

Boss Holdings, Inc.

Third 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 websites and via catalog, as well as wholesale distribution to retailers. Galaxy Balloons, Incorporated is a custom imprinter and distributor of promotional and specialty products. Aries Manufacturing is a nationwide distributor of cell phone accessories.

In December 2019, the Company’s legacy work glove and protective wear segment was sold to Protective Industrial Products, Inc. (“PIP”). Information concerning the work glove and protective wear segment now is reported under discontinued operations in the Company’s consolidated financial statements. Prior year results have been reclassified where applicable to reflect this change.

Executive Summary

Consolidated revenues from continuing operations for the nine months ended September 26, 2020 were \$35,326,000, down \$4,957,000 compared with the comparable period in fiscal 2019, for an overall decrease of 12.3%. Although all three of the Company’s business segments have been adversely affected by the continuing coronavirus pandemic, our pet supply segment revenues for the nine months were \$29,150,000, an increase of \$1,314,000 (+4.7%) compared with the same period in 2019. Adverse coronavirus impacts on our pet operations include restricted in-store customer access (e.g., curbside pick-up) in both the pet store and veterinary channels and constriction in our supply chain due to manufacturers experiencing plant closures and capacity limitations resulting from social distancing for line workers and related workplace restrictions. The lack of adequate supply was felt most sharply with our most popular product categories: pet shampoo, clippers and shears. As a result, we have ramped up our inventory planning to better match customer demand.

Coronavirus conditions more strongly affected our other businesses with promotional product revenues off by over \$5,000,000 (-53.4%) in the first nine months of 2020 compared with last year and cell phone accessories segment revenues falling approximately \$1,250,000 (-40.9%) for the first nine months of 2020 compared with 2019. Both of these segments have experienced some revenue recovery since the end of the third quarter, especially with holiday ornament orders in the promotional product segment. Winddown of discontinued operations progressed during the third quarter with final true-up of closing working capital adjustments from the PIP sale transaction, resulting in a net loss from discontinued operations for the quarter of approximately \$172,000.

Revenue Trends

The pet supply segment reported increased revenues through the third quarter of 2020, continuing its upward trend since acquisition of the PetEdge assets in April 2018. Management has focused the pet segment into three distinct business channels: groomer/stylist (primarily our PetEdge.com website), pet dealer services and farm & hardware distributor, each of which are experiencing sales growth. Having successfully installed new website infrastructure during 2020

and transitioned to full capacity, dual-warehouse operations utilizing our Reno and Kewanee facilities, we look forward to continued growth in the pet supply segment.

During 2020, management enacted deep cost-cutting measures in both the promotional products and cell phone accessory segments due to their significant revenue impairment. Recovery in the promotional products segment in particular will be dependent upon more robust resumption of in-person school activities, sporting events, conventions, parties and social gatherings. We will continue to monitor and evaluate both of these businesses on an ongoing basis.

Profitability

For the nine months ended September 26, 2020, the Company incurred a consolidated operating loss from continuing operations of \$3,227,000. Adjusting for other income and income tax benefits produced the nine-month net loss from continuing operations of \$1,810,000. We also incurred a net loss from discontinued operations of \$399,000 (after taxes) for the same period. Operating losses from continuing operations were due primarily to corporate overhead expenses and COVID-related revenue losses at the promotional product and cell phone accessory segments. Operating expenses during the first nine months of 2020 were down \$546,000 compared with the same period in fiscal 2019, reflecting continued cost reduction and containment measures across all segments along with reduced business travel and trade show expenses due to the coronavirus pandemic.

During the third quarter of 2020, the Company recognized an unrealized (non-cash) loss of \$537,000 on marketable securities (but a gain of \$360,000 for the nine months). 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.

Liquidity and Capital Resources

The Company’s cash position decreased through the third quarter of 2020 to \$22,840,000 compared with \$26,744,000 at 2019 fiscal year-end, due predominantly to operating losses from current operations and liabilities related to discontinued operations. During the same period, the Company utilized \$276,000 of cash for capital investment, primarily to purchase material handling equipment and related fixtures at the pet supply segment.

