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# Boss Holdings, Inc.

## 2017 – 4<sup>th</sup> Quarter and Fiscal Yearend Report

**Fourth Quarter:** During the fourth quarter of 2017, consolidated revenues of Boss Holdings, Inc. (the “Company”) increased 4.2% or \$707,000 from the corresponding quarter of 2016. Boss Pet Product sales were the main component of this, increasing sales \$847,000 over the 4th quarter of 2016. Most of this increase was from the addition of the Coast 2 Coast Wholesale Pet Products business. Fourth quarter revenues for the work gloves and protective wear segment, were down \$155,000 due to decreased sales of CAT® licensed. Promotional product sales were up 6% over the 4th quarter of 2016 with increased sales of imprinted balloons and Christmas ornaments. Net sales in the Company’s cell phone accessory segment were down \$201,000 compared to the fourth quarter of 2016.

Operating income during the fourth quarter was \$1,086,000, up 33% over the comparable quarter a year ago as the Company experienced both increased revenues and improved margins. Fourth quarter net income similarly was up 43% year-over-year at \$770,000 this year against \$537,000 in 2016 due primarily to increased operating income. Although the Company recognized a quarter-to-quarter unrealized loss on its investment in available for sale securities, that expense largely was offset by income tax benefits realized from restructuring of the Company’s Canadian operations.

**Fiscal 2017:** Consolidated Company revenues for fiscal 2017 were \$62,312,000, slightly above 2016. Boss Pet revenue increased \$1,508,000 above last year, aided by the purchase of Coast 2 Coast Wholesale Pet Products at the end of the second quarter. Revenue losses at the work gloves and protective wear segment and Galaxy largely offset the increase from Boss Pet. Net sales in the work gloves and protective wear segment decreased \$1,293,000 or 4.0% compared to 2016. Consumer sales remain down with softness in the retail glove market, while industrial sales continue to be affected by downturns in U.S. manufacturing, mining and oil drilling industries. 2017 sales of CAT® licensed products were down as a result of a major customer promoting their own brand. Our promotional and specialty products segment decreased 1.0% or \$131,000 compared to 2016 as several sport ball imprint orders did not repeat this year. Despite a strong competitive market, the Company’s cell phone accessory segment was able to slightly increase sales volume over 2016. Cell phone accessory sales were considerably higher in the first quarter with a roll-out of new products and packaging to a major customer. The Company introduced its new line of CAT® branded cell phone accessories in the fourth quarter of 2017 as it continues to strategically enhance its position in a crowded industry.

Overall gross margin was up to 28.0% for 2017 compared to 26.5% for fiscal 2016. Improved pricing from work gloves and protective wear suppliers and Boss Tech Products, along with favorable product mix from the promotional and specialty products segment all contributed to this increase.

Operating expenses in 2017 increased \$785,000 compared to 2016. Trade show and travel expenses were higher due to increased sales efforts. Salaries also increased with the addition of field sales and compliance positions. Year-end 2017 results also reflect additional operating expenses associated with the Coast 2 Coast acquisition.

Operating income improved to \$2,831,000 in 2017 compared to \$2,643,000 in 2016. Improved pricing from suppliers and favorable product mix from the promotional and specialty products segment more than offset the increase in operating expenses.

Earnings before income tax for 2017 was \$3,284,000, up from \$2,602,000 a year ago. Much of this difference was due to a positive unrealized gain of \$527,000 at year-end on available for sale securities. Such holdings are “marked-to-market” at the end of the period. As mentioned above, income tax benefits realized from restructuring the Company’s Canadian operations reduced overall income tax expense, resulting in full year 2017 net income of \$2,910,000 compared with \$1,635,000 in 2016.

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. Coast 2 Coast’s line of top OEM branded pet products enhances the opportunity for growth of and cross-selling opportunities for Boss Pet’s product lines.

Liquidity grew during 2017 with cash increasing \$724,000 overall. Operating activities produced \$2,557,000 of cash in 2017. Net income, a decrease in receivables and an increase in payables were partially offset by increases in inventory and decreases to accruals. Investing activities utilized \$1,922,000 of cash, 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 in the promotional and specialty products segment. Financing activities used \$168,000. \$225,000 was used to repurchase stock, \$6,000 was used to pay long term debt. Both were partially offset by \$63,000 in proceeds from the exercise of stock options.

