

Boss Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
December 25, 2010

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Independent Auditor's Report

To the Board of Directors
Boss Holdings, Inc.
Kewanee, Illinois

We have audited the accompanying consolidated balance sheets of Boss Holdings, Inc. and subsidiaries as of December 25, 2010 and December 26, 2009, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 25, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boss Holdings, Inc. and subsidiaries as of December 25, 2010 and December 26, 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 25, 2010 in conformity with U.S. generally accepted accounting principles.

McGladrey & Pullen, LLP

Davenport, Iowa
April 11, 2011

Boss Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets

(Dollars in Thousands, Except Per Share Data)

Assets	December 25, 2010	December 26, 2009
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,311	\$ 7,050
Accounts receivable, net of allowance for doubtful accounts and returns 2010 \$370; 2009 \$280	8,112	7,573
Inventories	20,024	15,227
Deferred tax asset	1,619	1,554
Prepaid expenses and other	465	403
Total current assets	34,531	31,807
Property and Equipment, net	3,120	3,176
Other Assets	20	150
Intangibles, net of accumulated amortization	567	623
Goodwill	2,853	2,853
Deferred Tax Asset	2,292	1,813
	\$ 43,383	\$ 40,422
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 362	\$ 1,091
Accounts payable	3,351	2,217
Accrued payroll and related expenses	1,318	1,095
Accrued promotional expenses	939	890
Other accrued liabilities	601	624
Total current liabilities	6,571	5,917
Long-Term Debt	838	522
Deferred Compensation	-	151
Commitments and Contingencies (Note 4)		
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	65,660	66,727
Accumulated (deficit)	(30,311)	(33,504)
Accumulated other comprehensive income	129	80
Total stockholders' equity	35,974	33,832
	\$ 43,383	\$ 40,422

See Notes to Consolidated Financial Statements.

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Income

Years Ended December 25, 2010, December 26, 2009 and December 27, 2008

(Dollars in Thousands, Except Per Share Data)

	2010	2009	2008
Net sales	\$ 55,530	\$ 48,957	\$ 55,732
Cost of sales	40,666	36,091	41,961
Gross profit	14,864	12,866	13,771
Operating expenses	11,925	10,945	11,762
Asset impairment losses	-	-	792
Operating income	2,939	1,921	1,217
Other income and (expenses):			
Interest income	14	18	40
Interest expense	(84)	(121)	(210)
Other	(17)	(4)	22
	(87)	(107)	(148)
Income before income tax expense	2,852	1,814	1,069
Income tax expense (note 10)	1,209	797	531
Change in deferred tax asset valuation (note 10)	(1,550)	(750)	-
Net income	\$ 3,193	\$ 1,767	\$ 538
Basic earnings per common share	\$ 1.57	\$ 0.84	\$ 0.27
Diluted earnings per common share	\$ 1.50	\$ 0.80	\$ 0.24

See Notes to Consolidated Financial Statements.

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

Years Ended December 25, 2010, December 26, 2009 and December 27, 2008

(Dollars and Shares In Thousands)

	Common Stock		Additional	Accumulated	Accumulated	Treasury	Total
	Shares	Dollars	Paid-In	(Deficit)	Other	Stock	Stockholders'
			Capital		Income (Loss)	Shares	Equity
Balance, December 29, 2007	2,018	\$ 505	\$ 66,463	\$ (35,809)	\$ 243	-	\$ 31,402
Exercise of stock options	18	4	50	-	-	-	54
Comprehensive income:							
Net income	-	-	-	538	-	-	538
Other comprehensive (loss) (Note 11)	-	-	-	-	(292)	-	(292)
Comprehensive income							<u>246</u>
Stock based compensation	-	-	8	-	-	-	8
Balance, December 27, 2008	2,036	509	66,521	(35,271)	(49)	-	31,710
Exercise of stock options	80	20	120	-	-	-	140
Comprehensive income:							
Net income	-	-	-	1,767	-	-	1,767
Other comprehensive income (Note 11)	-	-	-	-	129	-	129
Comprehensive income							<u>1,896</u>
Stock based compensation	-	-	86	-	-	-	86
Balance, December 26, 2009	2,116	529	66,727	(33,504)	80	-	33,832
Exercise of stock options; 8 shares	8	2	27	-	-	-	29
Repurchase of 139,558 shares of common stock, net of \$61 of expenses (Note 12)	(140)	(35)	(1,094)	-	-	-	(1,129)
Comprehensive income:							
Net income	-	-	-	3,193	-	-	3,193
Other comprehensive income (Note 11)	-	-	-	-	49	-	49
Comprehensive income							<u>3,242</u>
Balance, December 25, 2010	1,984	\$ 496	\$ 65,660	\$ (30,311)	\$ 129	-	\$ 35,974

See Notes to Consolidated Financial Statements.

