Boss Holdings, Inc.
2023 Fiscal Year End
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 2023 were lower (-10.5%) compared to 2022 due to weak demand in the pet and cellphone accessory segments and key domestic supplier delays in the pet segment. Gross Profit as a percentage of Net Sales was higher (+2.2%) compared to 2022 due to strategic price increases across all business segments and the discontinuation of sales to certain accounts we identified as unprofitable. Operating Expenses were higher (+1.4%) compared to 2022 due to increased labor and occupancy costs. Disaggregated net sales from continuing operations of the pet segment for 2023 and 2022, were $42,261,000 and $49,542,000 respectively. Disaggregated net sales from continuing operations of the promotional products and cell phone accessories segments for 2023 and 2022, were $14,970,000 and $14,381,000, respectively.

We incurred an operating loss of $3,282,000 in 2023, compared with an operating loss of $3,010,000 in 2022. The current year's loss was due to the continuing liquidation of excess inventory, strong inflationary pressures, weakening demand along with key domestic supplier delays.

Inventory on December 30, 2023, was $16,242,000 compared with inventory on December 31, 2022, of $21,417,000, a reduction in inventory of $5,175,000. 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 30, 2023, and December 31, 2022, our cash, cash equivalents, and investment in debt securities balances were $20,771,000 and $24,429,000, respectively. 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 329,781 shares of common stock during 2023.

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 2023 Fiscal Year End 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 report 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 Financial Statements
December 30, 2023

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Independent Auditor's Report

Board of Directors
Boss Holdings, Inc. and Subsidiaries

Opinion
We have audited the consolidated financial statements of Boss Holdings, Inc. and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 30, 2023 and December 31, 2022; the related consolidated statements of comprehensive income (loss), stockholders' equity and cash flows for the periods then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2023 and December 31, 2022, and the results of its operations and its cash flows for the periods then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued or are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

RSM US LLP

Davenport, Iowa
April 15, 2024

Boss Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
December 30, 2023 and December 31, 2022
(Dollars in Thousands, Except Per Share Data)

		2023		2022
Assets				
Current assets:				
Cash and cash equivalents	**$**	**10,612**	$	14,513
Accounts receivable		**3,633**		4,507
Inventories		**16,242**		21,417
Prepaid expenses and other		**976**		1,258
Income tax receivable		**203**		209
Investment in debt securities, amortized cost		**10,159**		9,916
Total current assets		**41,825**		51,820
Property and equipment, net		**1,970**		2,549
Finance lease right-of-use assets, net		**11**		29
Operating lease right-of-use assets, net		**2,537**		3,574
Marketable equity securities		**107**		314
Deferred tax asset		**2,741**		2,185
Intangibles, net of accumulated amortization		**419**		495
Goodwill		**3,288**		3,288
	$	**52,898**	$	64,254
Liabilities and Stockholders' Equity				
Current liabilities:				
Current portion of operating lease liabilities	**$**	**1,165**	$	1,062
Current portion of finance lease liabilities		**10**		22
Accounts payable		**1,393**		2,802
Accrued payroll and related expenses		**400**		350
Deferred revenue		**12**		-
Other accrued liabilities		**1,504**		1,288
Total current liabilities		**4,484**		5,524
Noncurrent liabilities:				
Long-term operating lease liabilities		**1,392**		2,510
Long-term finance lease liabilities		**-**		10
Other long-term liabilities		**143**		193
Total noncurrent liabilities		**1,535**		2,713
Commitments and contingencies (Note 4)				
Stockholders' equity:				
Common stock, $0.25 par value; authorized 10,000,000 shares; issued and outstanding 1,643,002 shares in 2023 and 1,967,975 shares in 2022		**498**		497
Treasury stock at cost, 329,781 shares in 2023 and 18,321 shares in 2022		**(7,528)**		(425)
Additional paid-in capital		**64,686**		64,814
Accumulated (deficit)		**(10,777)**		(8,261)
Accumulated other comprehensive loss		**-**		(608)
Total stockholders' equity		**46,879**		56,017
	$	**52,898**	$	64,254

See notes to consolidated financial statements.

