

Boss Holdings, Inc. 2022 – First Quarter Financial Update

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 the first quarter of 2022, revenues for pet supply sales (our largest business segment) continued to grow but profitability lagged due to continued supply chain challenges, the ongoing COVID pandemic and severe inflationary and recessionary headwinds in the U.S. economy. As was the case in late 2021, additional waves of coronavirus variants have continued to restrict economic recovery in the retail sector. All of our operating segments continue to encounter unprecedented supply chain disruptions and inflationary cost increases. We believe these challenges are expected to endure throughout 2022 and 2023.

These are some of the most challenging economic and business times in our company’s history. Management is not taking anything for granted and looking at all aspects of our businesses to find solutions to the many supply chain issues and increasing distribution and infrastructure costs. A suitable expression for our mindset right now is “batten down the hatches”.

Revenue Trends

Consolidated revenues from continuing operations in the first quarter of 2022 rose 17.06% to \$15,902,000, an increase of \$2,313,000 from the same period in 2021. Pet supply segment revenues were up 11.1% in Q1 over the same period a year ago to \$13,058,000. Combined cell phone accessory and promotional product revenues in first quarter 2022 increased 28.50% to \$1,005,000 from the same period in 2021.

Profitability

Despite increased first quarter revenues at each of the operating divisions, the Company posted a first quarter consolidated operating loss of \$598,000 compared with an operating loss of \$510,000 during the same period of 2021. Decreased margins resulted from strong inflationary pressures and increased supply chain and logistics costs. Our own product price increases failed to outpace extraordinarily high inbound freight costs and related product costs. While the Company continuously explores operational alternatives to lower the impact of its increased costs, these inflationary pressures and logistical complications are widely predicted to persist throughout the current year and beyond.

After inclusion of other income and expense, the Company posted a consolidated net loss of \$702,000. Results from continuing operations each quarter are impacted by unrealized (non-cash) gains or losses 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. During the first quarter of 2022 there was an unrealized loss of \$297,000 on those securities.

Our pet supply operations continued to be EBITDA-positive during the first quarter of 2022, with pet supply being our largest operational segment. Our combined promotional products and cell phone accessories operations were EBITDA-negative.

Liquidity and Capital Resources

The Company held cash and cash equivalents of \$29,845,000 as of March 26, 2022, down from \$32,981,000 at fiscal year-end 2021. The main drivers of this change were the Company's consolidated operating loss for the quarter along with reductions in accounts payable and accrued 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. Margin pressures will continue to be a challenge in all of our business segments throughout 2022 due to inflationary conditions in the U.S. economy, slowing sales due to a recession in the U.S. economy and numerous supply chain factors, including increased product costs, transportation disruptions, product availability constraints and labor constraints.

Subsequent Events

Commencing on May 16, 2022, the Company conducted a Dutch auction tender offer to its shareholders, committing to purchase for cash up to \$3 million in value of its common stock. The Dutch auction allowed shareholders to voluntarily tender their shares at a price per share not less than \$20.00 and not greater than \$24.00 per share. The Tender Offer expired on June 28, 2022, with the Company acquiring 18,143 shares.

On July 5, 2022, the Company announced it had acquired the business assets of Bardel Bows, LLC of Fort Valley, Georgia, the premier U.S. pet grooming bow designer and manufacturer. The acquisition complements the diversified offering of premium pet products by the Company's pet supply segment. In addition, the acquisition includes a new strategic capability through the *Club Bowdacious* subscription program under which professional dog groomers with a monthly subscription receive a new and unique collection of accessories automatically every month. The Bardel Bows operations will continue to operate from its existing warehouse and distribution facility in Fort Valley, Georgia.

Boss Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets (Dollars in Thousands, Except Per Share Data)

	March 26, 2022 (Unaudited)	December 25, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 29,845	\$ 32,981
Accounts receivable	6,663	6,449
Inventories	18,581	19,672
Prepaid expenses and other	917	996
Other investment, cost method	-	-
Income tax receivable	368	463
Total current assets	56,374	60,561
Property and equipment, net	2,599	2,719
Finance lease right of use assets, net	43	50
Operating lease right of use assets, net	869	1,063
Marketable equity securities	1,037	1,334
Deferred tax asset	1,230	1,230
Intangibles, net of accumulated amortization	292	307
Goodwill	2,853	2,853
	\$ 65,297	\$ 70,117
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of operating lease liabilities	\$ 766	\$ 831
Current portion of finance lease liabilities	18	19
Accounts payable	3,860	5,488
Accrued payroll and related expenses	855	2,165
Accrued promotional expenses	-	-
Income tax payable	-	-
Other accrued liabilities	1,715	2,665
Total current liabilities	7,214	11,168
Noncurrent liabilities:		
Long-term operating lease liabilities	138	277
Long-term finance lease liabilities	28	33
Other long-term liabilities	18	7
Total noncurrent liabilities	184	317
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,296 shares in 2022 and 2021	497	497
Additional paid-in capital	64,814	64,814
Accumulated (deficit)	(6,804)	(6,100)
Accumulated other comprehensive (loss)	(608)	(579)
Total stockholders' equity	57,899	58,632
	\$ 65,297	\$ 70,117

