

Boss Holdings, Inc.

Second 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 our industry award-winning 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 six months ended June 27, 2020 were \$23,352,000, down \$2,213,000 compared with the comparable period in fiscal 2019, an overall decrease of 8.7%. All three business segments were adversely affected by the coronavirus pandemic which had a devastating global impact during the second quarter. Pet supply segment revenues for the six months increased by \$898,000 compared with the same period in 2019. Adverse coronavirus impacts on our pet supply operations primarily have been related to constrictions in the supply chain due to manufacturers experiencing plant closures and capacity limitations resulting from social distancing for line workers and related workplace restrictions. Coronavirus conditions have more strongly affected our other businesses with promotional product revenues decreasing \$2,368,000 in the first six months of 2020 compared with last year and cell phone accessories segment revenues falling \$743,000 for the first six months compared with last year. Both of those segments have experienced some recovery in revenues since the end of the second quarter, as management continues to closely monitor operations. Discontinued operations incurred a net loss of only \$1,000 during the second quarter, with most of the expected administrative and severance costs resulting from the sale of the work glove and protective wear operations to PIP having been incurred during the first quarter.

Revenue Trends

The pet supply segment reported increased revenues through the second quarter continuing its upward trend since acquisition of the PetEdge assets in April 2018. Both the grooming division and retail division were up versus the prior year. Ongoing internal efforts to combine the PetEdge business with our longstanding Boss Pet operations have resulted in combined inventories and streamlined internal reporting and financial functions.

With continued revenue decreases at the cell phone accessory and promotional products segments, management has imposed significant cost-cutting initiatives while pushing for new revenue sources. New products include safety signage, imprinted masks, hand sanitizers and new cell phone accessory offerings set to release in late fiscal 2020.

Profitability

For the six months ended June 27, 2020, the Company incurred a consolidated operating loss from continuing operations of \$2,047,000 and an operating loss from discontinued operations of \$277,000 (before taxes). Operating losses from continuing operations were due primarily to corporate overhead expenses and COVID-related revenue headwinds at the promotional product and cell phone accessory segments. Operating expenses during the first six months of 2020 were down \$370,000 compared with the same period in fiscal 2019 reflecting continuing cost reduction and containment measures across all segments along with reduced business travel and trade show expenses caused by COVID-19. Losses from continuing operations before income taxes decreased for the quarter and six months ended June 27, 2020 compared with 2019. The loss from discontinued operations was due to restructuring and severance costs stemming from the PIP sale, most of which occurred in the first quarter.

During the second quarter, the Company recognized an unrealized (non-cash) gain of \$883,000 on marketable securities (a total of \$897,000 for the six 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 holdings of cash and cash equivalents decreased through the second quarter of 2020 to \$25,518,000 compared with \$26,744,000 at 2019 fiscal year-end, predominantly due to the payment of accounts payable (\$898,000) and accrued liabilities (\$960,000) related to discontinued operations. Current continuing operations provided \$935,000 of cash during the first six months of 2020. During the same period, the Company utilized \$152,000 of cash for capital investment, primarily to purchase material handling equipment at the pet supply segment and furniture and fixtures at the corporate office.

On June 27, 2020, the Company held a total of \$25,518,000 in cash and cash equivalents. Management believes the Company’s cash and cash equivalents provide ample liquidity for the Company’s expected working capital and operating needs.

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.

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

	June 27, 2020 (Unaudited)	December 28, 2019
Assets		
Current Assets:		
Cash and cash equivalents	\$ 25,518	\$ 26,744
Accounts receivable, net of allowance for doubtful accounts and returns 2020 \$112; 2019 \$153	6,827	7,876
Income Tax Receivable	-	-
Inventories	12,560	14,475
Prepaid expenses and other	512	232
Current assets held for sale	-	-
Total current assets	45,417	49,327
Property and Equipment, net	3,472	3,861
Finance lease right of use assets, net	117	108
Operating lease right of use assets, net	2,208	2,531
Marketable equity securities	1,053	157
Other investment, cost method	10,000	10,000
Deferred tax asset	-	-
Intangibles, net of accumulated amortization	465	638
Goodwill	2,853	2,853
	\$ 65,585	\$ 69,475
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ -	\$ -
Current portion of operating lease liabilities	802	928
Current portion of finance lease liabilities	29	28
Accounts payable	3,375	3,703
Accrued payroll and related expenses	1,385	2,729
Accrued promotional expenses	646	603
Income tax payable	293	848
Other accrued liabilities	1,054	1,708
Current liabilities held for sale	-	-
Total current liabilities	7,584	10,547
Long-term operating lease liabilities	1,523	1,728
Long-term finance lease liabilities	66	83
Long-term debt	-	-
Deferred tax liabilities	1,563	1,563
Total noncurrent liabilities	3,152	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)	(9,930)	(9,180)
Accumulated other comprehensive (loss)	(553)	(564)
Total stockholders' equity	54,849	55,554
	\$ 65,585	\$ 69,475

