



2010 – Second Quarter Report (corrected 9/22/10)

Continuing the trend of the first quarter, consolidated revenues for the second quarter increased 18.9% over the second quarter of 2009. Revenues for the first six months of 2010 have improved 14.6% or \$3.3 million over the comparable period of 2009. All of the Company's segments surpassed last year's second quarter and year to date revenue numbers. Boss Manufacturing Company's work gloves and protective wear segment increased sales \$745,000, or 5.0%, compared to the first six months of 2009, with sales increases from industrial customers, CAT® branded product and Canada. Boss Pet Products, Inc. continued to expand sales to existing accounts increasing six month sales \$1,585,000 or 42.5% above six months of 2009. Sales of promotional and specialty products at Galaxy Balloons increased \$955,000, or 24.2%, compared to the first six months of last year, due to increased sales to existing accounts and additional balloon sales resulting from Galaxy's purchase of AGA Balloon in November 2009.

Consolidated gross margin improved to 25.4% for the six months ended June 26, 2010 compared to 23.3% for the same period in 2009. Cost reductions and cost savings programs put in place last year along with better pricing from suppliers allowed all segments to increase gross margin. This margin performance may be difficult to maintain as prices from suppliers in the Far East along with shipping costs are increasing. To maintain margins, the Company will attempt to pass some cost increases on to customers, but competitive pressures will make this difficult.

Total operating expenses for the second quarter increased \$349,000, bringing the increase for the six months ending June 26, 2010 to \$446,000 compared to the corresponding period in 2009. These increases are largely attributable to selling expenses from increased sales at the pet supply and promotional products segments. In addition, during the second quarter the Company headquarters parking lot was resurfaced at a cost of \$85,000.

Operating income for the second quarter of 2010 is \$487,000 and increases the operating income for the first six months of the year to \$1,018,000, an increase of \$876,000 over the first six months of 2009. The increase in revenue, along with lower product costs from vendors and cost savings programs put in place last year all contributed to this improved performance. The company has recorded an income tax expense year to date of \$389,000 based on current federal and estimated state income tax rates. The federal income tax portion of the tax provision is a non-cash expense, because the Company has substantial net operating loss carryforwards for federal income tax purposes resulting from losses in prior years.

Liquidity improved slightly during the second quarter of 2010 with cash increasing \$220,000. For the first six months of 2010 cash has increased \$1,505,000. Operating activities provided \$2,873,000 in cash as inventory purchases were kept to a minimum. Investing activities utilized \$106,000, mostly for the purchase of material handling equipment and system upgrades. Financing activities used \$1,068,000 for the buyback of shares of Company common stock and \$240,000 to pay down debt. During the second quarter, the Company's shareholders approved the buyback of shares from shareholders owning less than 100 shares of Company common stock. The resulting amendments to the Company's certificate of incorporation were filed and the Company terminated the registration of its shares with the SEC.

At June 26, 2010 the Company had \$8,555,000 in cash with zero borrowings against its \$7,000,000 revolving 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.

Part I - Financial Information

Item 1. Financial Statements

Boss Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands, Except Per Share Data)

| | June 26, 2010 | December 26, 2009 |
|---|------------------|----------------------|
| Assets | (Unaudited) | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 8,555 | \$ 7,050 |
| Accounts receivable, net | 6,999 | 7,573 |
| Inventories | 13,935 | 15,227 |
| Deferred tax asset | 1,554 | 1,554 |
| Prepaid expenses and other | 450 | 403 |
| Total current assets | 31,493 | 31,807 |
| Property and Equipment, net | 3,057 | 3,176 |
| Other assets | 166 | 150 |
| Intangibles, net of amortization | 524 | 623 |
| Goodwill | 2,853 | 2,853 |
| Deferred tax asset | 1,518 | 1,813 |
| | \$ 39,611 | \$ 40,422 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Current portion of long-term obligations | \$ 1,037 | \$ 1,091 |
| Accounts payable | 2,498 | 2,217 |
| Accrued payroll and related expenses | 744 | 1,095 |
| Accrued promotional expenses | 879 | 890 |
| Other accrued liabilities | 543 | 624 |
| Total current liabilities | 5,701 | 5,917 |
| Long-Term Obligations, net of current portion | 339 | 522 |
| Deferred Compensation | 151 | 151 |
| Stockholders' Equity: | | |
| Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,984,489 and 2,116,047 shares in 2010 and 2009, respectively | 496 | 529 |
| Additional paid-in capital | 65,721 | 66,727 |
| Accumulated (deficit) | (32,895) | (33,504) |
| Accumulated other comprehensive income | 98 | 80 |
| Total stockholders' equity | 33,420 | 33,832 |
| | \$ 39,611 | \$ 40,422 |

