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Boss Holdings, Inc.

2016 – 4th Quarter and Fiscal Year End Report

During the fourth quarter of 2016, consolidated revenues of Boss Holdings, Inc. (the “Company”) decreased, down 16.6% from the corresponding quarter of 2015. Net sales in the Company’s cell phone accessory segment led the overall downward trend, down \$3,031,000 compared to the fourth quarter of 2015. During the fourth quarter of 2015 a major cell phone accessory customer significantly expanded their bulk product program. In 2016, this customer re-aligned its inventory, preparing for new packaging and product changes planned for introduction in 2017. Both our promotional products and pet supply segments posted slight revenue decreases for the quarter of just under 1% compared with the same period in 2015. Fourth quarter revenues for the work gloves and protective wear segment, were up approximately \$88,000 due to increased sales of CAT® licensed product and closeout sales at our Canadian subsidiary to consolidate warehouse space.

Our full year 2016 consolidated revenues were \$62,194,000, an overall decrease of 8.5% from last year. Net sales in the work gloves and protective wear segment decreased \$2,425,000 compared to 2015. Consumer sales are down with the softness in the retail glove market, while industrial sales continue to be affected adversely by the downturn in U.S. manufacturing, mining and oil drilling industries. Our 2016 sales of CAT® licensed product increased 10.6% over 2015, partially offsetting the decline in consumer and industrial sales. Our pet products segment’s 2016 sales were down 2.9% compared to 2015. Last year’s sales in the pet supply segment included several large closeout orders, at low margins, made in conjunction with relocation of the pet supply warehouse to Illinois. 2016 revenues in our promotional and specialty products segment were down slightly (\$422,000 or 3.1%) from 2015’s record levels for this segment. Imprint orders for both balls and balloons were down compared to 2015, but were partially offset by an increase in ornament sales. Sales for our cell phone accessory segment in 2016 decreased by \$2,765,000 compared to 2015. The overall decline in this segment primarily was caused by the sales decrease during the fourth quarter of 2016 driven by a major customer’s inventory realignment compared to 2015.

The Company’s overall gross margin increased to 26.5% in 2016 compared to 25.5% in 2015. Margin improvement was driven by lower pricing received from glove suppliers, cost reduction measures put in place 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 decreased \$372,000 during 2016 compared to 2015. Commission and payroll expenses both decreased with lower sales volume and cost reduction measures. In addition, 2015 included \$129,000 for moving the pet supply warehouse in Cleveland, Ohio into the Kewanee, Illinois warehouse.

Total operating income for 2016 was \$2,643,000 compared to \$3,114,000 in 2015. The combined volume loss of \$5,750,000 was partially offset by the margin improvement from lower pricing received from suppliers, cost reduction measures and a full year of savings from the warehouse consolidation. The Company recorded income tax expense of \$967,000 for 2016 and net income for the year decreased to \$1,635,000 down from \$1,976,000 in 2015.

Liquidity increased during 2016 with cash increasing \$6,317,000. Operating activities generated \$6,802,000 of cash. This was primarily driven by net income and a decrease in inventory, partially offset by a decrease in accounts payable and accrued liabilities. Investing activities utilized \$323,000, primarily for facility improvements for the work gloves and protective wear segment and capital equipment for the promotional and specialty products segment. Financing activities used \$225,000 to repurchase stock and \$5,000 to pay down debt.

At December 31, 2016, the Company held \$16,592,000 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 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 2016, the Company acquired a total of 18,555 shares under the 2015 Buyback Program at a total cost of \$225,016. 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 31, 2016	December 26, 2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 16,592	\$ 10,275
Accounts receivable, net	10,052	9,879
Inventories	18,749	24,346
Prepaid expenses and other	858	607
Total current assets	46,251	45,107
Property and Equipment, net	2,647	2,874
Intangibles, net of amortization	227	166
Goodwill	2,853	2,853
Deferred tax asset	974	1,106
	\$ 52,952	\$ 52,106
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term obligations	\$ 10	\$ 6
Accounts payable	2,639	2,899
Accrued payroll and related expenses	1,448	1,617
Accrued promotional expenses	1,061	1,025
Other accrued liabilities	675	864
Total current liabilities	5,833	6,411
Long-Term Obligations, net of current portion	2,505	2,514
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,991,323 and 2,009,878 shares in 2016 and 2015, respectively	498	502
Additional paid-in capital	64,562	64,774
Accumulated (deficit)	(19,899)	(21,534)
Accumulated other comprehensive (loss)	(547)	(561)
Total stockholders' equity	44,614	43,181
	\$ 52,952	\$ 52,106

Boss Holdings, Inc. and Subsidiaries

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

	Quarter Ended December 31 2016	Quarter Ended December 26 2015	Twelve Months Ended December 31 2016	Twelve Months Ended December 26 2015
Net sales	\$ 16,935	\$ 20,301	\$ 62,194	\$ 67,944
Cost of sales	12,579	14,993	45,712	50,619
Gross profit	4,356	5,308	16,482	17,325
Operating expenses	3,539	3,995	13,839	14,211
Operating income	817	1,313	2,643	3,114
Other income (expense):				
Interest income	-	-	-	1
Interest expense	(12)	(12)	(62)	(38)
Other	2	102	21	144
	(10)	90	(41)	107
Income before income tax	807	1,403	2,602	3,221
Income tax expense	270	526	967	1,245
Change in deferred tax asset valuation	-	-	-	-
Net income	<u>\$ 537</u>	<u>\$ 877</u>	<u>\$ 1,635</u>	<u>\$ 1,976</u>
Comprehensive income	<u>\$ 482</u>	<u>\$ 811</u>	<u>\$ 1,649</u>	<u>\$ 1,675</u>
Weighted average shares outstanding	1,993,466	2,031,169	1,997,809	2,025,113
Basic earnings per common share	<u>\$ 0.27</u>	<u>\$ 0.43</u>	<u>\$ 0.82</u>	<u>\$ 0.98</u>
Diluted earnings per common share	<u>\$ 0.27</u>	<u>\$ 0.43</u>	<u>\$ 0.82</u>	<u>\$ 0.97</u>

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

	Twelve Months Ended December 31, 2016	Twelve Months Ended December 26, 2015
Cash Flows from Operating Activities:		
Net income	\$ 1,635	\$ 1,976
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	607	612
Stock based compensation	9	27
Deferred tax expense	132	202
Non-Cash Asset Disposal		32
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(156)	(201)
Inventories	5,628	3,257
Prepaid expenses and other current assets	(251)	204
Other assets	(117)	(103)
Increase (decrease) in:		
Accounts payable	(360)	(1,407)
Accrued liabilities	(325)	(222)
Net cash provided by operating activities	<u>6,802</u>	<u>4,377</u>
Cash Flows from Investing Activities:		
Acquisition of operating assets	-	-
Purchases of property and equipment	(323)	(430)
Net cash (used in) investing activities	<u>(323)</u>	<u>(430)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	-	-
Net borrowings on revolving line of credit	-	2,500
Repayment on long-term obligation	(5)	(441)
Repurchase of common stock	(225)	(734)
Proceeds from exercise of stock options	-	314
Net cash provided by (used in) financing activities	<u>(230)</u>	<u>1,639</u>
Effect of exchange rates on cash and cash equivalents	68	(562)
Increase in cash and cash equivalents	6,317	5,024
Cash and cash equivalents:		
Beginning of period	10,275	5,251
End of period	<u>\$ 16,592</u>	<u>\$ 10,275</u>