs and e-commerce web sites offer a significant growth potential while simultaneously complementing our existing wholesale business by increasing consumer awareness of our brands. Sales through our Internet web sites and print catalogs represented approximately 4% of our net sales for fiscal 2003. The products marketed through consumer direct channels are sold at our suggested retail price, enabling us to maintain the full retail margins.

**Marketing and Advertising**

We advertise and promote our various brands through a variety of methods, including product packaging, print advertising in trade publications, co-op advertising with our retail customers, and direct consumer marketing. Additionally, we attend tradeshows that are generally well-attended by our retail customers and provide a platform for the unveiling of new products and an important source of pre-season sales orders. We avoid granting restricted or exclusive product sale arrangements because we believe that a profitable distribution of our product lines requires the greatest number of outlets.

**Manufacturing and Sourcing**

We source our products entirely through independent foreign third-party manufacturing facilities. We provide the independent manufacturers with detailed specifications and quality control standards. We source our current footwear products primarily from Brazil and, to a lesser extent, China, and source our apparel products through Asia and South America. We maintain a staff in Brazil to monitor the production process to ensure high quality standards and timely delivery. We also engage foreign agencies to assist in product fulfillment, quality control and inspection, customs and product delivery logistics. We do not maintain long-term purchase commitments with our manufacturers, but rather use individual purchase orders. We use multiple sources for our foreign sourced products in an effort to reduce the risk of reliance on any one manufacturing facility or company. We believe that the various raw materials and components used in the manufacture of our products are generally available from multiple sources at competitive prices. See Risk Factors Our reliance on independent manufacturers, with whom we do not have long-term written agreements, could cause delay and damage customer relationships.

**Seasonality and Weather**

Our product lines are sold during two distinct selling seasons, Spring/ Summer and Fall/ Winter. We attempt to design and develop our new product introductions to coincide with this seasonal trend. Trotters and SoftWalk sales are approximately evenly split between these two seasons, while Royal Robbins products are purchased and used predominantly during the Spring and Summer months. Conversely, our H.S. Trask and Ducks Unlimited men s dress and casual footwear lines are purchased and used by consumers predominantly in the Fall and Winter months.

**Backlog**

We typically enter a selling season four to six months in advance of the orders being shipped. For our footwear business, approximately 50% of our sales are based on orders placed in advance of the selling season and the remaining sales are on an at once basis during the selling season. For our apparel products, our preorder business represents approximately 80% to 85% of our total sales, with the remaining sales being made on an at once basis during the selling season. We have backlog orders for our Spring business in December of

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the preceding year and for our Fall business in June of the same year. We had firm backlog orders as of March 27, 2004 of approximately $20.2 million, compared with approximately $9.6 million as of March 29, 2003. The increase is due to the acquisition of the Royal Robbins and H.S. Trask brands in fiscal 2003. We anticipate the majority of our backlog orders as of March 27, 2004 will be filled during fiscal 2004.

**Employees**

We enjoy a good relationship with our employees who numbered approximately 144 as of May 28, 2004, most of whom are full-time. The majority of our employees are employed in our Old Town, Maine and Modesto, California distribution facilities. Our executive and administrative office, which was relocated to Carlsbad, California in April 2003, employed approximately 30 individuals as of May 28, 2004. As of May 28, 2004, we also employed 25 outside sales staff who reside in various states throughout the U.S. No employee is represented by a labor union, and we have never suffered an interruption of business caused by labor disputes.

**Trademarks and Patents**

We regard our proprietary rights as valuable assets and as important to our competitive advantage. Our trademarks include Trotters, SoftWalk, H.S. Trask, and Royal Robbins, which we have registered in the U.S. and many foreign countries. We also have rights to use the Ducks Unlimited and Audubon trademarks. In addition, we have applied for trademark registration of the Strol logo in the U.S., Canada and Israel.

Our SoftWalk and Strol brands contain a patented technology in the footbed of the shoe, for which we own a patent in the U.S. We vigorously protect our intellectual property against infringement. We cannot be sure, however, that our activities do not, and will not, infringe on the proprietary rights of others. See Risk Factors Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights or if we are sued for intellectual property infringement.

**Competition**

We face intense competition in the footwear and apparel industry from other companies. We compete with numerous domestic and foreign footwear and apparel designers and marketers.

Our Trotters footwear line primarily competes with the Naturalizer®, EasySpirit®, Munro America® and Ros Hommerson® brands, as well as with retailers private label footwear. Our SoftWalk footwear line primarily competes with the EasySpirit® and ECCO® brands. Our H.S. Trask footwear line primarily competes with the Cole-Haan®, ECCO® and Mephisto® brands. Our Royal Robbins apparel lines compete primarily with Patagonia®, The North Face® and Columbia Sportswear Company®.

Many of our competitors have greater financial, distribution or marketing resources than we do, as well as greater brand recognition. Our ability to compete successfully depends on our ability to:

- anticipate and respond to changing consumer demands in a timely manner;
- maintain brand reputation and authenticity;
- develop high quality products that appeal to consumers;
- appropriately price our products;
- provide strong and effective marketing support for our products;
- ensure product availability; and
- maintain and effectively access our distribution channels.

We believe we are well positioned to compete in the footwear and apparel industry. By emphasizing traditional style, quality and fit, we believe we can maintain a loyal consumer following that is less susceptible to fluctuations due to changing fashions and changes in consumer preferences.

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**Facilities**

We occupy offices and facilities in various locations in California and Maine. The following table summarizes our properties:

| Facility/Location | Own/Lease | Description | Approximate Square Footage |
|---|---|---|---|
| Corporate Headquarters Carlsbad, California | Lease | Office Space | 14,000 |
| Distribution Center Old Town, Maine | Own | Warehouse | 75,000 |
| Distribution Center Modesto, California | Lease | Office/Warehouse | 20,000 |
| Berkeley, California | Lease | Retail | 2,400 |
| Modesto, California | Lease | Retail | 4,500 |
| Dolgeville, New York | Own | Vacant Land | 30 acres |

We have no manufacturing facilities because all of our products are currently manufactured by independent manufacturers. We believe that our existing office, warehouse and retail space is adequate to meet our current and foreseeable future requirements, excluding requirements relating to the pending Altama acquisition, which are discussed below under Altama s Business Facilities.

**Legal Proceedings**

From time to time we are involved with legal proceedings, claims and litigation arising in the ordinary course of business. As of the date of this prospectus, we are not a party to any pending material legal proceedings.

**Altama s Business**

Altama, headquartered in Atlanta, Georgia, designs, manufacturers, markets and distributes mil-spec, and commercial combat and uniform boots under its Altama brand. Altama markets a total of 20 boot models to the military and commercial markets. Altama maintains a 35-year relationship as a prime contractor for the supply of mil-spec combat footwear to the DoD, which serves all four major branches of the U.S. military. In addition, Altama also sells its branded boot line into the commercial marketplace. Altama sells its commercial boots through numerous wholesalers and retailers in over 70 countries, directly to U.S. federal, state and local agencies and directly through its web site.