At December 30, 2017, the Company held \$17,316,000 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)**

	December 30, 2017	December 31, 2016
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 17,316	\$ 16,592
Accounts receivable, net	9,892	10,052
Income Tax Receivable	859	-
Inventories	19,418	18,749
Prepaid expenses and other	678	858
<b>Total current assets</b>	<b>48,163</b>	<b>46,251</b>
Property and Equipment, net	2,647	2,647
Available For Sale Securities	1,425	-
Intangibles, net of amortization	881	227
Goodwill	2,853	2,853
Deferred tax asset	451	974
	<b>\$ 56,420</b>	<b>\$ 52,952</b>
<b>Liabilities and Stockholders' Equity</b>		
Current Liabilities:		
Current portion of long-term obligations	\$ 2,506	\$ 10
Accounts payable	3,332	2,639
Accrued payroll and related expenses	1,519	1,448
Accrued promotional expenses	968	1,061
Other accrued liabilities	589	675
<b>Total current liabilities</b>	<b>8,914</b>	<b>5,833</b>
Long-Term Obligations, net of current portion	3	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	64,424	64,562
Accumulated (deficit)	(16,989)	(19,899)
Accumulated other comprehensive (loss)	(429)	(547)
<b>Total stockholders' equity</b>	<b>47,503</b>	<b>44,614</b>
	<b>\$ 56,420</b>	<b>\$ 52,952</b>

**Boss Holdings, Inc. and Subsidiaries**

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

	Quarter Ended December 30 2017	Quarter Ended December 31 2016	Twelve Months Ended December 30 2017	Twelve Months Ended December 31 2016
Net sales	\$ 17,642	\$ 16,935	\$ 62,312	\$ 62,194
Cost of sales	12,573	12,579	44,857	45,712
<b>Gross profit</b>	5,069	4,356	17,455	16,482
Operating expenses	3,983	3,539	14,624	13,839
<b>Operating income</b>	1,086	817	2,831	2,643
Other income (expense):				
Interest income	-	-	-	-
Interest expense	(13)	(12)	(59)	(62)
Unrealized Gain (Loss) On Investments	(1,367)	-	527	-
Other	2	2	(15)	21
	(1,378)	(10)	453	(41)
<b>Income (loss) before income tax</b>	(292)	807	3,284	2,602
Income tax expense (benefit)	(1,062)	270	374	967
Change in deferred tax asset valuation	-	-	-	-
<b>Net income</b>	\$ 770	\$ 537	\$ 2,910	\$ 1,635
Comprehensive income	\$ 721	\$ 482	\$ 3,028	\$ 1,649
Weighted average shares outstanding	1,986,118	1,993,466	1,987,447	1,997,809
Basic earnings per common share	\$ 0.39	\$ 0.27	\$ 1.46	\$ 0.82
Diluted earnings per common share	\$ 0.39	\$ 0.27	\$ 1.46	\$ 0.82

**Boss Holdings, Inc. and Subsidiaries**

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

	Twelve Months Ended December 30 2017	Twelve Months Ended December 31, 2016
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 2,910	\$ 1,635
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	659	607
Unrealized (Gain) Loss on Marketable Securities	(527)	9
Stock based compensation	23	132
Deferred tax expense	523	
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	211	(156)
Inventories	(456)	5,628
Prepaid expenses and other current assets	188	(251)
Other assets	(369)	(117)
Increase (decrease) in:		
Accounts payable	453	(360)
Accrued liabilities	(1,058)	(325)
<b>Net cash provided by operating activities</b>	<b>2,557</b>	<b>6,802</b>
<b>Cash Flows from Investing Activities:</b>		
Purchases of property and equipment	(520)	-
Acquisition of Marketable Securities	(898)	-
Acquisition of operating assets	(504)	(323)
<b>Net cash (used in) investing activities</b>	<b>(1,922)</b>	<b>(323)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term debt	-	-
Net borrowings on revolving line of credit	-	-
Repayment on long-term obligation	(6)	(5)
Repurchase of common stock	(225)	(225)
Proceeds from exercise of stock options	63	-
<b>Net cash (used in) financing activities</b>	<b>(168)</b>	<b>(230)</b>
Effect of exchange rates on cash and cash equivalents	257	68
<b>Increase in cash and cash equivalents</b>	<b>724</b>	<b>6,317</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	16,592	10,275
End of period	<b>\$ 17,316</b>	<b>\$ 16,592</b>