

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-14818

**Kaspian Holdings Inc.**

(Exact Name of Registrant as Specified in its Charter)

New York

14-1541629

State or Other Jurisdiction of Incorporation or Organization

I.R.S. Employer Identification No.

2818 N. Sullivan Rd. Ste 30  
Spokane, WA 99216

99216

Address of Principal Executive Offices

Zip Code

(855) 300-2710

Registrant's Telephone Number, Including Area Code

Trans World Entertainment Corporation  
38 Corporate Circle  
Albany, New York

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$.01 par value per share	KSPN	NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 par value,  
1,905,198 shares outstanding as of December 1, 2020

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**QUARTERLY REPORT ON FORM 10-Q**  
**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**PART 1. FINANCIAL INFORMATION**  
**Item 1 - Interim Condensed Consolidated Financial Statements**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except per share and share amounts)

	<b>October 31, 2020</b>	<b>February 1, 2020</b>	<b>November 2, 2019</b>
	Unaudited		Unaudited
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 2,396	\$ 2,977	\$ 3,073
Restricted cash	950	950	950
Accounts receivable	2,465	4,139	2,182
Merchandise inventory	27,204	17,836	22,522
Prepaid expenses and other current assets	836	2,974	857
Assets held for discontinued operations	-	51,189	94,286
<b>Total current assets</b>	<b>33,851</b>	<b>80,065</b>	<b>123,870</b>
Restricted cash	4,082	4,925	5,139
Fixed assets, net	2,343	2,190	2,102
Operating lease right-of-use assets	2,887	3,311	3,404
Intangible assets, net	989	1,760	2,810
Cash Surrender Value	3,438	3,353	3,212
Other assets	1,787	2,202	943
<b>TOTAL ASSETS</b>	<b>\$ 49,377</b>	<b>\$ 97,806</b>	<b>\$ 141,480</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 8,559	\$ 14,447	\$ 10,169
Short-term borrowings	8,483	13,149	27,771
Accrued expenses and other current liabilities	4,745	3,521	1,717
Current portion of operating lease liabilities	583	534	523
Current portion of PPP loan	1,356	-	-
Liabilities held for discontinued operations	-	39,410	54,138
<b>Total current liabilities</b>	<b>23,726</b>	<b>71,061</b>	<b>94,318</b>
Operating lease liabilities	2,412	2,204	2,952
PPP loan	662	-	-
Long-term debt	4,581	-	-
Other long-term liabilities	15,857	20,026	19,335
<b>TOTAL LIABILITIES</b>	<b>47,238</b>	<b>93,291</b>	<b>116,605</b>
<b>SHAREHOLDERS' EQUITY</b>			
Preferred stock (\$0.01 par value; 5,000,000 shares authorized; none issued)	-	-	-
Common stock (\$0.01 par value; 200,000,000 shares authorized; 3,235,576, 3,225,627 and 3,225,627 shares issued, respectively)	32	32	32
Additional paid-in capital	346,470	345,102	345,043
Treasury stock at cost (1,410,378, 1,409,316 and 1,409,316 shares, respectively)	(230,169)	(230,169)	(230,168)
Accumulated other comprehensive loss	(1,470)	(1,479)	(720)
Accumulated deficit	(112,724)	(108,971)	(89,312)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>2,139</b>	<b>4,515</b>	<b>24,875</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 49,377</b>	<b>\$ 97,806</b>	<b>\$ 141,480</b>

*See Accompanying Notes to Interim Condensed Consolidated Financial Statements.*

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(amounts in thousands)  
(unaudited)

	<b>Thirteen Weeks Ended</b>		<b>Thirty-nine Weeks Ended</b>	
	<b>October 31, 2020</b>	<b>November 2, 2019</b>	<b>October 31, 2020</b>	<b>November 2, 2019</b>
Net revenue	\$ 38,913	\$ 28,616	\$ 112,799	\$ 98,008
Cost of sales	35,022	25,896	101,173	89,424
Gross profit	3,891	2,720	11,626	8,584
Selling, general and administrative expenses	4,503	5,604	17,909	19,248
Loss from continuing operations	(612)	(2,884)	(6,283)	(10,664)
Interest expense	381	200	1,015	508
Loss from continuing operations before income tax benefit	(993)	(3,084)	(7,298)	(11,172)
Income tax (benefit) expense	(3,545)	10	(3,545)	26
Income (loss) from continued operations	2,552	(3,094)	(3,753)	(11,198)
Loss from fye business, net of tax	-	(20,061)	-	(27,887)
Net income (loss)	<u>\$ 2,552</u>	<u>\$ (23,155)</u>	<u>\$ (3,753)</u>	<u>\$ (39,085)</u>
<b>BASIC INCOME (LOSS) PER SHARE:</b>				
Basic and diluted income (loss) per common share	\$ 1.40	\$ (12.73)	\$ (2.06)	\$ (21.51)
Weighted average number of common shares outstanding – basic	1,825	1,819	1,823	1,817
<b>DILUTED LOSS PER SHARE:</b>				
Diluted income (loss) per common share	<u>\$ 1.39</u>	<u>\$ (12.73)</u>	<u>\$ (2.06)</u>	<u>\$ (21.51)</u>
Weighted average number of common shares outstanding – diluted	<u>1,829</u>	<u>1,819</u>	<u>1,823</u>	<u>1,817</u>

*See Accompanying Notes to Interim Condensed Consolidated Financial Statements.*

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
(amounts in thousands)  
(unaudited)

	<u>Thirteen Weeks Ended</u>		<u>Thirty-nine Weeks Ended</u>	
	<u>October 31,</u> <u>2020</u>	<u>November 2,</u> <u>2019</u>	<u>October 31,</u> <u>2020</u>	<u>November 2,</u> <u>2019</u>
Net income (loss)	\$ 2,552	\$ (23,155)	\$ (3,753)	\$ (39,085)
Amortization of pension gain	1	5	3	15
Comprehensive income (loss)	<u>\$ 2,553</u>	<u>\$ (23,150)</u>	<u>\$ (3,750)</u>	<u>\$ (39,070)</u>

*See Accompanying Notes to Interim Condensed Consolidated Financial Statements.*

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(dollars and shares in thousands)  
(unaudited)

<b>Thirteen Weeks Ended October 31, 2020</b>								
<i>Number of shares outstanding</i>								
	<i>Common Shares</i>	<i>Treasury Shares</i>	Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Shareholders' Equity
Balance as of May 2, 2020	3,236	(1,410)	\$ 32	\$ 346,457	\$ (230,169)	\$ (1,473)	\$ (115,276)	\$ (430)
Net income	-	-	-	-	-	-	2,552	2,552
Other comprehensive income	-	-	-	-	-	3	-	3
Amortization of unearned compensation/restricted stock amortization	-	-	-	13	-	-	-	13
<b>Balance as of October 31, 2020</b>	<b>3,236</b>	<b>\$ (1,410)</b>	<b>\$ 32</b>	<b>\$ 346,470</b>	<b>\$ (230,169)</b>	<b>\$ (1,470)</b>	<b>\$ (112,724)</b>	<b>\$ 2,139</b>

<b>Thirty-nine Weeks Ended October 31, 2020</b>								
<i>Number of shares outstanding</i>								
	<i>Common Shares</i>	<i>Treasury Shares</i>	Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Retained Earnings (Accumulated Deficit)	Shareholders' Equity
Balance as of February 1, 2020	3,226	(1,409)	\$ 32	\$ 345,102	\$ (230,169)	\$ (1,479)	\$ (108,971)	\$ 4,515
Net Loss	-	-	-	-	-	-	(3,753)	(3,753)
Other comprehensive income	-	-	-	-	-	9	-	9
Issuance of warrants	-	-	-	836	-	-	-	836
Vested restricted shares	4	(1)	-	(9)	-	-	-	(9)
Common stock issued- Director grants	6	-	-	243	-	-	-	243
Amortization of unearned compensation/restricted stock amortization	-	-	-	298	-	-	-	298
<b>Balance as of October 31, 2020</b>	<b>3,236</b>	<b>\$ (1,410)</b>	<b>\$ 32</b>	<b>\$ 346,470</b>	<b>\$ (230,169)</b>	<b>\$ (1,470)</b>	<b>\$ (112,724)</b>	<b>\$ 2,139</b>

<b>Thirteen Weeks Ended November 2, 2019</b>								
<i>Number of shares outstanding</i>								
	<i>Common Shares</i>	<i>Treasury Shares</i>	Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Accumulated Deficit	Shareholders' Equity
Balance as of August 3, 2019	3,224	(1,409)	\$ 32	\$ 344,983	\$ (230,168)	\$ (725)	\$ (66,157)	\$ 47,965
Net Loss	-	-	-	-	-	-	(23,155)	(23,155)
Other comprehensive income	-	-	-	-	-	5	-	5
Vested restricted shares	2	-	-	-	-	-	-	-
Amortization of unearned compensation/restricted stock amortization	-	-	-	60	-	-	-	60
<b>Balance as of November 2, 2019</b>	<b>3,226</b>	<b>(1,409)</b>	<b>\$ 32</b>	<b>\$ 345,043</b>	<b>\$ (230,168)</b>	<b>\$ (720)</b>	<b>\$ (89,312)</b>	<b>\$ 24,875</b>

