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# **Boss Holdings, Inc.**

## **2017 – Third Quarter Report**

Consolidated revenues of Boss Holdings, Inc. (the “Company”) for the third quarter of 2017 increased 2.4% to \$15,728,000 compared to the third quarter of 2016. Revenues for the first nine months of 2017 decreased 1.3% or \$589,000 compared to the same period in 2016. Net sales in the work gloves and protective wear segment decreased \$1,138,000 or 5.0% compared to the first nine months 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 6.8% and helped offset declines in the consumer and industrial sectors. Pet product sales for the first nine months of 2017 increased 17.8% to \$4,376,000 compared to the same period of 2016. This increase was aided by the purchase of Coast 2 Coast Wholesale Pet Products at the end of the second quarter. The promotional and specialty products segment decreased 3.6% to \$9,346,000 compared to the first nine months of 2016 as several ball imprint orders from 2016 did not repeat this year. The Company’s cell phone accessory segment increased sales by 2.5% compared to the first nine months of 2016 with the addition of new packaging and new customers.

The Company’s overall gross margin is up slightly to 27.7% at the end of the third quarter of 2017 compared to 26.8% for the same period of 2016. Improved pricing from work gloves and protective wear suppliers and favorable product mix from the promotional and specialty products segment partially offset the loss of revenue.

Operating expenses increased \$341,000 for the first nine months 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 \$81,000 to \$1,745,000 for the first nine months of 2017 compared to \$1,826,000 for the same period last year. Lower revenue was partially offset by improved pricing from suppliers and favorable product mix from the promotional and specialty products segment.

Earnings before income tax at the end of the first nine months of 2017 is \$3,576,000, up from \$1,795,000 a year ago. At the end of the quarter, the Company had an unrealized gain of \$1,894,000 on marketable securities. Such holdings are “marked-to-market” at the end of the period. As of November 20, 2017, the same investment showed a lower 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 nine months ended September 30, 2017 with cash decreasing \$1,457,000. Operating activities produced \$293,000 of cash for the nine months. Inventory increases were offset by net income and increases in payables and accruals. Investing activities utilized \$1,837,000, primarily for investment in marketable securities and the purchase of Coast 2 Coast. 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 September 30, 2017, the Company held \$15,135,000 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)

	September 30 2017 (Unaudited)	December 31, 2016
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 15,135	\$ 16,592
Accounts receivable, net	9,986	10,052
Inventories	20,436	18,749
Deferred tax asset	-	-
Marketable Securities	2,791	-
Prepaid expenses and other	439	858
<b>Total current assets</b>	<b>48,787</b>	<b>46,251</b>
Property and Equipment, net	2,698	2,647
Other assets	-	-
Intangibles, net of amortization	859	227
Goodwill	2,853	2,853
Deferred tax asset	974	974
	<b>\$ 56,171</b>	<b>\$ 52,952</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Current portion of long-term obligations	\$ 2,506	\$ 10
Accounts payable	3,102	2,639
Accrued payroll and related expenses	1,336	1,448
Accrued promotional expenses	922	1,061
Other accrued liabilities	1,602	675
<b>Total current liabilities</b>	<b>9,468</b>	<b>5,833</b>
Long-Term Obligations, net of current portion	5	2,505
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,986,118 and 1,994,323 shares in 2017 and 2016, respectively	497	498
Additional paid-in capital	64,511	64,562
Accumulated (deficit)	(17,759)	(19,899)
Accumulated other comprehensive (loss)	(551)	(547)
<b>Total stockholders' equity</b>	<b>46,698</b>	<b>44,614</b>
	<b>\$ 56,171</b>	<b>\$ 52,952</b>

**Boss Holdings, Inc. and Subsidiaries**

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

	Quarter Ended September 30 2017	Quarter Ended October 1 2016	Nine Months Ended September 30 2017	Nine Months Ended October 1 2016
Net sales	\$ 15,728	\$ 15,354	\$ 44,670	\$ 45,259
Cost of sales	11,167	11,082	32,284	33,133
<b>Gross profit</b>	4,561	4,272	12,386	12,126
Operating expenses	3,806	3,530	10,641	10,300
<b>Operating income</b>	755	742	1,745	1,826
Other income (expense):				
Interest income	-	-	-	-
Interest expense	(17)	(14)	(46)	(50)
Unrealized Gain (Loss) On Investments	2,072	-	1,894	-
Other	(9)	-	(17)	19
	2,046	(14)	1,831	(31)
<b>Income before income tax</b>	2,801	728	3,576	1,795
Income tax expense	1,100	281	1,436	697
Change in deferred tax asset valuation	-	-	-	-
<b>Net income</b>	<u>\$ 1,701</u>	<u>\$ 447</u>	<u>\$ 2,140</u>	<u>\$ 1,098</u>
Comprehensive income	<u>\$ 1,652</u>	<u>\$ 413</u>	<u>\$ 2,136</u>	<u>\$ 1,167</u>
Weighted average shares outstanding	1,987,549	1,994,323	1,988,777	1,999,220
Basic earnings per common share	<u>\$ 0.86</u>	<u>\$ 0.22</u>	<u>\$ 1.08</u>	<u>\$ 0.55</u>
Diluted earnings per common share	<u>\$ 0.86</u>	<u>\$ 0.22</u>	<u>\$ 1.08</u>	<u>\$ 0.55</u>

**Boss Holdings, Inc. and Subsidiaries**

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

(Unaudited)	Nine Months Ended September 30 2017	Nine Months Ended October 1 2016
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 2,140	\$ 1,098
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	445	457
Unrealized (Gain) Loss on Marketable Securities	(1,894)	-
Stock based compensation	-	1
Deferred tax expense	-	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	123	(634)
Inventories	(1,470)	3,860
Prepaid expenses and other current assets	478	233
Other assets	(325)	(66)
Increase (decrease) in:		
Accounts payable	213	(267)
Accrued liabilities	583	(489)
<b>Net cash provided by operating activities</b>	<u>293</u>	<u>4,193</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(434)	(242)
Acquisition of Marketable Securities	(899)	-
Acquisition of operating assets	(504)	-
<b>Net cash (used in) investing activities</b>	<u>(1,837)</u>	<u>(242)</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	-	-
Net borrowings on revolving line of credit	-	-
(Repayment) borrowing on long-term obligation	-	(5)
Repurchase of common stock	(163)	(187)
Proceeds from exercise of stock options	-	-
<b>Net cash (used in) financing activities</b>	<u>(163)</u>	<u>(192)</u>
Effect of exchange rates on cash and cash equivalents	250	171
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(1,457)</u>	<u>3,930</u>
<b>Cash and cash equivalents:</b>		
Beginning of period	16,592	10,275
End of period	<u>\$ 15,135</u>	<u>\$ 14,205</u>