Subsequent Events

In December 2019, as part of the Company’s disposition of its work glove and protective wear distribution business, we acquired a minority limited partnership interest in PIP Acquisition Holdings, LP (“PIP Holdings”), in exchange for a tax-free contribution of goodwill valued at \$10,000,000. After the end of our 2020 fiscal year, PIP Holdings sold the entirety of its work glove and protective wear business to Odyssey Investment Partners, a large private equity firm. As a result of the PIP Holdings/Odyssey sale transaction, during the first quarter of fiscal 2021 the Company received a cash distribution in the amount of \$17,459,127 from the sale proceeds.

As of March 1, 2021, the Company held a total of approximately \$38,346,000 in cash and cash equivalents. Management believes the Company’s cash and cash equivalents provide ample liquidity for expected working capital and operating needs. During January 2021, the Company sold a portion of its marketable securities for gross proceeds of \$77,714, reflecting a profit of approximately \$46,715 over the original purchase price.

Update on Operations under COVID-19

As previously noted by the Company, the continuing COVID-19 pandemic and steps taken to help mitigate its spread, including travel restrictions, quarantines and workplace health and safety restrictions, have adversely affected businesses worldwide. While it is hoped that widespread COVID vaccine distribution will allow for economic recovery during 2021, it still is impossible to predict how long the Company's operations will continue to be adversely affected.

The Company's pet supply and cell phone accessory segments remained open for business throughout 2020 despite coronavirus conditions. Our distribution centers in Reno, Nevada and Kewanee, Illinois are deemed essential infrastructure or otherwise permitted to operate with continuing attention to employee social distancing and workplace sanitization requirements. Pet segment sales have done well during the pandemic, assisted in part by a significant uptick in U.S. pet adoptions spurred by work-from-home and at-home schooling during the pandemic, but supply chain challenges for this segment continue due to coronavirus restrictions at our vendor manufacturers. Aries' normal distribution channels (convenience stores, truck stops and travel centers) have been adversely affected by coronavirus impact on the travel industry. Promotional product operations at Galaxy Balloons have been reduced significantly from pre-COVID levels, but we look to respond favorably when general economic activity rebounds.

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.

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

	September 26, 2020 (Unaudited)	December 28, 2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 22,840	\$ 26,744
Accounts receivable, net of allowance for doubtful accounts and returns 2020 \$111; 2019 \$196	5,590	7,876
Income Tax Receivable	1,117	-
Inventories	13,447	14,475
Prepaid expenses and other	975	232
Current assets held for sale	-	-
Total current assets	43,969	49,327
Property and Equipment, net	3,304	3,861
Finance lease right of use assets, net	114	108
Operating lease right of use assets, net	1,908	2,531
Marketable equity securities	517	157
Other investment, cost method	10,000	10,000
Deferred tax asset	-	-
Intangibles, net of accumulated amortization	423	638
Goodwill	2,853	2,853
	\$ 63,088	\$ 69,475
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ -	\$ -
Current portion of operating lease liabilities	745	928
Current portion of finance lease liabilities	29	28
Accounts payable	1,545	3,703
Accrued payroll and related expenses	1,679	2,729
Accrued promotional expenses	315	603
Income tax payable	-	848
Other accrued liabilities	2,559	1,708
Current liabilities held for sale	-	-
Total current liabilities	6,872	10,547
Long-term operating lease liabilities	1,271	1,728
Long-term finance lease liabilities	59	83
Long-term debt	-	-
Deferred tax liabilities	1,563	1,563
Total noncurrent liabilities	2,893	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)	(11,389)	(9,180)
Accumulated other comprehensive (loss)	(620)	(564)
Total stockholders' equity	53,323	55,554
	\$ 63,088	\$ 69,475

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Periods Ended September 26, 2020 and September 28, 2019
(Dollars in Thousands, Except Per Share Data)

