

Boss Holdings, Inc.

2019 Fiscal Year End Report

Boss Holdings, Inc. and its subsidiaries (collectively, the “Company”) currently operate in three business segments. Boss Pet Products, Inc. (“Boss Pet”) distributes a wide range of pet supplies through direct marketing to professional groomers, boarders and veterinarians on its PetEdge website and via catalog, as well as wholesale distribution to retailers. Galaxy Balloons, Incorporated is our industry award-winning custom imprinter and distributor of promotional and specialty products. Aries Manufacturing is a nationwide distributor of cell phone accessories.

This was a year of major change for the Company as we sold our work glove and protective wear distribution business previously operated under Boss Manufacturing Company. This legacy business has a continuing operating history back to 1893 and for several decades had been the Company’s largest business segment. The purchaser of the business was Protective Industrial Products, Inc. of Latham, New York (“PIP”), an international supplier of personal protective equipment and a portfolio company of Audax Group, a diversified private equity firm headquartered in Boston, Massachusetts. Information concerning the work glove and protective wear segment now is reported under discontinued operations in the Company’s consolidated financials. Prior year results have been reclassified where applicable to reflect this change.

Executive Summary

The highlight event of the fiscal year was the sale of the work glove and protective wear distribution business on December 4, 2019. With a base sale price of \$35 million, total consideration to Boss after closing prorations was \$34,357,000, consisting of a \$10 million minority equity interest in PIP’s parent company, PIP Acquisition Holdings, LP, and the remainder of \$24,357,000 in cash. \$700,000 of the cash proceeds are held in a post-closing escrow account at a commercial bank. The Company used \$3,600,000 of the closing proceeds to pay off bank debt and ended the year with \$26,744,000 in cash and no indebtedness for borrowed money. The Company’s gain on sale of the work glove and protective wear business totaled \$17,604,000.

Consolidated revenues for fiscal 2019 were \$85,129,000, up \$8,068,000 over fiscal 2018, an increase of 10.5%. Discontinued operations accounted for \$30,266,000 of fiscal 2019 revenues, all attributable to the work glove and protective wear segment. 2019 net sales from continuing operations were \$54,863,000, up \$10,098,000 over fiscal 2018. The pet supply segment saw revenue growth of over \$15 million, while revenue in the promotional products segment was relatively even with 2018. The cell phone accessory revenues continued to suffer from the loss of its largest single customer, with revenues falling nearly \$5 million compared to 2018.

Revenue Trends

2019 net sales of \$37,280,000 in the pet supply segment exceeded management expectations, reflecting a gain of \$15,226,000 over fiscal 2018. Sustained turn-around efforts and focused sales initiatives in the PetEdge division drove this increase. Since acquiring the PetEdge assets in April 2018, the Company has successfully reestablished PetEdge as a leading pet supply distributor. During 2020 we consolidated the Boss Pet and PetEdge operations onto the same enterprise reporting system, combined inventories and merged multiple legal entities in order to streamline internal reporting and financial functions. During the year, PetEdge also initiated

acquisition and installation of a new, more versatile website infrastructure for both its groomer and dealer ecommerce sites, a year-long effort that came to fruition with successful and seamless website relaunches in May and June 2020, respectively.

Revenues in our promotional and specialty products segment were down approximately \$385,000 (-2.8%) from fiscal 2018, as balloon sales continued to be negatively impacted by a global helium shortage. This segment continues to diversify its product offerings to drive replacement sales revenue, including a full line of party cups, wine glasses and coasters in 2019. After experiencing a revenue decrease of \$4,743,000 in 2019, the cell phone accessory segment has initiated major cost-cutting during 2020 while pushing for new revenue sources.

Profitability

Consolidated net income for fiscal 2019 was \$9,998,000, consisting of \$12,579,000 in after-tax income from discontinued operations (resulting from sale of the work glove and protective wear segment), partially offset by net loss of \$2,581,000 from continuing operations. 2019 results from continuing operations reflect a bottom-line improvement of \$600,000 for those segments compared with prior year. Gross margin from continuing operations was up slightly to 24.1% of net sales in 2019 compared with 23.6% in 2018. Importantly, however, gross margin in the pet supply segment increased over 6% compared to 2018, as PetEdge surged from its near standstill at the time of acquisition in April 2018 to more robust performance with continuing turnaround efforts in 2019. Margin degradation due to significant revenue loss in the cell phone accessory segment was further exacerbated by a yearend increase to this segment's inventory obsolescence reserve resulting from a packaging change to a major product line. While operating expenses for continuing operations in fiscal 2019 increased \$2,957,000 compared to fiscal 2018, the increase was due primarily to increased sales at PetEdge. Marketing, travel and trade show expenses all increased along with commissions as this segment produced sizable increased revenues.