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended December 30, 2023 and December 31, 2022
(Dollars in Thousands, Except Per Share Data)

	2023	2022
Net sales	**$ 57,231**	$ 63,923
Cost of sales	**44,344**	50,983
Gross profit	**12,887**	12,940
Operating expenses	**16,169**	15,950
Operating (loss)	**(3,282)**	(3,010)
Other income (expenses):		
Interest income	**850**	282
Interest expense	**(1)**	(3)
Net losses on marketable equity securities	**(227)**	(1,019)
Other	**599**	701
	1,221	(39)
Loss before income tax benefit	**(2,061)**	(3,049)
Income tax benefit	**(578)**	(888)
Net loss	**(1,483)**	(2,161)
Other comprehensive loss, foreign currency translation adjustments	**-**	(29)
Comprehensive loss	**$ (1,483)**	$ (2,190)
Basic loss per common share	**$ (0.87)**	$ (1.07)
Diluted loss per common share	**$ (0.86)**	$ (1.06)

See notes to consolidated financial statements.

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
Periods Ended December 30, 2023 and December 31, 2022
(Dollars and Shares in Thousands)

	Common Stock		Treasury stock		Additional Paid-In Capital	Accumulated (Deficit)	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
	Shares	Dollars	Shares	Dollars				
Balance, December 25, 2021	1,986	$ 497	-	$ -	$ 64,814	$ (6,100)	$ (579)	$ 58,632
Purchase of 18 shares of treasury stock	(18)	-	18	(425)	-	-	-	(425)
Net loss	-	-	-	-	-	(2,161)	-	(2,161)
Other comprehensive loss	-	-	-	-	-	-	(29)	(29)
Balance, December 31, 2022	1,968	497	18	(425)	64,814	(8,261)	(608)	56,017
Reclassification of accumulated other comprehensive to accumulated deficit	-	-	-	-	-	(608)	608	-
Retirement of treasury stock	-	-	(18)	425	-	(425)	-	-
Purchase of 330 shares of treasury stock	(330)	-	330	(7,528)	-	-	-	(7,528)
Exercise of stock options, 60 shares	60	15	-	-	930	-	-	945
Repurchase of common stock	(55)	(14)	-	-	(1,058)	-	-	(1,072)
Net loss	-	-	-	-	-	(1,483)	-	(1,483)
Balance, December 31, 2023	**1,643**	**$ 498**	**330**	**$ (7,528)**	**$ 64,686**	**$ (10,777)**	**$ -**	**$ 46,879**

See notes to consolidated financial statements.

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended December 30, 2023 and December 31, 2022
(Dollars in Thousands)

	2023	2022
Cash flows from operating activities:		
Net loss	**$ (1,483)**	$ (2,161)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Depreciation and amortization	**866**	958
Loss on disposition of property and equipment	**20**	-
Deferred tax benefit	**(556)**	(955)
Change in realized and unrealized gains and losses on investments	**(12)**	1,019
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	**874**	1,942
Inventories	**5,175**	(1,516)
Prepaid expenses and other	**282**	(262)
Income tax receivable	**6**	-
Increase (decrease) in:		
Operating leases	**22**	(47)
Accounts payable	**(1,409)**	(2,686)
Accrued liabilities	**266**	(2,938)
Deferred revenue	**12**	-
Other liabilities	**(50)**	186
Net cash provided by (used in) operating activities	**$ 4,013**	$ (6,460)
Cash flows from investing activities:		
Purchases of intangible assets	**(118)**	(149)
Purchases of property and equipment	**(186)**	(571)
Purchases of held-to-maturity securities	**(3,395)**	(9,915)
Proceeds from disposition of property and equipment	**91**	6
Proceeds from sale of held-to-maturity securities	**3,371**	-
Payments for business combinations	**-**	(904)
Net cash used in investing activities	**(237)**	(11,533)
Cash flows from financing activities:		
Repurchase of common stock	**(1,072)**	-
Purchase of treasury stock	**(7,528)**	(425)
Repayment of finance lease liabilities	**(22)**	(21)
Proceeds from issuance of stock	**945**	-
Net cash used in financing activities	**(7,677)**	(446)
Effect of exchange rate changes on cash	**-**	(29)
Decrease in cash and cash equivalents	**(3,901)**	(18,468)
Cash and cash equivalents:		
Beginning	**14,513**	32,981
Ending	**$ 10,612**	$ 14,513

