

## **Boss Holdings, Inc.**

### **2021 First Quarter 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.

#### Executive Summary

During first quarter 2021, pet supply sales (our largest business segment) continued to face challenging supply chain issues along with the ongoing COVID pandemic in the U.S. While both the promotional products and cell phone accessory segments showed some recovery from COVID lockdown conditions, their combined 2021 first quarter revenue lagged the same period in 2020, which largely predated imposition of pandemic countermeasures in the U.S. During the first quarter this year some pandemic-related restrictions began to relax. All of our operating segments have encountered supply chain challenges and unprecedented disruption and cost increases with ocean freight and transportation logistics. These supply chain challenges, along with inflationary pressures, are expected to endure for the remainder of 2021 and into 2022.

#### Revenue Trends

Consolidated revenues from continuing operations in the first quarter of 2021 increased 12.3% to \$13,589,000, up \$1,493,000 from the same period in 2020. Pet supply segment revenues led the way, up 30.9% over the same period a year ago to \$11,752,000. Combined first quarter cell phone accessory and promotional product revenues fell 40% to \$1,837,000 due to continuing COVID conditions compared with their strong pre-pandemic first quarter in 2020.

Pet segment revenues continue to trend upward, with our pet operations focused on three distinct growing channels: groomer/stylist (primarily our PetEdge.com website), pet dealer services (BossPetEdge.com) and farm & hardware distributor. Our improved website infrastructure and logistical flexibility provided by dual distribution centers in Kewanee, Illinois and Reno, Nevada have allowed us to expand our distribution footprint in all key markets and channels.

One factor driving the growth and importance of the pet supply category is that today’s pet consumer trends younger and more affluent, with over 60% of pet owners now younger than the baby boomer generation. The trend to “Pets as Family” has strengthened during COVID with continued growth in both overall pet ownership and consumer spending for non-essential (i.e., non-food) pet supplies, especially around health and grooming. Our pet supply segment has pushed new products to market to meet demand for these lifestyle, health and grooming trends, including brand and line extension launches of Geib Supra and Geib Yoshi premium professional shears (exclusive to Boss PetEdge), uGroom blades, brushes, combs and trimmers to meet the DIY home-grooming trend, and PawEarth eco-friendly dog toys, expanding our presence in the natural and organic segment.

Revenues in the promotional products segment continued to bear the heaviest COVID-19 burden. This segment is dependent upon in-person activities, including school functions, sporting events, conventions, trade shows, parties and other social gatherings. Management is hopeful that the promotional products segment will perform more strongly during the remainder of 2021 so long as full pandemic lockdowns can be avoided in the U.S. and we successfully manage through continuing supply chain challenges. During the first quarter of 2021, our cell phone accessory segment was less heavily impacted than the promotional products segment and experienced a 23.6% increase in revenue compared with the same period a year ago. Our primary distribution channels in this segment (convenience stores, truck stops and travel centers) have rebounded from 2020 COVID conditions.

### Profitability

Despite improved performance in the pet supply segment, consolidated continuing operations posted an operating loss of \$504,000 in quarter ended March 27, 2021, compared with a consolidated operating loss of \$1,711,000 during the same period in 2020. Increased revenues and reductions in selling expenses, administrative payroll and other administrative expenses accounted for most of the difference.

As part of the Company's disposition of its work glove and protective wear distribution business in 2019, 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. During the first quarter of fiscal 2021, PIP Holdings sold the entirety of its work glove and protective wear business to Odyssey Investment Partners and the Company received a cash distribution from PIP Holdings in the amount of \$17,459,127. The resulting gain of over \$7.4 million is reflected as "Other Income" in the consolidated income statement.

Including that extraordinary gain, the Company posted first quarter 2021 net income of \$6,618,000 compared with a consolidated net loss of \$915,000 during the same period a year ago. This quarter's consolidated net loss and results from continuing operations were negatively impacted by an unrealized (non-cash) loss of \$427,000 on available for sale securities. These holdings are "marked-to-market" at the end of the accounting period and unrealized gains or losses are reported although the underlying securities still are held by the Company.

