

## ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations for the years ended December 31, 2019 and December 31, 2018 should be read in conjunction with the audited consolidated financial statements and the notes to those statements that are included elsewhere in this report on Form 10-K. In addition to historical information, the following discussion contains certain forward-looking statements within the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements relate to our future plans, objectives, expectations and intentions. These statements may be identified by the use of words such as "may," "could," "believe," "future," "depend," "expect," "will," "result," "can," "remain," "assurance," "subject to," "require," "limit," "impose," "guarantee," "restrict," "continue," "become," "predict," "likely," "opportunities," "effect," "change," "future," "predict," and "estimate," and similar terms or terminology, or the negative of such terms or other comparable terminology. Although we believe the expectations expressed in these forward-looking statements are based on reasonable assumptions within the bounds of our knowledge of our business, our actual results could differ materially from those discussed in these statements. Factors that could contribute to such differences include, but are not limited to, those discussed in the "Risk Factors" section in Part I, Item 1A. We undertake no obligation to update publicly any forward-looking statements for any reason even if new information becomes available or other events occur in the future.

### Results of Operations

#### Comparison of Year Ended December 31, 2019 to Year Ended December 31, 2018 (in 000's)

|  | December 31,      |                   | Change            |                |
|--|-------------------|-------------------|-------------------|----------------|
|  | 2019              | 2018              | \$                | %              |
| <b>Net sales</b>                                   | <b>\$ 93,662</b>  | <b>\$ 103,350</b> | <b>\$ (9,688)</b> | <b>(9.4%)</b>  |
| Cost of goods sold                                 | \$ 68,367         | \$ 74,646         | \$ 6,279          | —              |
| Depreciation expense                               | 3,146             | 2,846             | (300)             |                |
| <b>Total cost of goods sold</b>                    | <b>\$ 71,513</b>  | <b>\$ 77,492</b>  | <b>\$ 5,979</b>   | <b>7.7%</b>    |
| <b>Gross profit</b>                                | <b>\$ 22,149</b>  | <b>\$ 25,858</b>  | <b>\$ (3,709)</b> | <b>(14.3%)</b> |
| <i>Gross Profit % to net sales</i>                 | <i>23.6%</i>      | <i>25.0%</i>      |                   |                |
| <b>Selling expenses</b>                            | <b>\$ 11,062</b>  | <b>\$ 13,477</b>  | <b>\$ 2,415</b>   | <b>17.9%</b>   |
| <i>Selling expenses % to net sales</i>             | <i>11.8%</i>      | <i>13.0%</i>      |                   |                |
| <b>General &amp; administrative expenses</b>       | <b>\$ 12,828</b>  | <b>\$ 13,616</b>  | <b>\$ 788</b>     | <b>5.8%</b>    |
| <i>General &amp; administrative % to net sales</i> | <i>13.7%</i>      | <i>13.2%</i>      |                   |                |
| <b>Goodwill and intangible asset impairment</b>    | <b>—</b>          | <b>1,244</b>      | <b>1,244</b>      | <b>100.0%</b>  |
| <b>Amortization expense</b>                        | <b>\$ 192</b>     | <b>\$ 631</b>     | <b>\$ 439</b>     | <b>69.6%</b>   |
| <b>Total operating expenses</b>                    | <b>\$ 24,082</b>  | <b>\$ 28,968</b>  | <b>\$ 4,886</b>   | <b>16.9%</b>   |
| <i>Total operating expense % to net sales</i>      | <i>25.7%</i>      | <i>28.0%</i>      |                   |                |
| <b>Loss from operations</b>                        | <b>\$ (1,933)</b> | <b>\$ (3,110)</b> | <b>\$ 1,177</b>   | <b>(37.8%)</b> |
| <i>Loss from operations % to net sales</i>         | <i>(2.1%)</i>     | <i>(3.0%)</i>     |                   |                |