(Continued)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Periods Ended December 30, 2023 and December 31, 2022
(Dollars in Thousands)

	2023	2022
Supplemental disclosures of cash flow information, cash payments for:		
Interest	**$ 1**	$ 3
Income taxes	**$ 153**	$ 144
Supplemental schedule of noncash investing activities:		
Right-of-use assets in exchange for lease obligations	**$ -**	$ 3,304

See notes to consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Boss Holdings, Inc. and Subsidiaries (the Company) are engaged in the import, marketing and distribution of pet supplies and cell phone accessories, as well as custom imprinting of inflatable and other products for the advertising specialties industry. Customers, located throughout the world, include retailers ranging from convenience stores to mass merchandisers and various commercial users. The Company sells its products primarily through distributors and manufacturers' representatives and by direct marketing to consumers through an ecommerce website.

Significant accounting policies:

Principles of consolidation: The accompanying consolidated financial statements (collectively, the financial statements) include the accounts of Boss Holdings, Inc. (BHI), and its wholly owned subsidiary, Boss Manufacturing Holdings, Inc. (BMHI) and its wholly owned subsidiary, Boss Manufacturing Company and its subsidiaries which include Boss Tech Products, Inc., Galaxy Balloons, Inc. (Galaxy), Boss Canada Holdings, LLC and its subsidiary, Boss Canada ULC, Boss Pet Products, Inc. and PetEdge LLC (collectively, the Company). All significant intercompany balances and transactions have been eliminated in the financial statements.

During 2023, BMHI was merged into Boss Manufacturing Company and Boss Canada Holdings, LLC and Boss Canada ULC were legally dissolved.

Fiscal year: The Company maintains a 52/53-week period ending on the last Saturday of the calendar year. Periods 2023 and 2022 contained 52 and 53 weeks, respectively.

Use of estimates in the preparation of financial statements: 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.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand, time deposits and liquid debt instruments such as commercial paper with maturities of three months or less from the date of purchase.

Restricted cash: Restricted cash and cash equivalents consist of amounts held back from the asset purchase of the third-party handmade grooming bows producer, which are included in the line item cash and cash equivalents.

Accounts receivable: Accounts receivable are carried at the transaction price less an allowance for expected credit losses. The allowance for credit losses related to accounts receivable represents the Company's estimate of expected credit losses over the lifetime of the receivables and totaled approximately $143 and $72 as of December 30, 2023 and December 31, 2022, respectively. Accounts receivable as of December 30, 2023, December 31, 2022 and December 25, 2021 totaled $3,633, $4,507 and $6,449, respectively. This estimation process is based on historical experience, current conditions, asset-specific risk characteristics and reasonable and supportable forecasts about future economic and market conditions. The Company monitors and evaluates the adequacy of the allowance for credit losses on accounts receivable on a regular basis and makes adjustments as necessary in response to changes in economic conditions and credit quality indicators. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

An account is considered to be past due if any portion of the receivable balance is past due more than 30 days. The total provision for bad debts charged to expense, net of recoveries was $259 and $280 for the periods ended December 30, 2023 and December 31, 2022, respectively.

Revenue recognition: The Company recognizes revenue from product sales when control of the products is transferred to its customers. Control is generally transferred when the Company has a present right to payment and the significant risks and rewards of ownership are transferred. For most of the Company's net sales, control transfers when products are shipped. The Company has elected to treat shipping and handling performed after control has transferred to customers as a fulfillment activity. Due to the nature of its business, contracts with customers are generally entered into for a period of less than one year.

Management records estimated reductions to revenue for various customer programs and incentive offerings in the pet supplies segment.