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 25, 2010, December 26, 2009 and December 27, 2008

(Dollars in Thousands)

	2010	2009	2008
Cash Flows from Operating Activities:			
Net income	\$ 3,193	\$ 1,767	\$ 538
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	651	640	654
Stock based compensation	-	86	8
Deferred tax expense (benefit) (Note 10)	(552)	(158)	414
Goodwill impairment	-	-	757
Patent impairment	-	-	35
Noncash asset donation	-	-	173
Changes in assets and liabilities net of acquisitions:			
(Increase) decrease in:			
Accounts receivable	72	751	(84)
Inventories	(4,377)	3,843	(3,156)
Prepaid expenses and other	68	35	12
Other assets	150	(9)	59
Increase (decrease) in:			
Accounts payable	1,064	135	(206)
Accrued liabilities	95	(9)	116
Net cash provided by (used in) operating activities	364	7,081	(680)
Cash Flows from Investing Activities:			
Purchases of property and equipment	(362)	(226)	(380)
Acquisitions	(1,279)	(388)	-
Net cash used in investing activities	(1,641)	(614)	(380)
Cash Flows from Financing Activities:			
Net borrowings (payments) on revolving line of credit	20	(35)	-
Repurchase of common stock, net of expenses	(1,129)	-	-
Repayment of long-term obligations	(446)	(502)	(477)
Proceeds from exercise of stock options	29	140	51
Net cash used in financing activities	(1,526)	(397)	(426)
Effect of exchange rate changes on cash	\$ 64	\$ 177	\$ (268)

(Continued)

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended December 25, 2010, December 26, 2009 and December 27, 2008

(Dollars in Thousands)

	2010	2009	2008
Increase (decrease) in cash and cash equivalents	\$ (2,739)	\$ 6,247	\$ (1,754)
Cash and cash equivalents:			
Beginning	7,050	803	2,557
Ending	<u><u>\$ 4,311</u></u>	<u><u>\$ 7,050</u></u>	<u><u>\$ 803</u></u>
Supplemental Disclosures of Cash Flows Information, cash payments for:			
Interest paid	\$ 84	\$ 121	\$ 210
Income taxes paid, net	123	121	239
Supplemental Disclosures of Noncash Investing and Financing Activities:			
Reduction in net operating loss carryover due to excess tax benefits from the exercise of stock options, under the tax-law ordering approach	-	82	3
Fixed assets acquired by entering into capital lease	-	-	103

See Notes to Consolidated Financial Statements.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Boss Holdings, Inc. and its subsidiaries are engaged in the import, marketing and distribution of (i) gloves, boots, rainwear, (ii) pet supplies and specialty lighting products and (iii) cell phone accessories, as well as custom imprinting of inflatable and other products for the advertising specialties industry. Customers, located throughout the world, include retailers ranging from convenience stores to mass merchandisers and various commercial users. The Company sells its products primarily through distributors and manufacturer's representatives.

Significant accounting policies:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Boss Holdings, Inc. ("BHI"), and its wholly owned subsidiary, Boss Manufacturing Holdings, Inc. and subsidiaries ("BMHI") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Fiscal year: The Company maintains a 52/53-week year ending on the last Saturday of the calendar year. Each of fiscal years 2010, 2009 and 2008 contained 52 weeks.

Use of estimates in the preparation of financial statements: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and cash equivalents: Cash and cash equivalents consist of cash on hand, time deposits, and liquid debt instruments such as commercial paper with maturities of three months or less from the date of purchase.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received.