<b>Thirty-nine Weeks Ended November 2, 2019</b>								
<i>Number of shares outstanding</i>								
	<i>Common Shares</i>	<i>Treasury Shares</i>	Common Stock	Additional Paid-in Capital	Treasury Stock At Cost	Accumulated Other Comprehensive Loss	Accumulated Deficit	Shareholders' Equity
Balance as of February 2, 2019	3,222	(1,409)	\$ 32	\$ 344,826	\$ (230,166)	\$ (735)	\$ (50,227)	\$ 63,730
Net Loss	-	-	-	-	-	-	(39,085)	(39,085)
Other comprehensive income	-	-	-	-	-	15	-	15
Vested restricted shares	4	-	-	3	(2)	-	-	1
Amortization of unearned compensation/restricted stock amortization	-	-	-	214	-	-	-	214
<b>Balance as of November 2, 2019</b>	<b>3,226</b>	<b>(1,409)</b>	<b>\$ 32</b>	<b>\$ 345,043</b>	<b>\$ (230,168)</b>	<b>\$ (720)</b>	<b>\$ (89,312)</b>	<b>\$ 24,875</b>

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(amounts in thousands)  
(unaudited)

	<b>Thirty-nine Weeks Ended</b>	
	October 31, 2020	November 2, 2019 <sup>(1)</sup>
<b>OPERATING ACTIVITIES:</b>		
Net income loss	\$ (3,753)	\$ (39,085)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of fixed assets	783	2,272
Amortization of intangible assets	771	858
Stock-based compensation	296	214
Loss on disposal of fixed assets	-	27
Write down investment	-	500
Loss on impairment of long-lived assets	-	16,035
Amortization of ROU asset	424	-
Change in cash surrender value	(84)	(189)
Reversal of ASC 740 liability	(3,545)	
Changes in operating assets and liabilities that provide (use) cash:		
Accounts receivable	1,695	1,099
Merchandise inventory	(9,367)	(6,288)
Prepaid expenses and other current assets	2,531	1,190
Other long-term assets	-	5,274
Accounts payable	679	(4,335)
Accrued expenses and other current liabilities	(5,295)	(852)
Deferred revenue	-	(966)
Other long-term liabilities	(407)	(6,576)
Net cash used in operating activities	<u>(15,272)</u>	<u>(30,822)</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of fixed assets	(935)	(2,128)
Proceeds from sale of fye business	11,779	-
Capital distribution from joint venture	-	115
Net cash provided by (used in) investing activities	<u>10,844</u>	<u>(2,013)</u>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from short term borrowings	8,483	27,771
Proceeds from long term borrowings	4,581	-
Proceeds from issuance of warrants	836	-
Proceeds from PPP loan	2,018	-
Issuance of director deferred shares and RSUs	235	-
Payment of short-term borrowings	(13,149)	-
Net cash provided by (used in) financing activities	<u>3,004</u>	<u>27,771</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,424)	(5,064)
Cash, cash equivalents, and restricted cash, beginning of period	8,852	14,226
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 7,428</u>	<u>\$ 9,162</u>

(1) The cash flows related to discontinued operations have not been segregated and are included in the Consolidated Statements of Cash Flows. See footnote 3.

*See Accompanying Notes to Interim Condensed Consolidated Financial Statements.*

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**  
**October 31, 2020 and November 2, 2019**

**Note 1. Nature of Operations**

Kaspien Holdings Inc., formerly Trans World Entertainment Corporation, which, together with its consolidated subsidiaries, is referred to herein as “the Company”, “we”, “us” and “our”, was incorporated in New York in 1972. We own 100% of the outstanding common stock of Kaspien Inc., formerly etailz, Inc (“Kaspien”), through which our principal operations are conducted. Kaspien provides a platform of software and services to empower brands to grow their online distribution channels on digital marketplaces such as Amazon, Walmart, eBay, among others. The Company helps brands achieve their online retail goals through its innovative and proprietary technology, tailored strategies, and mutually beneficial partnerships.

Kaspien is positioning itself to be a brand’s ultimate online growth partner and is guided by seven core principles:

- Partner Obsession
- Insights Driven
- Simplicity
- Innovation
- Results
- Ownership
- Diversity and Teamwork

Previously, the Company also operated fye, a chain of retail entertainment stores and e-commerce sites, [www.fye.com](http://www.fye.com) and [www.secondspin.com](http://www.secondspin.com). On February 20, 2020, the Company consummated the sale of substantially all of the assets and certain of the liabilities relating to fye to a subsidiary of 2428391 Ontario Inc. o/a Sunrise Records (“Sunrise Records”) pursuant to an Asset Purchase Agreement (as amended, the “Asset Purchase Agreement”) dated January 23, 2020, by and among the Company, Record Town, Inc., Record Town USA LLC, Record Town Utah LLC, Trans World FL LLC, Trans World New York, LLC, 2428392 Inc., and Sunrise Records. (the “FYE Transaction”).

***Liquidity and Cash Flows:***

The Company’s primary sources of liquidity are its borrowing capacity under its revolving credit facility, available cash and cash equivalents, and to a lesser extent, cash generated from operations. Our cash requirements relate primarily to working capital needed to operate and grow our business, including funding operating expenses and the purchase of inventory. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and amount of our net revenue; the timing and amount of our operating expenses; the timing and costs of working capital needs; successful implementation of our strategy and planned activities; and our ability to overcome the impact of the COVID-19 pandemic.

As disclosed in the Company's Annual Report on Form 10-K filed June 15, 2020, the Company experienced negative cash flows from operations during fiscal 2019 and 2018 and we expect to incur net losses in 2020.

The ability of the Company to meet its liabilities and to continue as a going concern is dependent on improved profitability, the continued implementation of the strategic initiative to reposition Kaspien as a platform of software and services, the availability of future funding, implementation of one or more corporate initiatives to reduce costs at the parent company level (which could include a voluntary delisting from NASDAQ and deregistering of our Common Stock in order to substantially eliminate the costs associated with being a public company), satisfying all unassumed liabilities of the fye segment and other strategic alternatives, including selling all or part of the remaining business or assets of the Company, and overcoming the impact of the COVID-19 pandemic.



There can be no assurance that we will be successful in further implementing our business strategy or that the strategy, including the completed initiatives, will be successful in sustaining acceptable levels of sales growth and profitability. In addition, the proceeds from the PPP Loan (as defined below) are subject to audit and there is a risk of repayment. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

On August 4, 2020, the Company received a letter from the Listing Qualifications staff of The Nasdaq Stock Market (“Nasdaq”) notifying the Company that it is no longer in compliance with the minimum stockholders’ equity requirement (the “Stockholders’ Equity Requirement”) for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(b)(1) requires listed companies to maintain stockholders’ equity of at least \$2,500,000 and as of August 4, 2020, the Company did not meet the alternative compliance standards relating to the market value of listed securities or net income from continuing operations.

The notification letter has no immediate effect on the Company’s listing on the Nasdaq Capital Market. On September 18, 2020, the Company submitted to Nasdaq a plan to regain compliance with the Stockholders’ Equity Requirement (the “Compliance Plan”). On September 30, 2020, the Company received another notice from Nasdaq that it had approved the Compliance Plan and granted the Company an extension period to February 1, 2021 to regain compliance with the Stockholders’ Equity Requirement. If the Company does not regain compliance in the timeframe required by Nasdaq, the Nasdaq staff could provide notice that the Company’s Common Stock is subject to delisting. In addition to the below current sources of existing working capital, the Company may explore certain other strategic alternatives that may become available to the Company, as well as continuing our efforts to generate additional sales and increase margins. However, at this time the Company has no commitments to obtain any additional funds, and there can be no assurance such funds will be available on acceptable terms or at all, should we require such additional funds. If the Company is unable to improve its operations, it may be required to obtain additional funding, and the Company’s financial condition and results of operations may be materially adversely affected. Furthermore, broad market and industry factors may seriously harm the market price of our Common Stock, regardless of our operating performance, and may adversely impact our ability to raise additional funds, should we require such additional funds. Similarly, if our Common Stock is delisted from the Nasdaq Capital Market, it may also limit our ability to raise additional funds.

The unaudited condensed consolidated financial statements for the thirteen weeks ended October 31, 2020 were prepared on the basis of a going concern which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. The ability of the Company to meet its liabilities and to continue as a going concern is dependent on continued improved profitability and the other factors set forth in the preceding paragraphs. For the next 12 months, management believes that the Company’s existing liquidity will be adequate to fund its working capital needs. Management anticipates any cash requirements due to a shortfall in cash from operations will be funded by the Company’s revolving credit facility, as discussed in note 9 in the interim condensed consolidated financial statements.

At October 31, 2020, we had cash and cash equivalents of \$7.4 million, net working capital of \$10.1 million, and outstanding borrowings of \$8.5 million on our revolving credit facility, as further discussed below.

**New Credit Facility**

On February 20, 2020, Kaspian entered into a Loan and Security Agreement (the “Loan Agreement”) with Encina Business Credit, LLC (“Encina”), as administrative agent, under which the lenders party thereto committed to provide up to \$25 million in loans under a three-year, secured revolving credit facility (the “New Credit Facility”). Concurrent with the FYE Transaction, the Company borrowed \$3.3 million under the New Credit Facility in order to satisfy the remaining obligations of the Company under the Credit Facility (as defined below).

The commitments by the lenders under the New Credit Facility are subject to borrowing base and availability restrictions. Up to \$5.0 million of the New Credit Facility may be used for the making of swing line loans.

As of October 31, 2020, borrowings under the New Credit Facility were \$8.5 million. The Company had \$3.8 million available for borrowing as of October 31, 2020. As of October 31, 2020, unamortized debt issuance costs of \$0.9 million are included in “Other assets” on the unaudited condensed consolidated balance sheet.