These programs include the following:

- *Rebates and other volume-based incentives*—The Company provides rebates and other volume-based incentives to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. The Company records a revenue reduction and associated accrued liability each period based on the estimated rebate total. Rebates paid then reduce the accrued liability. To estimate the variable consideration for the expected future rebates and incentives, the Company applies the expected value method for the contracts.

- *Terms discounts*—The Company offers cash discounts to certain customers, recorded as revenue reductions in each period with an associated accounts receivable allowance. To estimate the variable consideration for the expected future cash discounts, the Company applies the expected value method for the contracts.

- *Cooperative advertising and marketing allowances*—The Company supports certain customer advertising and marketing initiatives to promote product sales primarily at retail sites. This consideration payable to customers is determined on a per contract basis and recorded as a reduction of the transaction price.

- To a lesser extent, the Company occasionally utilizes additional incentives to increase market share such as buying back a competitor's inventory from a new customer, offering conversion allowances and providing other new customer incentives. Such methods are common in certain retail industry channels. This consideration payable to customers is determined on a per contract basis and recorded as a reduction of the transaction price upon the latter of (a) when revenue for the related products transferred to the customers is recognized or (b) when consideration is paid or promised to the customer.

As of December 30, 2023 and December 31, 2022, the Company's accrual for customer advertising and promotional activities totaled $224 and $302, respectively, and is presented net within accounts receivable on the consolidated balance sheets. The Company has received no material allowances or credits from any vendors in connection with the purchase or promotion of such vendor's products.

The Company has elected to record revenue net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded within other current liabilities until remitted to the relevant government authority.

(Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Disaggregated revenue: Net sales disaggregated by significant product segments for the respective periods were as follows:

	Periods Ended	
	December 30, 2023	December 31, 2022
Net sales:		
Pet supplies	$ 42,261	$ 49,542
Cell phone accessories, custom imprinting and promotional products	14,970	14,381
	$ 57,231	$ 63,923

Cost of sales: The Company's cost of sales includes all costs incident to purchasing goods for sale, transporting them from the supplier to Company facilities, warehousing and shipping goods to the customer. Such costs include product cost, inbound freight, duty, brokerage fees and storage costs as well as shipping and handling costs associated with outbound shipments to customers.

Warranty costs and returns: The Company provides for estimated warranty costs and returns at the time of sale. Accrued costs of assurance-type warranty obligations and returns are classified as accrued liabilities and are immaterial to the financial statements as a whole.

Inventories: Pet supplies and cell phone accessory inventories are valued using the weighted average method, while all other inventories are valued at the lower of cost or net realizable value using primarily the first-in, first-out (FIFO) method. The Company provides estimated inventory allowances for excess, slow moving and obsolete inventory whose carrying value is in excess of net realizable value. Inventories consist of finished goods for the periods presented.

Marketable equity securities: Management determines the appropriate classification of marketable securities at the time of purchase and reviews such designation as of each balance sheet date. Marketable equity securities are stated at fair value and realized and unrealized gains and losses are included in net income (loss). The Company uses the specific identification method of computing realized gains and losses. Purchases and sales are recorded on the trade date. The Company's securities portfolio was in an unrealized loss position of approximately $758 and $552 as of December 30, 2023 and December 31, 2022, respectively.

Investments: Investments in debt securities that the Company has the positive intent and ability to hold to maturity are carried at amortized cost and classified as held-to-maturity. The investments in debt securities consist of treasury bills with maturity dates in 2024.

(Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Property and equipment and depreciation: Property and equipment is recorded at historical cost, net of accumulated depreciation. Property and equipment acquired in business combinations is stated at fair value at the date of acquisition and are depreciated over their remaining useful lives. The Company provides for depreciation generally using the straight-line method over the following estimated useful lives:

	Years
Machinery and equipment	7
Office furniture and equipment	3-7
Buildings and improvements	10-39

Total depreciation expense was $672 and $770 for the periods ended December 30, 2023 and December 31, 2022, respectively.

