

Boss Holdings, Inc.

First Quarter 2020 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.

2019 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

Consolidated revenues from continuing operations for the first quarter of fiscal 2020 were \$12,074,000, down \$239,000 compared with the first quarter of fiscal 2019, a decrease of 1.9%. Discontinued operations accounted for \$884,000 of first quarter fiscal 2020 revenues, all attributable to a transitional service agreement relating to the work glove and protective wear segment under which the Company provides post-closing services to PIP. All continuing business segments reported slight decreases in revenue for the first quarter of fiscal 2020. Pet supply segment revenues decreased \$90,000 compared with the first quarter of fiscal 2019, a decrease of 1.0%. The promotional and specialty products segment revenues decreased \$52,000 over the first quarter of fiscal 2019, a decrease of 2.1%. The cell phone accessories segment revenues decreased \$97,000, a decrease of 15.8%.

Revenue Trends

The slight decrease in fiscal 2020 first quarter revenues of the pet supply segment was driven mostly by reduced sales to a large retail chain customer due to store closures and a decision by management to exit certain low-margin specialty retailer business, while grooming website and ecommerce revenues were up. 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 2019, 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 \$52,000 (-2.1%) from the first quarter of fiscal 2019. This segment has been particularly impacted by the COVID-19 coronavirus outbreak. The reduction in first quarter revenues was due primarily to the stay-at-home order imposed in Ohio during the final week of fiscal March business. With continued

revenue decreases at the cell phone accessory segment, management has imposed significant cost-cutting initiatives while pushing for new revenue sources. New product offerings to one of this segment's major customers, set to release in late fiscal 2020, should provide additional revenues with a low initial investment.

Profitability

The Company incurred a \$916,000 consolidated net loss for the first quarter of 2020, consisting of a net loss of \$690,000 from continuing operations and a net loss of \$226,000 from discontinued operations. The loss from discontinued operations was due to restructuring and severance costs stemming from the PIP sale. First quarter 2020 results from continuing operations were largely in line with prior year results for the same period. Gross margin from continuing operations was up slightly to 24.5% of net sales during the first quarter of fiscal 2020 compared with 24.0% in the first quarter of fiscal 2019. Margin gains in the promotional and specialty products segment and cell phone accessory segment were partially offset by a margin decrease in the pet supply segment. The pet supply segment saw decreased margin due to an increase in promotions to drive additional revenue. Operating expenses for continuing operations during first quarter 2020 were down slightly compared with the same period in fiscal 2019 reflecting continuing cost reduction and containment measures across all segments.

The Company recognized an unrealized (non-cash) gain of \$14,000 in the first quarter of fiscal 2020 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 the first quarter of fiscal 2019 the Company had recognized an unrealized gain of \$80,000 on the same available for sale securities.

Liquidity and Capital Resources

The Company's holdings of cash and cash equivalents decreased during the first quarter of 2020 to \$24,752,000 compared with \$26,744,000 at 2019 fiscal year-end. Continuing operations used \$127,000 during the quarter while discontinued operations used \$1,814,000, most of which was due to increased accounts receivable reflecting fees due to the Company from PIP at quarter end associated with our post-closing transitional services and to increased accounts payable reflecting cash collected subsequent to the sale of glove operations and held in trust for PIP. For continuing operations, the quarter's net loss and decreased accrued liabilities were mostly offset by decreased accounts receivables and inventory. Reduced accounts receivable resulted from payments received from a major customer of the cell phone accessory segment while inventory reduction was concentrated at the pet supply segment. The Company utilized \$39,000 of cash for investing activities, primarily to purchase material handling equipment at the pet supply segment and furniture and fixtures at the corporate office. Financing activities used \$7,000 of cash to pay finance lease obligations.

On March 28, 2020, the Company held a total of \$24,752,000 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 previously footnoted in the Company's 2019 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 the remainder of 2020 and it is reasonably possible that the Company could be vulnerable to risk of significant near-term impact.

The Company's pet supply and cell phone accessory segments have remained open for business throughout 2020 despite the coronavirus conditions. Our distribution centers in Reno, Nevada and Kewanee, Illinois have been 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' normal distribution channels (convenience stores, truck stops and travel centers) have been adversely affected by coronavirus impact on the travel industry and many of the 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 have been 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.

Stock Buyback Program

Effective June 30, 2020, the Company's Board of Directors authorized a stock buyback program (the "2020 Buyback Program") pursuant to which the Company may purchase shares of the Company's common stock in an amount up to \$2,000,000, at such prices, and on such terms and conditions as are determined by appropriate officers of the Company from time to time. The Company's Board of Directors in its discretion may extend, curtail, amend or terminate the 2020 Buyback Program at any time. In adopting the 2020 Buyback Program, prior stock buyback programs were terminated.

