

Boss Holdings, Inc.
2024 2nd 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 2024 were lower (-16.0%) compared to the second quarter of 2023 due to the discontinuation of sales to certain accounts, across all business segments, which management identified as unprofitable, continued weakening consumer 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 (+5.7%) compared to the second quarter of 2023 due to strategic price increases across all business segments and management's focus on reducing transportation, warehousing, and distribution costs. Operating Expenses were lower (-14.9%) compared to the Second quarter of 2023 due to management's focus on reducing operating expenses. Disaggregated net sales from continuing operations of the pet segment for the second quarters of 2024 and 2023, were \$8,696,089 and \$11,286,383, respectively. Disaggregated net sales from continuing operations of the promotional products and cell phone accessories segments for the second quarters of 2024 and 2023, were \$3,611,160 and \$3,356,178, respectively.

We incurred an operating loss of \$136,000 in the second quarter of 2024, compared with an operating loss of \$943,000 in the second quarter of 2023. Our 2024 second quarter operating loss was due to the liquidation of excess, obsolete and slow-moving inventory, increased labor costs, continued weak consumer demand along with key domestic supplier delays. We realized net income of \$21,000 in the second quarter of 2024 versus a net loss of \$697,000 in the same quarter the previous year.

For the six months ended June 29, 2024, we incurred an operating loss of \$698,000 versus an operating loss of \$1,638,000 during the first six months in 2023. Year to date net income for the six months ended June 29, 2024, was \$14,000 versus a net loss of \$1,071,000 during the first six months last year.

Inventory on June 29, 2024, was \$14,758,000 compared with inventory on December 30, 2023, of \$16,242,000, a reduction in inventory of \$1,484,000. 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 June 29, 2024, and December 30, 2023, our cash, cash equivalents, and investment in debt securities balances were \$22,622,000 and \$20,771,000, 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.

Outlook

Continued softening consumer demand, and high labor costs continue to challenge all our business segments as inflationary concerns transition to economic uncertainty that is impacting consumers in the U.S. and global economies. We continue to experience adverse supply chain factors, including product availability and sourcing challenges in key segments of the business. Changes in global economic conditions, geopolitical conditions, and unforeseen circumstances may impact on our operating results.

Forward-Looking Statements

This 2024 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 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 Balance Sheets (Dollars in Thousands, Except Per Share Data)

	June 29, 2024 (Unaudited)	December 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,575	\$ 10,612
Accounts receivable	3,860	3,633
Inventories	14,758	16,242
Prepaid expenses and other	1,129	976
Income tax receivable	247	203
Investment in debt securities, amortized cost	12,047	10,159
Total current assets	42,616	41,825
Property and equipment, net	2,002	1,970
Finance lease right of use assets, net	2	11
Operating lease right of use assets, net	1,925	2,537
Marketable equity securities	89	107
Deferred tax asset	2,741	2,741
Intangibles, net of accumulated amortization	382	419
Goodwill	3,288	3,288
	\$ 53,045	\$ 52,898
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of operating lease liabilities	\$ 1,019	\$ 1,165
Current portion of finance lease liabilities	4	10
Accounts payable	1,867	1,393
Accrued payroll and related expenses	364	400
Deferred Revenue	73	12
Other accrued liabilities	1,901	1,504
Total current liabilities	5,228	4,484
Noncurrent liabilities:		
Long-term operating lease liabilities	925	1,392
Long-term finance lease liabilities	-	-
Other long-term liabilities	-	143
Total noncurrent liabilities	925	1,535
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,643,002 shares at 6/29/2024 and 12/30/2023	498	498
Treasury stock, at cost: 329,781 shares at 6/29/2024 and 12/30/2023	(7,528)	(7,528)
Additional paid-in capital	64,686	64,686
Accumulated (deficit)	(10,764)	(10,777)
Total stockholders' equity	46,892	46,879

