

Boss Holdings, Inc.
2023 – Second Quarter
Financial Update

Overview

Our primary source of revenue is the marketing and distribution of pet grooming products, pet products, pet supplies, pet healthcare products, promotional products, specialty products, custom imprinted products, and cell phone accessories. The products offered are purchased internationally and domestically for resale.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Operations

Net sales in the second quarter of 2023 were lower (-5.4%) compared to the same period in 2022 due to weak demand in the pet and cellphone accessory segments and key domestic supplier delays in the pet segment. Disaggregated net sales from continuing operations of the pet segment for the fiscal quarters ended July 1, 2023 and June 25, 2022, were \$11,286,000 and \$12,488,000, respectively. Disaggregated net sales from continuing operations of the promotional products and cell phone accessories segments for the fiscal quarters ended July 1, 2023 and June 25, 2022 were \$3,357,000 and \$2,989,000, respectively.

We incurred an operating loss of \$943,000 for the quarter ended July 1, 2023, compared with an operating loss of \$673,000 for the same quarter last year, due to the liquidation of excess inventory, strong inflationary and pricing pressures, weakening demand along with key domestic supplier delays. Similarly, our operating loss for the six months ended July 1, 2023 was \$1,638,000, compared with \$1,271,000 for the six months ended June 25, 2022.

Inventory on July 1, 2023, was \$17,888,000 compared with inventory on December 31, 2022, of \$21,417,000, a reduction in inventory of \$3,529,000. Supply chain dynamics caused the build-up of inventory during 2022 and resulted in excess year-end inventory levels which has been a focus of management efforts in 2023. Inventories, consisting of products available for sale, are accounted for using the weighted average method for the pet and cell phone accessory segments and the first-in first-out method for the promotional products segment. All inventories are valued at the lower of cost or net realizable value. This valuation requires us to make

judgments, based on currently available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category.

These assumptions about future dispositions of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future.

Liquidity and Capital Resources

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and investment in debt securities at amortized cost. Our investment in debt securities consists of US Treasury Bills and US Treasury Notes. As of December 31, 2022, and July 1, 2023, our cash, cash equivalents, and investment in debt securities balances were \$24,429,000 and \$19,239,000. We believe that the cash flows generated from operations and our cash, cash equivalents, and investment in debt securities will be sufficient to meet our anticipated operating cash needs for at least the next twelve months. We repurchased 202,281 shares of common stock during the second quarter.

Outlook

Pricing, weakening demand and inflationary pressures continue to challenge all our business segments in 2023 as strong inflationary conditions persist in the U.S. and global economies along with numerous supply chain factors, including product availability and sourcing challenges. Changes in global economic conditions, geopolitical conditions, and unforeseen circumstances may impact on our operating results.

Forward-Looking Statements

This Second Quarter Financial Update includes forward-looking statements. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, or future results of operations or financial position, made in this Second Quarter Financial Update are forward-looking. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results and outcomes could differ materially for a variety of reasons, including, among others, changes in global economic conditions and customer demand and spending, inflation, interest rates, labor market and global and domestic supply chain constraints.

Boss Holdings, Inc. and Subsidiaries

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

	July 1, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,214	\$ 14,513
Accounts receivable	4,681	4,507
Inventories	17,888	21,417
Prepaid expenses and other	1,051	1,258
Income tax receivable	529	209
Investment in debt securities, amortized cost	10,025	9,916
Total current assets	43,388	51,820
Property and equipment, net	2,291	2,549
Finance lease right of use assets, net	6	29
Operating lease right of use assets, net	3,071	3,574
Marketable equity securities	233	314
Deferred tax asset	2,185	2,185
Intangibles, net of accumulated amortization	443	495
Goodwill	3,288	3,288
	\$ 54,905	\$ 64,254
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of operating lease liabilities	\$ 934	\$ 1,062
Current portion of finance lease liabilities	22	22
Accounts payable	2,741	2,802
Accrued payroll and related expenses	360	350
Other accrued liabilities	1,127	1,288
Total current liabilities	5,184	5,524
Noncurrent liabilities:		
Long-term operating lease liabilities	2,138	2,510
Long-term finance lease liabilities	-	10
Other long-term liabilities	193	193
Total noncurrent liabilities	2,331	2,713
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,638,194 shares in 2023 and 1,986,296 shares in 2022	497	497
Treasury stock, at cost - 329,781 shares in 2023 and 18,321 in 2022	(7,952)	(425)
Additional paid-in capital	64,787	64,814
Accumulated (deficit)	(9,942)	(8,869)
Total stockholders' equity	47,390	56,017

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended July 1, 2023 and June 25, 2022
(Dollars in Thousands, Except Per Share Data)

