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Boss Holdings, Inc.

2016 – Third Quarter Report

Consolidated revenues of Boss Holdings, Inc. (the “Company”) for the third quarter of 2016 decreased 3.7% over the third quarter of 2015. Revenues for the first nine months of 2016 have decreased 5.0% or \$2,384,000 compared to the same period of 2015. Net sales in the work gloves and protective wear segment decreased \$2,514,000 or 10.0% compared to the first nine months of 2015. Consumer sales are down with the softness in the retail glove market, while industrial sales continue to be adversely affected by the downturn in manufacturing, mining and oil drilling industries. Sales of CAT® licensed product have increased 7% over last year partially offsetting the decline in consumer and industrial sales. Both the Company’s pet supplies and the promotional and specialty products segments reported a slight decrease in sales for the first nine months of 2016 compared to the same period last year. The Company’s cell phone accessory segment increased sales by \$266,000 or 3.0% compared to the first nine months of last year with the addition of new product offerings and new customers.

The Company’s overall gross margin increased to 26.8% for the first nine months of 2016 compared to 25.2% for the same period of 2015. Margin improvement has come from lower pricing received from glove suppliers, cost reduction measures put into place during the first quarter to help offset the lower revenues and expense reductions from consolidating the Company’s pet supply warehouse in Cleveland, Ohio into the Kewanee, Illinois warehouse which services the work gloves and protective wear and cell phone accessories segments.

Operating expenses increased \$84,000 for the first nine months of 2016 compared to the same period of 2015. Royalty expense is up with the increased CAT® licensed product sales, along with travel expenses from increased sales efforts. Operating income increased slightly during the first nine months to \$1,826,000 from \$1,801,000 during the same period as last year. Lower revenues were offset with cost and expense savings to maintain earnings.

Liquidity increased during the first nine months of 2016 with cash increasing \$3,930,000. Operating activities provided \$4,193,000 of cash. This was primarily driven by net income and decreases in inventory and prepaid expenses. This increase in liquidity was partially offset by an increase in accounts receivable and decreases in accounts payable and accrued liabilities. Investing activities utilized \$242,000, primarily for machinery & equipment improvements for the promotional and specialty products segment. Financing activities used \$187,000 to repurchase stock and \$5,000 to pay down debt.

At October, 2016, the Company held \$14,205,000 in cash with \$2,500,000 borrowings against its \$7,000,000 primary U.S. 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 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. 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)**

	October 1 2016 (Unaudited)	December 26, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 14,205	\$ 10,275
Accounts receivable, net	10,543	9,879
Inventories	20,541	24,346
Deferred tax asset	1,106	1,047
Prepaid expenses and other	420	607
Total current assets	46,815	46,154
Property and Equipment, net	2,700	2,874
Other assets	-	-
Intangibles, net of amortization	148	166
Goodwill	2,853	2,853
Deferred tax asset	-	59
	\$ 52,516	\$ 52,106
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term obligations	\$ 6	\$ 6
Accounts payable	2,814	2,899
Accrued payroll and related expenses	1,438	1,617
Accrued promotional expenses	817	1,025
Other accrued liabilities	769	864
Total current liabilities	5,844	6,411
Long-Term Obligations, net of current portion	2,510	2,514
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,994,323 and 2,009,878 shares in 2016 and 2015, respectively	499	502
Additional paid-in capital	64,591	64,774
Accumulated (deficit)	(20,436)	(21,534)
Accumulated other comprehensive (loss)	(492)	(561)
Total stockholders' equity	44,162	43,181
	\$ 52,516	\$ 52,106

Boss Holdings, Inc. and Subsidiaries

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

	Quarter Ended October 1 2016	Quarter Ended September 26 2015	Nine Months Ended October 1 2016	Nine Months Ended September 26 2015
Net sales	\$ 15,354	\$ 15,946	\$ 45,259	\$ 47,643
Cost of sales	11,082	11,601	33,133	35,626
Gross profit	4,272	4,345	12,126	12,017
Operating expenses	3,530	3,633	10,300	10,216
Operating income	742	712	1,826	1,801
Other income (expense):				
Interest income	-	-	-	1
Interest expense	(14)	(13)	(50)	(26)
Other	-	55	19	42
	(14)	42	(31)	17
Income before income tax	728	754	1,795	1,818
Income tax expense	281	292	697	719
Change in deferred tax asset valuation	-	-	-	-
Net income	<u>\$ 447</u>	<u>\$ 462</u>	<u>\$ 1,098</u>	<u>\$ 1,099</u>
Comprehensive income	<u>\$ 413</u>	<u>\$ 337</u>	<u>\$ 1,167</u>	<u>\$ 864</u>
Weighted average shares outstanding	1,994,323	2,031,169	1,999,220	2,025,113
Basic earnings per common share	<u>\$ 0.22</u>	<u>\$ 0.23</u>	<u>\$ 0.55</u>	<u>\$ 0.54</u>
Diluted earnings per common share	<u>\$ 0.22</u>	<u>\$ 0.23</u>	<u>\$ 0.55</u>	<u>\$ 0.54</u>

Boss Holdings, Inc. and Subsidiaries**Consolidated Statements of Cash Flows
(Dollars in Thousands)**

(Unaudited)	Nine Months Ended October 1 2016	Nine Months Ended September 26, 2015
Cash Flows from Operating Activities:		
Net income	\$ 1,098	\$ 1,099
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	457	446
Stock based compensation	1	27
Deferred tax expense	-	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(634)	749
Inventories	3,860	(484)
Prepaid expenses and other current assets	233	378
Other assets	(66)	(40)
Increase (decrease) in:		
Accounts payable	(267)	(1,810)
Accrued liabilities	(489)	(698)
Net cash provided by (used in) operating activities	<u>4,193</u>	<u>(333)</u>
Cash Flows from Investing Activities:		
Acquisition of operating assets	-	-
Purchases of property and equipment	(242)	(362)
Net cash (used in) investing activities	<u>(242)</u>	<u>(362)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	-	2,500
Net borrowings on revolving line of credit	-	-
Repayment on long-term obligation	(5)	(438)
Repurchase of common stock	(187)	(488)
Proceeds from exercise of stock options	-	314
Net cash provided by (used in) financing activities	<u>(192)</u>	<u>1,888</u>
Effect of exchange rates on cash and cash equivalents	171	(411)
Increase in cash and cash equivalents	3,930	782
Cash and cash equivalents:		
Beginning of period	10,275	5,251
End of period	<u>\$ 14,205</u>	<u>\$ 6,033</u>