



2011 – First Quarter Report

Consolidated revenues of Boss Holdings, Inc. (the “Company”) for the first quarter of 2011 increased 23.7% over the first quarter of 2010. The work gloves and protective wear segment increased net sales \$2,177,000, or 27.0%, compared to the first quarter a year ago. Sales to industrial customers accounted for approximately half of this improvement as manufacturing and mining activities in the U.S. have rebounded. Consumer and CAT® branded product sales in the U.S. and Canada combined for the other half of the increase. The pet supplies segment reported a decrease in sales of \$174,000 or 6.6% caused by order timing from major accounts. Sales in the promotional and specialty products segment increased \$309,000, or 14.6%, compared to the first quarter last year, with increases in balloon and sport ball sales. Also contributing to the first quarter sales growth was \$720,000 from the Aries cell phone accessory distribution business which the Company acquired during the third quarter of 2010.

The Company’s overall gross margin decreased to 25.8% for the first quarter of 2011 compared to 26.3% for the first quarter of 2010. The work glove and protective wear segment was able maintain gross margin at 26.9%, effectively offsetting cost increases with price increases to customers. The pet supplies and promotional product segments’ gross margin decreased to 23.3% and 26.9% respectively as a result of increases in product costs and freight charges. Gross margin for the cell phone accessory segment was 23.3%. Gross margin for all four segments continues to be affected by increased prices from suppliers in the Far East along with shipping cost increases. To maintain margins, the Company will attempt to pass on cost increases to customers, but competitive pressures will make this difficult.

Total operating expenses increased \$666,000 during the first quarter of 2011 compared to the corresponding period in 2010. A large portion of the increase is due to the addition of the cell phone accessory business, which is a new segment for the Company in 2011. Also, commissions and selling expenses have increased with the additional sales volume.

The Company’s overall increase in revenue fueled an increase in operating income for the first quarter of 2011 to \$585,000, an improvement of \$54,000 over the first quarter of 2010. The Company recorded income tax expense of \$224,000 for the quarter, but the federal income tax portion of this expense is a non-cash item due to the Company’s net operating loss carryforwards for federal income tax purposes.

Liquidity decreased during the first quarter of 2011 with cash decreasing by \$1,113,000. Operating activities used \$1,002,000, primarily from decreases in accounts payables and accrued liabilities. Accounts receivable also increased with the higher sales volume. These cash uses were partially offset by decreases in inventory. Investing activities utilized \$65,000, primarily for the purchase of production equipment at the promotional and specialty products segment and investment in a new document imaging system at the work gloves and protective wear segment. Financing activities used \$133,000 to pay down debt, partially offset by \$21,000 of borrowing on the Canadian line of credit.

At April 2, 2011, the Company held \$3,198,000 in cash with zero 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.

| | | |
|----------------------------------|------------------|------------------|
| Property and Equipment, net | 3,081 | 3,120 |
| Other assets | 20 | 20 |
| Intangibles, net of amortization | 508 | 567 |
| Goodwill | 2,853 | 2,853 |
| Deferred tax asset | 2,127 | 2,292 |
| | <u>\$ 41,706</u> | <u>\$ 43,383</u> |

Liabilities and Stockholders' Equity

Current Liabilities:

| | | |
|--|--------------|--------------|
| Current portion of long-term obligations | \$ 303 | \$ 362 |
| Accounts payable | 1,970 | 3,351 |
| Accrued payroll and related expenses | 825 | 1,318 |
| Accrued promotional expenses | 949 | 939 |
| Other accrued liabilities | 495 | 601 |
| Total current liabilities | <u>4,542</u> | <u>6,571</u> |

Long-Term Obligations, net of current portion

| | | |
|--|------------|------------|
| | <u>796</u> | <u>838</u> |
|--|------------|------------|

Stockholders' Equity:

| | | |
|---|------------------|------------------|
| Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,984,489 and 1,984,489 shares in 2010 and 2009, respectively | 496 | 496 |
| Additional paid-in capital | 65,660 | 65,660 |
| Accumulated (deficit) | (29,962) | (30,311) |
| Accumulated other comprehensive income | 174 | 129 |
| Total stockholders' equity | <u>36,368</u> | <u>35,974</u> |
| | <u>\$ 41,706</u> | <u>\$ 43,383</u> |

Boss Holdings, Inc. and Subsidiaries

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

| | Quarter Ended April 2, 2011 | Quarter Ended March 27, 2010 |
|--|-----------------------------------|------------------------------------|
| Net sales | \$ 15,845 | \$ 12,814 |
| Cost of sales | 11,753 | 9,442 |
| Gross profit | 4,092 | 3,372 |
| Operating expenses | 3,507 | 2,841 |
| Operating income | 585 | 531 |
| Other income (expense): | | |
| Interest income | 1 | 4 |
| Interest expense | (17) | (24) |
| Other | 4 | 19 |
| | (12) | (1) |
| Income before income tax | 573 | 530 |
| Income tax expense | 224 | 206 |
| Change in deferred tax asset valuation | - | - |
| Net income | \$ 349 | \$ 324 |
| Comprehensive income | \$ 394 | \$ 350 |
| Weighted average shares outstanding | 1,984,489 | 2,123,959 |
| Basic earnings per common share | \$ 0.18 | \$ 0.15 |
| Diluted earnings per common share | \$ 0.17 | \$ 0.15 |

Boss Holdings, Inc. and Subsidiaries

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

| | Three Months Ended April 2 2011 | Three Months Ended March 27, 2010 |
|--|--|--|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 349 | \$ 324 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 164 | 170 |
| Stock based compensation | - | - |
| Deferred tax expense | 166 | 153 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | (623) | (52) |
| Inventories | 926 | 1,919 |
| Prepaid expenses and other current assets | 71 | (10) |
| Other assets | - | - |
| Increase (decrease) in: | | |
| Accounts payable | (1,462) | (1,065) |
| Accrued liabilities | (593) | (51) |
| Net cash provided by (used in) operating activities | <u>(1,002)</u> | <u>1,388</u> |
| Cash Flows from Investing Activities: | | |
| Acquisition of operating assets | - | - |
| Purchases of property and equipment | (65) | (37) |
| Net cash (used in) investing activities | <u>(65)</u> | <u>(37)</u> |
| Cash Flows from Financing Activities: | | |
| Net borrowings on revolving line of credit | 21 | - |
| Repayment on long-term obligation | (133) | (128) |
| Repurchase of common stock | - | - |
| Proceeds from exercise of stock options | - | 29 |
| Net cash (used in) financing activities | <u>(112)</u> | <u>(99)</u> |
| Effect of exchange rates on cash and cash equivalents | 66 | 33 |
| Increase (decrease) in cash and cash equivalents | (1,113) | 1,285 |
| Cash and cash equivalents: | | |
| Beginning of period | 4,311 | 7,050 |
| End of period | <u>\$ 3,198</u> | <u>\$ 8,335</u> |