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# **Boss Holdings, Inc.**

## **2015 – Fiscal Year End Report**

Consolidated revenues of Boss Holdings, Inc. (the “Company”) for the fourth quarter of 2015 increased 5.9% over the fourth quarter of 2014. Sales in the work gloves and protective wear segment remained below last year, but increased sales from the Company’s cell phone accessory segment more than offset the shortfall. Total year 2015 consolidated revenues of Boss Holdings, Inc. (the “Company”) were \$67,944,000 slightly above last year’s \$67,938,000. Net sales in the work gloves and protective wear segment decreased \$5,570,000 compared to 2014. Consumer sales are down with the softness in the retail glove market and industrial sales also decrease due to the continuing slump in the North American mining and oil drilling industries. These sales decreases were partially offset by increased sales of CAT® licensed products. The pet products segment’s tethering product sales are down and a large order in 2014 was not repeated this year causing sales to be down 4.6% compared to 2014. An increase in imprinted sports balls and the introduction of a new full color printing process helped generate a 4.0% increase in sales in the promotional and specialty products segment compared to last year. The Company’s cell phone accessory segment increased sales by \$5,286,000 compared to 2014, with the addition of new product offerings and new customers.

The Company’s overall gross margin for 2015 was 25.5%, compared to 25.0% for 2014. Loss of volume in the consumer and industrial work glove and protective wear segment was offset with higher margins from increased sales of the CAT® licensed product, improved profitability from the promotional and specialty products segment, and the increased volume from the cell phone accessory segment.

Operating expenses increased \$435,000 during 2015 compared to 2014. Most significantly, \$129,000 was expended to relocate the pet products warehouse from Cleveland, Ohio to Kewanee, Illinois, where it was consolidated with warehousing and shipping for the work gloves and protective wear and cell phone accessory segments. This consolidation eliminates the expense of the Cleveland warehouse and increases the profitability of the pet products line. Increases in other expense areas were trade shows, travel expenses up with increased sales efforts and royalty expenses from the increased CAT® volume.

Total operating income for 2015 was \$3,114,000 compared to \$3,196,000 in 2014. The cost of the pet products warehouse move along with the additional sales activity expenses offset the higher margins from increased sales of the CAT® licensed product, improved profitability from the promotional and specialty products segment, and the increased volume from the cell phone accessory segment. The Company recorded income tax expense of \$1,245,000 for 2015 and net income for the year increased to \$1,976,000 up from \$1,943,000 in 2014.

Liquidity increased during 2015 with cash increasing \$5,024,000. Operating activities generated \$4,377,000 of cash. This was primarily driven by net income and a decrease in inventory, partially offset by a decrease in accounts payable. Investing activities utilized \$430,000, primarily for technology improvements for the work gloves and protective wear segment and capital equipment for the promotional and specialty products segment. Financing activities provided \$1,639,000 from an increase in long-term debt and proceeds received from the exercise of stock options. These were partially offset by repayment of long-term debt and the repurchase of common stock.

At December 26, 2015, the Company held \$10,275,000 in cash with \$4,500,000 available on its primary line of credit. Management believes the Company's cash on hand and availability under the credit facility should provide ample liquidity for the Company's expected working capital and operating needs.

Effective April 30, 2015, the Company's Board of Directors authorized a new stock buyback program (the "2015 Buyback Program") pursuant to which the Company may purchase shares of the Company's common stock in an amount up to \$1,500,000, at such prices, and on such terms and conditions as are determined by appropriate officers of the Company from time to time. During 2015, the Company acquired a total of 22,782 shares under the 2015 Buyback Program at a total cost of \$275,863. The Company's Board of Directors in its discretion may extend, curtail, amend or terminate the 2015 Buyback Program at any time.