**Subordinated Debt Agreement**

On March 30, 2020, the Company and Kaspian (the “Loan Parties”) entered into Amendment No. 1 to the Loan Agreement (the “Amendment”). Pursuant to the Amendment, among other things, (i) the Company was added as “Parent” under the Amended Loan Agreement, (ii) the Company granted a first priority security interest in substantially all of the assets of the Company, including inventory, accounts receivable, cash and cash equivalents and certain other collateral, and (iii) the Loan Agreement was amended to (a) permit the incurrence of certain subordinated indebtedness under the Subordinated Loan Agreement (as defined below) and (b) limit the Company’s ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets.

On March 30, 2020, the Loan Parties entered into a Subordinated Loan and Security Agreement (the “Subordinated Loan Agreement”) with the lenders party thereto from time to time (the “Lenders”) and TWEC Loan Collateral Agent, LLC (“Collateral Agent”), as collateral agent for the Lenders, pursuant to which the Lenders made a \$5.2 million secured term loan (the “Subordinated Loan”) to Kaspian with a scheduled maturity date May 22, 2023. As of October 31, 2020, unamortized debt issuance costs of \$0.2 million are included in “Other Current Liabilities” on the unaudited condensed consolidated balance sheet.

Directors Jonathan Marcus, Thomas Simpson, and Michael Reickert are the chief executive officer of Alimco Re Ltd. (“Alimco”), the managing member of Kick-Start III, LLC and Kick-Start IV, LLC (“Kick-Start”), and a trustee of the Robert J. Higgins TWMC Trust (the “Trust”), an affiliate of RJHDC, LLC (“RJHDC” and together with Alimco and Kick-Start, “Related Party Entities”), respectively. The Related Party Entities are parties to the Subordinated Loan Agreement.

**Paycheck Protection Program**

On April 17, 2020, Kaspien received loan proceeds of \$2.0 million (the “PPP Loan”) pursuant to the Paycheck Protection Program (“PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The PPP Loan, which was in the form of a promissory note (the “Note”), dated April 10, 2020, between Kaspien and First Interstate Bank, as the lender, matures on April 17, 2022, bears interest at a fixed rate of 1% per annum, and is payable in monthly installments of \$112,975.55. While under the terms of the PPP, some or all of the PPP Loan amount may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the CARES Act and the Note, such as payroll costs, benefits, rent, and utilities, there is no assurance that the Company will be successful in qualifying for and receiving forgiveness on the PPP Loan amount. On August 20, 2020, the Company submitted an application for forgiveness to the SBA. On October 30, 2020, the Company received a follow up letter requesting additional information related to its forgiveness application. The Company submitted the requested information on November 9, 2020. As of December 15, 2020, the Company has not received a decision on its PPP loan forgiveness request.

**FYE Transaction**

On February 20, 2020, the Company consummated the sale of substantially all of the assets and certain of the liabilities relating to fye to a subsidiary of Sunrise Records pursuant to an Asset Purchase Agreement dated January 23, 2020, by and among the Company, Record Town, Inc., Record Town USA LLC, Record Town Utah LLC, Trans World FL LLC, Trans World New York, LLC, 2428392 Inc., and Sunrise Records.

The fye business is reported as discontinued operations in our Consolidated Statements of Income, and the related assets and liabilities have been presented as held-for-sale in the Consolidated Balance Sheets, through their dates of disposal. These changes have been applied to all periods presented. Unless otherwise noted, discussion within these notes to the consolidated financial statements relates to continuing operations. Refer to Note 3 for additional information on discontinued operations.

**Impact of COVID-19**

To date, as a direct result of COVID-19, most of our employees are working remotely. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations and financial condition, including expenses, reserves and allowances, and employee-related amounts, will depend on future developments that are highly uncertain, including as a result of new information that may emerge concerning COVID-19 and the actions taken to contain or treat it, as well as the economic impact on local, regional, national and international customers and markets, which are highly uncertain and cannot be predicted at this time. Management is actively monitoring this situation and the possible effects on its financial condition, liquidity, operations, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the response to curb its spread, currently we are not able to estimate the effects of the COVID-19 outbreak to our results of operations, financial condition, or liquidity.

In response to the rapidly evolving COVID-19 pandemic, we activated our business continuity program, led by our Executive Team in conjunction with Human Resources, to help us manage the situation. In mid-March, we transitioned our corporate office staff to work 100% remotely. This process was aided through the implementation of a flexible work from home policy rolled out to the organization in fiscal 2019, having a companywide communication platform for instant messaging and video conferencing, and cloud-based critical business applications. However, while our business is not dependent on physical office locations nor travel, having a mostly remote workforce does present increased operational risk. Our leadership team believes we have the necessary controls in place to mitigate these impacts and allow the team to continue to operate effectively remotely as long as required by State guidelines.

While e-commerce has largely benefited from the closure of brick-and-mortar locations as consumer spending has been pushed online to marketplaces such as Amazon and Walmart, the industry nor our organization has been immune to the impact to our supply chains. For instance, in March, Amazon reduced replenishment in their fulfillment centers to essential items which limited a significant percentage of SKUs carried by Kaspien and a number of Kaspien's partners shut their warehouses or suffered limited processing capacity due to COVID-19. While Amazon has since lifted restrictions and the leadership team executed contingency plans to mitigate the adverse impact from these restrictions, this highlights the fluid nature of COVID-19 across supply chains.

Additionally, since the beginning of the pandemic, tens of millions of Americans have lost their jobs, significantly increasing the risk of near-term economic contraction in the United States that may affect e-commerce sales. The risk of additional waves or increased numbers of positive COVID-19 cases also presents further risk to supply chains. Leadership is actively monitoring the situation and potential impacts on its financial condition, liquidity, operations and workforce but the full extent of the impact is still highly uncertain.

## **Note 2. Basis of Presentation**

The accompanying interim condensed consolidated financial statements consist of Kaspien Holdings Inc., Record Town, Inc. ("Record Town"), Record Town's subsidiaries and Kaspien, Inc., all of which are wholly owned. All intercompany accounts and transactions have been eliminated.

The interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished in these unaudited interim condensed consolidated financial statements reflects all normal, recurring adjustments which, in the opinion of management, are necessary for the fair presentation of such financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of net revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to rules and regulations applicable to interim financial statements.

The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations as of and for the year ended February 1, 2020 contained in the Company's Annual Report on Form 10-K filed June 15, 2020. The results of operations for the thirteen weeks ended October 31, 2020 are not necessarily indicative of the results to be expected for the entire fiscal year ending February 3, 2021.

The Company's significant accounting policies are the same as those described in Note 1 to the Company's Consolidated Financial Statements on Form 10-K for the fiscal year ended February 1, 2020.

**Note 3. Discontinued Operations**

On February 20, 2020, the Company consummated the sale of substantially all of the assets and certain of the liabilities relating to fye to a subsidiary of Sunrise Records pursuant to an Asset Purchase Agreement dated January 23, 2020, by and among the Company, Record Town, Inc., Record Town USA LLC, Record Town Utah LLC, Trans World FL LLC, Trans World New York, LLC, 2428392 Inc., and Sunrise Records.

The results for fye were previously reported in the fye segment. Certain corporate overhead costs and segment costs previously allocated to fye for segment reporting purposes did not qualify for classification within discontinued operations and have been reallocated to continuing operations.

The following table summarizes the major line items for fye that are included in the income from discontinued operations, net of tax line item in the Consolidated Statements of Income:

(In thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Net revenue	\$ —	\$ 40,840	\$ —	\$ 127,602
Cost of goods sold	—	24,685	—	76,932
Selling, general and administrative expenses	—	20,114	—	61,891
Impairment of long-lived assets	—	16,035	—	16,035
Interest expense	—	28	—	46
Other expense (income)	—	(31)	—	388
Loss from discontinued operations before income taxes	—	(19,991)	—	(27,690)
Income tax expense	—	70	—	197
Loss from discontinued operations, net of tax	\$ —	\$ (20,061)	\$ —	\$ (27,887)

The following table summarizes the carrying amounts of major classes of assets and liabilities of discontinued operations for each of the periods presented:

(In thousands)	October 31, 2020	February 1, 2020	November 2, 2019
Cash	\$ —	\$ —	\$ —
Accounts receivable, net	—	62	2,102
Inventories	—	50,122	78,608
Other current assets	—	1,005	3,862
Property, plant and equipment, net	—	—	2,885
Operating lease right-to-use asset	—	—	5,574
Other assets	—	—	1,255
Total assets of discontinued operations	\$ —	\$ 51,189	\$ 94,286
Accounts payable	\$ —	\$ 9,769	\$ 19,825
Accrued liabilities	—	779	3,867
Deferred revenue	—	6,764	5,989
Current portion of lease liabilities	—	8,976	8,917
Operating lease liabilities	—	11,059	13,275
Other liabilities	—	2,063	2,265
Total liabilities of discontinued operations	\$ —	\$ 39,410	\$ 54,138

The cash flows related to discontinued operations have not been segregated and are included in the Consolidated Statements of Cash Flows. The following table summarizes the cash flows for discontinued operations that are included in the Consolidated Statements of Cash Flows:

(In thousands)	Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019
Net cash used in operating activities	\$ —	\$ (26,022)
Net cash used in investing activities	—	(883)
Depreciation and amortization	—	1,822
Purchases of fixed assets	—	883

#### Note 4. Sale of fye business

On February 20, 2020, the Company consummated the sale of substantially all of the assets and certain of the liabilities relating to fye to a subsidiary of Sunrise Records pursuant to an Asset Purchase Agreement dated January 23, 2020, by and among the Company, Record Town, Inc., Record Town USA LLC, Record Town Utah LLC, Trans World FL LLC, Trans World New York, LLC, 2428392 Inc., and Sunrise Records. The following table reconciles the assets sold to and liabilities assumed by Sunrise to cash proceeds received:

Assets sold	
Inventory	\$ 50,122
Accounts receivable	62
Prepaid expenses and other current assets	654
Other assets	351
fye business assets sold	<u>\$ 51,189</u>
Less liabilities assumed:	
Accounts payable	(9,769)
Deferred revenue	(6,764)
Accrued expenses and other current liabilities	(779)
Other long-term liabilities	(2,063)
Operating lease liabilities	(20,035)
fye business liabilities assumed	<u>\$ 39,410</u>
Net proceeds	\$ 11,779

The Company did not recognize a gain/loss upon the sale of the fye business as the assets of fye were impaired to the fair value of the assets as of February 1, 2020.