An account is considered to be past due if any portion of the receivable balance is past due more than 60 days. The provision for bad debts charged to expense was \$177, \$76 and \$96 for the years ended 2010, 2009 and 2008, respectively.

Revenue recognition: The Company recognizes revenue from product sales at the time of shipment based on standard terms of FOB shipping point, with title passing to the customer at time of shipment. Management records estimated reductions to revenue for various customer programs and incentive offerings primarily in the consumer market of the work gloves and protective wear segment. These programs include the following:

- Rebates and other volume-based incentives – The Company records a revenue reduction and associated accrued liability each period based on the estimated rebate total. Rebates paid are then charged to the accrued liability. Each quarter, management compares the accrued liability balance to the estimated rebates payable compiled for all customers and makes adjustments as appropriate to revenues and the accrued rebate liability.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

- Terms discounts – The Company offers cash discounts to certain customers, recorded as revenue reductions in each period with an associated accounts receivable allowance. Management periodically analyzes this allowance account to ensure its adequacy, adjusting sales and the accounts receivable allowance when appropriate.
- Cooperative advertising and marketing allowances – The Company supports certain customer advertising and marketing initiatives to promote product sales at retail. In many cases, customers advertise Company products using mutually agreed specifications such as the Boss logo and trade names, with the Company then reimbursing a portion of the advertising cost incurred by the customer. The Company also supports various other advertising and marketing initiatives to promote sales. All such costs are treated as a reduction of revenues for accounting purposes.
- To a lesser extent, the Company occasionally utilizes additional incentives to increase market share such as buying back a competitor's inventory from a new customer, offering conversion allowances and providing other new customer incentives. Such methods are common in certain retail industry channels. All such costs are treated as a reduction of revenues for accounting purposes.

As of December 25, 2010, the Company's accrual for customer advertising and promotional activities totaled \$939. The Company has received no material allowances or credits from any vendors in connection with the purchase or promotion of such vendor's products.

Cost of sales: The Company's cost of sales expense includes all costs incident to purchasing goods for sale, transporting them from the supplier to Company facilities, warehousing and shipping goods to the customer. Such costs include product cost, inbound freight, duty, brokerage fees and storage costs as well as shipping and handling costs associated with outbound shipments to customers.

Warranty costs and returns: The Company provides for estimated warranty costs and returns at the time of sale. Accrued costs of warranty obligations and returns are classified as accrued liabilities and are immaterial to the financial statements as a whole.

Inventories: Inventories are valued at the lower of cost or market using primarily the first-in, first-out ("FIFO") method. The Company provides estimated inventory allowances for excess, slow moving and obsolete inventory whose carrying value is in excess of net realizable value. Inventories consist of finished goods for the periods presented.

Property and equipment and depreciation: Property and equipment is recorded at historical cost. The Company provides for depreciation generally using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Machinery and equipment	10
Office furniture and equipment	3 - 10
Buildings and improvements	10 - 39

Depreciation expense was \$431, \$482 and \$491 for 2010, 2009 and 2008, respectively.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Goodwill and other intangibles: Goodwill represents the excess of purchase price over the fair value of the identifiable net assets acquired. In accordance with FASB ASC Topic 350, goodwill is not amortized and, instead, is evaluated for impairment at least annually. The Company performs its impairment test in December each year. Other intangible assets are recorded at cost and amortized over their estimated useful life (see Note 9).

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The estimated future cash flows are based upon, among other things, assumptions about expected future operating performance, and may differ from actual cash flows. If the sum of the projected undiscounted cash flows (excluding interest) is less than the carrying value of the assets, the assets will be written down to the estimated fair value in the period in which the determination is made (see Note 9).

The cost and accumulated amortization of other intangible assets as of December 25, 2010 and December 26, 2009 is as follows:

	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
2010				
Customer lists/noncompete:				
Canadawide Safety	4	\$ 109	\$ 99	\$ 10
Dipcraft	5	343	214	128
Galaxy	7.5	170	145	25
AGA	5	300	70	230
Aries-Customer List	5	29	2	27
Aries-Non-Compete	4	100	11	89
Trademarks	5	208	150	58
Patents	10	15	15	-
		\$ 1,274	\$ 706	\$ 567
2009				
Customer lists/noncompete:				
Canadawide Safety	4	\$ 105	\$ 69	\$ 36
Dipcraft	5	343	146	196
Galaxy	7.5	170	122	48
AGA	5	300	10	290
Trademarks	5	164	111	53
Patents	10	15	15	-
		\$ 1,097	\$ 473	\$ 623

Amortization of intangible assets is expected to be approximately \$217 in 2011, \$168 in 2012, \$102 in 2013, \$77 in 2014 and \$3 in 2015.