	Quarter Ended 7/1/23	Quarter Ended 6/25/22	Six Months Ended 7/1/23	Six Months Ended 6/25/22
Net sales	\$ 14,643	\$ 15,477	\$ 30,056	\$ 31,379
Cost of sales	<u>11,585</u>	<u>12,273</u>	<u>23,612</u>	<u>24,826</u>
Gross profit	3,058	3,204	6,444	6,553
Operating expenses	<u>4,001</u>	<u>3,877</u>	<u>8,082</u>	<u>7,824</u>
Operating (loss)	(943)	(673)	(1,638)	(1,271)
Other income (expenses):				
Interest income	228	1	391	3
Interest expense	(1)	-	(1)	(1)
Change in unrealized gains and losses on marketable equity securities	(113)	(642)	(82)	(938)
Other	(20)	(2)	41	84
	<u>94</u>	<u>(643)</u>	<u>349</u>	<u>(852)</u>
(Loss) from continuing operations before income tax (benefit)	(849)	(1,316)	(1,289)	(2,123)
Income tax (benefit)	(152)	(113)	(239)	(217)
Net (loss) from continuing operations	(697)	(1,203)	(1,050)	(1,906)
Discontinued operations (Note 13):				
Income (loss) from discontinued operations of Boss Manufacturing and Boss Canada ULC	-	(2)	(4)	-
Income tax expense (benefit)	-	-	-	-
Net income (loss) from discontinued operations	-	(2)	(4)	-
Net income (loss)	(697)	(1,205)	(1,054)	(1,906)
Other comprehensive income (loss), foreign currency translation adjustments	<u>(15)</u>	<u>-</u>	<u>(17)</u>	<u>(29)</u>
Comprehensive income (loss)	\$ (712)	\$ (1,205)	\$ (1,071)	\$ (1,935)
Basic earnings (loss) per common share:				
Continuing operations	\$ (0.43)	\$ (0.61)	\$ (0.64)	\$ (0.96)
Discontinued operations	-	-	-	-
Basic earnings (loss) per common share	\$ (0.43)	\$ (0.61)	\$ (0.64)	\$ (0.96)
Diluted earnings (loss) per common share:				
Continuing operations	\$ (0.42)	\$ (0.60)	\$ (0.64)	\$ (0.95)
Discontinued operations	-	-	-	-
Diluted earnings (loss) per common share	\$ (0.42)	\$ (0.60)	\$ (0.64)	\$ (0.95)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended July 1, 2023 and June 25, 2022
(Dollars in Thousands)

	Six Months Ended July 1, 2023	Six Months Ended June 25, 2022
Cash flows from operating activities:		
Continuing operations:		
Net (loss) from continuing operations	\$ (1,050)	\$ (1,906)
Adjustments to reconcile net (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	993	844
(Gain) on disposition of property and equipment, net	20	-
Amortization of discount on issued debt securities	(108)	-
Change in unrealized (gains) losses on marketable equity securities	81	938
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(174)	951
Inventories	3,529	(2,976)
Prepaid expenses and other	207	122
Other assets	-	-
Increase (decrease) in:		
Operating lease liabilities	(500)	(408)
Accounts payable	(61)	(765)
Accrued liabilities	(471)	(1,656)
Other liabilities	-	-
Net cash used in continuing operations	2,466	(4,856)
Discontinued operations:		
Net income (loss) from discontinued operations	(4)	-
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		(80)
Accrued liabilities	-	-
Net cash used in discontinued operations	(4)	(94)
Net cash used in operating activities	\$ 2,462	\$ (4,950)

(Continued)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Periods Ended July 1, 2023 and June 25, 2022
(Dollars in Thousands)

	Six Months Ended July 1, 2023	Six Months Ended June 25, 2022
Cash flows from investing activities:		
Continuing operations:		
Purchases of property and equipment	\$ (160)	\$ (262)
Purchases of intangible assets	(42)	(62)
Purchases of equity securities	(1,699)	-
Proceeds from sale of available-for-sale securities	-	-
Proceeds from sale of equity securities	1,698	-
Proceeds from disposition of property and equipment	23	-
Proceeds from sale of investment activity - PIP Holdings	-	-
Payments for business combinations	-	-
Net cash (used in) provided by continuing operations	(180)	(324)
Discontinued operations:		
Purchases of property and equipment	-	-
Proceeds from disposition of property and equipment	-	-
Net cash provided by (used in) discontinued operations	-	-
Net cash (used in) provided by investing activities	(180)	(324)
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	(7,554)	-
Repayment of long-term obligations	-	-
Proceeds from long-term obligations	-	-
Repayment of finance lease liabilities	(10)	(11)
Proceeds from exercise of stock options	-	-
Net cash used in continuing operations	(7,564)	(11)
Discontinued operations:		
Repayment of long-term obligations	-	-
Repayment of finance lease liabilities	-	-
Net cash used in discontinued operations	-	-
Net cash used in financing activities	(7,564)	(11)
Effect of exchange rate changes on cash	(17)	(29)
(Decrease) Increase in cash and cash equivalents	(5,299)	(5,314)
Cash and cash equivalents:		
Beginning	14,513	-
Ending	\$ 9,214	\$ (5,314)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Periods Ended July 1, 2023 and June 25, 2022

(Dollars in Thousands)

	Six Months Ended July 1, 2023	Six Months Ended June 25, 2022
Supplemental disclosures of cash flows information, cash payments for:		
Interest	<u>\$ 1</u>	<u>\$ 3</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See notes to consolidated financial statements.