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended March 26, 2022 and March 27, 2021
(Dollars in Thousands, Except Per Share Data)

	2022	2021
Net sales	\$ 15,902	\$ 13,589
Cost of sales	<u>12,553</u>	<u>10,522</u>
Gross profit	3,349	3,067
Operating expenses	<u>3,947</u>	<u>3,577</u>
Operating (loss)	(598)	(510)
Other income (expenses):		
Interest income	2	-
Interest expense	(2)	(3)
Change in unrealized gains and losses on marketable equity securities	(296)	(427)
Other	<u>86</u>	<u>7,415</u>
	<u>(210)</u>	<u>6,985</u>
Net income (loss) from continuing operations before income tax (benefit)	(808)	6,475
Income tax (benefit)	<u>(104)</u>	<u>(140)</u>
Net income (loss) from continuing operations	(704)	6,335
Discontinued operations (Note 13):		
Income (loss) from discontinued operations of Boss Manufacturing and Boss Canada ULC	2	(3)
Income tax expense (benefit)	<u>-</u>	<u>-</u>
Net income (loss) from discontinued operations	2	(3)
Net income (loss)	(702)	6,332
Other comprehensive income (loss), foreign currency translation adjustments	<u>(29)</u>	<u>(1)</u>
Comprehensive income (loss)	\$ (731)	\$ 6,331
Basic earnings (loss) per common share:		
Continuing operations	\$ (0.35)	\$ 3.33
Discontinued operations	<u>-</u>	<u>-</u>
Basic earnings (loss) per common share	\$ (0.35)	\$ 3.33
Diluted earnings (loss) per common share:		
Continuing operations	\$ (0.35)	\$ 3.18
Discontinued operations	<u>-</u>	<u>-</u>
Diluted earnings (loss) per common share	\$ (0.35)	\$ 3.18

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended March 26, 2022 and March 21, 2021
(Dollars in Thousands)

	2022	2021
Cash flows from operating activities:		
Continuing operations:		
Net (loss) from continuing operations	\$ (706)	\$ 6,621
Adjustments to reconcile net (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	414	570
(Gain) on disposition of property and equipment, net	-	-
(Gain) loss on investment activity - PIP Holdings	-	(7,459)
Share-based compensation and related tax benefits	-	-
Deferred tax expense (benefit)	-	-
Change in unrealized (gains) losses on marketable equity securities	297	493
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(200)	600
Inventories	1,091	(1,338)
Prepaid expenses and other	79	(95)
Other assets	-	-
Increase (decrease) in:		
Operating lease liabilities	(204)	(211)
Accounts payable	(1,545)	379
Accrued liabilities	(2,165)	(901)
Other liabilities	11	-
Net cash used in continuing operations	(2,928)	(1,341)
Discontinued operations:		
Net income (loss) from discontinued operations	2	(3)
Adjustments to reconcile net income (loss) from discontinued operations to net cash provided by (used in) discontinued operations:		
(Gain) loss on disposal of discontinued operations	-	-
Depreciation and amortization	-	-
(Gain) on disposition of property and equipment, net	-	-
Deferred tax expense (benefit)	-	-
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(14)	-
Inventories	-	-
Prepaid expenses and other	-	-
Other assets	-	-
Increase (decrease) in:		
Accounts payable	(83)	-
Accrued liabilities	-	-
Net cash used in discontinued operations	(95)	(3)
Net cash used in operating activities	\$ (3,023)	\$ (1,344)

(Continued)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Periods Ended March 26, 2022 and March 21, 2021
(Dollars in Thousands)

	2022	2021
Cash flows from investing activities:		
Continuing operations:		
Purchases of intangible assets	\$ (20)	\$ -
Purchases of property and equipment	(58)	(18)
Proceeds from disposition of property and equipment	-	-
Proceeds from sale of available-for-sale securities	-	-
Proceeds from sale of investment activity - PIP Holdings	-	17,549
Payments for business combinations	-	-
Net cash (used in) provided by continuing operations	(78)	17,531
Discontinued operations:		
Purchases of property and equipment	-	-
Proceeds from disposition of property and equipment	-	-
Proceeds from disposal of Boss Manufacturing and Boss Canada ULC	-	-
Net cash provided by (used in) discontinued operations	-	-
Net cash (used in) provided by investing activities	(78)	17,531
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	-	-
Repayment of long-term obligations	-	-
Proceeds from long-term obligations	-	-
Repayment of finance lease liabilities	(6)	(5)
Proceeds from exercise of stock options	-	-
Net cash used in continuing operations	(6)	(5)
Discontinued operations:		
Repayment of long-term obligations	-	-
Repayment of finance lease liabilities	-	-
Net cash used in discontinued operations	-	-
Net cash used in financing activities	(6)	(5)
Effect of exchange rate changes on cash	(29)	-
(Decrease) Increase in cash and cash equivalents	(3,136)	16,182
Cash and cash equivalents:		
Beginning	32,981	21,818
Ending	\$ 29,845	\$ 38,000