Boss Holdings, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
Periods Ended June 27, 2020 and June 29, 2019
(Dollars in Thousands, Except Per Share Data)

	Quarter Ended June 27 2020	Quarter Ended June 29 2019	Six Months Ended June 27 2020	Six Months Ended June 29 2019
Net sales	\$ 11,278	\$ 13,252	\$ 23,352	\$ 25,565
Cost of sales	8,927	10,197	18,043	19,553
Gross profit	2,351	3,055	5,309	6,012
Operating expenses	3,453	3,801	7,356	7,726
Operating income (loss)	(1,102)	(746)	(2,047)	(1,714)
Other income (expense):				
Interest income	27	-	27	-
Interest expense	6	(52)	(1)	(80)
Change in unrealized gains and losses on marketable equity securities	883	194	897	274
Other	106	15	106	(9)
	1,022	157	1,029	185
Income (loss) from continuing operations before income tax expense (benefit)	(80)	(589)	(1,018)	(1,529)
Income tax expense (benefit)	(247)	(65)	(495)	(330)
Net income (loss) from continuing operations	167	(524)	(523)	(1,199)
Discontinued operations:				
Income (Loss) from discontinued operations	(1)	(89)	(277)	230
Income tax expense (benefit)	-	(36)	(50)	50
Net income from discontinued operations	(1)	(53)	(227)	180
Net income (loss)	166	(577)	(750)	(1,019)
Other comprehensive income (loss), foreign currency translation adjustments	16	27	11	59
Comprehensive income (loss)	182	(550)	(739)	(960)
Basic earnings (loss) per common share				
Continuing operations	\$ 0.05	\$ (0.35)	\$ (0.27)	\$ (0.60)
Discontinued operations	0.03	0.07	(0.11)	0.09
Basic earnings (loss) per common share	\$ 0.08	\$ (0.28)	\$ (0.38)	\$ (0.51)
Diluted earnings (loss) per common share				
Continuing operations	\$ 0.05	\$ (0.35)	\$ (0.26)	\$ (0.60)
Discontinued operations	0.03	0.07	(0.11)	0.09
Diluted earnings (loss) per common share	\$ 0.08	\$ (0.28)	\$ (0.37)	\$ (0.51)

Boss Holdings, Inc. and Subsidiaries		
Consolidated Statements of Cash Flows		
For the Six Months Ended June 27, 2020 and June 29, 2019		
(Dollars in Thousands)		
	Six Months Ended	Six Months Ended
	June 27,	June 29,
	2020	2019
Cash flows from operating activities:		
Continuing operations:		
Net income (loss) from continuing operations	\$ (523)	\$ (1,199)
Adjustments to reconcile net income (loss) from continuing operations to net cash provide by (used in) continuing operations:		
Depreciation and amortization	1,022	784
Share-based compensation and related tax benefits	34	-
Change in unrealized (gains) losses on marketable equity securities	(896)	(274)
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	988	1,289
Inventories	1,915	381
Prepaid expenses and other	(280)	865
Other assets	(14)	(19)
Increase (decrease) in:		
Operating lease liabilities	(331)	(2)
Accounts payable	570	(1,148)
Accrued liabilities	(1,550)	81
Net cash provide by (used in) continuing operations	935	758
Discontinued operations:		
Net income (loss) from discontinued operations	(227)	180
Adjustments to reconcile net income (loss) from discontinued operations to net cash provide by (used in) discontinued operations:		
Depreciation and amortization	7	35
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	61	1,584
Inventories	-	887
Prepaid expenses and other	-	130
Other assets	-	11
Increase (decrease) in:		
Operating lease liabilities	-	-
Accounts payable	(898)	(1,531)
Accrued liabilities	(960)	(433)
Net cash provide by (used in) discontinued operations	(2,017)	863
Net cash provided by (used in) operating activities	(1,082)	1,621
(Continued)		

Boss Holdings, Inc. and Subsidiaries		
Consolidated Statements of Cash Flows		
For the Six Months Ended June 27, 2020 and June 29, 2019		
(Dollars in Thousands)		
	Six Months Ended June 27, 2020	Six Months Ended June 29, 2019
Cash flows from investing activities:		
Continuing operations:		
Purchases of property and equipment	\$ (152)	\$ (495)
Net cash provided by (use in) continuing operations	(152)	(495)
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	(147)	(495)
Cash flows from financing activities:		
Continuing operations:		
Repayment of finance lease liabilities	(8)	-
Repayment of long-term obligations	-	(159)
Proceeds from long-term obligations	-	89
Net cash provide by (used in) continuing operations	(8)	(70)
Discontinued operations:		
Repayment of finance lease liabilities	-	-
Net cash provided by (used in) discontinued operations	-	-
Net cash provided by (used in) financing activities	(8)	(70)
Effect of exchange rate on cash	11	59
Increase (decrease) in cash and cash equivalents	(1,226)	1,115
Cash and cash equivalents:		
Beginning	26,744	1,974
Ending	\$ 25,518	\$ 3,089