

Boss Holdings, Inc.

2024 3rd Quarter

Financial Update

Overview

The primary source of revenue for Boss Holdings, Inc. (“Company”) 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

On the morning of September 17th, 2024, the Company discovered unauthorized and suspicious activity in the computer systems utilized by our pet supply and cell phone accessory divisions. We immediately took steps to mitigate this activity and engaged a specialized team of consultants and technicians to help us investigate and begin recovery efforts. Law enforcement was informed and we deactivated the affected systems in order to protect our business and customers. We subsequently discovered that a cybercriminal had encrypted certain files and copied a small portion of our computer data; however, no customer data was involved in the event.

As a result of the incident, the Company experienced an insurable loss of approximately \$2,561,000, for which the Company received \$2,000,000 of insurance proceeds. The loss from the event and the receipt of insurance proceeds are included in operating expenses for the quarter on the consolidated statement of comprehensive income (loss).

By October 1st, we resolved the incident and normal operations of the pet supply and cell phone accessory divisions resumed the following week. Our promotional products group was not affected by the incident. The Company now is fully operational and has invested aggressively in additional software and services to increase protection of our computer systems and data. Although the occurrence negatively affected results of operation in the third quarter, management expects that this event will not further impair the Company’s operational capabilities.

Our net sales in the third quarter of 2024 were lower (-19.4%) compared to the third quarter of 2023 due to the cyber event, the discontinuation of sales to certain accounts, across all business segments, which management identified as unprofitable and, weak consumer demand for non-essential products in the pet and cellphone accessory segments. Gross profit as a percentage of net sales in the third quarter increased slightly (25.4%) compared to the third quarter a year ago (25.1%). Operating expenses during the third quarter were higher (+2.9%) compared to the same period last year, due primarily to the cyber event.

Disaggregated net sales from continuing operations of the pet segment for the third quarters of 2024 and 2023, were \$7,140,000 and \$9,744,000, respectively. This was the segment most affected by the disruption of business operations due to the cyber event. Disaggregated net sales from continuing operations of the promotional products and cell phone accessory segments for the third quarters of 2024 and 2023, were \$4,264,000 and \$4,400,000, respectively.

We incurred an operating loss of \$1,176,000 in the third quarter of 2024, compared with an operating loss of \$405,000 in the third quarter of 2023. Our 2024 third quarter operating loss was due to the cyber event, increased labor costs, and weak consumer demand for non-essential pet and cell phone products. Our net loss was \$646,000 during the quarter versus a net loss of \$284,000 in the same quarter last year.

For the nine months ended September 28, 2024, we incurred an operating loss of \$1,874,000 versus an operating loss of \$2,043,000 for the nine months ended September 30, 2023. The first nine months ended September 28, 2024, resulted in a net loss of \$632,000 for the Company versus a net loss of \$1,355,000 during the nine months ended September 30, 2023.

Inventory on September 28, 2024, was \$15,481,000 compared with inventory on December 30, 2023, of \$16,242,000, a reduction in inventory of \$761,000. 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 September 28, 2024, and December 30, 2023, our cash, cash equivalents, and investment in debt securities balances were \$21,515,000 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

Soft consumer demand for non-essential products, and high labor costs continue to challenge all our business segments, as well as inflationary concerns and economic uncertainty impacting consumers in the U.S. and global economies. Changes in global economic conditions, geopolitical conditions, and unforeseen circumstances may impact on our operating results.

Forward-Looking Statements

This 2024 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 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)

	September 28, 2024 (Unaudited)	December 30, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,622	\$ 10,612
Accounts receivable	3,648	3,633
Inventories	15,481	16,242
Prepaid expenses and other	1,263	976
Income tax receivable	527	203
Investment in debt securities, amortized cost	14,893	10,159
Total current assets	42,434	41,825
Property and equipment, net	1,912	1,970
Finance lease right of use assets, net	-	11
Operating lease right of use assets, net	1,874	2,537
Marketable equity securities	147	107
Deferred tax asset	2,741	2,741
Intangibles, net of accumulated amortization	348	419
Goodwill	3,288	3,288
	\$ 52,744	\$ 52,898
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of operating lease liabilities	\$ 1,033	\$ 1,165
Current portion of finance lease liabilities	4	10
Accounts payable	2,188	1,393
Accrued payroll and related expenses	293	400
Deferred Revenue	37	12
Other accrued liabilities	2,084	1,504
Total current liabilities	5,639	4,484
Noncurrent liabilities:		
Long-term operating lease liabilities	860	1,392
Long-term finance lease liabilities	-	-
Other long-term liabilities	-	143
Total noncurrent liabilities	860	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 9/28/2024 and 12/30/2023	495	498
Treasury stock, at cost: 329,781 shares at 9/28/2024 and 12/30/2023	(7,528)	(7,528)
Additional paid-in capital	64,686	64,686
Accumulated (deficit)	(11,408)	(10,777)
Total stockholders' equity	46,245	46,879