#### Note 5. Recently Adopted Accounting Pronouncements

##### Compensation – Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, “Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost,” which is intended to improve the presentation of net periodic pension cost and net periodic post-retirement benefit cost in an entity’s financial statements by requiring the service cost component be disaggregated from other components of net benefit costs and presented in the same line item or items as other compensation costs for the employees. Additionally, only the service cost component of net benefit cost is eligible for capitalization when applicable. ASU 2017-07 was effective for the Company’s fiscal year beginning February 3, 2019. This standard did not have a material effect on the Company’s consolidated financial statements.

##### Compensation – Stock Compensation

In August 2017, the FASB issued ASU 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,” which provided clarity as to what changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting in Topic 718. ASU 2017-09 was effective for the Company for interim and annual periods in fiscal year beginning February 3, 2019. This standard did not have a material effect on the Company’s consolidated financial statements.

#### Recently Adopted and Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which introduced an expected credit loss model for the impairment of financial assets measured at amortized cost. The model replaces the probable, incurred loss model for those assets and instead, broadens the information an entity must consider in developing its expected credit loss estimate for assets measured at amortized cost. This standard will be effective for smaller reporting companies for fiscal years beginning after December 15, 2022, however early adoption is permitted. We are currently evaluating the impact of this new standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, “Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”, which removes certain disclosures that are no longer cost beneficial and also includes additional disclosures to improve the overall usefulness of the disclosure requirements to financial statement users. This standard will be effective for public entities for fiscal years beginning after December 15, 2020, however early adoption is permitted. We are currently evaluating the impact of this new standard on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Simplifying the Accounting for Income Taxes” (Topic 740), which simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also simplifies aspects of the enacted changes in tax laws or rates. This standard will be effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, however early adoption is permitted. We are currently evaluating the impact of this new standard on the consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 provides optional expedients and exceptions for applying U.S. GAAP to contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. ASU 2020-04 provides, among other things, guidance that modifications of contracts within the scope of Topic 470, Debt, should be accounted for by prospectively adjusting the effective interest rate; modifications of contracts within the scope of Topic 840, Leases, should be accounted for as a continuation of the existing contract; and, changes in the critical terms of hedging relationships, caused by reference rate reform, should not result in the de-designation of the instrument, provided certain criteria are met. The Company’s exposure to LIBOR rates includes its credit facility. The amendments are effective as of March 12, 2020 through December 31, 2022. Adoption is permitted at any time. The Company is currently evaluating the impact this update will have on its Condensed Consolidated Financial Statements.

Recent accounting pronouncements pending adoption not discussed above are either not applicable or are not expected to have a material impact on our consolidated financial condition, results of operations, or cash flows.

#### **Note 6. Intangible Assets**

The determination of the fair value of intangible assets acquired in a business acquisition, including the Company’s acquisition of Kaspian in 2016, is subject to many estimates and assumptions. Our identifiable intangible assets that resulted from our acquisition of Kaspian consist of vendor relationships, technology and tradenames. We review amortizable intangible asset groups for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

During fiscal 2019, the Company fully impaired its vendor relationships and the Company recognized an impairment loss of \$0.8 million.

During fiscal 2018, the Company concluded, based on continued operating losses for the Kaspian segment driven by lower than expected operating results culminating in the fourth quarter of fiscal 2018 that a triggering event had occurred, and an evaluation of intangible assets for impairment was required. Intangible assets related to technology and vendor relationships were written down to their estimated fair value at the end of fiscal 2018 resulting in the recognition of asset impairment charges of \$16.4 million.

Identifiable intangible assets as of October 31, 2020 consisted of the following (amounts in thousands):

	<b>October 31, 2020</b>				
	Weighted Average Amortization Period (in months)	Original Gross Carrying Amount	Accumulated Impairment	Accumulated Amortization	Net Carrying Amount
Vendor relationships	120	\$ 19,100	\$ 14,587	\$ 4,513	\$ -
Technology	60	6,700	2,587	3,757	356
Trade names and trademarks	60	3,200	-	2,567	633
		<u>\$ 29,000</u>	<u>\$ 17,174</u>	<u>\$ 10,837</u>	<u>\$ 989</u>

The changes in net intangibles and goodwill from February 1, 2010 to October 31, 2020 were as follows:

(amounts in thousands)	<b>February 1, 2020</b>	<b>Impairment Expense</b>	<b>Amortization Expense</b>	<b>October 31, 2020</b>
Amortized intangible assets:				
Technology	\$ 647	\$ -	\$ 291	\$ 356
Trade names and trademarks	1,113	-	480	633
Net amortized intangible assets	<u>\$ 1,760</u>	<u>\$ -</u>	<u>\$ 771</u>	<u>\$ 989</u>

Amortization expense of intangible assets for the thirteen and thirty-nine week periods ended October 31, 2020 and November 2, 2019 consisted of the following:

(amounts in thousands)	<b>Thirteen Weeks Ended</b>		<b>Thirty-nine Weeks Ended</b>	
	<b>October 31, 2020</b>	<b>November 2, 2019</b>	<b>October 31, 2020</b>	<b>November 2, 2019</b>
Amortized intangible assets:				
Vendor relationships	\$ -	\$ 29	\$ -	\$ 87
Technology	97	97	291	291
Trade names and trademarks	160	160	480	480
Total amortization expense	<u>\$ 257</u>	<u>\$ 286</u>	<u>\$ 771</u>	<u>\$ 858</u>

Estimated amortization expense for the remainder of fiscal 2020 and the five succeeding fiscal years and thereafter is as follows:

<b>Fiscal Year</b>	<b>Amortization</b>
2020	\$ 257
2021	732
2022	-
2023	-
2024	-
Thereafter	-



**Note 7. Depreciation and Amortization**

Depreciation and amortization included in selling, general and administrative expenses of the interim condensed consolidated statements of operations for the thirteen weeks ended October 31, 2020 and November 2, 2019 was \$0.5 million for both periods.

Depreciation and amortization included in selling, general and administrative expenses of the interim condensed consolidated statements of operations for the thirty-nine weeks ended October 31, 2020 and November 2, 2019 was \$1.5 million and \$1.3 million, respectively.

**Note 8. Restricted Cash**

As a result of the death of its former Chairman, the Company holds \$5.0 million in a rabbi trust, of which \$1.0 million is classified as restricted cash in current assets and \$4.0 million is classified as restricted cash in other assets on the accompanying interim condensed consolidated balance sheet as of October 31, 2020.

A summary of cash, cash equivalents and restricted cash is as follows (amounts in thousands):

	<b>October 31, 2020</b>	<b>February 1, 2020</b>	<b>November 2, 2019</b>
Cash and cash equivalents	\$ 2,396	\$ 2,977	\$ 3,073
Restricted cash	5,032	5,875	6,089
Total cash, cash equivalents and restricted cash	<u>\$ 7,428</u>	<u>\$ 8,852</u>	<u>\$ 9,162</u>

**Note 9. Debt****Credit Facility**

In January 2017, the Company amended and restated its revolving credit facility (“Credit Facility”). The Credit Facility provided for commitments of \$50 million subject to increase up to \$75 million during the months of October to December of each year, as needed.

On February 20, 2020, in conjunction with the FYE Transaction, the Company fully satisfied its obligations under the Credit Facility through proceeds received from the sale of the fye business and borrowings under the new Kaspian credit facility, as further discussed below. Accordingly, the Credit Facility is no longer available to the Company.

As of November 2, 2019, borrowings under the Credit Facility were \$27.8 million.

**New Credit Facility**

On February 20, 2020, Kaspian Inc. entered into a Loan Agreement with Encina, as administrative agent, under which the lenders party thereto committed to the New Credit Facility. Concurrent with the sale of the fye business, the Company borrowed \$3.3 million under the New Credit Facility to satisfy the remaining obligations of the Company under the aforementioned Credit Facility.

The commitments by the lenders under the New Credit Facility are subject to borrowing base and availability restrictions. Up to \$5.0 million of the New Credit Facility may be used for the making of swing line loans.

Interest under the New Credit Facility accrues, subject to certain terms and conditions under the Loan Agreement, at a LIBOR Rate or Base Rate, plus, in each case, an Applicable Margin, which is determined by reference to the level of Availability as defined in the Loan Agreement, with the Applicable Margin for LIBOR Rate loans ranging from 4.00% to 4.50% and the Applicable Margin for Base Rate loans ranging from 3.00% to 3.50%.

The New Credit Facility is secured by a first priority security interest in substantially all of the assets of Kaspian, including inventory, accounts receivable, cash and cash equivalents and certain other collateral of the borrowers and guarantors under the New Credit Facility (collectively, the “Credit Facility Parties”) and by a first priority pledge by the Company of its equity interests in Kaspian. The Company will provide a limited guarantee of Kaspian’s obligations under the New Credit Facility.