*History.* Altama Delta Corporation was incorporated in 1969 and was initially a manufacturer of children s shoes but was shortly thereafter converted to a military boot manufacturing facility to produce combat boots for the U.S. military during the Vietnam War. Altama has manufactured military footwear for the DoD for 35 consecutive years.

In 1991, Altama introduced its first commercial line of high performance combat boots for civilian use. These boots combine the design features of Altama s mil-spec products with added comfort and durability using knowledge gained from 35 years of manufacturing combat boots.

*Business and Growth Strategy.* Altama s goal has been to be a leading branded supplier of high-quality mil-spec combat footwear and commercial military and uniform boots. Altama has sought to fulfill this goal through a strategy of offering superior customer service and focusing on a limited number of products in an effort to manage inventories optimally. We plan to continue this strategy and integrate these products into our portfolio of sustainable niche brands. Specifically, we plan to employ the following growth strategies:

Expand Existing Sales to DoD We intend to pursue additional sales to the DoD through continued participation in the surge component of the existing contract with the DoD. In addition, we believe that the DoD currently anticipates contracting for certain waterproof boots as well as hot weather jungle boots. Altama is currently developing new products in order to compete for these new contracts.

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Expand Sales to the Broader Security Market  We believe that the broader security market will continue to grow. This market could include sales to organizations such as police forces, fire departments, the U.S. Immigration and Naturalization Service, the U.S. Coast Guard and private security services. Altama currently sells a portion of its products to this market and we believe the Altama brand can be further developed within this market.

*Product Lines.* Altama s product offering consists of five distinct product lines: mil-spec combat boots, commercial combat boots, infantry combat boots, tactical boots and safety and work boots. Altama s products generally are not sensitive to fashion or design risk, which is consistent with our business strategy.

Mil-Spec Combat Boots. The full mil-spec, heavy-gauged leather, vulcanized rubber-soled combat boots are designed to withstand the most severe battlefield conditions. Altama is currently under a one-year prime contract expiring September 30, 2004 (with two successive option years) to manufacture the tan desert boot, all-leather combat boot and black jungle boot for the DoD. These boots are used primarily by the U.S. Army and the U.S. Marines. Altama s mil-spec boots sold to the DoD are priced under the current DoD contract within a range of $60.00 to $65.00 per pair, subject to adjustment under the terms of the contract. Altama is currently developing new products designed for anticipated solicitations from the DoD. These new products include waterproof boots, as well as a hot weather jungle boot.

Commercial Combat Boots. In 1991, Altama developed a commercial line of high performance, affordable combat boots for civilian use in an attempt to leverage its mil-spec heritage. Altama s civilian boots combine the design features of its mil-spec boots with added comfort and durability. The prices for Altama s commercial boots generally range from $45.00 at wholesale to $115.00 at web retail.

Altama s other commercial product lines are infantry combat boots, tactical boots and safety and work boots. We plan to continue Altama s growth strategy with respect to these product lines to further expand these parts of Altama s business.

*Product Design and Development.* Altama manufactures its mil-spec boots to meet the rigorous design specifications and quality and administrative requirements included in the DoD contracts. Altama has manufactured military footwear this way for the DoD for 35 consecutive years.

In order to manufacture these boots to military specifications, Altama leases molds meeting the design specifications of the DoD from Ro-Search, Inc. Altama has licensed this technology from Ro-Search since Altama s inception in 1969. Ro-Search is a wholly-owned subsidiary of Wellco Enterprises, Inc., a direct competitor of Altama and one of the other licensees of the Ro-Search technology. Ro-Search maintains an inventory of molds that meet the DoD requirements for full and half-size DoD boots and licenses them to four mil-spec manufacturers, including Altama. Altama has obtained an extension to the current license agreement with Ro-Search through 2006.

We anticipate that the DoD will continue to solicit bids for waterproof infantry combat boots. We plan to compete for these contracts. In order to qualify to use the necessary waterproofing technology, Altama s manufacturing process must be certified by W. L. Gore & Associates, Inc., owner of the Gore-Tex technology, or another waterproof technology supplier qualified by the DoD. Altama is currently working toward obtaining the necessary certification.

Altama has attempted to leverage its mil-spec boot manufacturing experience in its design of its commercial boots by adding comfort and durability to the mil-spec features. In particular, Altama recently introduced two models of the infantry combat boot by altering the design of the DoD s mil-spec boot. Its commercial combat boots are not guaranteed for battlefield conditions, but look substantially similar to the mil-spec combat boots and are used by military personnel for garrison duty, office and police patrol, guard or parade duty and in other non-combat environments. Altama offers a tactical model that is made with a leather and fabric upper on a bottom that functions in a manner similar to a running shoe. The tactical boots are targeted towards the public safety market as a police/security duty boot. Altama also manufactures and designs safety and work boots to meet applicable safety requirements targeted broadly towards individuals working in industrial, construction, corrections, warehousing and distribution, packaging and delivery, and private safety workplaces.

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*Sales and Distribution.* Altama s products are sold into the DoD and commercial market channels. The DoD continues to be Altama s largest and most important customer. During fiscal 2003, approximately 65% of Altama s net sales were from sales to the U.S. military. Altama s DoD contracts are handled by DSCP.

*Government Sales.* Whenever the DoD determines a need for combat boots for use by the U.S. armed forces, the DSCP solicits bid responses from U.S. boot manufacturers. Bidding on U.S. government boot solicitations is open to any qualified U.S. manufacturer. The U.S. government usually evaluates bids received on solicitations for boots using their best value system, under which bidders offering the best value to the government are awarded the contract, or in the case of multiple contract awards, a greater portion of total boots contracted. Best value usually involves an evaluation of performance considerations, such as quality and delivery, with the bid prices being equally important. As bidders become more equal in performance considerations, price becomes more important. In addition to meeting very stringent manufacturing and quality standards, contractors are required to comply with demanding delivery schedules, and a significant investment in specialized equipment is required for the manufacture of certain types of boots.

The DoD awards contracts on negotiated per pair contract prices based on actual and estimated allowable costs plus a reasonable profit margin. This profit margin is subject to the DoD s determination that the prices are fair and reasonable. After the contract is awarded, a contractor, such as Altama, will receive delivery orders from the DoD, which under normal conditions must be completed in six months. Weekly production lots against the delivery order are presented to the DoD s quality assurance representative, who purchases the boots at Altama s Lexington, Tennessee finishing plant. The lot of boots is then the property of the DSCP and is either drop shipped to a specified location or transferred to Altama s Lexington, Tennessee warehouse for storage until the DSCP issues a material release order to pick and ship the boots to a specific DoD installation.