Boss Holdings, Inc. and Subsidiaries

**Consolidated Statements of Comprehensive Income (Loss)
Periods Ended September 28, 2024 and September 30, 2023
(Dollars in Thousands, Except Per Share Data)**

	Quarter Ended 9/28/24	Quarter Ended 9/30/23	Nine Months Ended 9/28/24	Nine Months Ended 9/30/23
Net sales	\$ 11,404	\$ 14,144	\$ 35,628	\$ 44,200
Cost of sales	<u>8,508</u>	<u>10,590</u>	<u>26,550</u>	<u>34,202</u>
Gross profit	2,896	3,554	9,078	9,998
Operating expenses	<u>4,072</u>	<u>3,959</u>	<u>10,952</u>	<u>12,041</u>
Operating (loss)	(1,176)	(405)	(1,874)	(2,043)
Other income (expenses):				
Interest income	252	161	751	552
Interest expense	-	-	-	(1)
Change in unrealized gains and losses on marketable equity securities	59	(79)	165	(161)
Other	7	(6)	80	35
	<u>318</u>	<u>76</u>	<u>996</u>	<u>425</u>
(Loss) from continuing operations before income tax (benefit)	(858)	(329)	(878)	(1,618)
Income tax (benefit)	<u>(212)</u>	<u>(45)</u>	<u>(246)</u>	<u>(284)</u>
Net Income (loss)	(646)	(284)	(632)	(1,334)
Other comprehensive income (loss), foreign currency translation adjustments	-	-	-	(21)
Comprehensive income (loss)	\$ (646)	\$ (284)	\$ (632)	\$ (1,355)
Basic earnings (loss) per common share:				
Continuing operations	\$ (0.39)	\$ (0.17)	\$ (0.38)	\$ (0.42)
Discontinued operations	-	-	-	-
Basic earnings (loss) per common share	\$ (0.39)	\$ (0.17)	\$ (0.38)	\$ (0.42)
Diluted earnings (loss) per common share:				
Continuing operations	\$ (0.39)	\$ (0.17)	\$ (0.38)	\$ (0.42)
Discontinued operations	-	-	-	-
Diluted earnings (loss) per common share	\$ (0.39)	\$ (0.17)	\$ (0.38)	\$ (0.42)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Periods Ended September 28, 2024 and September 30, 2023

(Dollars in Thousands)

	Nine Months Ended September 28, 2024	Nine Months Ended September 30, 2023
Cash flows from operating activities:		
Continuing operations:		
Net income (loss) from continuing operations	\$ (632)	\$ (1,338)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) continuing operations:		
Depreciation and amortization	1,163	1,463
Loss on disposition of property and equipment	-	20
Change in realized and unrealized (gains) losses on investments	(525)	(6)
Changes in assets and liabilities net of acquisitions:		
(Increase) decrease in:		
Accounts receivable	(15)	(499)
Inventories	761	3,240
Prepaid expenses and other	(287)	221
Increase (decrease) in:		
Operating lease liabilities	(664)	(775)
Accounts payable	795	(520)
Accrued liabilities	149	(100)
Deferred revenue	25	-
Other liabilities	(143)	(50)
Net cash provided (used) in operating activities	627	1,656
Cash flows from investing activities:		
Continuing operations:		
Purchases of intangible assets	(61)	(76)
Purchases of property and equipment	(301)	(149)
Purchases of held-to-maturity securities	(21,428)	(3,382)
Proceeds from sale of held-to-maturity securities	17,054	3,368
Proceeds from sale of available-for-sale securities	125	-
Proceeds from disposition of property and equipment	-	23
Payments for business combinations	-	-
Net cash provided (used in) provided by investing activities	(4,611)	(216)
Cash flows from financing activities:		
Continuing operations:		
Repurchase of common stock	-	(7,554)
Purchase of treasury stock	-	-
Repayment of finance lease liabilities	(6)	(16)
Proceeds from issuance of stock	-	-
Net cash used in financing activities	(6)	(7,570)
Effect of exchange rate changes on cash	-	(17)
(Decrease) Increase in cash and cash equivalents	(3,990)	(6,147)
Cash and cash equivalents:		
Beginning	10,612	14,513
Ending	\$ 6,622	\$ 8,366
Supplemental disclosures of cash flows information, cash payments for:		
Interest (In Thousands)	\$ -	\$ -
Income taxes (In Thousands)	\$ 1	\$ -