Boss Holdings, Inc. and Subsidiaries		
Consolidated Balance Sheets		
(Dollars in Thousands, Except Per Share Data)		
	March 28, 2020	December 28, 2019
Assets	(Unaudited)	
Current Assets:		
Cash and cash equivalents	\$ 24,752	\$ 26,744
Accounts receivable, net of allowance for doubtful accounts and returns 2020 \$156; 2019 \$269	7,530	7,876
Income Tax Receivable	-	-
Inventories	13,482	14,475
Prepaid expenses and other	447	232
Current assets held for sale	-	-
Total current assets	46,211	49,327
Property and Equipment, net	3,636	3,861
Finance lease right of use assets, net	101	108
Operating lease right of use assets, net	2,316	2,531
Marketable equity securities	141	157
Other investment, cost method	10,000	10,000
Deferred tax asset	-	-
Intangibles, net of accumulated amortization	533	638
Goodwill	2,853	2,853
	\$ 65,791	\$ 69,475
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ -	\$ -
Current portion of operating lease liabilities	860	928
Current portion of finance lease liabilities	28	28
Accounts payable	2,749	3,703
Accrued payroll and related expenses	1,532	2,729
Accrued promotional expenses	730	603
Income tax payable	549	848
Other accrued liabilities	1,461	1,708
Current liabilities held for sale	-	-
Total current liabilities	7,909	10,547
Long-term operating lease liabilities	1,576	1,728
Long-term finance lease liabilities	76	83
Long-term debt	-	-
Deferred tax liabilities	1,563	1,563
Total noncurrent liabilities	3,215	3,374
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,296 and 1,986,118 shares in 2020 and 2019, respectively	497	497
Additional paid-in capital	64,835	64,801
Accumulated (deficit)	(10,096)	(9,180)
Accumulated other comprehensive (loss)	(569)	(564)
Total stockholders' equity	54,667	55,554
	\$ 65,791	\$ 69,475

Boss Holdings, Inc. and Subsidiaries		
Consolidated Statements of Comprehensive Income (Loss)		
Periods Ended March 28, 2020 and March 30, 2019		
(Dollars in Thousands, Except Per Share Data)		
	2020	2019
Net sales	\$ 12,074	\$ 12,313
Cost of sales	9,116	9,356
Gross profit	2,958	2,957
Operating expenses	3,903	3,925
Operating income (loss)	(945)	(968)
Other income (expense):		
Interest income	-	-
Interest expense	(7)	(28)
Change in unrealized gains and losses on marketable equity securities	14	80
Other	-	(24)
	7	28
Income (loss) from continuing operations before income tax expense (benefit)	(938)	(940)
Income tax expense (benefit)	(248)	(265)
Net income (loss) from continuing operations	(690)	(675)
Discontinued operations:		
Income (Loss) from discontinued operations	(276)	319
Income tax expense (benefit)	(50)	86
Net income from discontinued operations	(226)	233
Net income (loss)	(916)	(442)
Other comprehensive income (loss), foreign currency translation adjustments	(5)	32
Comprehensive income (loss)	(921)	(410)
Basic earnings (loss) per common share		
Continuing operations	\$ (0.32)	\$ (0.25)
Discontinued operations	(0.14)	0.02
Basic earnings (loss) per common share	\$ (0.46)	\$ (0.23)
Diluted earnings (loss) per common share		
Continuing operations	\$ (0.32)	\$ (0.25)
Discontinued operations	(0.14)	0.02
Diluted earnings (loss) per common share	\$ (0.46)	\$ (0.23)

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Periods Ended March 28, 2020 and March 30, 2019
(Dollars in Thousands)

	2020	2019
Cash flows from operating activities:		
Continuing operations:		
Net income (loss) from continuing operations	\$ (690)	\$ (675)
Adjustments to reconcile net income (loss) from continuing operations to net cash provide by (used in) continuing operations:		
Depreciation and amortization	584	392
Share-based compensation and related tax benefits	34	-
Change in unrealized (gains) losses on marketable equity securities	16	(80)
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	465	460
Inventories	993	1,930
Prepaid expenses and other	(214)	209
Other assets	(2)	27
Increase (decrease) in:		
Operating lease liabilities	(220)	(2)
Accounts payable	174	(1,568)
Accrued liabilities	(1,267)	211
Net cash provided by (used in) continuing operations	(127)	904
Discontinued operations:		
Net income (loss) from discontinued operations	(226)	233
Adjustments to reconcile net income (loss) from discontinued operations to net cash provide by (used in) discontinued operations:		
Depreciation and amortization	7	18
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(734)	930
Inventories	-	1,182
Prepaid expenses and other	-	36
Other assets	-	(8)
Increase (decrease) in:		
Operating lease liabilities	-	-
Accounts payable	(512)	(1,017)
Accrued liabilities	(349)	(337)
Net cash provided by (used in) discontinued operations	(1,814)	1,037
Net cash provided by (used in) operating activities	(1,941)	1,941

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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	\$ (44)	\$ (80)
Net cash provided by (use in) continuing operations	(44)	(80)
Discontinued operations:		
Gain (loss) on disposal of fixed assets	5	-
Net cash provided by (used in) discontinued operations	5	-
Net cash provided by (used in) investing activities	(39)	(80)
Cash flows from financing activities:		
Continuing operations:		
Repayment of finance lease liabilities	(7)	-
Repayment of long-term obligations	-	(100)
Net cash provide by (used in) continuing operations	(7)	(100)
Discontinued operations:		
Repayment of finance lease liabilities	-	-
Net cash provided by (used in) discontinued operations	-	-
Net cash provided by (used in) financing activities	(7)	(100)
Effect of exchange rate on cash	(5)	32
Increase (decrease) in cash and cash equivalents	(1,992)	1,793
Cash and cash equivalents:		
Beginning	26,744	1,974
Ending	\$ 24,752	\$ 3,767