

2011 – Second Quarter Report

Second quarter consolidated revenues of Boss Holdings, Inc. (the “Company”) increased 6.3% over the second quarter of 2010. Revenues for the first six months of 2011 increased 14.9% or \$3.8 million over the same period of 2010. The work gloves and protective wear segment increased net sales 18.8%, compared to the first six months of 2010. Sales to industrial customers accounted for the major portion 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 have also increased over last year and have combined for the remaining portion of the increase. The pet supplies segment reported a 26.8% decrease caused by order timing and the loss of a major account. Sales in the promotional and specialty products segment increased 7.4%, compared to the same period as last year, with increases in balloon and sport ball sales. Also contributing a large portion of the sales growth for the first six months of 2011 was the cell phone accessory distribution business which the Company acquired during the third quarter of 2010.

The Company’s overall gross margin decreased to 24.9% for the first six months of 2011 compared to 25.4% for the same period of 2010. Increased volume and offsetting cost increases with price increases to customers allowed the work glove and protective wear segment to increase gross margin to 24.6% compared to 24.3% for the same six month period in 2010. Gross margin for pet supplies decreased from 23.2% to 22.1% for the first six months of 2011 as a result of the lost volume and increases from suppliers. The promotional product segments’ gross margin decreased to 27.7% compared to 31.5% for the first six months of last year as a result of increases in product costs and freight charges. The cell phone accessory segment finished the first six months of 2011 with a gross margin of 25.2%. 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 for the second quarter increased \$222,000 all of which was attributable to the addition of the cell phone accessory business which is a new segment for the Company in 2011. Operating expenses increased \$888,000 for the first six months of 2011 compared to the corresponding period in 2010. The major portion of this increase is due to the addition of the cell phone accessory business. Also, commissions and selling expenses have increased with the additional sales volume.

Operating income for the second quarter of 2011 was \$359,000 and totaled \$944,000 for the first six months of the year, a decrease of \$74,000 compared to the first six months of 2010. This decrease was caused by the reduction in operating income, as a result of the lower sales volume at the pet supplies segment and increased costs from suppliers at the promotional products segment. This loss in profitability was partially offset by income increases at the work glove and protective wear segment and the cell phone accessory business. The Company recorded income tax expense of \$359,000 for the first six months of 2011, 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 six months of 2011 with cash decreasing by \$529,000. Despite the Company’s operating income, operating activities used \$10,000 of cash, largely due to increased inventory. Investing activities utilized \$413,000 primarily for the purchase of production equipment at the promotional and specialty products segment and an investment in a new document imaging system at the work gloves and protective wear segment. Financing activities used \$197,000 to pay down debt.

At July 2, 2011, the Company held \$3,782,000 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.

Part I - Financial Information

Item 1. Financial Statements

Boss Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands, Except Per Share Data)

| | July 2, 2011 (Unaudited) | December 25, 2010 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 3,782 | \$ 4,311 |
| Accounts receivable, net | 7,669 | 8,112 |
| Inventories | 21,008 | 20,024 |
| Deferred tax asset | 1,619 | 1,619 |
| Prepaid expenses and other | 392 | 465 |
| Total current assets | 34,470 | 34,531 |
| Property and Equipment, net | 3,290 | 3,120 |
| Other assets | 21 | 20 |
| Intangibles, net of amortization | 460 | 567 |
| Goodwill | 2,853 | 2,853 |
| Deferred tax asset | 2,025 | 2,292 |
| | \$ 43,119 | \$ 43,383 |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Current portion of long-term obligations | \$ 234 | \$ 362 |
| Accounts payable | 3,103 | 3,351 |
| Accrued payroll and related expenses | 964 | 1,318 |
| Accrued promotional expenses | 861 | 939 |
| Other accrued liabilities | 575 | 601 |
| Total current liabilities | 5,737 | 6,571 |
| Long-Term Obligations, net of current portion | 781 | 838 |
| Stockholders' Equity: | | |
| Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 1,984,489 and 1,984,489 shares in 2011 and 2010, respectively | 496 | 496 |
| Additional paid-in capital | 65,660 | 65,660 |
| Accumulated (deficit) | (29,752) | (30,311) |
| Accumulated other comprehensive income | 197 | 129 |
| Total stockholders' equity | 36,601 | 35,974 |
| | \$ 43,119 | \$ 43,383 |

Boss Holdings, Inc. and Subsidiaries

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

| | Quarter Ended July 2, 2011 | Quarter Ended June 26, 2010 | Six Months Ended July 2, 2011 | Six Months Ended June 26, 2010 |
|----------------------------------------|----------------------------------|-----------------------------------|----------------------------------------|-----------------------------------------|
| Net sales | \$ 13,753 | \$ 12,942 | \$ 29,598 | \$ 25,756 |
| Cost of sales | 10,481 | 9,764 | 22,234 | 19,206 |
| Gross profit | 3,272 | 3,178 | 7,364 | 6,550 |
| Operating expenses | 2,913 | 2,691 | 6,420 | 5,532 |
| Operating income | 359 | 487 | 944 | 1,018 |
| Other income (expense): | | | | |
| Interest income | 2 | 3 | 3 | 7 |
| Interest expense | (15) | (23) | (32) | (47) |
| Other | (1) | 1 | 3 | 20 |
| | (14) | (19) | (26) | (20) |
| Income before income tax | 345 | 468 | 918 | 998 |
| Income tax expense | 134 | 183 | 359 | 389 |
| Change in deferred tax asset valuation | - | - | - | - |
| Net income | \$ 211 | \$ 285 | \$ 559 | \$ 609 |
| Comprehensive income | \$ 234 | \$ 277 | \$ 627 | \$ 627 |
| Weighted average shares outstanding | 1,984,489 | 2,028,964 | 1,984,489 | 2,076,461 |
| Basic earnings per common share | \$ 0.11 | \$ 0.14 | \$ 0.28 | \$ 0.29 |
| Diluted earnings per common share | \$ 0.10 | \$ 0.13 | \$ 0.27 | \$ 0.28 |

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Dollars in Thousands)

(Unaudited)

| | Six Months Ended July 2 2011 | Six Months Ended June 26, 2010 |
|------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 559 | \$ 609 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 362 | 330 |
| Deferred tax expense | 266 | 289 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Accounts receivable | 474 | 578 |
| Inventories | (932) | 1,302 |
| Prepaid expenses and other current assets | 72 | (56) |
| Other assets | (9) | - |
| Increase (decrease) in: | | |
| Accounts payable | (340) | (13) |
| Accrued liabilities | (462) | (166) |
| Net cash provided by (used in) operating activities | <u>(10)</u> | <u>2,873</u> |
| Cash Flows from Investing Activities: | | |
| Purchases of property and equipment | (413) | (106) |
| Net cash (used in) investing activities | <u>(413)</u> | <u>(106)</u> |
| Cash Flows from Financing Activities: | | |
| Repayment on long-term obligation | (197) | (240) |
| Repurchase of common stock | - | (1,068) |
| Proceeds from exercise of stock options | - | 29 |
| Net cash (used in) financing activities | <u>(197)</u> | <u>(1,279)</u> |
| Effect of exchange rates on cash and cash equivalents | 91 | 17 |
| Increase (decrease) in cash and cash equivalents | <u>(529)</u> | <u>1,505</u> |
| Cash and cash equivalents: | | |
| Beginning of period | 4,311 | 7,050 |
| End of period | <u>\$ 3,782</u> | <u>\$ 8,555</u> |