

Boss Holdings, Inc.

2023 – First 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.

Operations

Net sales in the first quarter of 2023 were lower compared to the same period in 2022 due to weak demand in the pet and cellphone accessory segments. Disaggregated net sales from continuing operations of the pet segment for the period ended March 26, 2022, and April 1, 2023, were \$13,058,000 and \$12,230,000 respectively. Disaggregated net sales from continuing operations of the promotional products and cell phone accessories segments for the period ended March 26, 2022, and April 1, 2023, were \$2,844,000 and \$3,184,000 respectively.

We incurred an operating loss of \$695,000 for the period ended April 1, 2023, compared with an operating loss of \$598,000 for the period ended April 1, 2022, due to the liquidation of excess inventory, strong inflationary and pricing pressures along with continued supply chain challenges.

Inventory on April 1, 2023, was \$18,704,000 compared with inventory on December 31, 2022, of \$21,417,000, a decrease in inventory of \$2,713,000. Supply chain dynamics resulted in the build-up of inventory during 2022 and resulted in excess year-end inventory levels which have 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 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

April 1, 2023, our cash, cash equivalents, and investment in debt securities balances were \$24,429,000 and \$22,897,000. We believe that 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 127,500 shares of common stock during the first quarter.

Outlook

Pricing and inflationary pressures continue to challenge all our business segments in 2023 as strong inflationary conditions persist in the U.S. economy along with numerous supply chain factors, including product availability and sourcing challenges. U.S. inflation and tighter lending conditions are widely predicted to continue with a risk of a recession in the last quarter of 2023 or the first quarter of 2024. Changes in global economic conditions, geopolitical conditions, and unforeseen circumstances may impact our operating results. In addition, economic conditions and actions by policymaking bodies are contributing to rising interest rates and significant capital market volatility.

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.

Forward-Looking Statements

This First 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 First 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 supply chain constraints.

Boss Holdings, Inc. and Subsidiaries

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

	April 1, 2023 (Unaudited)	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 12,927	\$ 14,513
Accounts receivable	4,680	4,507
Inventories	18,704	21,417
Prepaid expenses and other	1,279	1,258
Income tax receivable	325	209
Investment in debt securities, amortized cost	9,970	9,916
Total current assets	47,885	51,820
Property and equipment, net	2,438	2,549
Finance lease right of use assets, net	24	29
Operating lease right of use assets, net	3,349	3,574
Marketable equity securities	346	314
Deferred tax asset	2,185	2,185
Intangibles, net of accumulated amortization	477	495
Goodwill	3,288	3,288
	\$ 59,992	\$ 64,254
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of operating lease liabilities	\$ 993	\$ 1,062
Current portion of finance lease liabilities	22	22
Accounts payable	2,346	2,802
Accrued payroll and related expenses	225	350
Other accrued liabilities	1,133	1,288
Total current liabilities	4,719	5,524
Noncurrent liabilities:		
Long-term operating lease liabilities	2,352	2,510
Long-term finance lease liabilities	5	10
Other long-term liabilities	193	193
Total noncurrent liabilities	2,550	2,713
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued 2,004,617 shares, outstanding 1,840,475 shares in 2023 and 1,967,975 shares in 2022	497	497
Treasury stock, at cost - 127,500 shares in 2023 and 18,321 in 2022	(3,357)	(425)
Additional paid-in capital	64,814	64,814
Accumulated (deficit)	(8,621)	(8,261)
Accumulated other comprehensive (loss)	(610)	(608)
Total stockholders' equity	52,723	56,017
	\$ 59,992	\$ 64,254

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended April 1, 2023 and March 26, 2022
(Dollars in Thousands, Except Per Share Data)

	2023	2022
Net sales	\$ 15,413	\$ 15,902
Cost of sales	<u>12,027</u>	<u>12,553</u>
Gross profit	3,386	3,349
Operating expenses	<u>4,081</u>	<u>3,947</u>
Operating (loss)	<u>(695)</u>	<u>(598)</u>
Other income (expenses):		
Interest income	163	2
Interest expense	-	(2)
Change in unrealized gains and losses on marketable equity securities	31	(296)
Other	<u>61</u>	<u>86</u>
	<u>255</u>	<u>(210)</u>
(Loss) from continuing operations before income tax (benefit)	(440)	(808)
Income tax (benefit)	<u>(87)</u>	<u>(104)</u>
Net (loss) from continuing operations	<u>(353)</u>	<u>(704)</u>
Discontinued operations:		
Income (loss) from discontinued operations	(4)	2
Income tax expense (benefit)	-	-
Net income (loss) from discontinued operations	<u>(4)</u>	<u>2</u>
Net income (loss)	(357)	(702)
Other comprehensive income (loss), foreign currency translation adjustments	<u>(2)</u>	<u>(29)</u>
Comprehensive income (loss)	<u>\$ (359)</u>	<u>\$ (731)</u>
Basic earnings (loss) per common share:		
Continuing operations	\$ (0.19)	\$ (0.35)
Discontinued operations	-	-
Basic earnings (loss) per common share	<u>\$ (0.19)</u>	<u>\$ (0.35)</u>
Diluted earnings (loss) per common share:		
Continuing operations	\$ (0.19)	\$ (0.35)
Discontinued operations	-	-
Diluted earnings (loss) per common share	<u>\$ (0.19)</u>	<u>\$ (0.35)</u>

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended April 1, 2023 and March 26, 2022
(Dollars in Thousands)

	2023	2022
Cash flows from operating activities:		
Continuing operations:		
Net (loss) from continuing operations	\$ (354)	\$ (706)
Adjustments to reconcile net (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	418	414
Change in unrealized (gains) losses on marketable equity securities	(32)	297
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(173)	(200)
Inventories	2,713	1,091
Prepaid expenses and other	(21)	79
Increase (decrease) in:		
Operating lease liabilities	(227)	(204)
Accounts payable	(441)	(1,545)
Accrued liabilities	(396)	(2,165)
Other liabilities	-	11
Net cash used in continuing operations	1,487	(2,928)
Discontinued operations:		
Net income (loss) from discontinued operations	(4)	2
Adjustments to reconcile net income (loss) from discontinued operations to net cash provided by (used in) discontinued operations:		
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	-	(14)
Increase (decrease) in:		
Accounts payable	(17)	(83)
Net cash used in discontinued operations	(21)	(95)
Net cash used in operating activities	\$ 1,466	\$ (3,023)

(Continued)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Periods Ended April 1, 2023 and March 26, 2022
(Dollars in Thousands)

	2023	2022
Cash flows from investing activities:		
Continuing operations:		
Purchases of intangible assets	(31)	(20)
Purchases of property and equipment	\$ (82)	\$ (58)
Net cash (used in) provided by continuing operations	(113)	(78)
Net cash (used in) provided by investing activities	(113)	(78)
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	(2,932)	-
Repayment of finance lease liabilities	(5)	(6)
Net cash used in continuing operations	(2,937)	(6)
Net cash used in financing activities	(2,937)	(6)
Effect of exchange rate changes on cash	(2)	(29)
(Decrease) Increase in cash and cash equivalents	(1,586)	(3,136)
Cash and cash equivalents:		
Beginning	14,513	32,981
Ending	\$ 12,927	\$ 29,845
Supplemental disclosures of cash flows information, cash payments for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -