



Boss Holdings, Inc.

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2013 – Fiscal Year End Report

2013 consolidated revenues of Boss Holdings, Inc. (the “Company”) decreased 1.2% or \$806,000 compared to 2012. Net sales in the work gloves and protective wear segment decreased \$781,000 or 2.0%. Consumer sales increased with the addition of new distribution and new products, but were offset by decreases in industrial sales due to the continuing slowdown in the mining and oil drilling industries along with a general weakness in U.S. manufacturing. Sales in Canada were also down compared to 2012 which included the initial load-in of a major new Canadian customer. The Company’s pet supplies segment reported a \$169,000 or 3.5% increase in sales in 2013 compared to 2012. The addition of new product offerings and a new retail customer generated the increased volume. Sales in the promotional and specialty products segment increased \$368,000 or 3.0% compared to the same period as last year due to new product offerings. Sales in the Company’s cell phone accessory segment decreased by \$562,000 compared with last year. 2012 included a number of hands free headset sales attributable to the introduction of the hands free cell phone laws for truck drivers.

The Company’s overall gross margin increased slightly to 25.0% for 2013 compared to 24.7% for 2012. Price increases put in place at the beginning of 2013 allowed the work glove and protective wear segment gross margin to increase to 23.9% compared to 23.0% during 2012. Sales of new products at higher margins increased the gross margin for the pet supply segment to 18.8% in 2013 from 18.3% in 2012. The promotional and specialty products segment’s gross margin increased to 29.2% in 2013 compared to 28.9% last year as a result of production efficiencies put in place during 2013. Lower volumes in the cell phone accessory segment caused the gross margin to decrease to 27.0% in 2013 from 29.1% in 2012. 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 increased \$23,000 for 2013 compared to 2012. Increased compensation spending was offset by spending controls put in place at all segments, along with volume related expense reductions at the cell phone accessory segment.

Total operating income decreased \$28,000 from \$2,963,000 in 2012 to \$2,935,000 in 2013. Volume increases from consumer and CAT® sales, part of the work gloves and protective wear segment, along with volume increases from the Company’s pet supplies segment and the promotional and specialty products segment were enough to offset the volume losses from the other segments and increased costs from suppliers. The Company recorded income tax expense of \$1,104,000 for 2013.

Liquidity increased during 2013 with cash increasing \$2,056,000. Operating activities provided \$3,086,000 of cash. This was primarily driven by earnings and a decrease in inventory, partially offset by an increase in accounts receivable. Investing activities used \$536,000, primarily for facility improvements, material handling equipment and communication updates at the work gloves and protective wear segment, along with production equipment and new product development at the promotional and specialty products segment. Financing activities used \$248,000 to pay down debt and \$32,000 to repurchase stock, offset by \$15,000 of proceeds from the exercise of stock options and \$13,000 of proceeds from long term debt.

At December 28, 2013, the Company held \$6,314,000 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.

The Company's Board of Directors has adopted a stock buyback program (the "Stock Buyback Program") pursuant to which the Company and/or any of its subsidiaries may purchase shares of the Company's common stock in an amount up to a total of approximately \$1,500,000, by open market purchases, private transactions or otherwise, at such prices, and on such terms and conditions as are determined by appropriate officers of the Company from time to time. Shares of the Company's common stock acquired as part of the Stock Buyback Program may be held as treasury shares or retired, as the Company may determine. Through December 28, 2013, the Company had repurchased approximately 87,317 shares at an average price of \$8.71. The Company's Board of Directors in its discretion may extend, curtail, amend or terminate the Stock Buyback Program at any time.

