

**Boss Holdings, Inc.**  
**2023 – Third 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 third quarter of 2023 were lower (-8.7%) 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 September 30, 2023 and September 24, 2022, were \$9,744,000 and \$11,481,000, respectively. Disaggregated net sales from continuing operations of the promotional products and cell phone accessories segments for the quarters ended September 30, 2023 and September 24, 2022, were \$4,400,000 and \$4,014,000, respectively. Similarly, for the nine months ended September 30, 2023, overall net sales were \$44,200,000, down 5.7% from a total of \$46,874 during the first nine months of 2022.

We incurred an operating loss of \$405,000 for the third quarter ended September 30, 2023, compared with an operating loss of \$1,456,000 for the same quarter a year ago. For the nine months ended September 30, 2023 our operating loss was \$2,043,000 compared with an operating loss of \$2,736,00 during the nine months ended September 24, 2022. Current year losses are due to continuing liquidation of excess inventory, strong inflationary and pricing pressures, weakening demand along with key domestic supplier delays.

Inventory on September 30, 2023, was \$18,177,000 compared with inventory on December 31, 2022, of \$21,417,000, a reduction in inventory of \$3,240,000. Supply chain dynamics caused a build-up of our inventory during 2022 and resulted in excess year-end inventory levels which management addressed throughout 2023. Inventories, consisting of products available for sale,

are accounted for using the weighted average method for the pet and cell phone accessory segment 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 September 30, 2023, our cash, cash equivalents, and investment in debt securities balances were \$24,429,000 and \$18,463,000. 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.

### **Outlook**

Pricing, weakening demand and inflationary pressures continue to challenge all our business segments as strong inflationary conditions persist in the U.S. and global economies along with numerous adverse 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 Third 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 Third 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)

	September 30, 2023 (Unaudited)	December 31, 2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,366	\$ 14,513
Accounts receivable	5,006	4,507
Inventories	18,177	21,417
Prepaid expenses and other	1,037	1,258
Income tax receivable	584	209
Investment in debt securities, amortized cost	10,097	9,916
<b>Total current assets</b>	<b>43,267</b>	<b>51,820</b>
Property and equipment, net	2,133	2,549
Finance lease right of use assets, net	15	29
Operating lease right of use assets, net	2,785	3,574
Marketable equity securities	153	314
Deferred tax asset	2,185	2,185
Intangibles, net of accumulated amortization	431	495
Goodwill	3,288	3,288
	<b>\$ 54,257</b>	<b>\$ 64,254</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Current portion of operating lease liabilities	\$ 875	\$ 1,062
Current portion of finance lease liabilities	16	22
Accounts payable	2,282	2,802
Accrued payroll and related expenses	273	350
Other accrued liabilities	1,641	1,288
<b>Total current liabilities</b>	<b>5,087</b>	<b>5,524</b>
Noncurrent liabilities:		
Long-term operating lease liabilities	1,922	2,510
Long-term finance lease liabilities	-	10
Other long-term liabilities	142	193
<b>Total noncurrent liabilities</b>	<b>2,064</b>	<b>2,713</b>
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 1,967,975 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)	(10,226)	(8,869)
<b>Total stockholders' equity</b>	<b>47,106</b>	<b>56,017</b>

**Boss Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Comprehensive Income (Loss)**  
**Periods Ended September 30, 2023 and September 24, 2022**  
**(Dollars in Thousands, Except Per Share Data)**

	Quarter Ended 9/30/23	Quarter Ended 9/27/22	Nine Months Ended 9/30/23	Nine Months Ended 9/24/2022
Net sales	\$ 14,144	\$ 15,495	\$ 44,200	\$ 46,874
Cost of sales	<u>10,590</u>	<u>12,899</u>	<u>34,202</u>	<u>37,725</u>
<b>Gross profit</b>	<b>3,554</b>	<b>2,596</b>	<b>9,998</b>	<b>9,149</b>
Operating expenses	<u>3,959</u>	<u>4,061</u>	<u>12,041</u>	<u>11,885</u>
<b>Operating (loss)</b>	<b>(405)</b>	<b>(1,465)</b>	<b>(2,043)</b>	<b>(2,736)</b>
Other income (expenses):				
Interest income	161	70	552	73
Interest expense	-	-	(1)	(3)
Change in unrealized gains and losses on marketable equity securities	(79)	(60)	(161)	(998)
Other	(6)	147	35	231
	<u>76</u>	<u>157</u>	<u>425</u>	<u>(697)</u>
<b>(Loss) from continuing operations before income tax (benefit)</b>	<b>(329)</b>	<b>(1,308)</b>	<b>(1,618)</b>	<b>(3,433)</b>
Income tax (benefit)	(45)	(372)	(284)	(589)
<b>Net (loss) from continuing operations</b>	<b>(284)</b>	<b>(936)</b>	<b>(1,334)</b>	<b>(2,844)</b>
Discontinued operations (Note 13):				
Income (loss) from discontinued operations of Boss Manufacturing and Boss Canada ULC	-	(7)	(4)	(7)
Income tax expense (benefit)	-	-	-	-
<b>Net income (loss) from discontinued operations</b>	<b>-</b>	<b>(7)</b>	<b>(4)</b>	<b>(7)</b>
<b>Net income (loss)</b>	<b>(284)</b>	<b>(943)</b>	<b>(1,338)</b>	<b>(2,851)</b>
Other comprehensive income (loss), foreign currency translation adjustments	-	1	(17)	(28)
<b>Comprehensive income (loss)</b>	<b>\$ (284)</b>	<b>\$ (942)</b>	<b>\$ (1,355)</b>	<b>\$ (2,879)</b>
Basic earnings (loss) per common share:				
Continuing operations	\$ (0.17)	\$ (0.48)	\$ (0.42)	\$ (1.91)
Discontinued operations	-	-	-	-
<b>Basic earnings (loss) per common share</b>	<b>\$ (0.17)</b>	<b>\$ (0.48)</b>	<b>\$ (0.42)</b>	<b>\$ (1.91)</b>
Diluted earnings (loss) per common share:				
Continuing operations	\$ (0.17)	\$ 0.09	\$ (0.42)	\$ (1.89)
Discontinued operations	-	-	-	-
<b>Diluted earnings (loss) per common share</b>	<b>\$ (0.17)</b>	<b>\$ 0.09</b>	<b>\$ (0.42)</b>	<b>\$ (1.89)</b>

**Boss Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Periods Ended September 30, 2023 and September 24, 2022**  
**(Dollars in Thousands)**

	<b>Nine Months Ended</b>		<b>Nine Months Ended</b>
	<b>September 30, 2023</b>		<b>September 24, 2022</b>
<b>Cash flows from operating activities:</b>			
Continuing operations:			
Net (loss) from continuing operations	\$ (1,334)	\$	(2,845)
Adjustments to reconcile net (loss) from continuing operations to net cash provided by (used in) continuing operations:			
Depreciation and amortization	1,463		1,264
(Gain) on disposition of property and equipment, net	20		-
Amortization of discount on issued debt securities	(167)		-
Change in unrealized (gains) losses on marketable equity securities	161		998
Changes in assets and liabilities net of acquisitions:			
(Increase) decrease in:			
Accounts receivable	(499)		1,001
Inventories	3,240		(3,211)
Prepaid expenses and other	221		(124)
Other assets	-		-
Increase (decrease) in:			
Operating lease liabilities	(775)		(599)
Accounts payable	(520)		(1,787)
Accrued liabilities	(100)		(2,193)
Other liabilities	(50)		4
<b>Net cash used in continuing operations</b>	<b>1,660</b>		<b>(7,492)</b>
Discontinued operations:			
Net income (loss) from discontinued operations	(4)		(7)
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			(45)
Accrued liabilities	-		-
<b>Net cash used in discontinued operations</b>	<b>(4)</b>		<b>(66)</b>
<b>Net cash used in operating activities</b>	<b>\$ 1,656</b>	<b>\$</b>	<b>(7,558)</b>

(Continued)

**Boss Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**  
**Periods Ended September 30, 2023 and September 24, 2022**  
**(Dollars in Thousands)**

	<b>Nine Months Ended September 30, 2023</b>	<b>Nine Months Ended September 24, 2022</b>
Cash flows from investing activities:		
Continuing operations:		
Purchases of property and equipment	\$ (149)	\$ (456)
Purchases of intangible assets	(76)	(82)
Purchases of equity securities	(3,382)	-
Proceeds from sale of available-for-sale securities	-	-
Proceeds from sale of equity securities	3,368	-
Proceeds from disposition of property and equipment	23	-
Proceeds from sale of investment activity - PIP Holdings	-	-
Payments for business combinations	-	(729)
<b>Net cash (used in) provided by continuing operations</b>	<b>(216)</b>	<b>(1,267)</b>
Discontinued operations:		
Purchases of property and equipment	-	-
Proceeds from disposition of property and equipment	-	-
<b>Net cash provided by (used in) discontinued operations</b>	<b>-</b>	<b>-</b>
<b>Net cash (used in) provided by investing activities</b>	<b>(216)</b>	<b>(1,267)</b>
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	(7,554)	(425)
Repayment of long-term obligations	-	-
Proceeds from long-term obligations	-	-
Repayment of finance lease liabilities	(16)	(15)
Proceeds from exercise of stock options	-	-
<b>Net cash used in continuing operations</b>	<b>(7,570)</b>	<b>(440)</b>
Discontinued operations:		
Repayment of long-term obligations	-	-
Repayment of finance lease liabilities	-	-
<b>Net cash used in discontinued operations</b>	<b>-</b>	<b>-</b>
<b>Net cash used in financing activities</b>	<b>(7,570)</b>	<b>(440)</b>
Effect of exchange rate changes on cash	(17)	(28)
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>(6,147)</b>	<b>(9,293)</b>
Cash and cash equivalents:		
Beginning	14,513	32,981
Ending	<b>\$ 8,366</b>	<b>\$ 23,688</b>

(Continued)

**Boss Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows (Continued)**  
**Periods Ended September 30, 2023 and September 24, 2022**  
**(Dollars in Thousands)**

	<b>Nine Months Ended September 30, 2023</b>	<b>Nine Months Ended September 24, 2022</b>
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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.