**Boss Holdings, Inc. and Subsidiaries****Consolidated Balance Sheets****(Dollars in Thousands, Except Per Share Data)**

	December 26, 2015	December 27, 2014
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 10,275	\$ 5,251
Accounts receivable, net	9,879	9,788
Inventories	24,346	27,794
Deferred tax asset	1,047	1,207
Prepaid expenses and other	607	955
<b>Total current assets</b>	<b>46,154</b>	<b>44,995</b>
Property and Equipment, net	2,874	3,055
Other assets	-	-
Intangibles, net of amortization	166	101
Goodwill	2,853	2,853
Deferred tax asset	59	101
	<b>\$ 52,106</b>	<b>\$ 51,105</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Current portion of long-term obligations	\$ 6	\$ 440
Accounts payable	2,899	4,869
Accrued payroll and related expenses	1,617	1,484
Accrued promotional expenses	1,025	1,037
Other accrued liabilities	864	1,355
<b>Total current liabilities</b>	<b>6,411</b>	<b>9,185</b>
Long-Term Obligations, net of current portion	2,514	21
<b>Stockholders' Equity:</b>		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 2,009,878 and 2,021,664 shares in 2015 and 2014, respectively	502	505
Additional paid-in capital	64,774	65,164
Accumulated (deficit)	(21,534)	(23,510)
Accumulated other comprehensive (loss)	(561)	(260)
<b>Total stockholders' equity</b>	<b>43,181</b>	<b>41,899</b>
	<b>\$ 52,106</b>	<b>\$ 51,105</b>

**Boss Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Operations**  
**(Dollars in Thousands, Except Per Share Data)**

	Quarter Ended December 26 2015	Quarter Ended December 27, 2014	Twelve Months Ended December 26 2015	Twelve Months Ended December 27, 2014
Net sales	\$ 20,301	\$ 19,170	\$ 67,944	\$ 67,938
Cost of sales	14,993	14,286	50,619	50,966
<b>Gross profit</b>	5,308	4,884	17,325	16,972
Operating expenses	3,995	3,668	14,211	13,776
<b>Operating income</b>	1,313	1,216	3,114	3,196
Other income (expense):				
Interest income	-	1	1	4
Interest expense	(12)	(7)	(38)	(29)
Other	102	-	144	26
	90	(6)	107	1
<b>Income before income tax</b>	1,403	1,210	3,221	3,197
Income tax expense	526	497	1,245	1,254
Change in deferred tax asset valuation	-	-	-	-
<b>Net income</b>	<u>\$ 877</u>	<u>\$ 713</u>	<u>\$ 1,976</u>	<u>\$ 1,943</u>
Comprehensive income	<u>\$ 811</u>	<u>\$ 636</u>	<u>\$ 1,675</u>	<u>\$ 1,793</u>
Weighted average shares outstanding	2,031,169	2,042,455	2,025,113	2,039,960
Basic earnings per common share	<u>\$ 0.43</u>	<u>\$ 0.35</u>	<u>\$ 0.98</u>	<u>\$ 0.95</u>
Diluted earnings per common share	<u>\$ 0.43</u>	<u>\$ 0.35</u>	<u>\$ 0.97</u>	<u>\$ 0.94</u>

**Boss Holdings, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**(Dollars in Thousands)**

	Twelve Months Ended December 26, 2015	Twelve Months Ended December 27, 2014
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 1,976	\$ 1,943
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	612	561
Stock based compensation	27	15
Deferred tax expense	202	323
Non-Cash Asset Disposal	32	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(201)	(812)
Inventories	3,257	(3,804)
Prepaid expenses and other current assets	204	(244)
Other assets	(103)	(85)
Increase (decrease) in:		
Accounts payable	(1,407)	1,715
Accrued liabilities	(222)	355
<b>Net cash provided by (used in) operating activities</b>	<b>4,377</b>	<b>(33)</b>
<b>Cash Flows from Investing Activities:</b>		
Acquisition of operating assets	-	-
Purchases of property and equipment	(430)	(425)
<b>Net cash (used in) investing activities</b>	<b>(430)</b>	<b>(425)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	-	17
Net borrowings on revolving line of credit	2,500	-
Repayment on long-term obligation	(441)	(165)
Repurchase of common stock	(734)	(303)
Proceeds from exercise of stock options	314	86
<b>Net cash provided by (used in) financing activities</b>	<b>1,639</b>	<b>(365)</b>
Effect of exchange rates on cash and cash equivalents	(562)	(240)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>5,024</b>	<b>(1,063)</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	5,251	6,314
End of period	<b>\$ 10,275</b>	<b>\$ 5,251</b>