Treasury shares: Treasury shares are recognized at acquisition cost and are presented as a deduction from shareholders' equity.

Business combination: Identifiable assets acquired and liabilities assumed in a business combination are recorded at fair value at the acquisition date. Management estimates fair value based on assumptions they believe to be reasonable. These estimates are based on historical experience and information obtained from management of the acquired entities. Acquisition-related costs are expensed as operating expenses when incurred and when the related services have been received. Acquisition-related costs totaled approximately $0 and $145 for the periods ended December 30, 2023 and December 31, 2022, respectively.

Goodwill and other intangibles: Goodwill represents the excess of purchase price over the fair value of the identifiable net assets acquired. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 350, goodwill is not amortized and, instead, is evaluated for impairment at least annually. The Company performs its impairment test in December each year. Other intangible assets are recorded at cost and amortized over their estimated useful lives (see Note 8).

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made.

(Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The cost and accumulated amortization of other intangible assets as of December 30, 2023 and December 31, 2022, are as follows:

	2023			
	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
Customer lists	5	$ 753	$ 616	$ 137
Customer lists	2	580	580	-
Noncompete	5	61	45	16
Trademarks	5	321	170	151
Product certifications	5	657	542	115
		$ 2,372	$ 1,953	$ 419

	2022			
	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
Customer lists	5	$ 742	$ 547	$ 195
Customer lists	2	580	580	-
Noncompete	5	61	37	24
Trademarks	5	261	116	145
Product certifications	5	624	493	131
		$ 2,268	$ 1,773	$ 495

Estimated future amortization of intangible assets is as follows:

Periods ending:	
December 28, 2024	$ 136
December 27, 2025	122
December 26, 2026	100
December 25, 2027	61
	$ 419

Concentrations of credit risk: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable.

The Company places its cash and temporary cash investments with high credit quality financial institutions. The combined account balances at each institution periodically exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The Company's management has established certain credit requirements that its customers must meet before sales credit is extended. The Company generally does not require collateral, but monitors the financial condition of its customers to help ensure collections and to minimize losses. Historically, the Company has not experienced significant losses related to accounts receivable from individual customers or from groups of customers in any geographic area.

Foreign currency translation: Financial statements of the Company's Canadian subsidiary were translated into U.S. dollars using fiscal year-end exchange rates for assets and liabilities, and average exchange rates during the year for the results of operations. Translation adjustments of the Canadian accounts were reported as a separate component of accumulated other comprehensive income (loss) within stockholders' equity. Exchange rate adjustments related to foreign currency transactions were recognized in the consolidated statements of comprehensive income (loss).

During the year ended December 30, 2023, the Company reclassified approximately $608 of accumulated other comprehensive loss to accumulated deficit. The $608 was comprised of cumulative translation adjustments related to Boss Canada Holdings, LLC which was substantially liquidated during 2019, but the cumulative translation adjustments were not reclassified to expenses during 2019. Given the Company has deemed this amount to be immaterial, the Company reclassified this amount from accumulated other comprehensive loss to accumulated deficit during 2023 rather than restating amounts previously presented.

Income taxes: The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates applied to taxable income. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company accounts for stock options using the tax-law-ordering approach, which recognizes an excess tax benefit when a stock option deduction is used on the Company's tax return, before a net operating loss (NOL) or another tax attribute. A valuation allowance is provided for deferred income tax assets when it is more likely than not that the asset will not be realized.

Advertising costs: The Company generally expenses the production costs of advertising the first-time advertising takes place. Costs of trade shows and developing advertising materials are expensed at the time of the trade shows or as the advertising materials are produced and distributed to customers. Total advertising expense for the periods ended December 30, 2023 and December 31, 2022, was $1,963 and $1,623, respectively.

Stock based compensation: The Company calculates stock-based compensation by estimating the fair value of each option using the Black-Scholes option-pricing model. The Company's determination of fair value of share-based payment awards is made as of their respective dates of grant using that option-pricing model and is affected by the Company's stock price as well as a number of subjective assumptions. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behavior. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors, as they pertain to future grants, could change in the future, affecting the determination of stock-based compensation expense in future periods.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Earnings per share: Basic net earnings per common share are based upon the weighted average number of common shares outstanding during the period. Diluted net earnings per common share is based upon the weighted average number of common shares outstanding plus dilutive potential common shares, including options outstanding during the period.