Among other things, the Loan Agreement limits Kaspian’s ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets. The Loan Agreement also requires Kaspian to comply with a financial maintenance covenant.

The Loan Agreement contains customary events of default, including, but not limited to, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, customary ERISA defaults, certain events of bankruptcy and insolvency, judgment defaults, the invalidity of liens on collateral, change in control, cessation of business or the liquidation of material assets of the Credit Facility Parties taken as a whole, the occurrence of an uninsured loss to a material portion of collateral and failure of the obligations under the New Credit Facility to constitute senior indebtedness under any applicable subordination or intercreditor agreements.

On March 30, 2020, the Company and Kaspian (the “Loan Parties”) entered into Amendment No. 1 to the Loan Agreement (the “Amendment”). Pursuant to the Amendment, among other things, (i) the Company was added as “Parent” under the Amended Loan Agreement, (ii) the Company granted a first priority security interest in substantially all of the assets of the Company, including inventory, accounts receivable, cash and cash equivalents and certain other collateral, and (iii) the Loan Agreement was amended to (a) permit the incurrence of certain subordinated indebtedness under the Subordinated Loan Agreement (as defined below) and (b) limit the Company’s ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets.

As of October 31, 2020, borrowings under the New Credit Facility were \$8.5 million. The Company had \$3.8 million available for borrowing as of October 31, 2020. As of October 31, 2020, unamortized debt issuance costs of \$0.9 million related to the New Credit Facility are included in Other Current Liabilities on the unaudited condensed consolidated balance sheet.

The Company records short term borrowings at cost, in which the carrying value approximates fair value due to its short-term maturity.

#### **Subordinated Loan Agreement**

On March 30, 2020, the Loan Parties entered into a Subordinated Loan and Security Agreement (the “Subordinated Loan Agreement”) with the lenders party thereto from time to time (the “Lenders”) and TWEC Loan Collateral Agent, LLC (“Collateral Agent”), as collateral agent for the Lenders, pursuant to which the Lenders made a \$5.2 million secured term loan (the “Subordinated Loan”) to Kaspian with a scheduled maturity date of May 22, 2023.

Interest on the Subordinated Loan accrues, subject to certain terms and conditions under the Subordinated Loan Agreement, at the rate of twelve percent (12.0%) per annum, compounded on the last day of each calendar quarter by becoming a part of the principal amount of the Subordinated Loan.

The Subordinated Loan is secured by a second priority security interest in substantially all of the assets of the Loan Parties, including inventory, accounts receivable, cash and cash equivalents and certain other collateral of the borrowers and guarantors under the Subordinated Loan Agreement (collectively, the “Second Lien Credit Facility Parties”). The Company will provide a limited guarantee of Kaspian’s obligations under the Subordinated Loan.

Among other things, the Subordinated Loan Agreement limits the Loan Parties’ ability to incur additional indebtedness, create liens, make investments, make restricted payments or specified payments and merge or acquire assets.

The Subordinated Loan Agreement contains customary events of default, including, but not limited to, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to other obligations, customary ERISA defaults, certain events of bankruptcy and insolvency, judgment defaults, the invalidity of liens on collateral, change in control, cessation of business or the liquidation of material assets of the Second Lien Credit Facility Parties taken as a whole and the occurrence of an uninsured loss to a material portion of collateral.

In conjunction with the Subordinated Debt Agreement, the Company issued warrants to purchase up to 244,532 shares of Common Stock to the Related Party Entities (127,208 shares for Alimco, 23,401 shares for Kick-Start, and 93,923 shares for RJHDC), subject to adjustment in accordance with the terms of the Warrants, at an exercise price of \$0.01 per share. The value of the warrants of \$0.8 million was allocated against the principal proceeds of the Subordinated Debt Agreement. On November 6, 2020, RJHDC exercised 80,000 warrants.

#### **Paycheck Protection Program**

On April 17, 2020, Kaspian received the PPP Loan pursuant to CARES Act. The PPP Loan, which was in the form of a promissory note (the “Note”), dated April 10, 2020, between Kaspian and First Interstate Bank, as the lender, matures on April 17, 2022, bears interest at a fixed rate of 1% per annum, and is payable in monthly installments of \$112,976 commencing on November 10, 2020. While under the terms of the PPP, some or all of the PPP Loan amount may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the CARES Act and the Note, such as payroll costs, benefits, rent, and utilities, there is no assurance that the Company will be successful in qualifying for and receiving forgiveness on the PPP Loan amount. On August 20, 2020, the Company submitted an application for forgiveness to the SBA. On October 30, 2020, the Company received a follow up letter requesting additional information related to its forgiveness application. The Company submitted the requested information on November 9, 2020. As of December 15, 2020, the Company has not received a decision on its PPP loan forgiveness request.

#### **Note 10. Stock Based Compensation**

The Company has outstanding awards under three employee stock award plans, the 2005 Long Term Incentive and Share Award Plan, the Amended and Restated 2005 Long Term Incentive and Share Award Plan (the “Old Plans”); and the 2005 Long Term Incentive and Share Award Plan (as amended and restated April 5, 2017 (the “New Plan”). Collectively, these plans are referred to herein as the Stock Award Plans. Additionally, the Company had a stock award plan for non-employee directors (the “1990 Plan”). The Company no longer issues stock options under the Old Plans or the 1990 Plan.

The FYE Transaction in February 2020 constituted a change of control and vesting on all unvested options was accelerated. As a result, unrecognized compensation expense of \$0.2 million was recognized in the first quarter of fiscal 2020. Total compensation expense recognized in the thirty-nine weeks ended October 31, 2020 was \$0.2 million.

Equity awards authorized for issuance under the New Plan total 250,000. As of October 31, 2020, of the awards authorized for issuance under the Stock Award Plans, 130,574 options were granted and are outstanding, 46,900 of which were vested and exercisable. Shares available for future grants of options and other share-based awards under the New Plan as of October 31, 2020 were 155,075.

The following table summarizes stock award activity during the thirteen weeks ended October 31, 2020:

	<b>Employee and Director Stock Award Plans</b>				
	<b>Number of Shares Subject To Option</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Other Share Awards (1)</b>	<b>Weighted Average Grant Fair Value</b>
Balance February 1, 2020	129,196	\$ 52.11	5.8	9,945	\$ 36.75
Granted	90,402	7.04	9.9	-	-
Canceled	(89,024)	51.31	-	-	-
Exercised	-	-	-	(9,945)	36.75
Balance October 31, 2020	130,574	\$ 21.46	7.0	-	\$ -
Exercisable October 31, 2020	46,900	\$ 47.18	3.0	-	\$ -

(1) Other Share Awards include deferred shares granted to Directors and restricted share units granted to executive officers.

As of October 31, 2020, the intrinsic value of stock awards outstanding was \$0.4 million and the intrinsic value of stock awards exercisable was \$38,700.

#### **Note 11. Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss that the Company reports in the interim condensed consolidated balance sheets represents net loss, adjusted for the difference between the accrued pension liability and accrued benefit cost, net of taxes, associated with the Company's defined benefit plan. Comprehensive loss consists of net loss and the amortization of pension gains associated with Company's defined benefit plan for the thirteen and thirty-nine weeks ended October 31, 2020 and November 2, 2019.

#### **Note 12. Defined Benefit Plan**

The Company maintains a non-qualified Supplemental Executive Retirement Plan ("SERP") for certain executive officers of the Company. The SERP provides eligible executives defined pension benefits that supplement benefits under other retirement arrangements. During the thirteen weeks ended October 31, 2020, the Company did not make any cash contributions to the SERP and presently expects to pay approximately \$1.2 million in benefits relating to the SERP during fiscal 2020.

The measurement date for the SERP is the fiscal year end, using actuarial techniques which reflect estimates for mortality, turnover and expected retirement. In addition, management makes assumptions concerning future salary increases. Discount rates are generally established as of the measurement date using theoretical bond models that select high-grade corporate bonds with maturities or coupons that correlate to the expected payouts of the applicable liabilities.

The following represents the components of the net periodic pension cost related to the Company's SERP for the respective periods:

(amounts in thousands)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Service cost	\$ -	\$ 14	\$ -	\$ 42
Interest cost	89	142	267	426
Amortization of net gain <sup>(1)</sup>	(3)	(5)	(9)	(30)
Net periodic pension cost	<u>\$ 86</u>	<u>\$ 151</u>	<u>\$ 258</u>	<u>\$ 438</u>

(1) The amortization of net gain is related to a director retirement plan previously provided by the Company.

#### Note 13. Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing net loss by the weighted average common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into Common Stock or resulted in the issuance of Common Stock (net of any assumed repurchases) that then shared in the earnings of the Company, if any. It is computed by dividing net loss by the sum of the weighted average shares outstanding and additional Common Shares that would have been outstanding if the dilutive potential common shares had been issued for the Company's Common Stock awards from the Company's Stock Award Plans.

For the thirteen-week periods ended October 31, 2020 the dilutive effect of employee stock options was 3,425 shares.

For the thirteen-week period November 2, 2019 and thirty-nine week periods ended October 31, 2020 and November 2, 2019, the impact of all outstanding stock awards was not considered because the Company reported net losses and such impact would be anti-dilutive. Accordingly, basic and diluted loss per share was the same. Total anti-dilutive stock awards for the thirteen weeks ended November 2, 2019 were approximately 126,446 shares, respectively. Total anti-dilutive stock awards for the thirty-nine weeks ended October 31, 2020 and November 2, 2019 were approximately 83,718 and 148,433, respectively.