Pet supply operations and the cell phone accessory segment were EBITDA positive for the quarter, with pet supply being our largest operational segment. Having gained operational capacity for pet products at our Kewanee distribution center during 2020, in October 2020 the Company downsized its operational footprint in Reno by subleasing 50,000 sq. ft. of its total 96,800 sq. ft. of Reno warehouse space to a creditworthy subtenant. The Reno sublease resulted in operational savings of approximately \$55,000 during the first quarter of 2021. The sublease runs through the remaining term of our primary lease. As previously reported, the cell phone accessory division now operates 100% remotely and its prior office lease was terminated in 2020 without additional cost. Other cost control measures for all operating segments are ongoing.

### Liquidity and Capital Resources

The Company held cash and cash equivalents of \$38,000,000 as of March 27, 2021, up from \$21,818,000 at fiscal year-end 2020. During the quarter, the Company used \$1,341,000 of cash in continuing operating activities, mainly due to a build-up of inventory for the pet supply segment. As described above, we realized a cash increase of \$17,531,000 from investing activities during the quarter due to equity distributions received from the PIP Holdings sale. Financing activities during the quarter used only \$5,000 in cash for repayment of financing lease liabilities. The Company currently holds no long term or short-term bank debt.

Although company management cannot predict when our national economy will fully resume all pre-COVID activities, we continue to look for opportunities to expand our businesses while maintaining vigilance on the health and safety of our employees and customers. Margin pressures will be a challenge in all of our business segments throughout the remainder of 2021 and into 2022 due to the numerous supply chain factors, including rising raw material and manufacturing costs, transportation disruptions, product availability constraints and labor constraints.

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

	March 27, 2021	December 26, 2020
<b>Assets</b>	<b>(Unaudited)</b>	
<b>Current Assets:</b>		
Cash and cash equivalents	38,000	21,818
Accounts receivable, net of allowance for doubtful accounts and returns	5,683	6,304
Inventories	16,035	14,697
Prepaid expenses and other	583	467
Other Investment, cost method		10,000
<b>Total current assets</b>	<b>60,301</b>	<b>53,286</b>
Property and Equipment, net	2,819	3,063
Finance lease right of use assets, net	61	79
Operating lease right of use assets, net	1,372	1,576
Marketable equity securities	1,392	1,885
Deferred tax asset	2,514	2,514
Intangibles, net of accumulated amortization	275	402
Goodwill	2,853	2,853
	<b>71,587</b>	<b>65,658</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Current portion of operating lease liabilities	756	818
Current portion of finance lease liabilities	27	27
Accounts payable	3,202	2,833
Accrued payroll and related expenses	742	1,454
Accrued promotional expenses	259	405
Income tax payable	3,111	3,376
Other accrued liabilities	2,276	2,024
<b>Total current liabilities</b>	<b>10,373</b>	<b>10,937</b>
Long-term operating lease liabilities	693	853
Long-term finance lease liabilities	49	54
Deferred tax liabilities		
<b>Total noncurrent liabilities</b>	<b>742</b>	<b>907</b>
<b>Stockholders' Equity:</b>		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,296 shares in 2020 and 2021	497	497
Additional paid-in capital	64,835	64,835
Accumulated (deficit)	(4,242)	(10,899)
Accumulated other comprehensive (loss)	(618)	(619)
<b>Total stockholders' equity</b>	<b>60,472</b>	<b>53,814</b>
	<b>71,587</b>	<b>65,658</b>

**Boss Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**Periods Ended March 27, 2021 and March 28, 2020**  
**(Dollars in Thousands, Except Per Share Data)**

	<b>2021</b>	<b>2020</b>
Net sales	\$ 13,589	\$ 12,074
Cost of sales	10,522	9,116
<b>Gross profit</b>	<b>3,067</b>	<b>2,958</b>
Operating expenses	3,577	3,903
<b>Operating income (loss)</b>	<b>(504)</b>	<b>(945)</b>
Other income (expense):		
Interest income	-	-
Interest expense	(3)	(7)
Change in unrealized gains and losses on marketable equity securities	(427)	14
Other (expense) income; realized distribution/gain on other investment	7,415	-
	6,985	7
<b>Income (loss) from continuing operations before income tax expense (benefit)</b>	<b>6,481</b>	<b>(938)</b>
Income tax expense (benefit)	(140)	(248)
<b>Net income (loss) from continuing operations</b>	<b>6,621</b>	<b>(690)</b>
Discontinued operations:		
Income (Loss) from discontinued operations	(3)	(276)
Income tax expense (benefit)	-	(50)
<b>Net income (loss) from discontinued operations</b>	<b>(3)</b>	<b>(226)</b>
<b>Net income (loss)</b>	<b>6,618</b>	<b>(916)</b>
Other comprehensive income (loss); foreign currency translation adjustments	(1)	(5)
<b>Comprehensive income (loss)</b>	<b>\$ 6,617</b>	<b>\$ (921)</b>
Basic earnings (loss) per common share		
Continuing operations	\$ 3.33	\$ (0.32)
Discontinued operations	0.00	(0.14)
<b>Basic earnings (loss) per common share</b>	<b>\$ 3.33</b>	<b>\$ (0.46)</b>
Diluted earnings (loss) per common share		
Continuing operations	\$ 3.18	\$ (0.32)
Discontinued operations	-	(0.14)
<b>Diluted earnings (loss) per common share</b>	<b>\$ 3.18</b>	<b>\$ (0.46)</b>