The Company also recognized an unrealized (non-cash) loss of \$83,000 at year-end on available for sale securities. As previously reported, such holdings are "marked-to-market" at the end of the period and unrealized gains or losses are reported although the underlying securities still are held by the Company. During fiscal 2018 the Company had recognized an unrealized loss of \$1,185,000 on the same available for sale securities. By contrast, the share price of these stock holdings has recovered substantially during 2020, producing an unrealized gain of approximately \$755,908 between December 29, 2019 and June 30, 2020.

Liquidity and Capital Resources

Due primarily to sale of the work glove and protective wear operations in December 2019, the Company ended the year with substantially increased liquidity; cash and cash equivalents increased \$24,770,000 from the prior year-end. Despite the bottom-line losses from operations noted above, operating activities in fiscal 2019 provided \$5,795,000 of positive cash flow, consisting of \$4,242,000 from continuing operations and \$1,553,000 from discontinued operations. Consolidated net loss from continuing operations and decreased accounts payable were more than offset by decreased inventories and prepaid expenses. While continuing operations used a combined \$526,000 for the purchase of material handling equipment at the promotional products segment and development of a new website for the pet products segment, successful sale of the work gloves and protective wear segment resulted in investment activities providing \$22,952,000 of cash for the fiscal year. Financing activities in fiscal 2019 netted to a

cash decrease of \$4,024,000, as the Company paid off its \$4,000,000 term loan incurred during 2018 in connection with the PetEdge acquisition.

At December 28, 2019, the Company held a total of \$26,744,000 in cash and cash equivalents. Prior to the end of fiscal 2019, the Company decided not to renew a credit agreement with a commercial bank. The previous credit agreement had provided a revolving credit facility up to \$7,500,000 along with a term loan of \$4,000,000. Management believes the Company's cash and cash equivalents should provide ample liquidity for the Company's expected working capital and operating needs without the bank credit facility.

Operations under COVID-19 Conditions

As reflected in footnote 1 to the Company's year-end audited financial statements, on January 30, 2020 the World Health Organization declared the COVID-19 coronavirus outbreak a Public Health Emergency of International Concern and on March 11, 2020 declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus, including national, regional and local quarantines, significant restrictions on travel and forced closure of many public facilities, have adversely affected businesses worldwide and are expected to continue to have an adverse economic impact within the markets in which the Company conducts operations. While it is unknown how long these conditions will continue and what the complete financial effect will be, the Company is expecting to experience a decline in revenue from continuing operations during 2020 and it is reasonably possible that the Company could be vulnerable to risk of severe near-term impact.

The Company's pet supply and cell phone accessory segments have remained open for business throughout the first six months of 2020 despite the coronavirus conditions. Our distribution centers in Reno, Nevada and Kewanee, Illinois are deemed essential infrastructure or otherwise permitted to continue operations with due attention to employee social distancing and workplace sanitization requirements. We have continued to accept and fulfill incoming orders for both pet products and cell phone accessories throughout this period in a safe and timely manner. Aries' primary distribution channels (convenience stores, truck stops and travel centers) have been adversely affected by coronavirus impact on the travel industry and trade shows critical to new and continuing customer contact in this market segment have been postponed or suspended. Due to state and local stay-at-home orders, our Galaxy Balloons operations were closed for approximately six weeks during late March and April. Although Galaxy reopened for business in early May, operations are significantly reduced from pre-COVID levels and Galaxy management has implemented staff reductions and temporary salary reductions. Although Company management cannot predict when our national economy and normal social activities will resume, we continue to monitor conditions closely and will act accordingly.

Boss Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in Thousands, Except Per Share Data)

Assets	December 28, 2019	December 29, 2018
Current Assets:		
Cash and cash equivalents	\$ 26,744	\$ 1,974
Accounts receivable, net of allowance for doubtful accounts and returns 2019 \$63; 2018 \$296	7,876	7,825
Income Tax Receivable	-	873
Inventories	14,475	16,881
Prepaid expenses and other	232	1,166
Current assets held for sale	-	21,083
Total current assets	49,327	49,802
Property and Equipment, net	3,861	4,220
Finance lease right of use assets, net	108	-
Operating lease right of use assets, net	2,531	-
Marketable equity securities	157	240
Other investment, cost method	10,000	-
Deferred tax asset	-	1,065
Intangibles, net of accumulated amortization	638	1,304
Goodwill	2,853	2,853
	\$ 69,475	\$ 59,484
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ -	\$ 202
Current portion of operating lease liabilities	928	-
Current portion of finance lease liabilities	28	-
Accounts payable	3,703	4,288
Accrued payroll and related expenses	2,729	1,672
Accrued promotional expenses	603	230
Income tax payable	848	-
Other accrued liabilities	1,708	779
Current liabilities held for sale	-	3,273
Total current liabilities	10,547	10,444
Long-term operating lease liabilities	1,728	-
Long-term finance lease liabilities	83	-
Long-term debt	-	3,801
Deferred tax liabilities	1,563	-
Total noncurrent liabilities	3,374	3,801
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,296 and 1,986,118 shares in 2019 and 2018, respectively	497	497
Additional paid-in capital	64,801	64,424
Accumulated (deficit)	(9,180)	(19,072)
Accumulated other comprehensive (loss)	(564)	(610)
Total stockholders' equity	55,554	45,239
	\$ 69,475	\$ 59,484