Part I - Financial Information
Item 1. Financial Statements

Boss Holdings, Inc. and Subsidiaries

Consolidated Balance Sheets
(Dollars in Thousands, Except Per Share Data)

	December 28, 2013	December 29, 2012
Assets		
Current Assets:		
Cash and cash equivalents	\$ 6,314	\$ 4,258
Accounts receivable, net	9,035	8,169
Inventories	24,099	25,381
Deferred tax asset	1,312	1,814
Prepaid expenses and other	930	637
Total current assets	41,690	40,259
Property and Equipment, net	3,096	3,081
Other assets	-	-
Intangibles, net of amortization	113	174
Goodwill	2,853	2,853
Deferred tax asset	319	648
	\$ 48,071	\$ 47,015
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term obligations	\$ 164	\$ 243
Accounts payable	3,400	3,851
Accrued payroll and related expenses	1,646	1,519
Accrued promotional expenses	823	808
Other accrued liabilities	1,282	1,281
Total current liabilities	7,315	7,702
Long-Term Obligations, net of current portion	448	592
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 2,029,172 and 2,026,983 shares in 2013 and 2012, respectively	507	507
Additional paid-in capital	65,364	65,373
Accumulated (deficit)	(25,453)	(27,259)
Accumulated other comprehensive income (loss)	(110)	100
Total stockholders' equity	40,308	38,721
	\$ 48,071	\$ 47,015

Boss Holdings, Inc. and Subsidiaries

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

	Quarter Ended December 28, 2013	Quarter Ended December 29 2012	Twelve Months Ended December 28, 2013	Twelve Months Ended December 29 2012
Net sales	\$ 17,680	\$ 17,013	\$ 64,023	\$ 64,829
Cost of sales	12,845	12,641	48,037	48,838
Gross profit	4,835	4,372	15,986	15,991
Operating expenses	3,640	3,331	13,051	13,028
Operating income	1,195	1,041	2,935	2,963
Other income (expense):				
Interest income	1	(2)	3	2
Interest expense	(9)	(13)	(40)	(52)
Other	8	6	12	21
	-	(9)	(25)	(29)
Income before income tax	1,195	1,032	2,910	2,934
Income tax expense	435	2,858	1,104	3,608
Change in deferred tax asset valuation	-	(2,164)	-	(2,164)
Net income	\$ 760	\$ 338	\$ 1,806	\$ 1,490
Comprehensive income	\$ 672	\$ 308	\$ 1,596	\$ 1,500
Weighted average shares outstanding	2,029,425	2,053,230	2,028,862	2,053,230
Basic earnings per common share	\$ 0.37	\$ 0.16	\$ 0.89	\$ 0.73
Diluted earnings per common share	\$ 0.37	\$ 0.16	\$ 0.88	\$ 0.71

Boss Holdings, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in Thousands)

	Twelve Months Ended December 28, 2013	Twelve Months Ended December 29, 2012
Cash Flows from Operating Activities:		
Net income	\$ 1,806	\$ 1,490
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	598	675
Excess tax benefit related to share-based compensation	8	257
Deferred tax expense	831	1,053
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(917)	1,388
Inventories	1,179	(2,180)
Prepaid expenses and other current assets	(295)	(173)
Other assets	(19)	(1)
Increase (decrease) in:		
Accounts payable	(303)	(131)
Accrued liabilities	198	(221)
Net cash provided by operating activities	<u>3,086</u>	<u>2,157</u>
Cash Flows from Investing Activities:		
Proceeds from sale of property and equipment	2	-
Purchases of property and equipment	(538)	(361)
Net cash (used in) investing activities	<u>(536)</u>	<u>(361)</u>
Cash Flows from Financing Activities:		
Proceeds from long-term debt	13	-
Net borrowings on revolving line of credit	-	-
Repayment on long-term obligation	(248)	(266)
Repurchase of common stock	(32)	(735)
Proceeds from exercise of stock options	15	266
Net cash (used in) financing activities	<u>(252)</u>	<u>(735)</u>
Effect of exchange rates on cash and cash equivalents	<u>(242)</u>	<u>53</u>
Increase in cash and cash equivalents	2,056	1,114
Cash and cash equivalents:		
Beginning of period	4,258	3,144
End of period	<u>\$ 6,314</u>	<u>\$ 4,258</u>