The following represents basic and diluted loss per share for continuing operations, loss from discontinued operations and net loss for the respective periods:

(in thousands, except per share amounts)	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 31, 2020	November 2, 2019	October 31, 2020	November 2, 2019
Income (loss) from continuing operations	\$ 2,552	\$ (3,094)	\$ (3,753)	\$ (11,198)
Basic income (loss) per common share from continuing operations	\$ 1.40	\$ (1.70)	\$ (2.06)	\$ (6.16)
Diluted income (loss) per common share from continuing operations	\$ 1.39	\$ (1.70)	\$ (2.06)	\$ (6.16)
Loss from discontinued operations	\$ -	\$ (20,061)	\$ -	\$ (27,887)
Basic and diluted loss per common share from discontinued operations	\$ -	\$ (11.03)	\$ -	\$ (15.35)
Net income (loss)	\$ 2,552	\$ (23,155)	\$ (3,753)	\$ (39,085)
Basic income (loss) per common share	\$ 1.40	\$ (12.73)	\$ (2.06)	\$ (21.51)
Weighted average number of common shares outstanding – basic	1,825	1,819	1,823	1,817
Diluted income (loss) per common share	\$ 1.39	\$ (12.73)	\$ (2.06)	\$ (21.51)
Weighted average number of common shares outstanding – diluted	1,829	1,819	1,823	1,817

#### Note 14. Income Taxes

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. Management considers the scheduled reversal of taxable temporary differences, projected future taxable income and tax planning strategies in making this assessment. Based on available objective evidence, management concluded that a full valuation allowance should continue to be recorded against the Company's tax assets. Management will continue to assess the need for and amount of the valuation allowance against the deferred tax assets by giving consideration to all available evidence to the Company's ability to generate future taxable income in its conclusion of the need for a full valuation allowance. Any reversal of the Company's valuation allowance will favorably impact its results of operations in the period of reversal. The Company is currently unable to determine whether or when that reversal might occur, but it will continue to assess the realizability of its deferred tax assets and will adjust the valuation allowance if it is more likely than not that all or a portion of the deferred tax assets will become realizable in the future. The Company has significant net operating loss carry forwards and other tax attributes that are available to offset projected taxable income and current taxes payable, if any, for the year ending February 1, 2020. The deferred tax impact resulting from the utilization of the net operating loss carry forwards and other tax attributes will be offset by a reduction in the valuation allowance. As of February 1, 2020, the Company had a net operating loss carry forward of \$288.1 million for federal income tax purposes and approximately \$280.2 million for state income tax purposes that expire at various times through 2039 and are subject to certain limitations and statutory expiration periods. The Company has not changed its overall conclusion with respect to the need for a valuation allowance against its net deferred tax assets, which remain fully reserved.

During the thirteen weeks ended October 31, 2020, the Company recorded an income tax benefit of \$3.5 million related to the reversal of liabilities accrued per ASC 740-10 Accounting for Uncertain Tax Positions.

#### Note 15. Commitments and Contingencies

##### Legal Proceedings

The Company is subject to legal proceedings and claims that have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters, it is management's opinion, based upon the information available at this time, that the expected outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company. As a result, the liability for the cases listed below is remote.

### **Loyalty Memberships and Magazine Subscriptions Class Action**

On November 14, 2018, three consumers filed a punitive class action complaint against the Company and Synapse Group, Inc. in the United States District Court for the District of Massachusetts, Boston Division (Case No.1:18-cv-12377-DPW) concerning enrollment in the Company's Backstage Pass VIP loyalty program and associated magazine subscriptions. The complaint alleged, among other things, that the Company's "negative option marketing" misled consumers into enrolling for membership and subscriptions without obtaining the consumers' consent. The complaint sought to represent a nationwide class of "all persons in the United States" who were enrolled in and/or charged for Backstage Pass VIP memberships and/or magazine subscriptions, and to obtain statutory and actual damages on their behalf.

On April 11, 2019, the plaintiffs voluntarily dismissed their lawsuit. On May 8, 2019, two of the plaintiffs from the dismissed lawsuit filed a similar punitive class action in Massachusetts state court (Civ. Act. No. 197CV00331, Mass. Super. Ct. Hampden Cty.), based on the same allegations, but this time seeking to represent only a class of "FYE customers in Massachusetts" who were charged for VIP Backstage Pass Memberships and/or magazine subscriptions. The Company believes it has meritorious defenses to the plaintiffs' claims and, if the new case is not dismissed in full, the Company intends to vigorously defend the action.

### **Store Manager Class Actions**

There are two pending class actions. The first, Spack v. Trans World Entertainment Corp. was originally filed in the District of New Jersey, April 2017 (the "Spack Action"). The Spack Action alleges that the Company misclassified Store Managers ("SMs") as exempt nationwide. It also alleges that Trans World improperly calculated overtime for Senior Assistant Managers ("SAMs") nationwide, and that both SMs and SAMs worked "off-the-clock." It also alleges violations of New Jersey and Pennsylvania State Law with respect to calculating overtime for SAMs. The second, Roper v. Trans World Entertainment Corp., was filed in the Northern District of New York, August 2017 (the "Roper Action"). The Roper Action also asserts a nationwide misclassification claim on behalf of SMs. Both actions were consolidated into the Northern District of New York, with the Spack Action being the lead case.

The Company has reached a settlement with the plaintiffs for both store manager class actions. The Company reserved \$425,000 for the settlement as of October 31, 2020.

### **Contingent Value Rights**

On March 30, 2020, the Company entered into the Contingent Value Rights Agreement (the "CVR Agreement"), pursuant to which the Related Party Entities received contingent value rights ("CVRs") representing the contractual right to receive cash payments from the Company in an amount equal, in the aggregate, to 19.9% of the proceeds (10.35% for Alimco, 1.90% for Kick-Start, and 7.64% for RJHDC) received by the Company in respect of certain intercompany indebtedness owing to it by Kaspian and/or its equity interest in Kaspian. The Company does not anticipate these contingencies being met in fiscal 2020.

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**PART 1. FINANCIAL INFORMATION**  
**Item 2 - Management's Discussion and Analysis of Financial Condition and**  
**Results of Operations**  
**October 31, 2020 and November 2, 2019**

**Overview**

Management's Discussion and Analysis of Financial Condition and Results of Operations provides information that the Company's management believes necessary to achieve an understanding of its financial statements and results of operations. To the extent that such analysis contains statements which are not of a historical nature, such statements are forward-looking statements, which involve risks and uncertainties. These risks include, but are not limited to, changes in the competitive environment, availability of new products, change in vendor policies or relationships, general economic factors in markets where the Company's merchandise is sold; and other factors discussed in the Company's filings with the Securities and Exchange Commission. The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes included elsewhere in this report and the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K as of and for the fiscal year ended February 1, 2020.

The Company operates Kaspien, which provides a platform of software and services to grow a brand's online distribution channel on digital marketplaces such as Amazon, Walmart, and eBay, among others. Kaspien empowers brands to achieve their online retail goals through its innovative, proprietary technology, tailored strategies, and mutually beneficial partnerships.

Kaspien is positioning itself to be a brand's ultimate online growth partner and is guided by seven core principles:

- Partner Obsession
- Insights Driven
- Simplicity
- Innovation
- Results
- Ownership
- Diversity and Teamwork

Previously, the Company also operated fye, a chain of retail entertainment stores and e-commerce sites, [www.fye.com](http://www.fye.com) and [www.secondspin.com](http://www.secondspin.com). On February 20, 2020, the Company consummated the sale of substantially all of the assets and certain of the liabilities relating to fye to a subsidiary of Sunrise Records pursuant to the Asset Purchase Agreement dated January 23, 2020, by and among the Company, Record Town, Inc., Record Town USA LLC, Record Town Utah LLC, Trans World FL LLC, Trans World New York, LLC, 2428392 Inc., and Sunrise Records.

The Company's results have been, and will continue to be, contingent upon management's ability to understand industry trends and to manage the business in response to those trends and general economic trends. Management monitors several key performance indicators to evaluate its performance, including:

**Net Revenue:** The Company measures total year over year sales growth. The Company measures its sales performance through several key performance indicators including number of partners and active product listings and sales per listing.

**Cost of Sales and Gross Profit** Gross profit is calculated based on the cost of product in relation to its retail selling value. Changes in gross profit are impacted primarily by net sales levels, mix of products sold, obsolescence, distribution costs and Amazon commissions and fulfillment fees.

**Selling, General and Administrative ("SG&A") Expenses:** Included in SG&A expenses are payroll and related costs, occupancy charges, general operating and overhead expenses and depreciation charges.

**Balance Sheet and Ratios:** The Company views cash and working capital (current assets less current liabilities) as relevant indicators of its financial position. See Liquidity and Cash Flows section for further discussion of these items.

**RESULTS OF OPERATIONS**
**Thirteen Weeks and Thirty-nine Weeks Ended October 31, 2020  
Compared to the Thirteen and Thirty-nine Weeks Ended November 2, 2019**

**Net revenue and Gross profit.** The following table sets forth a year-over-year comparison of the Company's Net revenue and Gross profit:

(amounts in thousands)	Thirteen Weeks Ended		Change		Thirty-nine Weeks Ended		Change	
	October 31,	November 2,	\$	%	October 31,	November 2,	\$	%
	2020	2019			2020	2019		
<b>Net Revenue</b>	\$ 38,913	\$ 28,616	\$ 10,297	36.0%	\$ 112,799	\$ 98,008	\$ 14,791	15.1%
<b>Gross profit</b>	3,891	2,720	1,171	43.1%	11,626	8,584	3,042	35.4%
<b>% to sales</b>	10.0%	9.5%			10.3%	8.8%		

**Net Revenue.** Net revenue was \$38.9 million for the thirteen weeks ended October 31, 2020, a 36.0% increase from the comparable prior year period. The increase in net revenue was primarily attributable to increased velocity and improved average sales price for merchandise sold on the Fulfilled By Amazon US marketplace ("FBA US").

