



2012 – Fiscal Year End Report

2012 consolidated revenues of Boss Holdings, Inc. (the “Company”) increased 3.1% or \$2.0 million over 2011. Sales in the work gloves and protective wear segment decreased 3.3%, compared to 2011. Increased sales to industrial customers supporting manufacturing and mining activities in the U.S. along with sales increases in Canada were able to partially offset declines in consumer and CAT® sales. Our pet supplies segment, reported a 19.3% decrease in sales caused by the loss of a major account. 2012 sales in the promotional and specialty products segment were largely flat (0.5% increase) compared to 2011. Balloon sales have decreased as a result of a persistent worldwide helium shortage, but sport ball sales in this segment have increased and covered the balloon shortfall. Sales in our cell phone accessory segment increased 91.5% in 2012 compared with 2011, with several new product introductions and penetration into new market channels.

The Company’s overall gross margin decreased to 24.7% for fiscal 2012 compared to 25.2% in 2011. A change in product sales mix coupled with cost increases from suppliers caused the work glove and protective wear segment gross margin to decrease to 23.0% compared to 24.6% during 2011. Sales of higher margin products along with cost reductions allowed the gross margin for pet supplies to increase from 17.0% to 18.3% for the twelve months of 2012. The promotional product segments’ gross margin decreased to 28.9% in 2012 compared to 29.2% last year as a result of increases in product costs and freight charges. Gross margin for all 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 make this difficult.

Operating expenses decreased \$498,000 during fiscal 2012 compared to 2011. Increased volume related expenses at the cell phone accessory business were more than offset by cost savings gained through the other three segments.

2012 operating income increased \$677,000 compared to 2011. Volume increases from industrial customers, part of the work gloves and protective wear segment, along with volume increases from the cell phone accessory segment were enough to offset the volume losses from the other segments and increased costs from suppliers. The Company recorded income tax expense of \$1,443,000 for 2012, 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.

Operating activities provided \$2,157,000 of cash for the full year of 2012. Increases in inventory, to support new customers and the introduction of new products, was offset by earnings and lower accounts receivable. Investing activities utilized \$361,000, for data archiving equipment, two new lift trucks at the work glove and safety segment, a new phone system at pet supplies and new production machinery at the promotional products segment. Financing activities during 2012 used \$735,000 to pay down debt and repurchase stock. These items were partially offset by proceeds from the exercise of stock options totaling \$266,000.

At December 29, 2012, the Company held \$4,258,000 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)

	December 29, 2012 (Unaudited)	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,258	\$ 3,144
Accounts receivable, net	8,169	9,534
Inventories	25,381	23,166
Deferred tax asset	1,814	2,384
Prepaid expenses and other	637	464
Total current assets	40,259	38,692
Property and Equipment, net	3,081	3,210
Other assets	-	-
Intangibles, net of amortization	174	379
Goodwill	2,853	2,853
Deferred tax asset	648	1,131
	\$ 47,015	\$ 46,265
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term obligations	\$ 243	\$ 267
Accounts payable	3,851	3,961
Accrued payroll and related expenses	1,519	1,369
Accrued promotional expenses	808	1,014
Other accrued liabilities	1,281	1,399
Total current liabilities	7,702	8,010
Long-Term Obligations, net of current portion	592	822
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 2,026,983 and 1,976,489 shares in 2012 and 2011, respectively	507	494
Additional paid-in capital	65,373	65,598
Accumulated (deficit)	(27,259)	(28,749)
Accumulated other comprehensive income	100	90
Total stockholders' equity	38,721	37,433
	\$ 47,015	\$ 46,265

Boss Holdings, Inc. and Subsidiaries

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

	Quarter Ended December 29, 2012	Quarter Ended December 31, 2011	Twelve Months Ended December 29, 2012	Twelve Months Ended December 31, 2011
Net sales	\$ 17,013	\$ 17,237	\$ 64,829	\$ 62,868
Cost of sales	12,641	13,125	48,838	47,056
Gross profit	4,372	4,112	15,991	15,812
Operating expenses	3,331	3,722	13,028	13,526
Operating income	1,041	390	2,963	2,286
Other income (expense):				
Interest income	(2)	-	2	4
Interest expense	(13)	(12)	(52)	(58)
Other	6	(16)	21	(13)
	(9)	(28)	(29)	(67)
Income before income tax	1,032	362	2,934	2,219
Income tax expense (benefit)	694	(72)	1,444	657
Change in deferred tax asset valuation	-	-	-	-
Net income	\$ 338	\$ 434	\$ 1,490	\$ 1,562
Comprehensive income	\$ 288	\$ 524	\$ 1,500	\$ 1,523
Weighted average shares outstanding	2,053,230	1,984,079	2,053,230	1,984,079
Basic earnings per common share	\$ 0.16	\$ 0.22	\$ 0.73	\$ 0.79
Diluted earnings per common share	\$ 0.16	\$ 0.21	\$ 0.71	\$ 0.74

Boss Holdings, Inc. and Subsidiaries

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

	Twelve Months Ended December 29, 2012	Twelve Months Ended December 31 2011
Cash Flows from Operating Activities:		
Net income	\$ 1,490	\$ 1,562
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	675	694
Stock based compensation	257	-
Deferred tax expense	1,053	396
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	1,388	(1,439)
Inventories	(2,180)	(3,165)
Prepaid expenses and other current assets	(173)	1
Other assets	(1)	(13)
Increase (decrease) in:		
Accounts payable	(131)	658
Accrued liabilities	(221)	925
Net cash provided by (used in) operating activities	<u>2,157</u>	<u>(381)</u>
Cash Flows from Investing Activities:		
Acquisition of operating assets	-	-
Purchases of property and equipment	(361)	(562)
Net cash (used in) investing activities	<u>(361)</u>	<u>(562)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	-	288
Net borrowings on revolving line of credit	-	-
Repayment on long-term obligation	(266)	(398)
Repurchase of common stock	(735)	(64)
Proceeds from exercise of stock options	266	-
Net cash (used in) financing activities	<u>(735)</u>	<u>(174)</u>
Effect of exchange rates on cash and cash equivalents	53	(50)
Increase (decrease) in cash and cash equivalents	1,114	(1,167)
Cash and cash equivalents:		
Beginning of period	3,144	4,311
End of period	<u>\$ 4,258</u>	<u>\$ 3,144</u>