The Company's goodwill impairment evaluation as of December 25, 2010 and December 26, 2009 indicated that the goodwill for the Galaxy acquisition was not impaired.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Concentrations of credit risk: The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable.

The Company places its cash and temporary cash investments with high credit quality financial institutions. The Federal Deposit Insurance Corporation ("F.D.I.C.") has temporarily expanded its insurance of cash balances up to \$250 per bank. The combined account balances at each institution periodically exceed the F.D.I.C. coverage resulting in a concentration of credit risk for the amounts on deposit in excess of \$250. The Company's management does not believe this credit risk is significant, as they do not anticipate non-performance of the financial institutions.

Concentrations of credit risk with respect to accounts receivable are limited due to the diversity of the Company's customer base. The Company's management has established certain credit requirements that its customers must meet before sales credit is extended. The Company generally does not require collateral, but monitors the financial condition of its customers to help ensure collections and to minimize losses. Historically, the Company has not experienced significant losses related to accounts receivable from individual customers or from groups of customers in any geographic area.

Foreign currency translation: Financial statements of the Company's Canadian subsidiary are translated into U.S. dollars using fiscal year-end exchange rates for assets and liabilities, and average exchange rates during the year for the results of operations. Translation adjustments of the Canadian accounts are reported as a separate component of other comprehensive earnings within stockholders' equity. Exchange rate adjustments related to foreign currency transactions are recognized in comprehensive income.

Income taxes: The Company accounts for income taxes using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates applied to taxable income. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company accounts for stock options using the tax-law-ordering approach which recognizes an excess tax benefit when a stock option deduction is used on the company's tax return, before an NOL or another tax attribute. A valuation allowance is provided for deferred income tax assets when it is more likely than not that the asset will not be realized.

Advertising costs: The Company generally expenses the cost of advertising the first time advertising takes place. Costs of trade shows and developing advertising materials are expensed at the time of the trade shows or as the advertising materials are produced and distributed to customers. Advertising expense for 2010, 2009 and 2008 was \$457, \$459 and \$789, respectively.

Stock based compensation: The Company calculates stock-based compensation by estimating the fair value of each option using the Black-Scholes option pricing model. The Company's determination of fair value of share-based payment awards is made as of their respective dates of grant using that option pricing model and is affected by the Company's stock price as well as a number of subjective assumptions. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behavior. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate selected to value any particular grant is based on the U.S. Treasury rate that corresponds to the pricing term of the grant effective as of the date of the grant. The expected volatility is based on the historical volatility of the Company's stock price. These factors, as they pertain to future grants, could change in the future, affecting the determination of stock-based compensation expense in future periods.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Earnings per share: Basic net earnings per common share is based upon the weighted average number of common shares outstanding during the period. Diluted net earnings per common share is based upon the weighted average number of common shares outstanding plus dilutive potential common shares, including options outstanding during the period.

Reclassifications: Certain items on the consolidated statements of income for the year ended December 27, 2008 have been reclassified to be consistent with classifications adopted during the year ended December 26, 2009. The reclassifications had no effect on net income of the Company.

Subsequent events: The Company has considered subsequent events through April 11, 2011, the date the consolidated financial statements were available to be issued, in preparing the financial statements and notes thereto.