Reclassifications: Certain amounts on the financial statements for the year ended December 31, 2022 have been reclassified to conform with the presentation in the financial statements for the year ended December 30, 2023. The reclassifications did not affect ending net loss or ending stockholders' equity for the year ended December 30, 2023.

Subsequent events: The Company has evaluated subsequent events through April 15, 2024, the date the financial statements were issued, in preparing the financial statements and notes thereto.

New and pending accounting pronouncement: In December 2023, the FASB issued Accounting Standards Update (ASU) 2023-09*, Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This ASU is effective for the Company beginning on January 1, 2026. The Company is currently evaluating the impact of this new guidance on the financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of comprehensive income (loss) as the amounts expected to be collected change. The Company adopted the new standard as of January 1, 2023. Management concluded that the adoption of the new standard did not have a material impact on the financial statements for the year ended December 31, 2023.

Note 2. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value guidance issued by the FASB requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the fair value guidance establishes a fair value hierarchy for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

(Dollars in Thousands, Except Per Share Data)

Note 2. Fair Value Measurements

The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

There have been no changes in valuation techniques for any assets or liabilities measured at fair value during the periods ended December 30, 2023 and December 31, 2022.

The Company's marketable equity securities are carried at fair value on a recurring basis based on quoted market prices and are classified as Level 1 within the fair value hierarchy.

The investments of the Company are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 3. Property and Equipment

Property and equipment as of December 30, 2023 and December 31, 2022, is as follows:

	2023	2022
Land	$ 426	$ 426
Machinery and equipment	3,981	4,034
Buildings and improvements	2,911	2,904
Office furniture and equipment	7,216	7,187
Construction in progress	-	32
	14,534	14,583
Less accumulated depreciation	12,564	12,034
	$ 1,970	$ 2,549

(Dollars in Thousands, Except Per Share Data)

Note 4. Commitments and Contingencies

Licensing: The Company has entered into license agreements for the use of certain trademarks in its products, which requires the payment of guaranteed or minimum royalties. The Company incurred total royalties of $92 and $145 in 2023 and 2022, respectively. The Company has extended certain agreements for the payment of royalties through 2025, with minimum obligations of $61 in 2024 and $60 in 2025.

Litigation: The Company is a party to various legal actions incident to the normal operation of its business. These lawsuits primarily involve claims for damages arising out of commercial disputes, all of which actions are being defended by one or more of the Company's products liability insurers. Management believes the ultimate disposition of these matters should not materially impact the Company's consolidated financial position, operations or liquidity.

Note 5. Stock Options

In 2015, the Company adopted an equity-based incentive program allowing future issuance of up to 200,000 shares of common stock utilizing stock options, stock appreciation rights, performance-based stock awards and restricted stock units. During 2019, the 2015 equity-based incentive program was amended to increase the maximum number of shares for issuance from 200,000 to 275,000 shares. As of December 30, 2023, 25,000 options remain outstanding and unexercised under the 2015 plan.

50% of the options granted in 2019 vested immediately and the remaining portion vested six months after the grant date. Stock option transactions are summarized as follows:

	Periods Ended			
	December 30, 2023		December 31, 2022	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	85,000	$ 15.75	85,000	$ 15.75
Granted	-	-	-	-
Exercised	(60,000)	18.06	-	-
Expired	-	-	-	-
Outstanding, ending	25,000	18.06	85,000	15.75
Options exercisable, end of year	25,000	-	85,000	-

(Dollars in Thousands, Except Per Share Data)

Note 6. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Periods Ended	
	December 30, 2023	December 31, 2022
Numerator, (loss) attributable to common stockholders	$ (1,483)	$ (2,161)
Denominator:		
Basic-weighted average common shares outstanding	1,708,287	2,014,981
Dilutive effect of employee stock options	11,816	20,823
Diluted outstanding shares	1,720,103	2,035,804
Basic (loss), per common share	$ (0.87)	$ (1.07)
Diluted (loss), per common share	$ (0.86)	$ (1.06)

Note 7. Related-Party Transactions

During the periods ended December 30, 2023 and December 31, 2022, compensation, fees and expense reimbursements incurred and related to directors or their affiliates totaled $867 and $1,410, respectively.