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Periods Ended December 28, 2019 and December 29, 2018
(Dollars in Thousands, Except Per Share Data)

	2019	2018
Net sales	\$ 54,863	\$ 44,765
Cost of sales	41,659	34,180
Gross profit	13,204	10,585
Operating expenses	16,139	13,182
Operating income (loss)	(2,935)	(2,597)
Other income (expense):		
Interest income	25	147
Interest expense	(153)	(53)
Change in unrealized gains and losses on marketable equity securities	(83)	(1,185)
Other	15	(83)
	(196)	(1,174)
Income (loss) from continuing operations before income tax expense (benefit)	(3,131)	(3,771)
Income tax expense (benefit)	(550)	(590)
Net income (loss) from continuing operations	(2,581)	(3,181)
Discontinued operations:		
Income from discontinued operations of Boss Manufacturing and Boss Canada ULC, including gain on disposal of \$17,604	16,705	1,097
Income tax expense (benefit)	4,126	(1)
Net income from discontinued operations	12,579	1,098
Net income (loss)	9,998	(2,083)
Other comprehensive income (loss), foreign currency translation adjustments	46	(181)
Comprehensive income (loss)	10,044	(2,264)
Basic earnings (loss) per common share		
Continuing operations	\$ (1.30)	\$ (1.60)
Discontinued operations	6.33	0.55
Basic earnings (loss) per common share	\$ 5.03	\$ (1.05)
Diluted earnings (loss) per common share		
Continuing operations	\$ (1.30)	\$ (1.60)
Discontinued operations	6.33	0.55
Diluted earnings (loss) per common share	\$ 5.03	\$ (1.05)

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Periods Ended December 28, 2019 and December 29, 2018
(Dollars in Thousands)

	2019	2018
Cash flows from operating activities:		
Continuing operations:		
Net income (loss) from continuing operations	\$ (2,581)	\$ (3,181)
Adjustments to reconcile net income (loss) from continuing operations to net cash provide by (used in) continuing operations:		
Depreciation and amortization	1,186	994
Share-based compensation and related tax benefits	378	-
Deferred tax expense (benefit)	(252)	(568)
Change in unrealized (gains) losses on marketable equity securities	83	1,185
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	4	(1,136)
Inventories	1,163	(7,312)
Prepaid expenses and other	893	(689)
Other assets	(52)	(144)
Increase (decrease) in:		
Operating lease liabilities	19	-
Accounts payable	(227)	2,197
Accrued liabilities	3,628	423
Net cash provide by (used in) continuing operations	4,242	(8,231)
Discontinued operations:		
Net income (loss) from discontinued operations	12,579	1,098
Adjustments to reconcile net income (loss) from discontinued operations to net cash provide by (used in) discontinued operations:		
(Gain) on disposal of discontinued operations	(17,604)	-
Depreciation and amortization	321	333
Deferred tax expense (benefit)	2,880	(46)
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	301	(541)
Inventories	4,220	(2,683)
Prepaid expenses and other	(173)	22
Other assets	174	5
Increase (decrease) in:		
Accounts payable	(1,747)	724
Accrued liabilities	602	188
Net cash provide by (used in) continuing operations	1,553	(900)
Net cash provided by (used in) operating activities	5,795	(9,131)

(Continued)

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Periods Ended December 28, 2019 and December 29, 2018
(Dollars in Thousands)

	2019	2018
Cash flows from investing activities:		
Continuing operations:		
Purchases of property and equipment	\$ (526)	\$ (336)
Purchase of available-for-sale securities	-	-
Payments for business combinations	-	(6,753)
Net cash use in continuing operations	(526)	(7,089)
Discontinued operations:		
Purchases of property and equipment	(179)	(293)
Proceeds from disposal of Boss Manufacturing and Boss Canada ULC	23,657	-
Net cash provided by (used in) discontinued operations	23,478	(293)
Net cash provided by (used in) investing activities	22,952	(7,382)
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	(31)	-
Repayment of long-term obligations	(4,000)	(2,501)
Proceeds from long-term obligations	-	4,000
Proceeds from exercise of stock options	30	-
Net cash provide by (used in) continuing operations	(4,001)	1,499
Discontinued operations:		
Repayment of long-term obligations	(3)	(5)
Repayment of finance lease liabilities	(20)	-
Net cash used in discontinued operations	(23)	(5)
Net cash provided by (used in) financing activities	(4,024)	1,494
Effect of exchange rate on cash	47	(323)
Increase (decrease) in cash and cash equivalents	24,770	(15,342)
Cash and cash equivalents:		
Beginning	1,974	17,316
Ending	\$ 26,744	\$ 1,974