Note 2. Property and Equipment

Property and equipment as of December 25, 2010 and December 26, 2009 are as follows:

	2010	2009
Land	\$ 410	\$ 410
Machinery and equipment	1,893	1,973
Buildings and improvements	2,521	2,505
Office furniture and equipment	2,830	2,623
	<hr/> 7,654	<hr/> 7,511
Less accumulated depreciation	4,534	4,335
	<hr/> <hr/> \$ 3,120	<hr/> <hr/> \$ 3,176

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 3. Long-Term Obligations

Long-term debt as of December 25, 2010 and December 26, 2009 is as follows:

	2010	2009
BHI revolving line of credit (A)	\$ -	\$ -
Boss Canada Inc. revolving line of credit (B)	21	-
Boss Holdings, Inc. term note payable to a lender. Requires monthly principal payments through July 2011 of \$21 plus interest at LIBOR plus 2.1%, adjusted monthly (effective rate of 2.37% as of December 25, 2010). The Company has entered into an interest rate swap agreement related to this note. The swap effectively fixes the interest rate on approximately 57% of the note at 6.32%. Collateralized by all assets of Galaxy Balloons, Inc., in addition to accounts receivable and inventory of Boss Manufacturing Company and subsidiaries.	167	417
Boss Manufacturing Company mortgage note payable to a lender. Requires monthly principal payments of \$4, plus interest at 3.69%. Collateralized by certain real property of Boss Manufacturing Company located in Kewanee, Illinois.	641	693
Boss Canada Inc. term note payable to a lender. Requires monthly payment of \$7 Canadian Dollar (\$7 US Dollar), using December 25, 2010 exchange rate of .9923, at 6.3% from June 2008 through May 2014. Collateralized by accounts receivable and inventory of Boss Canada Inc. and guaranteed by Boss Manufacturing Company and subsidiaries.	250	294
Boss Manufacturing Company loan agreement with a local governmental agency was paid-in-full during 2010.	-	32
Boss Manufacturing Company loan agreement with a local governmental agency. Requires monthly payments of \$3, including interest at 3%, through October 2012. Collateralized by certain real property of Boss Manufacturing Company's Kewanee, Illinois facilities.	71	107
Capital lease obligations	50	70
	1,200	1,613
Less current maturities	362	1,091
	<u>\$ 838</u>	<u>\$ 522</u>

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 3. Long-Term Obligations (Continued)

- (A) Effective January 4, 2011, the Company modified its loan and security agreement (the "Credit Agreement") with a commercial bank. The revised Credit Agreement expires in January 2012 and provides a revolving credit facility up to \$7,000 based on a formula that includes eligible accounts receivable and inventories. Interest is payable monthly at the bank's prime rate less 1.50% or, at the Company's option, LIBOR plus 1.00% (effective rate of 1.75% as of December 25, 2010). The Company incurs an unused line fee of 1/8% per annum on the unused portion of the credit facility. As of December 25, 2010, the Company had no borrowings on the revolving credit facility. Availability under this credit agreement was \$7,000 as of December 25, 2010.

The Credit Agreement includes certain restrictive covenants and requires maintenance of certain financial ratios including current ratio, minimum tangible net worth, debt service coverage, and debt to tangible net worth. The Company's accounts receivable and inventories secure the credit facility.

- (B) Effective January 4, 2011, the Company modified its loan and security agreement (the "Credit Agreement") with a commercial bank for Boss Canada. The revised Credit Agreement expires in January 2012 and provides a revolving credit facility up to \$100 Canadian based on a formula that includes eligible accounts receivable and inventories. Interest is payable monthly at the bank's Canadian prime rate (effective rate of 3.00% as of December 25, 2010). As of December 25, 2010, there were borrowings of \$21 on the Canadian revolving credit facility. Availability under this credit agreement was \$79 Canadian as of December 25, 2010.

The Credit Agreement includes certain restrictive covenants and requires maintenance of certain financial ratios including current ratio, minimum tangible net worth, debt service coverage, and debt to tangible net worth. The Company's accounts receivable and inventories secure the credit facility.

Scheduled principal payments of long-term debt are as follows:

Year ending:

December 31, 2011	\$	362
December 29, 2012		184
December 28, 2013		136
December 27, 2014		85
December 26, 2015		433
	\$	<u>1,200</u>

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 4. Commitments and Contingencies

Leases:

The Company leases certain office and operating facilities and certain equipment under operating lease agreements that expire on various dates through 2014 and require the Company to pay all maintenance costs. Rent expense under these leases was \$569, \$561 and \$616 for 2010, 2009 and 2008, respectively.