From 1997 through fiscal 2003, Altama operated under several extensions of its contract with the DoD dated April 15, 1997. In early 2002, the DoD issued two solicitations for future boot requirements to replace the original contract that was set to expire on April 15, 2002. One solicitation covered the three current direct molded sole, or DMS, styles of military combat boots, including the standard issue all-leather combat boot that has historically accounted for the majority of the DoD s orders under the contract. On September 30, 2003, the DoD notified Altama that it had been awarded a new contract to produce DMS military combat boots. Four contracts were awarded to U.S. manufacturers and the quantities to be purchased from each manufacturer are 35%, 30%, 20% and 15% of the DSCP total boot purchases. Altama s award is for 20% of DSCP total DMS boot purchases. Under the old DMS contract mentioned above, Altama supplied 20% of total DSCP purchases.

The second solicitation covered the newly adopted infantry combat boot, which incorporates a waterproof membrane construction. This boot has replaced the previous all-leather combat boot as the U.S. Army s standard issue combat boot. On March 11, 2003, the DoD advised Altama that it did not win a contract to produce the new waterproof infantry combat boot.

On October 1, 2003, the DSCP contracting officer invoked the surge option for the 2003 contract. Under the surge option, Altama is required to increase the amount of production and the time of delivery. We believe that the DSCP invoked this option in response to the need for desert boots used by U.S. military personnel in Iraq. The surge option required Altama to significantly increase its rate of boot production. Consequently, Altama s surge plan calls for a production that accelerates the number of pair produced in approximately one-half of the normal delivery period.

After starting production under the current DoD contract, the DoD decided to change the specification for the sole of the three styles of DMS military combat boots covered by the contract to a three-layered sole construction. This new construction also includes a mold licensed from RoSearch. Altama has invested approximately $1.0 million in new equipment necessary to construct this new three layered sole.

Altama s backlog of firm orders for military combat boots at May 1, 2004 totaled approximately $9.0 million. Altama expects to fill all of the backlog as of May 1, 2004 during the current fiscal year. Many factors affect the government s demand for boots, so the quantity purchased can vary from year to year. Contractors cannot influence the government s boot needs. Price, quality, quick delivery and manufacturing

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efficiency are the areas emphasized by Altama to strengthen its competitive position. While the government s demand for boots varies from month to month, Altama s business is not seasonal.

Altama s contracts with the DoD are subject to partial or complete termination under certain specified circumstances including, but not limited to, the following circumstances:

the convenience of the government;

the lack of funding; or

Altama s actual or anticipated failure to perform its contractual obligations.

If a contract is partially or completely terminated for its convenience, the DoD is required to negotiate a settlement with Altama to cover costs already incurred. Altama has never had a contract either partially or completely terminated by the DoD.

*Commercial Sales.* Altama s sales to the commercial market represented approximately 38% of Altama s unit volume and 35% of Altama s net sales in fiscal 2003. Altama s commercial market sales grew approximately 40% from fiscal 2002 to fiscal 2003. Altama s commercial market sales are handled by its direct sales organization. Altama s commercial market sales have been primarily through domestic wholesale channels. Altama supplies domestic retailers and footwear and military catalogs such as U.S. Calvary and Brigade Quartermaster. Altama has continued to expand international wholesale focusing mostly on providing three mil-spec boots for certain foreign military organizations, and through the agency channel to local, county, state or federal law enforcement agencies.

Altama typically ships complete orders within 24 hours of receiving a purchase order. Altama s narrowly-focused product offering provides it with the ability it meet this goal. Because Altama specializes in non-fashion military and uniform boots, it maintains sufficient inventories to meet the needs of the DoD and commercial customers with limited inventory risk. As part of its customer service, Altama guarantees all first quality commercial footwear for one year with respect to material and workmanship.

*Consumer Direct.* Altama markets its products through established footwear and clothing retailers catalogs and web sites. Altama has over 50 retailers participating in this program, including large sporting goods retailers such as Dick s Sporting Goods and The Sports Authority and Army/Navy surplus retailers. Altama also sells boots over its own web site.

*Marketing and Advertising.* The DoD does not permit advertising literature to be sent to soldiers, other than branded boot boxes. Given Altama s 35 years as a DoD prime contractor, we believe that the Altama brand is widely recognized by U.S. military soldiers and well known for its product quality and functionality. Altama s marketing strategy for the commercial channel consists of direct advertising through military publications and direct mail to retailers and agencies. Altama also seeks to build brand recognition and customer loyalty through its practice of including logo t-shirts and posters inside its boot boxes for its website generated sales. Altama s marketing expenditures for fiscal 2003 was approximately 4% of its commercial sales, or $398,000. Altama posted advertisements in the *Army Times, Navy Times, Marine Times* and *Air Force Times.*

Altama also utilizes its web site to market its products to the commercial market, including U.S. military soldiers, agency members, members of foreign militaries and general retail customers in the U.S..

Altama believes its emphasis on customer service is a competitive strength, as Altama seeks to ship commercial orders within 24 hours of receipt and provides customers with a money back guarantee as well as a 12-month warranty for workmanship and quality of materials.

*Manufacturing and Sourcing.* DoD guidelines require that all mil-spec boots for combat use be manufactured in the U.S. with U.S. materials. As a result, Altama manufactures all DoD military footwear it sells. In addition, Altama manufactures some of its commercial boots. Altama maintains two manufacturing plants to meet these needs. Although we currently outsource all of our manufacturing needs, our management and staff have significant knowledge of footwear manufacturing and sourcing processes that we believe we can use to enhance Altama s manufacturing operations.

Altama s 23,000 square foot cut and stitch manufacturing plant is located in Salinas, Puerto Rico. As of May 29, 2004, approximately 183 employees worked at this facility.

Altama ships partially completed boots to its Lexington, Tennessee facility where the boots are then lasted, bottomed and finished. As of May 29, 2004, Altama employed 161 people at the Lexington facility, the majority of whom are compensated by the number of pairs they produce. All finished products are then packed for shipping to either Altama s 30,000 square foot warehouse facility located five miles from the Lexington facility, or in the case of commercial product, to a third party warehouse in Chicago, Illinois.

Leather, Cordura® nylon and rubber are the principal material components used in the boot manufacturing process. Pursuant to DoD contracts for military combat boots, all materials used in manufacturing these boots must be and are produced in the U.S. and must conform to military specifications. Altama has longstanding relationships with its major raw materials suppliers. A majority of Altama s raw materials can be obtained from various sources and are readily available. Because all materials in combat boots must meet rigid DoD specifications and because quality is the first priority, Altama purchases most of its raw materials from vendors who provide the best materials at a reasonable cost.

Altama sources its remaining commercial boots from two China-based manufacturers to meet a majority of its commercial market needs. Commercial product is shipped to a third party that manages all logistics and distribution of this commercial inventory.