Net revenue was \$112.8 million for the thirty-nine weeks ended October 31, 2020 a 15.1% increase from the comparable prior year period. The increase in net revenue was primarily attributable to strength on the Amazon US marketplace.

The primary source of revenue is the Retail as a Service ("RaaS") model, which represented 99% of net revenue in the thirteen weeks ended October 31, 2020. As part of the Company's diversification strategic initiative, net revenue from non-AZ Amazon US marketplaces increased to 5.8% of net revenue from 3.5% of net revenue in the comparable period from the prior year. The increase was attributable to Amazon International, Walmart and Other Marketplaces. Subscriptions and Other share of net revenue increased to 1.0% of net revenue in the period during the thirteen weeks ended October 31, 2020. The increase was attributable an increase in the number of partners and higher gross merchandise value ("GMV") of partner revenue flowing through the platform Amazon Marketplace. The following table sets forth net revenue by marketplace as a percentage of total net revenue:

	Thirteen Weeks Ended			Thirty-Nine Weeks Ended		
	October 31,	November 2,	Change	October 31,	November 2,	Change
	2020	2019		2020	2019	
Amazon US	93.2%	96.1%	-2.9%	94.3%	96.0%	-1.7%
Amazon International	5.3%	3.3%	2.0%	4.5%	3.3%	1.2%
Walmart & Other Marketplaces	0.5%	0.2%	0.3%	0.5%	0.3%	0.2%
<b>Subtotal Retail</b>	<b>99.0%</b>	<b>99.6%</b>	<b>-0.6%</b>	<b>99.3%</b>	<b>99.6%</b>	<b>-0.4%</b>
Subscriptions & Other	1.0%	0.4%	0.6%	0.7%	0.4%	0.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>		<b>100.0%</b>	<b>100.0%</b>	

**Gross Profit.** Gross profit increased to \$3.9 million, or 10% of net revenue for the thirteen weeks ended October 31, 2020, as compared to \$2.7 million, or 9.5% of net revenue for the comparable prior year period. The increased profit was primarily attributable to a reduction in the cost of sales on the Amazon US Platform and operational efficiencies.

Gross profit increased to \$11.6 million, or 10.3% of net revenue for the thirty-nine weeks ended October 31, 2020, as compared to \$8.6 million, or 8.8% of net revenue for the comparable prior year period. The increased profit was primarily attributable to operational efficiencies and improved inventory management.



**SG&A Expenses.** The following table sets forth a period over period comparison of the Company's SG&A expenses:

(amounts in thousands)	Thirteen Weeks Ended		Change		Thirty-nine Weeks Ended		Change	
	October 31,	November 2,	\$	%	October 31,	November 2,	\$	%
	2020	2019			2020	2019		
Kaspien SG&A	\$ 4,123	\$ 4,139	\$ (16)	(0.4)%	\$ 12,320	\$ 12,223	\$ 97	0.1%
Corporate SG&A expenses	380	1,465	(1,085)	(74.1)%	5,589	7,025	(1,436)	(20.4)%
Total SG&A expenses	\$ 4,503	\$ 5,604	\$ (1,101)	(19.6)%	\$ 17,909	\$ 19,248	\$ (1,339)	(7.0)%
<b>As a % of total revenue</b>	<b>11.6%</b>	<b>19.6%</b>			<b>15.9%</b>	<b>19.6%</b>		

For the thirteen weeks ended October 31, 2020, SG&A expenses decreased \$1.1 million or 19.6%. The decrease in SG&A expenses was due to a \$1.1 million in decrease in corporate SG&A expenses.

Kaspien SG&A expenses decreased \$16,000 for the thirteen weeks ended October 31, 2020 as compared to the comparable prior year period.

Consolidated depreciation and amortization expense for the thirteen weeks ended October 31, 2020 was \$0.5 million as compared to \$0.4 million for the comparable prior year period.

For the thirty-nine weeks ended October 31, 2020, SG&A expenses decreased \$1.3 million or 7.0%.

Kaspien SG&A expenses increased \$97,000 for the thirty-nine weeks ended October 31, 2020 as compared to the comparable prior year period.

Consolidated depreciation and amortization expense for the thirty-nine weeks ended October 31, 2020 was \$1.6 million as compared to \$1.3 million for the comparable prior year period.

**Interest Expense.** Interest expense was \$0.4 million for the thirteen weeks ended October 31, 2020, as compared to \$0.2 million for the thirteen weeks ended November 2, 2019.

Interest expense was \$1.0 million for the thirty-nine weeks ended October 31, 2020 compared to \$0.5 million for the thirty-nine weeks ended November 2, 2019. The increase in interest expense was due to increased long-term borrowings. See Note 9 to the Condensed Consolidated Financial Statements for further detail on the Company's debt.

**Loss From Discontinued Operations.** For the thirteen-weeks ended November 2, 2019, the Company recognized a loss from discontinued operations of \$20.1 million related to the fye transaction. For the thirty-nine weeks ended November 2, 2019, the Company recognized a loss from continuing operations of \$27.9 million related to the fye transaction.

See Note 3 to the Condensed Consolidated Financial Statements for more information on the loss from discontinued operations.

**Income Tax Benefit (Expense).** During the thirteen and thirty-nine weeks ended October 31, 2020, based on the Company's on an evaluation of new information that occurred in the current financial reporting period, the Company recorded an income tax benefit of \$3.5 million related to the recognition of previously unrecognized income tax benefits pursuant to ASC 740-10-25, Accounting for Income Taxes – Recognition. Prior to the current financial reporting period, the Company had accrued the liabilities for unrecognized income tax benefits, including accrued interest and penalties related to tax positions created by the fye business. As a result of the fye transaction and a reorganization of the Company's corporate structure, the Company will not utilize the tax attributes attributable to the tax positions and the corporate entities associated with the tax positions have been liquidated.

Based on available objective evidence, management concluded that a full valuation allowance should be recorded against the Company's deferred tax assets. As a result, there were insignificant tax expense amounts recorded during the thirteen weeks ended November 2, 2019 and the thirty-nine weeks ended November 2, 2019.

**Net Income (Loss).** Net income for the thirteen weeks ended October 31, 2020 was \$2.6 million as compared to a net loss of \$23.2 million for the comparable prior year period.

The net loss for the thirty-nine weeks ended October 31, 2020 was \$3.8 million as compared to \$39.1 million for the comparable prior year period.

## LIQUIDITY

### Liquidity and Cash Flows:

The Company's primary sources of liquidity are its borrowing capacity under its revolving credit facility, available cash and cash equivalents, and to a lesser extent, cash generated from operations. Our cash requirements relate primarily to working capital needed to operate and grow our business, including funding operating expenses and the purchase of inventory. Our ability to achieve profitability and meet future liquidity needs and capital requirements will depend upon numerous factors, including the timing and amount of our net revenue; the timing and amount of our operating expenses; the timing and costs of working capital needs; successful implementation of our strategy and planned activities; and our ability to overcome the impact of the COVID-19 pandemic.

As disclosed in the Company's Annual Report on Form 10-K filed June 15, 2020, The Company experienced negative cash flows from operations during fiscal 2019 and 2018 and we expect to incur net losses in 2020.

The ability of the Company to meet its liabilities and to continue as a going concern is dependent on improved profitability, the continued implementation of the strategic initiative to reposition Kaspian as a platform of software and services, the availability of future funding, implementation of one or more corporate initiatives to reduce costs at the parent company level (which could include a voluntary delisting from NASDAQ and deregistering of our Common Stock in order to substantially eliminate the costs associated with being a public company), satisfying all unassumed liabilities of the fye segment and other strategic alternatives, including selling all or part of the remaining business or assets of the Company, and overcoming the impact of the COVID-19 pandemic.

There can be no assurance that we will be successful in further implementing our business strategy or that the strategy, including the completed initiatives, will be successful in sustaining acceptable levels of sales growth and profitability. In addition, the proceeds from the PPP Loan are subject to audit and there is a risk of repayment. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

On August 4, 2020, the Company received a letter from the Listing Qualifications staff of the Nasdaq notifying the Company that it is no longer in compliance with the minimum stockholders' equity requirement for continued listing on the Nasdaq Capital Market. Nasdaq Listing Rule 5550(b)(1) requires listed companies to maintain stockholders' equity of at least \$2,500,000 and as of August 4, 2020, the Company did not meet the alternative compliance standards relating to the market value of listed securities or net income from continuing operations.

The notification letter has no immediate effect on the Company's listing on the Nasdaq Capital Market. On September 18, 2020, the Company submitted to Nasdaq the Compliance Plan. On September 30, 2020, the Company received another notice from Nasdaq that it had approved the Compliance Plan and granted the Company an extension period to February 1, 2021 to regain compliance with the Stockholders' Equity Requirement. If the Company does not regain compliance in the timeframe required by Nasdaq, the Nasdaq staff could provide notice that the Company's Common Stock is subject to delisting.