The following is a schedule by year of future minimum payments under the operating lease agreements:

Year ending:		
December 31, 2011	\$	504
December 29, 2012		403
December 28, 2013		376
December 27, 2014		190
Total minimum lease payments	\$	1,473

Licensing:

During 2002, the Company entered into a license agreement for the use of certain trademarks in its products which requires the payment of guaranteed or minimum royalties. The Company incurred royalties of \$373, \$329 and \$341 in 2010, 2009 and 2008, respectively. The Company has extended the agreement with provisions for the payment of guaranteed or minimum royalties of \$395 in 2011.

Litigation:

The Company is a party to various legal actions incident to the normal operation of its business. These lawsuits primarily involve claims for damages arising out of commercial disputes. The Company has been named as a defendant in several lawsuits alleging past exposure to asbestos contained in gloves manufactured or sold by one of the Company's predecessors-in-interest, all of which actions are being defended by one or more of the Company's products liability insurers. Management believes the ultimate disposition of these matters should not materially impact the Company's consolidated financial position, operations or liquidity.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 5. Stock Options

The Company adopted two stock option plans in 1998 providing for the issuance of options covering up to 425,000 shares of common stock to be issued to officers, directors or consultants to the Company. In 2004, an equity-based incentive program was adopted allowing the issuance of up to 150,000 shares of common stock in the form of any of the following: stock options, stock appreciation rights, performance based stock awards and restricted stock units. Various vesting conditions apply to these options, based on either tenure or certain performance criteria. There have been no options granted since 2007. Stock option transactions are summarized as follows:

	Year Ended					
	December 25, 2010		December 26, 2009		December 27, 2008	
	Weighted Average Exercise Shares	Price	Weighted Average Exercise Shares	Price	Weighted Average Exercise Shares	Price
Outstanding, beginning	231,000	\$ 3.92	316,000	\$ 3.34	336,000	\$ 3.33
Exercised	(8,000)	3.63	(80,000)	1.75	(20,000)	3.16
Expired	(2,000)	-	(5,000)	1.75	-	-
Outstanding, ending	221,000	\$ 3.92	231,000	\$ 3.92	316,000	\$ 3.34
Options exercisable, end of year	221,000	\$ 3.92	231,000	\$ 3.92	314,540	\$ 3.34

Note 6. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended		
	December 25, 2010	December 26, 2009	December 27, 2008
Numerator, earnings attributable to common stockholders	\$ 3,193	\$ 1,767	\$ 538
Denominator:			
Basic-weighted average common shares outstanding	2,030,475	2,101,102	2,022,758
Dilutive effect of employee stock options	97,236	103,112	183,413
Diluted outstanding shares	2,127,711	2,204,214	2,206,171
Basic earnings, per common share	\$ 1.57	\$ 0.84	\$ 0.27
Diluted earnings, per common share	\$ 1.50	\$ 0.80	\$ 0.24

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 7. Related Party Transactions

During 2010, 2009 and 2008, compensation, fees and expense reimbursements paid to directors or their affiliates totaled \$433, \$435 and \$392, respectively.

Note 8. Acquisitions

AGA:

In November of 2009, Galaxy Balloons acquired certain assets of AGA Balloons for a total cash consideration of \$406. Inventory accounted for \$18 of the purchase, fixed assets accounted for \$88, customer list accounted for \$250 and non-compete accounted for the remaining \$50. \$388 of the purchase was paid in cash at closing with the remaining balance of \$18 paid in 2010.

Aries Manufacturing:

In July of 2010, Boss Tech Products, Inc, an indirect subsidiary of Boss Holdings, Inc. ("BHI"), purchased the cell phone accessory distribution business and related assets of Aries Manufacturing, Inc., an Illinois corporation ("Aries"), pursuant to an Asset Purchase and Sale Agreement. Aries, headquartered in Libertyville, IL, markets cell phone accessories, including wireless headsets, car chargers and related accessories through multiple distribution channels, including service stations, convenience stores and truck stops.

The base purchase price was \$1,279 and was funded with cash.