*Facilities.* Altama occupies offices and facilities in Georgia, Puerto Rico and Tennessee. The following table summarizes these properties:

| Facility/Location | Own/Lease | Description | Approximate Square Footage |
|---|---|---|---|
| Salinas, Puerto Rico | Lease | Cut and stitch plant | 23,000 |
| Lexington, Tennessee | Lease | Finishing plant | 76,000 |
| Lexington, Tennessee | Lease | Distribution warehouse | 30,000 |
| Atlanta, Georgia | Lease | Headquarters | 4,101 |
| Atlanta, Georgia | Lease | Headquarters | 2,150 |

Altama s Lexington, Tennessee finishing plant and certain equipment at the plant are leased under a capital lease arrangement. Altama s capital lease payments are expected to be completed by December 31, 2005. Altama expects to exercise the $100 purchase option at that time and terminate the lease.

We believe that Altama s current facilities are adequate for its current and future operations. However, if the U.S. government significantly increases its military boots requirements under the September 30, 2003 contract, it is possible that additional footwear manufacturing and storage facilities may be necessary. We believe that Altama will be able to obtain additional facilities, if necessary, at reasonable prices.

*Employees.* As of May 29, 2004, Altama employed 371 persons, with greater than 90% of those employees working in the manufacturing facilities in Puerto Rico and Tennessee. Almost all of the manufacturing employees are compensated based on a piece rate (number of boots produced) to provide incentive-based compensation. None of Altama s employees are represented by collective bargaining or a labor union. Altama s employees in Puerto Rico have certain governmental labor-relations rules that cover holiday, vacation, Christmas bonus and sick pay compensation minimums, and requires payment of a mandatory severance upon termination based on the years of service unless terminated for just cause.

*Trademarks and Patents.* Altama s trademarks include Altama®, and Altama and design which have been registered in the U.S. and in several foreign countries.

*Competition.* No one company dominates the DoD boot market. The major competitors within the mil-spec boot category include Altama, Belleville Shoe Manufacturing Company, McRae Industries, Wellco Enterprises and Wolverine® World Wide s Bates® Uniform Footwear division. Price, quality, manufacturing efficiency and delivery are the main competitive forces in the industry. The production allocation of the September 30, 2003 DoD contract is as follows: McRae Industries (35%), Wellco Enterprises (30%), Altama

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(20%) and Belleville Shoe Manufacturing (15%). With respect to the infantry combat boot contract three other manufacturers received the award Wellco Enterprises, Belleville Shoe Manufacturing and Wolverine® World Wide s Bates® Uniform Footwear division. This additional competition could make it more difficult for Altama to win a contract with respect to future bid solicitations.

In the commercial market for boots, Altama competes with a large and diverse set of footwear companies. The commercial market is divided into various categories, with several footwear companies supplying one or more of the following types of boot: military, safety and work, outdoor, casual, fashion, western and motorcycle. These footwear companies distribute their products through several channels, including specialty footwear retailers, specialty outdoor retailers, department stores, sporting goods stores, shoe retailer chains, and various other retailers.

*Regulation.* Altama is subject to various laws and regulations concerning its contracting with the DoD and environmental and employee safety and health matters. Altama has represented to us that it is operating in substantial compliance with these laws and regulations.

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## MANAGEMENT

### Directors and Executive Officers

The following table sets forth certain information with respect to our executive officers and directors as of June 15, 2004:

| Name | Age | Position |
|---|---|---|
| James R. Riedman(1)(2) | 45 | Chairman and Director |
| Richard E. White(1) | 51 | Chief Executive Officer and Director |
| Greg A. Tunney | 42 | President, Chief Operating Officer and Director |
| Kenneth E. Wolf | 43 | Chief Financial Officer, Treasurer and Secretary |
| Wilhelm Pfander | 66 | Senior Vice President Sourcing & Development and Director |
| Francisco Morales | 30 | President of Royal Robbins |
| Steven M. DePerrior(1)(2)(3) | 45 | Director |
| Gregory M. Harden(4)(5) | 48 | Director |
| John C. Kratzer(3)(5) | 41 | Director |
| Frederick R. Port(3)(4) | 62 | Director |
| John M. Robbins(1)(4)(5) | 56 | Director |

(1) Member of the executive committee.

(2) Member of the retirement plan committee.

(3) Member of the compensation committee.

(4) Member of the audit committee.

(5) Member of nominating and governance committee.

Each director holds office until the next annual meeting of stockholders, and until his successor is elected and qualified. Our executive officers are appointed annually by our board of directors and serve at its discretion.

The following biographies set forth certain information with respect to our executive officers and directors. There are no family relationships among them.

*James R. Riedman* has been on our board of directors since 1993 and has been Chairman of our board of directors since 1996. He served as our Chief Executive Officer from 1996 to June 15, 2004. Mr. Riedman is the President and a director and shareholder of Riedman Corporation, a holding company that, until January 2000, included a commercial insurance agency that obtained property and casualty insurance coverage for us. Mr. Riedman is also a director of Harris Interactive Inc., a leading market research firm *(NASDQ:HPOL)*. In fiscal 2000, Riedman Corporation sold its insurance business.

*Richard E. White* has served as our Chief Executive Officer since June 15, 2004 and as a member of our board of directors since May 11, 2004. Prior to joining us, Mr. White was a consultant to trade associations from 2002 to June 2004. From 1999 to 2002 he was 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, he was General Manager, Subsidiary Brands, of three of Nike Inc. s four subsidiary companies, including Cole Haan and Bauer-Nike Hockey. Mr. White also was employed for fifteen years by Major League Baseball Properties, Inc. and served as President and Chief Executive Officer for seven of those years.

*Greg A. Tunney* has been on our board of directors since 1998 and has been our President and Chief Operating Officer since 1998. From 1992 to 1998, Mr. Tunney was a Vice President of Brown Shoe Company. During his six years with Brown Shoe Company he headed up the Sales and Marketing Divisions for several different brands including the Life Stride, Connie, and Naturalizer footwear brands. At the time,

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Mr. Tunney was the youngest Vice President to be serving in the company. Prior to joining Brown Shoe Company, Mr. Tunney worked for the May Department Stores Company in the Merchandising and Buying Division.

*Kenneth E. Wolf* joined us as Chief Financial Officer on February 1, 2003. Mr. Wolf was appointed as our Secretary on May 11, 2004. Prior to joining us, Mr. Wolf was employed as Senior Vice President, Finance and Controller of Callaway Golf Company *(NYSE: ELY)*, where he worked for nine years. Mr. Wolf is a certified public accountant.

*Wilhelm Pfander* leads our development of footwear and outsourcing activities. He has been a director of our company since April 2000 and Senior Vice President Sourcing and Development since February 2000. For more than five years prior to that, he was Vice President Manufacturing and Product Development at Penobscot Shoe Company.