The accompanying notes are an integral part of these statements.

Boss Holdings, Inc. and Subsidiaries**Consolidated Statements of Operations**
(Dollars in Thousands, Except Per Share Data)
(Unaudited)

| | Quarter Ended June 26, 2010 | Quarter Ended June 27, 2009 | Six Months Ended June 26, 2010 | Six Months Ended June 27, 2009 |
|--|-----------------------------------|-----------------------------------|---|---|
| Net sales | \$ 12,942 | \$ 10,890 | \$ 25,756 | \$ 22,471 |
| Cost of sales | 9,764 | 8,385 | 19,206 | 17,243 |
| Gross profit | 3,178 | 2,505 | 6,550 | 5,228 |
| Operating expenses | 2,691 | 2,342 | 5,532 | 5,086 |
| Operating income | 487 | 163 | 1,018 | 142 |
| Other income (expense): | | | | |
| Interest income | 3 | 4 | 7 | 9 |
| Interest expense | (23) | (66) | (47) | (133) |
| Other | 1 | (1) | 20 | - |
| | (19) | (63) | (20) | (124) |
| Income before income tax | 468 | 100 | 998 | 18 |
| Income tax expense | 183 | 415 | 389 | 383 |
| Net income (loss) | \$ 285 | \$ (315) | \$ 609 | \$ (365) |
| Comprehensive income (loss) | \$ 277 | \$ (258) | \$ 627 | \$ (315) |
| Weighted average shares outstanding | 2,028,964 | 2,116,047 | 2,076,461 | 2,086,157 |
| Basic earnings (loss) per common share | \$ 0.14 | \$ (0.15) | \$ 0.29 | \$ (0.18) |
| Diluted earnings (loss) per common share | \$ 0.13 | \$ (0.15) | \$ 0.28 | \$ (0.18) |

The accompanying notes are an integral part of these statements.

Boss Holdings, Inc. and Subsidiaries

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

| | Six Months Ended June 26, 2010 | Six Months Ended June 27, 2009 |
|--|---|---|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | \$ 609 | \$ (365) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 330 | 309 |
| Stock based compensation | - | 4 |
| Deferred tax expense | 289 | 381 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 578 | 2,340 |
| Inventories | 1,302 | 4,535 |
| Prepaid expenses and other current assets | (56) | 167 |
| Other assets | - | (34) |
| Increase (decrease) in: | | |
| Accounts payable | (13) | (240) |
| Accrued liabilities | (166) | (674) |
| Net cash provided by operating activities | <u>2,873</u> | <u>6,423</u> |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (106) | (189) |
| Net cash (used in) investing activities | <u>(106)</u> | <u>(189)</u> |
| Cash Flows from Financing Activities: | | |
| (Repayment) borrowing on revolving line of credit | - | (13) |
| Repayment on long-term obligation | (240) | (248) |
| Cash used for stock buy back | (1,068) | - |
| Proceeds from exercise of stock options | 29 | 140 |
| Net cash (used in) financing activities | <u>(1,279)</u> | <u>(121)</u> |
| Effect of exchange rates on cash and cash equivalents | 17 | 60 |
| Increase in cash and cash equivalents | 1,505 | 6,173 |
| Cash and cash equivalents: | | |
| Beginning of period | 7,050 | 803 |
| End of period | <u>\$ 8,555</u> | <u>\$ 6,976</u> |

The accompanying notes are an integral part of these statements.