Allocation of purchase cost:

Current assets	\$	1,134
Property and equipment		16
Customer Lists		29
Non-compete		100
	\$	<u>1,279</u>

Note 9. Goodwill and Intangible Assets

In connection with its purchases of Galaxy during 2004, Head-Lite, LLC., during 2005, and Canadawide during 2007, the Company recorded goodwill of \$3,666. Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. The Company does not amortize the goodwill associated with these acquisitions since it has an indefinite life. Instead, management tests goodwill for impairment in the fourth quarter of each year, or if certain circumstances indicate the existence of a possible impairment. Management's impairment test considers the carrying value of the reporting unit for each acquisition, including goodwill, in relation to its fair value based upon earnings generated. Expected earnings are calculated based on a discounted cash flow methodology. The determination of the reporting units is based on the Company's organizational structure and the financial information that is provided to and reviewed by management. The affected reporting units are the Galaxy, BMC and Boss Canada divisions for the Galaxy, Head-Lite and Canadawide acquisitions, respectively.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 9. Goodwill and Intangible Assets (Continued)

The Company's goodwill impairment evaluation as of December 27, 2008 indicated that the goodwill for the Galaxy acquisition was not impaired, while the goodwill for Head-Lite LLC and Canadawide was found to be impaired. When the carrying value of the net assets assigned to a reporting unit exceeds the fair value of a reporting unit, a second step of the impairment test is performed to determine the implied fair value of a reporting unit's goodwill. This step requires valuation of a reporting unit's tangible and intangible assets, and liabilities in a manner similar to the allocation of purchase price in a business combination. Based on that step, management concluded that, no fair value remains for the goodwill of the Head-Lite, LLC. and the Canadawide acquisitions. Therefore, goodwill impairment losses of \$527 and \$230 were recognized during 2008 in the work gloves and protective wear segment. These expenses have been recorded in the asset impairment loss on the consolidated statements of income. After the impairment losses, \$2,853 in goodwill remained at year-end 2008 related to the Galaxy acquisition.

In 2008, the Company determined that an impairment evaluation was also required for Head-Lite's patent, based on a sharp decline in an historical downward trend of sales for the Head-Lite product line. The impairment analysis performed as of December 27, 2008 indicated that the patent was fully impaired, resulting in an impairment loss of \$35. This expense was also recorded in the asset impairment loss on the consolidated statements of income.

The Company's goodwill impairment evaluations as of December 25, 2010 and December 26, 2009 indicated that the goodwill for the Galaxy acquisition was not impaired.

The Company's evaluations used significant assumptions by reporting unit, which is a company division, including: expected future revenue and expense growth rates, cost of capital, discount rate and forecasted capital expenditures. Assumptions and estimates about future cash flows and discount rates are complex and may be subjective. They can be affected by a variety of external and internal factors. Management believes the assumptions and estimates made in these evaluations were reasonable and appropriate, however, different assumptions and estimates could materially impact the projected earnings.

Note 10. Income Taxes

The Company records income taxes based on its consolidated tax return. Current and deferred federal and state tax expense (benefit) is as follows:

	Year Ended		
	December 25, 2010	December 26, 2009	December 27, 2008
Current income tax expense:			
Federal	\$ 49	\$ 96	\$ 25
State and local	154	109	92
	203	205	117
Deferred income tax expense (benefit):			
Federal	(517)	(159)	435
State and local	(27)	1	(21)
	(544)	(158)	414
Total income tax expense (benefit)	\$ (341)	\$ 47	\$ 531

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 10. Income Taxes (Continued)

Income taxes recorded by the Company differ from the amounts computed by applying the statutory U.S. federal income tax rate to net earnings before income taxes. The following schedule reconciles income tax expense (benefit) at the statutory rate and the actual income tax expense as reflected in the consolidated statements of income for the respective periods:

	Year Ended		
	December 25, 2010	December 26, 2009	December 27, 2008
Income tax expense computed			
at the U.S. corporate tax rate of 34%	\$ 970	\$ 617	\$ 364
Adjustments attributable to:			
State income taxes, net of the federal benefit	83	73	53
Change In deferred tax asset valuation allowance	(1,550)	(750)	-
Effect of foreign operations	43	100	86
Other	113	7	28
Total income tax expense (benefit)	\$ (341)	\$ 47	\$ 531

The temporary differences result in a net deferred income tax asset that is reduced by a related valuation allowance, summarized as follows:

	December 25, 2010	December 26, 2009
Deferred income tax assets:		
Operating loss carryforwards	\$ 6,373	\$ 7,644
Accounts receivable	162	127
Accruals	139	144
Compensation related	338	360
Inventories	460	367
Intangibles	209	167
Tax credit carryforwards	544	495
Gross deferred tax assets	8,225	9,304
Deferred tax asset valuation allowance	4,200	5,750
Net deferred tax assets	4,025	3,554
Deferred income tax liabilities	114	187
Net deferred income tax assets	3,911	3,367
Less current portion	1,619	1,554
	\$ 2,292	\$ 1,813

Included in the tax credit carryforward is approximately \$508 of alternative minimum tax credits which may be carried forward indefinitely and \$36 of general business credits which expire in 2011. These credits are available to reduce future income taxes payable.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 10. Income Taxes (Continued)

Because of losses in prior years, the Company has available, for U.S. income tax purposes, NOL carryforwards of approximately \$18,743. During the fourth quarter of 2010, the Company reevaluated its estimates and, based upon its current and projected profitability determined that it was more likely than not that it would be able to utilize an additional \$4,559 of its remaining NOL carryforwards. Accordingly, at the end of 2010 the Company reduced its valuation allowance and recognized a \$1,550 tax benefit. As of December 25, 2010, the Company had operating loss carryforwards for U.S. income tax purposes of \$18,743 available to reduce future taxable income through the following years:

Year of expiration:	
2011	\$ 8,078
2012	9,197
Thereafter	1,468
	<u>\$ 18,743</u>

As of December 25, 2010, the Company had operating loss carryforwards for Canadian income tax purposes of approximately \$563. The operating losses are available to reduce future taxable income through the following years:

Year of expiration:	
2014	\$ 26
2015	-
Thereafter	537
	<u>\$ 563</u>

On December 31, 2006, the Company adopted FASB guidance related to Accounting for Uncertainty in Income Taxes. This guidance clarifies the criteria that an individual tax position must satisfy for some or all of the benefits of that position to be recognized in a company's financial statements. The guidance also prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. The adoption had no impact on the Company's consolidated financial statements.

As of December 25, 2010 the remaining amount of the reserve related to uncertain tax positions was \$14. The Company is generally no longer subject to state, local and foreign income tax examinations by tax authorities for years prior to 2006, and no longer subject to U.S. federal income tax examinations for years prior to 2007. The Company recognizes interest and penalties related to income tax matters in the provision for income taxes. All unrecognized tax benefits, if recognized, would affect the effective tax rate. The liability for unrecognized tax benefits includes accrued interest for tax positions, which either do not meet the more-likely-than-not recognition threshold or where the tax benefit is measured at an amount less than the tax benefit claimed or expected to be claimed on an income tax return.

Boss Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands, Except Per Share Data)

Note 11. Comprehensive Income (Loss)

FASB ASC Topic 220, establishes standards for reporting and display of comprehensive income (loss) and its components in a full set of general-purpose financial statements. The guidance requires that all items required to be recognized under accounting standards as components of comprehensive income must be disclosed in the financial statements.

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events from non-owner sources. Comprehensive income (loss) is the total of net income and other comprehensive income (loss), which for the Company is comprised of foreign currency items and the unrealized gains and losses on the interest rate swap agreements, net of income taxes. Accumulated other comprehensive income (loss) consists of the following:

	Year Ended		
	December 25, 2010	December 26, 2009	December 27, 2008
Foreign currency items:			
Beginning balance	\$ 93	\$ (21)	\$ 244
Current period change	37	114	(265)
Ending balance	130	93	(21)
Interest swap agreements, net of income taxes:			
Beginning balance	(13)	(28)	(1)
Current period change	12	15	(27)
Ending balance	(1)	(13)	(28)
Accumulated other comprehensive income (loss)	\$ 129	\$ 80	\$ (49)

Note 12. Reverse Stock Split

During the second quarter of 2010, the Company's stockholders approved the repurchase of shares of common stock from stockholders owning less than 100 shares of the Company's common stock by means of a reverse stock split, followed immediately by a matching forward stock split. The resulting amendments to the Company's certificate of incorporation were filed during April 2010 and the Company terminated the registration of its shares with the SEC.