Note 8. Goodwill and Intangible Assets

In connection with its purchase of Galaxy, the Company recorded goodwill of $2,853. In July 2022, with the purchase of third-party handmade grooming bows producer, the Company recorded goodwill of $435. Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. The Company does not amortize the goodwill associated with an acquisition since it has an indefinite life. In July 2012, the FASB issued guidance to amend and simplify the rules related to testing indefinite-lived intangible assets, including goodwill, for impairment. The revised guidance permits an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is unlikely that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The determination of the reporting unit is based on the Company’s organizational structure and the financial information that is provided to and reviewed by the chief operating decision maker.

The Company’s goodwill impairment evaluation as of December 30, 2023 and December 31, 2022, indicated that its goodwill was not impaired.

(Dollars in Thousands, Except Per Share Data)

Note 8. Goodwill and Intangible Assets (Continued)

The Company's evaluation used significant assumptions including: expected future revenue and expense growth rates, cost of capital, discount rate and forecasted capital expenditures. The projections for the Company's goodwill impairment evaluation as of December 30, 2023, assume continued sales growth for Galaxy and stable income from other operations. Assumptions and estimates about future cash flows and discount rates are complex and may be subjective. They can be affected by a variety of external and internal factors. Management believes the assumptions and estimates made in these evaluations were reasonable and appropriate; however, different assumptions and estimates could materially impact the projected earnings.

Note 9. Income Taxes

The Company records income taxes based on its consolidated tax return. Current and deferred federal and state tax expense (benefit) is as follows:

	Periods Ended	
	December 30, 2023	December 31, 2022
Current income tax expense (benefit):		
Federal	$ -	$ -
State and local	(22)	67
	(22)	67
Deferred income tax expense (benefit):		
Federal	(453)	(707)
State and local	(103)	(248)
	(556)	(955)
Total income tax (benefit)	$ (578)	$ (888)

Income taxes recorded by the Company differ from the amounts computed by applying the statutory U.S. federal income tax rate to net earnings before income taxes. The following schedule reconciles income tax expense (benefit) at the statutory rate and the actual income tax expense (benefit) as reflected in the consolidated statements of comprehensive income (loss) for the respective periods:

	Periods Ended	
	December 30, 2023	December 31, 2022
Income tax expense (benefit) computed at the U.S. corporate tax rate	$ (433)	$ (631)
Adjustments attributable to:		
State income taxes, net of the federal benefit	(101)	(109)
Nondeductible expenses	18	-
Other	(62)	(148)
Total income tax (benefit)	$ (578)	$ (888)

(Dollars in Thousands, Except Per Share Data)

Note 9. Income Taxes (Continued)

The temporary differences result in the following net deferred tax assets as of December 30, 2023 and December 31, 2022:

	December 30, 2023	December 31, 2022
Deferred income tax assets:		
Accounts receivable	$ 99	$ 24
Property and equipment	56	-
Compensation related	34	97
Inventories	384	416
Intangibles	451	515
Investments	179	129
Net operating loss carryforward	1,538	1,121
Deferred income tax assets	2,741	2,302
Deferred income tax liabilities:		
Property and equipment	-	(117)
Net deferred income tax assets	$ 2,741	$ 2,185

The Company follows FASB guidance related to *Accounting for Uncertainty in Income Taxes.* This guidance clarifies the criteria that an individual tax position must satisfy some or all of the attributes of that position to be recognized in a company's financial statements. The guidance also prescribes a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The application of this guidance had no impact on the Company's financial statements.