	Quarter Ended September 26 2020	Quarter Ended September 28 2019	Nine Months Ended September 26 2020	Nine Months Ended September 28 2019
Net sales	\$ 11,974	\$ 14,718	\$ 35,326	\$ 40,283
Cost of sales	9,386	10,937	27,429	30,490
Gross profit	2,588	3,781	7,897	9,793
Operating expenses	3,768	3,944	11,124	11,670
Operating income (loss)	(1,180)	(163)	(3,227)	(1,877)
Other income (expense):				
Interest income	30	-	57	-
Interest expense	-	(38)	(1)	(118)
Change in unrealized gains and losses on marketable equity securities	(537)	(288)	360	(14)
Other	137	(151)	243	(160)
	<u>(370)</u>	<u>(477)</u>	<u>659</u>	<u>(292)</u>
Income (loss) from continuing operations before income tax expense (benefit)	(1,550)	(640)	(2,568)	(2,169)
Income tax (expense) benefit	263	175	758	505
Net income (loss) from continuing operations	(1,287)	(465)	(1,810)	(1,664)
Discontinued operations:				
Income (Loss) from discontinued operations	(288)	(83)	(565)	147
Income tax (expense) benefit	116	16	166	(34)
Net income (loss) from discontinued operations	(172)	(67)	(399)	113
Net income (loss)	(1,459)	(532)	(2,209)	(1,551)
Other comprehensive income (loss), foreign currency translation adjustments	45	(19)	56	40
Comprehensive income (loss)	(1,414)	(551)	(2,153)	(1,511)
Basic earnings (loss) per common share				
Continuing operations	\$ (0.65)	\$ (0.24)	\$ (0.92)	\$ (0.84)
Discontinued operations	(0.08)	(0.03)	(0.19)	0.06
Basic earnings (loss) per common share	\$ (0.73)	\$ (0.27)	\$ (1.11)	\$ (0.78)
Diluted earnings (loss) per common share				
Continuing operations	\$ (0.64)	\$ (0.24)	\$ (0.90)	\$ (0.84)
Discontinued operations	(0.09)	(0.03)	(0.20)	0.06
Diluted earnings (loss) per common share	\$ (0.73)	\$ (0.27)	\$ (1.10)	\$ (0.78)

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 26, 2020 and September 28, 2019
(Dollars in Thousands)

	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
Cash flows from operating activities:		
Continuing operations:		
Net income (loss) from continuing operations	\$ (1,810)	\$ (1,664)
Adjustments to reconcile net income (loss) from continuing operations to net cash provide by (used in) continuing operations:		
Depreciation and amortization	1,694	1,196
Share-based compensation and related tax benefits	34	-
Change in unrealized (gains) losses on marketable equity securities	(360)	14
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	1,877	1,299
Inventories	1,028	220
Prepaid expenses and other	(832)	260
Other assets	(30)	-
Increase (decrease) in:		
Operating lease liabilities	(640)	-
Accounts payable	(1,275)	(953)
Accrued liabilities	(1,373)	620
Net cash provided by (used in) continuing operations	(1,687)	992
Discontinued operations:		
Net income (loss) from discontinued operations	(399)	113
Adjustments to reconcile net income (loss) from discontinued operations to net cash provide by (used in) discontinued operations:		
Depreciation and amortization	7	50
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	404	952
Inventories	-	376
Prepaid expenses and other	89	158
Other assets	-	(18)
Increase (decrease) in:		
Operating lease liabilities	-	-
Accounts payable	(883)	(409)
Accrued liabilities	(1,080)	(137)
Net cash provided by (used in) discontinued operations	(1,862)	1,085
Net cash provided by (used in) operating activities	(3,549)	2,077

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Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 26, 2020 and September 28, 2019
(Dollars in Thousands)

	Nine Months Ended September 26, 2020	Nine Months Ended September 28, 2019
Cash flows from investing activities:		
Continuing operations:		
Purchases of property and equipment	\$ (281)	\$ (654)
Net cash provided by (used in) continuing operations	(281)	(654)
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	(276)	(654)
Cash flows from financing activities:		
Continuing operations:		
Repayment of finance lease liabilities	(23)	-
Repayment of long-term obligations	-	(150)
Proceeds from long-term obligations	-	-
Net cash provided by (used in) continuing operations	(23)	(150)
Discontinued operations:		
Repayment of finance lease liabilities	-	-
Net cash provided by (used in) discontinued operations	-	-
Net cash provided by (used in) financing activities	(23)	(150)
Effect of exchange rate on cash	(56)	40
Increase (decrease) in cash and cash equivalents	(3,904)	1,313
Cash and cash equivalents:		
Beginning	26,744	1,974
Ending	\$ 22,840	\$ 3,287