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# **Boss Holdings, Inc.**

## **2017 – Second Quarter Report**

Consolidated revenues of Boss Holdings, Inc. (the “Company”) for the second quarter of 2017 decreased approximately 1% to \$13,733,000 compared to the second quarter of 2016. Revenues for the first six months of 2017 decreased 3.2% or \$963,000 compared to the same period in 2016. Net sales in the work gloves and protective wear segment decreased \$1,131,000 or 7.4%, compared to the second quarter of 2016. Consumer sales remain down with softness in the retail glove market, while industrial sales continue to be affected by the downturns in U.S. manufacturing, mining and oil drilling industries. Sales of our CAT® licensed products increased 11.7% and helped offset declines in the consumer and industrial sectors. Pet product sales decreased 1.6% to \$2,584,000 compared to the second quarter of 2016. The promotional and specialty products segment decreased 4.5% to \$5,358,000 compared to the second quarter of 2016 as several ball imprint orders from 2016 did not repeat this year. The Company’s cell phone accessory segment increased sales by 7.3% compared to the second quarter of 2016, with the addition of new packaging and new customers.

The Company’s overall gross margin is up slightly to 27.0% for the second quarter of 2017 compared to 26.3% for the same period of 2016. Improved pricing from work gloves and protective wear suppliers was partially offset by competitive pricing effects at the cell phone accessory segment.

Operating expenses increased \$65,000 for the first half of 2017 compared to the same period of 2016. Trade shows and travel expenses are up with increased sales efforts, along with increased royalty expense associated with the increase in CAT® licensed product sales. Operating income dropped \$94,000 to \$990,000 for the first six months of 2017 compared to \$1,084,000 for the same period last year. Lower revenue and competitive pricing to customers was partially offset by improved pricing from suppliers.

Earnings before income tax at the end of the first six months of 2017 is \$775,000, down from \$1,067,000 a year ago. In addition to the decline in operating income, at the end of the quarter the Company had an unrealized loss of \$179,000 on marketable securities. Such holdings are “marked-to-market” at the end of the period. As of September 29, 2017, the same investment showed an unrealized gain.

During June 2017, Boss Pet Products, Inc. acquired the pet product distribution business and related assets of Coast 2 Coast Wholesale Pet Products, located in Garden Grove, CA. (“Coast 2 Coast”). Coast 2 Coast markets pet products including toys, treats, harnesses, collars, food bowls and other pet accessories to the Pet Specialty market. Acquired assets included Coast 2 Coast’s inventory, selected equipment, trademarks, tradenames and other intellectual property. Boss funded the purchase from its existing working capital. Boss management believes the Coast 2 Coast line of top OEM branded pet products presents a significant opportunity for growth within Boss Pet’s existing distribution channels and provides cross-selling opportunities for Boss Pet’s leashes, restraints, toys and other pet supplies into the independent pet specialty market serviced by Coast 2 Coast.

Liquidity decreased during the second quarter of 2017 with cash decreasing \$477,000. Operating activities produced \$1,191,000 of cash. Inventory levels decreased, but so did accounts payable and accrued liabilities with the lower revenue level. Accounts receivable increased with extended terms for certain customers. Investing activities utilized \$1,631,000, primarily for investment in marketable securities and the purchase of Coast 2 Coast Wholesale Pet Products. We also acquired a new warehouse management system for the Kewanee facility and made machinery & equipment improvements for the promotional and specialty products segment. Financing activities used \$163,000 to repurchase stock.

At July 1, 2017, the Company held \$16,115,000 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.

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

	July 1, 2017 (Unaudited)	December 31, 2016
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 16,115	\$ 16,592
Accounts receivable, net	8,110	10,052
Inventories	19,572	18,749
Deferred tax asset	-	-
Marketable Securities	719	-
Prepaid expenses and other	477	858
<b>Total current assets</b>	<b>44,993</b>	<b>46,251</b>
Property and Equipment, net	2,617	2,647
Other assets	-	-
Intangibles, net of amortization	662	227
Goodwill	2,853	2,853
Deferred tax asset	974	974
	<b>\$ 52,099</b>	<b>\$ 52,952</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Current portion of long-term obligations	\$ 9	\$ 10
Accounts payable	2,637	2,639
Accrued payroll and related expenses	963	1,448
Accrued promotional expenses	758	1,061
Other accrued liabilities	294	675
<b>Total current liabilities</b>	<b>4,661</b>	<b>5,833</b>
Long-Term Obligations, net of current portion	2,503	2,505
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,118 and 1,991,323 shares in 2017 and 2016, respectively	497	498
Additional paid-in capital	64,400	64,562
Accumulated (deficit)	(19,460)	(19,899)
Accumulated other comprehensive (loss)	(502)	(547)
<b>Total stockholders' equity</b>	<b>44,935</b>	<b>44,614</b>
	<b>\$ 52,099</b>	<b>\$ 52,952</b>

**Boss Holdings, Inc. and Subsidiaries**

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

	Quarter Ended July 1 2017	Quarter Ended July 2 2016	Six Months Ended July 1 2017	Six Months Ended July 2 2016
Net sales	\$ 13,733	\$ 13,862	\$ 28,942	\$ 29,905
Cost of sales	9,897	10,269	21,117	22,051
<b>Gross profit</b>	3,836	3,593	7,825	7,854
Operating expenses	3,310	3,113	6,835	6,770
<b>Operating income</b>	526	480	990	1,084
Other income (expense):				
Interest income	-	-	-	-
Interest expense	(14)	(15)	(29)	(36)
Other	(204)	4	(186)	19
	(218)	(11)	(215)	(17)
<b>Income before income tax</b>	308	469	775	1,067
Income tax expense	129	182	336	416
Change in deferred tax asset valuation	-	-	-	-
<b>Net income</b>	\$ 179	\$ 287	\$ 439	\$ 651
Comprehensive income	\$ 218	\$ 296	\$ 484	\$ 754
Weighted average shares outstanding	1,987,549	1,994,766	1,988,777	2,001,579
Basic earnings per common share	\$ 0.09	\$ 0.14	\$ 0.22	\$ 0.33
Diluted earnings per common share	\$ 0.09	\$ 0.14	\$ 0.22	\$ 0.32

**Boss Holdings, Inc. and Subsidiaries**

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

(Unaudited)	Six Months Ended July 1 2017	Six Months Ended July 2 2016
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 439	\$ 651
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	295	304
Unrealized (Gain) Loss on Marketable Securities	179	-
Stock based compensation	-	1
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,963	903
Inventories	(637)	3,244
Prepaid expenses and other current assets	434	187
Other assets	(99)	(120)
Increase (decrease) in:		
Accounts payable	(127)	(1,340)
Accrued liabilities	(1,256)	(1,424)
<b>Net cash provided by operating activities</b>	<u>1,191</u>	<u>2,406</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(229)	(187)
Acquisition of Marketable Securities	(898)	-
Acquisition of operating assets	(504)	-
<b>Net cash (used in) investing activities</b>	<u>(1,631)</u>	<u>(187)</u>
<b>Cash Flows from Financing Activities:</b>		
(Repayment) borrowing on long-term obligation	-	(3)
Repurchase of common stock	(163)	(187)
Proceeds from exercise of stock options	-	-
<b>Net cash (used in) financing activities</b>	<u>(163)</u>	<u>(190)</u>
Effect of exchange rates on cash and cash equivalents	126	236
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(477)</u>	<u>2,265</u>
<b>Cash and cash equivalents:</b>		
Beginning of period	16,592	10,275
End of period	<u>\$ 16,115</u>	<u>\$ 12,540</u>