*Francisco Morales* is President of our Royal Robbins subsidiary and has served in that capacity since October 2002. Prior to that time, he served as Director of Product Development and Packaging in 2002 for Dick s Sporting Goods, Inc., and was their Manager of Product Development from 2000 to 2002. Mr. Morales was the Textile Sourcing Manager for L.L. Bean, Inc., in fiscal 2000, and a raw materials engineer there from fiscal 1998 to fiscal 2000.

*Steven M. DePerrior* has been on our board of directors since 1996. Since 1997, Mr. DePerrior has been employed with the Burke Group, an employee benefits administration and compensation consulting firm that provides services to us, as a record keeper. From 1997 until its sale in 2001, Mr. DePerrior was a principal in the Burke Group.

*Gregory M. Harden* has been on our board of directors since 1996. For more than the past five years, he has served as President and Chief Executive Officer of Harden Furniture Co., Inc., a furniture manufacturer in McConnellsville, New York. Mr. Harden also serves on the board of directors of Oneida, Ltd. *(NYSE:OCQ)*.

*John C. Kratzer* was elected to our board of directors in November 2003. He has been President and Chief Executive Officer of JMI Realty, Inc., a vertically-integrated private real estate investment and development company based in San Diego, California, since 1998. Prior to that (from 1995 to 1997) he was founder and Chief Operating Officer of Homegate Hospitality, Inc., a publicly traded company that ultimately merged with Prime Hospitality *(NYSE: PDQ)*, where he directed operations for the development and construction of hotel properties.

*Frederick R. Port* has served on our board of directors since May 11, 2004. Mr. Port mentors startup and maturing companies, global and domestic, with emphasis on strategy, transition management, acquisition and integration, and executive organization and recruiting and since 2000 has acted as a private consultant in that area. From 1995 to 2000, he served as a director of Callaway Golf *(NYSE:ELY)* and as President of Callaway Golf International. Prior to that (from 1993 to 1995) he was Managing Director of Korn/ Ferry International and President (from 1987 to 1992) of the Owl Companies, a private multiple-industry holding company.

*John M. Robbins* has served on our board of directors since May 11, 2004. Mr. Robbins is Chairman and Chief Executive Officer of American Residential Investment Trust *(AMX:INV)*, which he co-founded in 1997, and American Mortgage Network, a subsidiary of American Residential Investment Trust founded in 2001. Formerly (from 1983 to 1994) Mr. Robbins was Chairman and Chief Executive Officer of American Residential Mortgage *(NASDQ:AMRS)*, one of the nation s largest mortgage banking firms prior to its sale to Chase Manhattan Bank in 1994. Mr. Robbins is a Trustee of the University of San Diego.

Two of our directors recently retired from our board of directors. Edward Bloomberg and Gary Pflugfelder had informed us in early 2004 that they were retiring this year. Therefore, they were not nominated by our board of directors for re-election at our fiscal 2004 annual meeting. Mr. Bloomberg had been a director of our company since 1993. Mr. Pflugfelder had been a director of our company since 1983.

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**Key Employee**

*Larry Torchin,* 53, has served as our Vice President Product Development and Sourcing since September 2003. Prior to joining us, Mr. Torchin was President of MTI from 1999 to 2003. MTI sources and designs footwear for many branded companies and retailers in the U.S. Before working at MTI, Mr. Torchin was the founder and a principal of Larry Stuart Ltd., a premium brand of women s footwear. This brand, produced in Italy, grew to national status and was acquired by Brown Shoe Company in 1995. Mr. Torchin has also served as Vice President of Product Development for Benco International and later G.H. Bass Shoe companies.

**Executive Compensation**

The following information concerning annual and long-term compensation for fiscal 2001, fiscal 2002 and fiscal 2003 is furnished for our Chief Executive Officer and each of our other executive officers who received compensation for fiscal 2003 that exceeded $100,000.

**Summary Compensation Table**

| | Annual Compensation | | | | Long-Term Compensation |
|---|---|---|---|---|---|
| | Fiscal Year | Salary | Bonus | Other Annual Compensation | Securities Underlying Options |
| James R. Riedman | 2003 | $186,058(1) | | | 66,666 |
| (Chairman & CEO) | 2002 | $ 85,000 | | | 10,000(3) |
| | 2001 | $ 75,000 | | | 152,898(3)(4) |
| Greg A. Tunney | 2003 | $225,204 | $20,028 | $27,043(2) | |
| (President & COO) | 2002 | $200,280 | $58,084 | | 50,000 |
| | 2001 | $181,883 | | | |
| Kenneth E. Wolf | 2003 | $135,589 | | | 50,000 |
| (CFO & Treasurer) | | | | | |
| Wilhelm Pfander | 2003 | $142,807 | $14,040 | $24,009(2) | |
| (Senior VP Sourcing & | 2002 | $139,465 | $41,500 | | 20,000(5) |
| Development) | 2001 | $125,154 | | | |

(1) Mr. Riedman became our full-time employee on March 1, 2003 with an annual salary of $225,000. Effective January 1, 2004, his salary was increased to $325,000 annually. Mr. White succeeded Mr. Riedman as Chief Executive Officer on June 15, 2004, and Mr. Riedman will continue as our Chairman.

(2) Represents the value of other compensation earned through the annual allocation of shares to named executives accounts under our 401(k) plan.

(3) Represents options for 2,898 shares and 10,000 shares that were granted in fiscal 2001 and fiscal 2002, respectively, to Mr. Riedman (and to each of our other directors who was not a full-time employee) as part of his annual retainer fee as a director.

(4) Represents an option to purchase 150,000 shares granted to Mr. Riedman in fiscal 2001 for his guarantees of additional bank financing for us.

(5) In fiscal 2000, we entered into a deferred compensation agreement with Mr. Pfander whereby we agreed to pay him $100,000 during the first year following his retirement after age 65.

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**Option Grants in Last Fiscal Year**

| | Number of Shares Underlying Options Granted | Percent of Total Options Granted to Employees in Fiscal Year(1) | Exercise Price Per Share | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term 5% | 10% |
|---|---|---|---|---|---|---|
| James R. Riedman | 66,666(2) | 20% | $ 3.13 | 3/1/13 | $131,228 | $332,558 |
| Greg A. Tunney | | | | | | |
| Kenneth E. Wolf | 50,000(2) | 15% | $3.575 | 2/1/13 | $112,415 | $284,881 |
| Wilhelm Pfander | | | | | | |

(1) Based on options to purchase 331,666 shares granted to our employees in fiscal 2003.

(2) The options are exercisable in cumulative one-third installments vesting annually beginning on the first anniversary of the date of grant. The grant dates for Messrs. Riedman and Wolf were March 1, 2003 and February 1, 2003, respectively.

**Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End (FYE) Option Values**

| | Shares Acquired on Exercise (#) | Value Realized ($) | Number of Shares Underlying Unexercised Options at FYE Exercisable/Unexercisable | Value of Unexercised In the Money Options at FYE Exercisable/Unexercisable(2) |
|---|---|---|---|---|
| James R. Riedman | | | 158,398/69,166(1) | $876,832(1)/$295,639 |
| Greg A. Tunney | | | 150,000/0 | $764,250/$0 |
| Kenneth E. Wolf | | | 0/50,000 | $0/$195,750 |
| Wilhelm Pfander | | | 30,000/0 | $134,400/$0 |

(1) Options for 2,898 shares and for 10,000 shares were granted in fiscal 2001 and fiscal 2002, respectively, to Mr. Riedman and each of our other directors who was not a full-time employee as part of his annual retainer fee as a director. We do not deem these options granted to Mr. Riedman as compensation for his services as CEO.

(2) Based on the last reported sale price of our common stock of $7.49 on December 26, 2003, the last trading day of fiscal 2003, as reported by the American Stock Exchange, minus the exercise price per share.

**Compensation Committee Interlocks and Insider Participation**

The members of the Board Compensation Committee during fiscal 2003 were Messrs. Pflugfelder, DePerrior and Bloomberg. Until May 11, 2004, Mr. Pflugfelder was our Secretary. Other than that, none of them is or was:

an officer or employee of ours or of our subsidiaries;

an employee of an entity whose board of directors (or compensation committee) includes an executive officer of ours;

an employee of a entity who directly or indirectly benefits from its transactions with us; or

a family member of a person whose compensation is in any way affected by any of our executive officers.

The board of directors determined that each of them is independent as defined in Rule 121B of the American Stock Exchange.

**Employment Contracts, Termination of Employment and Change in Control Arrangements**

On June 15, 2004, we entered into a three-year employment agreement with Richard E. White to serve as our Chief Executive Officer. The agreement provides for an annual base salary of $500,000 and participation in an incentive bonus plan where he is eligible to receive an incentive bonus at a target amount of $250,000 in the first year. If Mr. White is terminated without cause he will be entitled to be paid his salary and benefits for 18 months. If he is terminated without cause, or has a substantial reduction in his duties, in connection with a change in control, Mr. White will be entitled to be paid an amount equal to his total compensation for the two years prior to termination. The proposed agreement provides for confidentiality, employee non-solicitation and customer non-solicitation covenants that extend for one year after the termination of his employment. Upon entering into the employment agreement, Mr. White also received a 10-year option to purchase 200,000 shares of our common stock at a price of $11.40 per share (the market price on the date of grant), vesting in one-third installments each year beginning on the first anniversary of the date of grant. He is also eligible to receive options to purchase an aggregate of 185,000 shares and 100,000 shares on the one-year and two year anniversaries, respectively, following his entry into the employment agreement. The exercise price will be the market price on the date of grant.

We entered into a three-year employment agreement with James Riedman, our Chairman, effective January 1, 2004. The agreement provides for an annual base salary of $325,000 and participation in executive bonus plans as may be established. If Mr. Riedman is terminated without cause, he will be entitled to be paid salary and benefits for 18 months. If he is terminated without cause or has a substantial reduction in his duties, in connection with a change in control, Mr. Riedman will be entitled to be paid three times his base salary. The agreement also provides for confidentiality, employee non-solicitation and customer non-solicitation covenants that extend for one year after the termination of his employment.

In September 2003, we renewed our employment agreement with Greg Tunney, our President and Chief Operating Officer. The agreement provides for an annual base salary of $245,000 and participation in executive bonus plans as may be established. If Mr. Tunney is terminated without cause, he will be entitled to be paid salary and benefits for 18 months. If he is terminated without cause or has a substantial reduction in his duties, in connection with a change in control, Mr. Tunney will be entitled to be paid two times his base salary. The agreement also provides for confidentiality, employee non-solicitation and customer non-solicitation covenants that extend for one year after the termination of his employment.

We have also entered into a deferred compensation agreement with our Senior Vice President Sourcing and Development, Wilhelm Pfander. Upon his retirement, we have agreed to pay Mr. Pfander $100,000 less applicable payroll taxes. The agreement also contains one-year non-compete and non-solicitation of employees provisions following the date he leaves employment with us.

Concurrent with our acquisition of Royal Robbins on October 31, 2003, we entered into an employment agreement with Francisco Morales as President of Royal Robbins. Mr. Morales had been a minority owner of Royal Robbins and had served as President of Royal Robbins since October 2002. The agreement provides for a base salary of $160,000 for two years, with opportunity for bonuses. In connection with his employment, Mr. Morales received a 10-year option to purchase 50,000 shares of our common stock at a price of $7.01 per share (the market price on the date of grant), vesting one-third after one year, two-thirds after two years and entirely after three years. If he is terminated without cause, Mr. Morales will be entitled to be paid six months salary and benefits (other than incentive compensation). The agreement also provides for confidentiality, employee non-solicitation and non-competition covenants that extend for one year after the termination of his employment.

**Compensation of Directors**

The annual retainer fee for each non-employee director in fiscal 2003 was $7,500 cash and an option to purchase 10,000 shares of our common stock, awarded at the annual meeting of directors or when elected to the board, with an exercise price equal to the market price of our common stock on the date of grant. Fifty percent of the director options vests immediately and the balance vests equally on the first and second anniversaries of the date of grant, if the option holder continues to be a director on those dates. The annual

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retainer fee for each non-employee director in fiscal 2004 was increased to $25,000 cash and the option portion of the annual retainer fee was increased to 15,000 shares for fiscal 2004.

**Indemnification of Directors and Officers**

We are governed by Section 145 of the Delaware General Corporation Law. This section provides for indemnification of directors, officers and other employees in certain circumstances. Additionally, Section 102(b)(7) of the Delaware General Corporation Law provides for the elimination or limitation of the personal liability for monetary damages of directors under certain circumstances.

Article Sixth of our certificate of incorporation eliminates the personal liability for monetary damages of directors under certain circumstances. Article VI of our bylaws provides indemnification to our directors and officers for liability for certain losses in that capacity if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to our best interests, and, with respect to any criminal action or proceeding had no reasonable cause to believe such person s conduct was unlawful. In the case of an action or suit by or in the right of us to procure a judgment in our favor, however, (1) such indemnification is limited to expenses (including attorneys fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit, and (2) no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to us unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper. These provisions also provide for the advance and payment of fees and expenses reasonably incurred by the director or officer in defense of any such lawsuit or proceeding.