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)
Periods Ended June 29, 2024 and July 1, 2023
(Dollars in Thousands, Except Per Share Data)

	Quarter Ended 6/29/24	Quarter Ended 7/1/23	Six Months Ended 6/29/24	Six Months Ended 7/1/23
Net sales	\$ 12,307	\$ 14,643	\$ 24,224	\$ 30,056
Cost of sales	<u>9,039</u>	<u>11,585</u>	<u>18,042</u>	<u>23,612</u>
Gross profit	3,268	3,058	6,182	6,444
Operating expenses	<u>3,404</u>	<u>4,001</u>	<u>6,880</u>	<u>8,082</u>
Operating (loss)	(136)	(943)	(698)	(1,638)
Other income (expenses):				
Interest income	283	228	499	391
Interest expense	-	(1)	-	(1)
Change in unrealized gains and losses on marketable equity securities	(107)	(113)	107	(82)
Other	25	(20)	73	37
	<u>201</u>	<u>94</u>	<u>679</u>	<u>345</u>
(Loss) from continuing operations before income tax (benefit)	65	(849)	(19)	(1,293)
Income tax (benefit)	44	(152)	(33)	(239)
Net Income (loss)	21	(697)	14	(1,054)
Other comprehensive income (loss), foreign currency translation adjustments	-	(15)	-	(17)
Comprehensive income (loss)	\$ 21	\$ (712)	\$ 14	\$ (1,071)
Basic earnings (loss) per common share:				
Continuing operations	\$ 0.01	\$ (0.43)	\$ 0.01	\$ (0.64)
Discontinued operations	-	-	-	-
Basic earnings (loss) per common share	\$ 0.01	\$ (0.43)	\$ 0.01	\$ (0.64)
Diluted earnings (loss) per common share:				
Continuing operations	\$ 0.01	\$ (0.42)	\$ 0.01	\$ (0.64)
Discontinued operations	-	-	-	-
Diluted earnings (loss) per common share	\$ 0.01	\$ (0.42)	\$ 0.01	\$ (0.64)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Periods Ended June 29, 2024 and July 1, 2023
(Dollars in Thousands)

	Six Months Ended	Six Months Ended
	June 29, 2024	July 1, 2023
Cash flows from operating activities:		
Continuing operations:		
Net income (loss) from continuing operations	\$ 14	\$ (1,054)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	938	993
Loss on disposition of property and equipment	-	20
Change in realized and unrealized (gains) losses on investments	(397)	(27)
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(227)	(174)
Inventories	1,484	3,529
Prepaid expenses and other	(153)	207
Increase (decrease) in:		
Operating lease liabilities	(613)	(500)
Accounts payable	474	(61)
Accrued liabilities	317	(471)
Deferred revenue	61	-
Other liabilities	(143)	-
Net cash provided (used) in operating activities	1,755	2,462
Cash flows from investing activities:		
Continuing operations:		
Purchases of intangible assets	(37)	(42)
Purchases of property and equipment	(275)	(160)
Purchases of held-to-maturity securities	(15,948)	(1,699)
Proceeds from sale of held-to-maturity securities	14,349	1,698
Proceeds from disposition of property and equipment	-	23
Proceeds from sale of available-for-sale securities	125	-
Payments for business combinations	-	-
Net cash provided (used in) provided by investing activities	(1,786)	(180)
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	-	(7,554)
Purchase of treasury stock	-	-
Repayment of finance lease liabilities	(6)	(10)
Proceeds from issuance of stock	-	-
Net cash used in financing activities	(6)	(7,564)
Effect of exchange rate changes on cash	-	(17)
(Decrease) Increase in cash and cash equivalents	(37)	(5,299)
Cash and cash equivalents:		
Beginning	10,612	14,513
Ending	\$ 10,575	\$ 9,214
Supplemental disclosures of cash flows information, cash payments for:		
Interest (In Thousands)	\$ -	\$ -
Income taxes (In Thousands)	\$ -	\$ -