During 2023 and 2022, there were no settlements with state taxing authorities. The Company recognizes interest and penalties related to income tax matters in the provision for income taxes. All unrecognized tax benefits, if recognized, would affect the effective tax rate. The liability for unrecognized tax benefits includes accrued interest for tax positions, which either do not meet the more likely than not recognition threshold or where the tax benefit is measured at an amount less than the tax benefit claimed or expected to be claimed on an income tax return.

Note 10. Leases

The Company accounts for leases under ASC 842, Leases. The Company determines if an arrangement contains a lease at its inception. The Company leases certain industry equipment and office and operating facilities. For leases with a term greater than 12 months, the Company records the related right-of-use assets and liabilities at the present value of lease payments over the term of the lease and classifies the lease as operating or financing. Lease payments are discounted using either the rate implicit in the lease (if readily determinable) or the Company's incremental borrowing rate for a similar lending arrangement. The Company combines lease and nonlease components into a single lease component for its real estate and equipment leases.

(Dollars in Thousands, Except Per Share Data)

Note 10. Leases (Continued)

Certain leases include renewal, termination or purchase options. Under ASC Topic 842, the lease term at the lease commencement date is determined based on the noncancelable period for which the Company has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Company considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial term, importance of the lease to overall operations, costs to negotiate a new lease and any contractual or economic penalties.

Operating leases result in a straight-line lease expense, while finance leases result in a front-loaded expense pattern.

The Company subleases a portion of certain industry equipment and office and operating facilities to a third party. As of December 30, 2023 and December 31, 2022, the Company recognized $625 and $228 of sublease income, respectively, which is included in other income.

The Company elected not to apply the recognition requirements of ASC 842 to short-term leases. The Company recognizes short-term lease payments on a straight-line basis over the lease term. The Company also elected the package of transition provisions available that allowed carryforward of the historical assessment of whether contracts are or contain leases, lease classification and initial direct costs.

The amounts relating to the Company's lease costs included in the consolidated statements of comprehensive income (loss) for the periods ended December 30, 2023 and December 31, 2022, are as follows:

	December 30, 2023	December 31, 2022
Operating lease cost (A)	$ 1,297	$ 845
Finance lease cost:		
Amortization of right of use assets	20	21
Interest on lease obligations	1	4
	$ 1,318	$ 870

(A) Operating lease costs includes other short-term rental arrangements of approximately $11 and $15 for the periods ended December 30, 2023 and December 31, 2022, respectively.

(Dollars in Thousands, Except Per Share Data)

Note 10. Leases (Continued)

Other information	December 30, 2023	December 31, 2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,281	$ 830
Financing cash flows from finance leases	20	21
Weighted-average remaining lease term—operating leases	1.2 years	3.1 years
Weighted-average remaining lease term—finance leases	0.5 years	1.6 years
Weighted-average remaining lease term—operating leases (lessor)	2.1 years	3.1 years
Weighted-average discount rate—operating leases (lessor)	6.7%	6.7%
Weighted-average discount rate—operating leases	6.2%	6.7%
Weighted-average discount rate—finance leases	5.6%	5.4%

The annual lease obligations at December 30, 2023, are as follows:

	Operating Leases	Finance Leases
Periods ending:		
December 28, 2024	$ 1,292	$ 10
December 27, 2025	1,266	-
December 26, 2026	172	-
Total undiscounted lease obligations	2,730	10
Less the amount representing interest	(173)	-
Net lease obligations	$ 2,557	$ 10

The future minimum lease payments to be received under operating leases as lessor as of December 30, 2023, are as follows:

	Operating Lease
Periods ending:	
December 28, 2024	$ 551
December 27, 2025	573
December 26, 2026	48
Total undiscounted minimum lease payments	1,172
Less the amount representing interest	(76)
Net minimum lease payments	$ 1,096

Note 11. Treasury Stock

The Company’s board of directors from time to time has authorized the repurchase of shares of the Company’s common stock, in the open market or through negotiated transactions, at such times and at such prices as management may decide. In 2023, the Company acquired 329,781 shares of its common stock for $7,528.