**Boss Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Periods Ended March 27, 2021 and March 28, 2020**  
**(Dollars in Thousands, Except Per Share Data)**

	2021	2020
<b>Cash flows from operating activities:</b>		
<u>Continuing operations:</u>		
Net income (loss) from continuing operations	\$ 6,621	\$ (690)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	570	584
(Gain) on disposition of property & equipment, net		
(Gain) from investment activity - PIP Holdings	(7,459)	
Share-based compensation and related tax benefits	-	34
Deferred tax expense (benefit)	-	
Change in unrealized (gains) losses on marketable equity securities	493	16
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	600	465
Inventories	(1,338)	993
Prepaid expenses and other	(95)	(214)
Other assets	-	(2)
Increase (decrease) in:		
Operating lease liabilities	(211)	(220)
Accounts payable	379	174
Accrued liabilities	(901)	(1,267)
<b>Net cash provided by (used in) continuing operations</b>	<b>(1,341)</b>	<b>(127)</b>
<u>Discontinued operations:</u>		
Net income (loss) from discontinued operations	(3)	(226)
(Gain) loss on disposal of continued operations		
Adjustments to reconcile net income (loss) from discontinued operations to net cash provided by (used in) discontinued operations:		
(Gain) on disposition of property and equipment, net	-	
Depreciation and amortization	-	7
Deferred tax expense (benefit)	-	
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	-	(734)
Prepaid expenses and other	-	
Increase (decrease) in:		
Accounts payable	-	(512)
Accrued liabilities	-	(349)
<b>Net cash provided by (used in) discontinued operations</b>	<b>-</b>	<b>(1,814)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(1,344)</b>	<b>(1,941)</b>

(Continued)

**Boss Holdings, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**Periods Ended March 27, 2021 and March 28, 2020**  
**(Dollars in Thousands, Except Per Share Data)**

	2021	2020
<b>Cash flows from investing activities:</b>		
<u>Continuing operations:</u>		
Proceeds from investment activity - PIP Holdings	\$ 17,549	-
Purchases of property and equipment	(18)	(44)
Proceeds from disposition of property and equipment	-	-
<b>Net cash provided by (used in) continuing operations</b>	<b>17,531</b>	<b>(44)</b>
<u>Discontinued operations:</u>		
Proceeds from disposition of property and equipment	-	-
Gain (loss) on disposal of fixed assets	-	5
<b>Net cash provided by (used in) discontinued operations</b>	<b>-</b>	<b>5</b>
<b>Net cash provided by (used in) investing activities</b>	<b>17,531</b>	<b>(39)</b>
<b>Cash flows from financing activities:</b>		
<u>Continuing operations:</u>		
Repayment of finance lease liabilities	(5)	(7)
Repayment of long-term obligations	-	-
<b>Net cash provided by (used in) continuing operations</b>	<b>(5)</b>	<b>(7)</b>
<u>Discontinued operations:</u>		
Repayment of finance lease liabilities	-	-
<b>Net cash provided by (used in) discontinued operations</b>	<b>-</b>	<b>-</b>
<b>Net cash provided by (used in) financing activities</b>	<b>(5)</b>	<b>(7)</b>
Effect of exchange rate on cash	-	(5)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>16,182</b>	<b>(1,992)</b>
<b>Cash and cash equivalents:</b>		
Beginning	21,818	26,744
<b>Ending</b>	<b>\$ 38,000</b>	<b>\$ 24,752</b>