Our bylaws authorize us to purchase and maintain insurance on behalf of any of our directors or officers against any liability asserted against such person and incurred by such person or arising out of such person s status as such, whether or not we would have the power to indemnify such person. Our directors and officers are covered by insurance policies indemnifying them against certain liabilities, including certain liabilities arising under the Securities Act, which might be incurred by them in such capacities and against which they may not be indemnified by us.

In addition, we have entered into indemnification agreements with our executive officers and directors on terms that are consistent with the provisions described above. We believe that such agreements are necessary to attract and retain qualified persons as directors and officers.

Insofar as indemnification for liability arising under the Securities Act may be permitted to our directors and officers or controlling persons under these provisions, we have been informed by the SEC that in its opinion such indemnification is against public policy as expressed in the Securities Act and, therefore, is unenforceable.

**Certain Relationships and Related Transactions**

Other than the employment agreements with Messrs. Riedman, White, Tunney and Morales and our compensation arrangements with our directors and executive officers described above, since January 1, 2001 there have been no transactions or series of transactions, to which we or any of our subsidiaries was or is to be a party, in which the amount involved exceeds $60,000 and in which any director, nominee, officer or holder known to us of more than 5% of our common stock, or any member of the immediate family of any of them, is a party, directly or indirectly, except as follows:

Since hiring him as Vice President-Product Development and Sourcing on October 31, 2003, we have been in discussions with Larry Torchin to acquire his private label footwear business. The proposed agreement provides that the purchase price would be paid solely through an earnout equal to the net earnings generated in fiscal 2006 from that business. We have not reached a final agreement for this proposed transaction. There can be no assurance that we will complete this transaction or that it will be completed on terms favorable to us.

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We acquired all of the outstanding shares of capital stock of H.S. Trask in August 2003. Harrison Trask, the then Chief Executive Officer and controlling shareholder of H.S. Trask, received 440,507 shares of our common stock with an aggregate value of $2.0 million and nominal cash consideration in consideration for his interest in H.S. Trask. We also agreed to register for resale the shares issued to the former common stockholders of H.S. Trask and we entered into an escrow agreement as described in Note 10 to the Principal Stockholders table.

We also entered into an employment agreement with Mr. Trask, which agreement provided for an annual base salary of $100,000 and expired on December 31, 2003, and a consulting agreement with Mr. Trask that expires in December 31, 2005. The consulting agreement provides for an annual fee of $90,000, and Mr. Trask agreed not to compete with us through December 31, 2005.

On January 19, 2001, we granted to Riedman Corporation a 10-year option to purchase 100,000 shares of our common stock at an exercise price of $1.875 per share, the market price on the date of grant. James Riedman is a shareholder of Riedman Corporation. The grant was approved by our board of directors (Mr. Riedman abstaining), in consideration for a guarantee provided by Riedman Corporation in connection with our bank financing. This guarantee has been subsequently released.

In order to assist us with our working capital requirements, James Riedman loaned us $750,000 on April 11, 2001. The note evidencing the indebtedness was due in one year and was convertible into 407,608 shares of common stock at a price of $1.84 per share, which was the market price of the stock on that date. Mr. Riedman exercised his conversion right in April 2002. At the same time, we granted Mr. Riedman a 10-year option to purchase 50,000 shares at an exercise price of $1.84 per share.

On June 1, 2001, we granted Mr. Riedman a 10-year option to purchase 100,000 shares of our common stock at an exercise price of $1.75 per share, the market price on the date of grant, in exchange for his personal guarantee of a portion of our line of credit. This guarantee has been subsequently released.

## PRINCIPAL STOCKHOLDERS

The following table sets forth, to our knowledge, certain information with respect to the beneficial ownership of our common stock as of May 28, 2004 and as adjusted to reflect the sale of common stock offered in this offering, by:

- each person known by us to own beneficially more than 5% of the outstanding shares of our common stock as of the date of this table;
- each of our directors and director nominees;
- each of our executive officers named in the summary compensation table contained in this prospectus; and
- all of our directors and executive officers as a group.

Percentage of shares owned is based on 5,154,093 shares of common stock outstanding as of May 28, 2004 and assumes 7,864,000 shares of common stock will be outstanding after this offering including 209,907 shares of common stock that we estimate we will issue in payment of $2.5 million of the purchase price due Altama s sole shareholder 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. This percentage also assumes that the underwriters will not exercise their over-allotment option to purchase an additional 375,000 shares of common stock from us.

Beneficial ownership is determined in accordance with SEC rules. All shares of our common stock subject to options currently exercisable or exercisable within 60 days after May 28, 2004 are deemed to be outstanding for the purpose of computing the percentage of ownership of the person holding the options, but are not deemed to be outstanding for computing the percentage of ownership of any other person.

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Unless otherwise indicated below, each beneficial owner named in the table has sole voting and investment power with respect to all shares beneficially owned by that stockholder, subject to applicable community property laws. Also, unless otherwise indicated below, the mailing address for each beneficial owner is the same as ours.

| | Shares Beneficially Owned Prior to Offering | | Shares Beneficially Owned After Offering | |
|---|---|---|---|---|
| **Name of Beneficial Owner** | **Number[(1)(2)]** | **Percent** | **Number** | **Percent** |
| **Executive Officers and Directors** | | | | |
| James R. Riedman[(3)] | 2,723,427 | 48.7 | 2,744,417(4) | 33.1 |
| Richard E. White | 7,500 | * | 7,500 | * |
| Greg A. Tunney | 187,974 | 3.5 | 187,974 | 2.3 |
| Kenneth E. Wolf[(5)] | 46,761 | * | 46,761 | * |
| Wilhelm Pfander | 46,651 | * | 46,651 | * |
| Steven M. DePerrior[(6)] | 827,745 | 16.1 | 827,745 | 10.5 |
| Gregory M. Harden | 31,898 | * | 31,898 | * |
| John C. Kratzer | 12,500 | * | 12,500 | * |
| Frederick R. Port[(7)] | 8,200 | * | 8,200 | * |
| John M. Robbins | 8,500 | * | 8,500 | .* |
| All current directors and executive officers as a group (11 persons) | 3,049,669 | 52.0 | 3,070,659 | 35.8 |
| **Beneficial Holders of 5% or more** | | | | |
| Riedman Corporation[(8)] | 632,710 | 11.7 | 632,710 | 7.8 |
| Retirement Plan Committee of the Phoenix Footwear Group, Inc. Retirement Savings Partnership Plan [(9)] | 798,847 | 15.5 | 798,847 | 10.2 |
| Harrison Trask[(10)] | 420,507 | 8.2 | 420,507 | 5.3 |

* Represents less than 1% of our outstanding common stock.

