



**WORK HARD.
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Boss Holdings, Inc.

2017 – First Quarter Report

Consolidated revenues of Boss Holdings, Inc. (the “Company”) for the first quarter of 2017 decreased 5.2% to \$15,209,000 compared to the first quarter of 2016. Net sales in the work gloves and protective wear segment decreased \$1,438,000 or 16.6%, compared to the first quarter of 2016. Consumer sales remain down with the softness in the retail glove market, while industrial sales continue to be affected by the downturn in manufacturing, mining and oil drilling industries. Pet product sales are up slightly compared to the first quarter of 2016. The promotional and specialty products segment decreased 5.5% compared to the first quarter of 2016. Several ball imprint orders from 2016 did not repeat this year. The Company’s cell phone accessory segment increased sales by \$700,000 compared to the first quarter last year, with the addition of new packaging and new customers.

The Company’s overall gross margin is down slightly to 26.2% for the first quarter of 2017 compared to 26.6% for the same period of 2016. We received improved pricing from glove suppliers, but those gains were offset by competitive pricing effects at the other three segments.

Operating expenses decreased \$130,000 to \$3,527,000 for the first quarter of 2017 compared to the first quarter of 2016. Lower compensation expenses along with reduced sample expense helped to offset the lower sales revenue.

Liquidity decreased during the first quarter of 2017 with cash decreasing \$845,000. Operating activities utilized \$697,000 of cash. We reduced inventory levels, but incurred increases in accounts receivable, along with decreases in accounts payable and accrued liabilities. Investing activities utilized \$79,000, primarily for machinery & equipment improvements for the promotional and specialty products segment. Financing activities used \$91,000 to repurchase stock and \$2,000 to pay down debt.

At April 1, 2017, the Company held \$15,747,000 in cash with \$2,500,000 in 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.

Consolidated Balance Sheets
(Dollars in Thousands, Except Per Share Data)

	April 1, 2017 (Unaudited)	December 31, 2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 15,747	\$ 16,592
Accounts receivable, net	11,480	10,052
Inventories	17,382	18,749
Deferred tax asset	-	-
Prepaid expenses and other	486	858
Total current assets	<u>45,095</u>	<u>46,251</u>
Property and Equipment, net	2,595	2,647
Other assets	-	-
Intangibles, net of amortization	192	227
Goodwill	2,853	2,853
Deferred tax asset	974	974
	<u>\$ 51,709</u>	<u>\$ 52,952</u>
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term obligations	\$ 10	\$ 10
Accounts payable	2,224	2,639
Accrued payroll and related expenses	930	1,448
Accrued promotional expenses	836	1,061
Other accrued liabilities	457	675
Total current liabilities	<u>4,457</u>	<u>5,833</u>
Long-Term Obligations, net of current portion	<u>2,504</u>	<u>2,505</u>
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,988,623 and 1,991,323 shares in 2017 and 2016, respectively	497	498
Additional paid-in capital	64,433	64,562
Accumulated (deficit)	(19,641)	(19,899)
Accumulated other comprehensive (loss)	(541)	(547)
Total stockholders' equity	<u>44,748</u>	<u>44,614</u>
	<u>\$ 51,709</u>	<u>\$ 52,952</u>

Boss Holdings, Inc. and Subsidiaries

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

	Quarter Ended April 1 2017	Quarter Ended April 2 2016
Net sales	\$ 15,209	\$ 16,043
Cost of sales	11,220	11,782
Gross profit	3,989	4,261
Operating expenses	3,527	3,657
Operating income	462	604
Other income (expense):		
Interest income	-	-
Interest expense	(15)	(21)
Other	18	15
	3	(6)
Income before income tax	465	598
Income tax expense	207	234
Change in deferred tax asset valuation	-	-
Net income	<u>\$ 258</u>	<u>\$ 364</u>
Comprehensive income	<u>\$ 264</u>	<u>\$ 458</u>
Weighted average shares outstanding	1,993,466	2,031,169
Basic earnings per common share	<u>\$ 0.13</u>	<u>\$ 0.18</u>
Diluted earnings per common share	<u>\$ 0.13</u>	<u>\$ 0.18</u>

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

(Unaudited)	Three Months Ended April 1 2017	Three Months Ended April 2 2016
Cash Flows from Operating Activities:		
Net income	\$ 258	\$ 364
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	151	152
Stock based compensation	(38)	1
Deferred tax expense	-	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,420)	1,178
Inventories	1,374	2,374
Prepaid expenses and other current assets	424	98
Other assets	(34)	(13)
Increase (decrease) in:		
Accounts payable	(444)	(1,219)
Accrued liabilities	(968)	(1,145)
Net cash provided by (used in) operating activities	<u>(697)</u>	<u>1,790</u>
Cash Flows from Investing Activities:		
Acquisition of operating assets	-	-
Purchases of property and equipment	(79)	(93)
Net cash (used in) investing activities	<u>(79)</u>	<u>(93)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	-	-
Net borrowings on revolving line of credit	-	-
Repayment on long-term obligation	(2)	(2)
Repurchase of common stock	(91)	(169)
Proceeds from exercise of stock options	-	-
Net cash (used in) financing activities	<u>(93)</u>	<u>(171)</u>
Effect of exchange rates on cash and cash equivalents	24	209
Increase (decrease) in cash and cash equivalents	<u>(845)</u>	<u>1,735</u>
Cash and cash equivalents:		
Beginning of period	16,592	10,275
End of period	<u>\$ 15,747</u>	<u>\$ 12,010</u>