The unaudited condensed consolidated financial statements for the thirteen weeks ended October 31, 2020 were prepared on the basis of a going concern which contemplates that the Company will be able to realize assets and discharge liabilities in the normal course of business. The ability of the Company to meet its liabilities and to continue as a going concern is dependent on continued improved profitability and the other factors set forth in the preceding paragraph. For the next 12 months, management believes that the Company's existing liquidity will be adequate to fund its working capital needs. Management anticipates any cash requirements due to a shortfall in cash from operations will be funded by the Company's revolving credit facility, as discussed in note 9 in the interim condensed consolidated financial statements.

Furthermore, broad market and industry factors may seriously harm the market price of our Common Stock, regardless of our operating performance, and may adversely impact our ability to raise additional funds, should we require such additional funds. Similarly, if our Common Stock is delisted from the Nasdaq Capital Market, it may also limit our ability to raise additional funds.

The following table sets forth a summary of key components of cash flow and working capital:

<u>(amounts in thousands)</u>	<b>As of or for the Thirty-nine Weeks Ended</b>		<b>Change</b>
	<b>October 31, 2020</b>	<b>November 2, 2019</b>	<b>\$</b>
Operating Cash Flows	\$ (15,272)	\$ (39,085)	\$ 23,813
Investing Cash Flows	10,884	(2,013)	12,897
Financing Cash Flows	3,004	27,771	(24,767)
Capital Expenditures <sup>(1)</sup>	(935)	(2,128)	1,193
Cash, Cash Equivalents, and Restricted Cash <sup>(2)</sup>	7,428	9,162	(1,734)
Merchandise Inventory	27,204	22,522	4,682
<b>(1) Included in Investing Cash Flows</b>			
(2) Cash and cash equivalents per condensed consolidated balance sheets	\$ 2,396	\$ 3,073	(677)
Add: restricted cash	5,032	6,089	(1,057)
Cash, cash equivalents, and restricted cash	<u>\$ 7,428</u>	<u>\$ 9,162</u>	\$ (1,734)

Cash used in operations was \$15.3 million primarily due to net loss of \$3.8 million, a \$5.3 million decrease in accrued expenses and a \$9.4 million increase in inventory partially offset by a \$1.7 million decrease in accounts receivable, and a \$2.5 million decrease in prepaid expenses and other current assets. The decrease in accrued expenses is primarily attributable to the payment of obligations related to the fye business.

Cash provided by investing activities was \$10.9 million for the thirty-nine weeks ended October 31, 2020, which primarily consisted proceeds from the sale of the fye business, partially offset by capital expenditures of \$0.9 million. Cash used in investing activities was \$2.0 million for the thirty-nine weeks ended November 2, 2019, which primarily consisted of capital expenditures.

Cash provided by financing activities was \$30 million for the thirty-nine weeks ended October 31, 2020. The primary source of cash was borrowings from the New Credit Facility of \$8.5 million, the Subordinated Loan Agreement of \$5.2 million and borrowings from the PPP of \$2.0 million partially offset by the payoff of the Credit Facility of \$13.1 million. Cash used in financing activities was \$27.8 million for the thirty-nine weeks ended November 2, 2019, which was comprised entirely of proceeds from short term borrowings.

**Capital Expenditures.** During the thirty-nine weeks ended October 31, 2020, the Company made capital expenditures of \$0.9 million. The Company currently plans to spend approximately \$1.5 million for capital expenditures during fiscal 2020

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities in the financial statements. Management continually evaluates its estimates and judgments including those related to merchandise inventory and return costs and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Form 10-K as of and for the year ended February 1, 2020 includes a summary of the critical accounting policies and methods used by the Company in the preparation of its interim condensed consolidated financial statements. There have been no material changes or modifications to the policies since February 1, 2020.

#### **Recent Accounting Pronouncements:**

The information set forth under Note 2, Recently Adopted Accounting Pronouncements section contained in Item 1, "Notes to Interim Condensed Consolidated Financial Statements", is incorporated herein by reference.

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**PART I – FINANCIAL INFORMATION**

**Item 3 - Quantitative and Qualitative Disclosures about Market Risk**

The Company does not hold any financial instruments that expose it to significant market risk and does not engage in hedging activities. To the extent the Company borrows under its revolving credit facility, the Company is subject to risk resulting from interest rate fluctuations since interest on the Company's borrowings under its credit facility can be variable. If interest rates on the Company's revolving credit facility were to increase by 25 basis points, and to the extent borrowings were outstanding, for every \$1,000,000 outstanding on the facility, interest expense would be increased by \$2,500 per year. For a discussion of the Company's accounting policies for financial instruments and further disclosures relating to financial instruments, see "Nature of Operations and Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K as of and for the year ended February 1, 2020.

**Item 4 – Controls and Procedures**

(a) Evaluation of disclosure controls and procedures. The Company's Principal Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(c) and 15d-15(c)) as of October 31, 2020, have concluded that as of such date the Company's disclosure controls and procedures were effective and designed to ensure that (i) information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) **Changes in internal controls.** There have been no changes in the Company's internal controls over financial reporting that occurred during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**KASPIEN HOLDINGS INC. AND SUBSIDIARIES**  
**PART II - OTHER INFORMATION**

**Item 1 – Legal Proceedings**

The Company is subject to legal proceedings and claims that have arisen in the ordinary course of its business and have not been finally adjudicated. Although there can be no assurance as to the ultimate disposition of these matters, it is management's opinion, based upon the information available at this time, that the expected outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the results of operations and financial condition of the Company. As a result, the liability for the cases listed below is remote.

**Loyalty Memberships and Magazine Subscriptions Class Action**

On November 14, 2018, three consumers filed a punitive class action complaint against the Company and Synapse Group, Inc. in the United States District Court for the District of Massachusetts, Boston Division (Case No.1:18-cv-12377-DPW) concerning enrollment in the Company's Backstage Pass VIP loyalty program and associated magazine subscriptions. The complaint alleged, among other things, that the Company's "negative option marketing" misled consumers into enrolling for membership and subscriptions without obtaining the consumers' consent. The complaint sought to represent a nationwide class of "all persons in the United States" who were enrolled in and/or charged for Backstage Pass VIP memberships and/or magazine subscriptions, and to obtain statutory and actual damages on their behalf.

On April 11, 2019, the plaintiffs voluntarily dismissed their lawsuit. On May 8, 2019, two of the plaintiffs from the dismissed lawsuit filed a similar punitive class action in Massachusetts state court (Civ. Act. No. 197CV00331, Mass. Super. Ct. Hampden Cty.), based on the same allegations, but this time seeking to represent only a class of "FYE customers in Massachusetts" who were charged for VIP Backstage Pass Memberships and/or magazine subscriptions. The Company believes it has meritorious defenses to the plaintiffs' claims and, if the new case is not dismissed in full, the Company intends to vigorously defend the action.

**Store Manager Class Actions**

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The Company has reached a settlement with the plaintiffs for both store manager class actions. The Company reserved \$425,000 for the settlement as of February 2, 2020.

**Item 1A – Risk Factors**

Risks relating to the Company’s business and Common Stock are described in detail in Item 1A of the Company’s most recently filed Annual Report on Form 10-K for the fiscal year ended February 1, 2020.

**Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3 – Defaults Upon Senior Securities**

None.

**Item 4 – Mine Safety Disclosure**

Not Applicable.

**Item 5 – Other Information**

None.

**Item 6 - Exhibits**

**(A) Exhibits -  
Exhibit No.**

**Description**

<a href="#">3.1</a>	Certificate of Amendment of Certificate of Incorporation of Trans World Entertainment Corporation, dated September 3, 2020 – incorporated herein by reference to Exhibit 3.1 to the Company’s Form 8-K filed on September 3, 2020. Commission File No. 0-14818.
<a href="#">3.2</a>	Amendment No. 2 to Bylaws of Kaspian Holdings Inc., dated September 3, 2020– incorporated herein by reference to Exhibit 3.2 to the Company’s Form 8-K filed on September 3, 2020. Commission File No. 0-14818.
<a href="#">31.1</a>	Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">31.2</a>	Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<a href="#">32</a>	Certification pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document (furnished herewith)
101.SCH	XBRL Taxonomy Extension Schema (furnished herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (furnished herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (furnished herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (furnished herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (furnished herewith)

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**KASPIEN HOLDINGS INC.**

December 15, 2020

**By: /s/ Kunal Chopra**

Kunal Chopra  
Principal Executive Officer  
(Principal Executive Officer)

December 15, 2020

**By: /s/ Edwin Sapienza**

Edwin Sapienza  
Chief Financial Officer  
(Principal and Chief Accounting Officer)

**CHIEF EXECUTIVE OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES OXLEY ACT 2002**

I, Kunal Chopra, Principal Executive Officer of Kaspian Holdings Inc. (the "Registrant"), certify that:

- (1) I have reviewed this report on Form 10-Q of the Registrant;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 15, 2020

/s/ Kunal Chopra  
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Kunal Chopra  
Principal Executive Officer  
Kaspian Holdings Inc.

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**CHIEF FINANCIAL OFFICER CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES OXLEY ACT 2002**

I, Edwin Sapienza, Chief Financial Officer of Kaspian Holdings Inc. (the "Registrant"), certify that:

- (1) I have reviewed this report on Form 10-Q of the Registrant;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: December 15, 2020

/s/ Edwin Sapienza  
Edwin Sapienza  
Chief Financial Officer  
Kaspian Holdings Inc.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Kaspian Holdings Inc. (the "Company") on Form 10-Q for the period ending October 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Kunal Chopra, Principal Executive Officer of the Company and Edwin Sapienza, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kunal Chopra  
Kunal Chopra  
Principal Executive Officer  
December 15, 2020

/s/ Edwin Sapienza  
Edwin Sapienza  
Chief Financial Officer  
December 15, 2020

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