(1) Includes shares issuable upon the exercise of outstanding stock options as follows:

| | |
|---|---|
| James R. Riedman | 187,862 |
| Richard E. White | 7,500 |
| Greg A. Tunney | 148,159 |
| Kenneth E. Wolf | 16,667 |
| Wilhelm Pfander | 20,000 |
| Steven M. DePerrior | 27,898 |
| Gregory M. Harden | 27,898 |
| John C. Kratzer | 12,500 |
| Frederick R. Port | 7,500 |
| John M. Robbins | 7,500 |
| All current directors and executive officers as a group (11 persons) | 463,484 |
| Riedman Corporation | 250,000 |

(2) Includes shares held in such person s account under our 401(k) plan over which, by the terms of the plan, each has investment control, but not voting control:

| | |
|---|---|
| Greg A. Tunney | 31,815 |
| Kenneth E. Wolf | 5,174 |
| Wilhelm Pfander | 16,651 |

(3) Includes 5,333 shares allocated to Mr. Riedman s account in our 401(k) plan, and the following shares of which Mr. Riedman disclaims beneficial ownership: 632,710 shares beneficially owned by Riedman Corporation, of which Mr. Riedman is a shareholder, director and President; 24,400 shares owned by his children; 63,570 shares held by an affiliated entity; and 793,514 shares held by our 401(k) plan. Mr. Riedman is a member of our board of directors retirement plan committee, which serves as fiduciary for our 401(k) plan, and through that committee he shares voting control over such shares, and shares investment control over 478,513 shares not yet allocated to plan participants.

(4) Includes 20,990 shares that may be purchased by Mr. Riedman and certain of his affiliates in this offering, based on a purchase of stock valued at up to $250,000, and assumed price to the public of $11.91 per share (the last sale price on May 28, 2004). Mr. Riedman 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.

(5) Includes 920 shares owned by family members, as to which Mr. Wolf disclaims beneficial ownership.

(6) Includes 798,847 held by our 401(k) plan. Mr. DePerrior is a member of our board of directors retirement plan committee, which serves as fiduciary for our 401(k) plan, and through that committee he shares voting control over such shares, and shares investment control over 478,513 shares not yet allocated to plan participants.

(7) Includes 700 shares held by the Frederick and Linda Port Family Trust, of which Mr. Port serves as trustee.

(8) James R. Riedman and John R. Riedman, as directors of Riedman Corporation, share voting and dispositive power over shares beneficially owned by Riedman Corporation. The address for Riedman Corporation is 45 East Avenue, Rochester, New York 14604.

(9) The members of our board of directors retirement plan committee, which serves as fiduciary for our 401(k) plan, share voting control over these shares, and share investment control over 478,513 shares not yet allocated to plan participants. As of the date of the table, the members of the retirement plan committee were James R. Riedman and Steven M. DePerrior.

(10) Includes 31,466 shares that are held in escrow subject to the terms of an escrow agreement entered into by and among Phoenix Footwear, Nancy Delekta (as the stockholder representative of the former H.S. Trask stockholders) and American Stock Transfer & Trust Company (as escrow agent) to secure indemnification obligations pursuant to the Agreement and Plan of Merger among us, our wholly-owned subsidiary PFG Acquisition, Inc. (now known as H.S. Trask & Co.), H.S. Trask and Nancy Delekta (as stockholder representative) and certain related documents. See Management Certain Relationships and Related Transactions. We have made a claim for indemnity against the former H.S. Trask stockholders. If we are successful, all escrowed shares would be used to satisfy our claims. Nancy Delekta (as stockholder representative) has voting control over the shares while they are held in escrow. Mr. Trask s mailing address is 101 Sourdough Road, Bozeman, Montana 59715.

## DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 50,000,000 shares of common stock, $0.01 par value per share, and 500,000 shares of preferred stock, $0.01 par value per share. The following description of our capital stock does not purport to be complete and is subject to and qualified in its entirety by our certificate of incorporation, our bylaws and the provisions of applicable Delaware law.

### Common Stock

The holders of outstanding shares of our common stock are entitled to receive dividends out of assets legally available therefor at times and in amounts as the board of directors may, from time to time, determine, subordinate to any preferences that may be granted to the holders of preferred stock and subject to some restrictions on the payment of dividends contained in our credit agreement with our bank.

The holders of our common stock are entitled to one vote per share on all matters on which the holders of common stock are entitled to vote. The holders of our common stock are not entitled to cumulative voting rights with respect to the election of directors.

Our common stock is not entitled to preemptive rights and may not be redeemed or converted, except as may be provided by agreement. Upon the liquidation, dissolution or winding-up of our company, the assets legally available for distribution to stockholders are divided among the holders of the common stock in proportion to the number of shares of common stock held by each of them, after the payment of all of our debts and liabilities and satisfaction of the rights of any outstanding class or series of preferred stock to have priority to distributed assets.

All outstanding shares of our common stock are, and the shares of common stock to be issued in this offering will be, when issued and delivered, validly issued, fully paid and nonassessable. The rights, preferences and privileges of holders of common stock are subordinate to any series of preferred stock that we may issue in the future.

As of May 28, 2004, we had outstanding 5,154,093 shares of common stock. As of May 28, 2004, there were 427 holders of record of our common stock. We believe that the number of beneficial owners on that date is substantially higher. Upon completion of this offering, there will be 7,864,000 shares of our common stock outstanding, including 209,907 shares of common stock that we estimate we will issue in payment of $2.5 million of the purchase price due Altama s sole shareholder 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. This amount assumes that the underwriters do not exercise their over-allotment option to purchase an additional 375,000 shares of common stock from us. There are 1,500,000 shares of common stock currently reserved for issuance under our 2001 Long-Term Incentive Plan, of which 1,007,261 shares are issuable upon exercise of outstanding options, and another 384,943 shares are reserved for issuance upon exercise of options issued outside that plan. Additionally, another 50,000 shares of common stock will be issuable upon exercise of the managing underwriters warrants.

**Preferred Stock**

We may issue preferred stock from time to time in one or more series, and our board of directors, without action by the holders of our common stock, may fix or alter the voting rights, redemption provisions, dividend rights, dividend rates, claims to our assets superior to those of holders of our common stock, conversion rights and any other rights, preferences, privileges and restrictions of any wholly-unissued series of preferred stock. Our board of directors, without stockholder approval, can issue shares of preferred stock with rights that could adversely affect the voting power or rights of the holders of our common stock. As of the date of this prospectus, we have no shares of preferred stock outstanding. The issuance of shares of preferred stock could make it more difficult for a third party to acquire, or could discourage or delay a third party from acquiring, a majority of our outstanding stock.

**Certain Certificate of Incorporation and Bylaw Provisions**

Below is a summary of certain provisions of our certificate of incorporation and bylaws that could be deemed to have an anti-takeover effect. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by our board of directors and to discourage an unsolicited takeover of our company if our board of directors determines that the takeover is not in the best interests of our company and our stockholders. However, these provisions could also have the effect of discouraging certain attempts to acquire our company or remove incumbent management even if some or a majority of our stockholders deemed such an attempt to be in their best interests.