

Boss Holdings, Inc. and Subsidiaries

Consolidated Financial Statements
December 27, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Boss Holdings, Inc. and Subsidiaries which comprise the consolidated balance sheets as of December 27, 2014 and December 28, 2013, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for the periods ended December 27, 2014, December 28, 2013 and December 29, 2012 and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 27, 2014 and December 28, 2013, and the results of their operations and their cash flows for the periods ended December 27, 2014, December 28, 2013 and December 29, 2012 in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Davenport, Iowa
July 13, 2015

**Boss Holdings, Inc.
and Subsidiaries**

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

Assets	December 27, 2014	December 28, 2013
Current Assets:		
Cash and cash equivalents	\$ 5,251	\$ 6,314
Accounts receivable, net of allowance for doubtful accounts and returns 2014 \$219; 2013 \$291	9,788	9,035
Inventories	27,794	24,099
Deferred tax asset	1,432	1,312
Prepaid expenses and other	955	930
Total current assets	45,220	41,690
Property and Equipment, net	3,055	3,096
Intangibles, net of accumulated amortization	101	113
Goodwill	2,853	2,853
Deferred Tax Asset	-	319
	\$ 51,229	\$ 48,071
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current portion of long-term debt	\$ 440	\$ 164
Accounts payable	4,869	3,400
Accrued payroll and related expenses	1,484	1,646
Accrued promotional expenses	1,037	823
Other accrued liabilities	1,355	1,282
Total current liabilities	9,185	7,315
Long-Term Liabilities:		
Long-term debt	21	448
Deferred tax liability	124	-
	145	448
Commitments and Contingencies (Note 4)		
Stockholders' Equity:		
Common stock, \$.25 par value; authorized 10,000,000 shares; issued and outstanding 2,021,664 shares and 2,029,172 shares in 2014 and 2013, respectively	505	507
Additional paid-in capital	65,164	65,364
Accumulated (deficit)	(23,510)	(25,453)
Accumulated other comprehensive income (loss)	(260)	(110)
Total stockholders' equity	41,899	40,308
	\$ 51,229	\$ 48,071

See Notes to Consolidated Financial Statements.

**Boss Holdings, Inc.
and Subsidiaries**

Consolidated Statements of Comprehensive Income
Periods Ended December 27, 2014, December 28, 2013 and December 29, 2012
(Dollars in Thousands, Except Per Share Data)

	2014	2013	2012
Net sales	\$ 67,938	\$ 64,023	\$ 64,829
Cost of sales	<u>50,966</u>	48,037	48,838
Gross profit	16,972	15,986	15,991
Operating expenses	<u>13,776</u>	13,051	13,028
Operating income	<u>3,196</u>	2,935	2,963
Other income and (expenses):			
Interest income	4	3	2
Interest expense	(29)	(40)	(52)
Other	26	12	21
	<u>1</u>	(25)	(29)
Income before income tax expense	3,197	2,910	2,934
Income tax expense	1,254	1,104	3,608
Change in deferred tax asset valuation	-	-	(2,164)
Net income	<u>1,943</u>	1,806	1,490
Other comprehensive income, net of tax, foreign currency translation adjustments	(150)	(210)	10
Comprehensive income	<u>\$ 1,793</u>	<u>\$ 1,596</u>	<u>\$ 1,500</u>
Basic earnings per common share	\$ 0.95	\$ 0.89	\$ 0.73
Diluted earnings per common share	\$ 0.94	\$ 0.88	\$ 0.71

See Notes to Consolidated Financial Statements.

**Boss Holdings, Inc.
and Subsidiaries**

Consolidated Statements of Stockholders' Equity
Periods Ended December 27, 2014, December 28, 2013 and December 29, 2012
(Dollars and Shares In Thousands)

	Common Stock		Additional Paid-In Capital	Accumulated (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Dollars				
Balance, December 31, 2011	1,976	\$ 494	\$ 65,598	\$ (28,749)	\$ 90	\$ 37,433
Exercise of stock options; 135 shares	135	34	232	-	-	266
Repurchase of 84 shares of common stock	(84)	(21)	(714)	-	-	(735)
Net income	-	-	-	1,490	-	1,490
Other comprehensive income	-	-	-	-	10	10
Income tax benefit related to share based compensation	-	-	257	-	-	257
Balance, December 29, 2012	2,027	507	65,373	(27,259)	100	38,721
Exercise of stock options; 5 shares	5	1	15	-	-	16
Repurchase of 3 shares of common stock	(3)	(1)	(32)	-	-	(33)
Net income	-	-	-	1,806	-	1,806
Other comprehensive (loss)	-	-	-	-	(210)	(210)
Income tax benefit related to share based compensation	-	-	8	-	-	8
Balance, December 28, 2013	2,029	507	65,364	(25,453)	(110)	40,308
Exercise of stock options; 15 shares	15	4	82	-	-	86
Repurchase of 22 shares of common stock	(22)	(6)	(297)	-	-	(303)
Net income	-	-	-	1,943	-	1,943
Other comprehensive (loss)	-	-	-	-	(150)	(150)
Income tax benefit related to share based compensation	-	-	15	-	-	15
Balance, December 27, 2014	2,022	\$ 505	\$ 65,164	\$ (23,510)	\$ (260)	\$ 41,899

See Notes to Consolidated Financial Statements.

**Boss Holdings, Inc.
and Subsidiaries**

Consolidated Statements of Cash Flows
Periods Ended December 27, 2014, December 28, 2013 and December 29, 2012
(Dollars in Thousands)

	2014	2013	2012
Cash Flows from Operating Activities:			
Net income	\$ 1,943	\$ 1,806	\$ 1,490
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	561	598	675
Excess tax benefits related to share-based compensation	15	8	257
Deferred tax expense (benefit)	323	831	1,053
Changes in assets and liabilities net of acquisitions:			
(Increase) decrease in:			
Accounts receivable	(812)	(917)	1,388
Inventories	(3,804)	1,179	(2,180)
Prepaid expenses and other	(244)	(295)	(173)
Other assets	(85)	(19)	(1)
Increase (decrease) in:			
Accounts payable	1,715	(303)	(131)
Accrued liabilities	355	198	(221)
Net cash provided by (used in) operating activities	(33)	3,086	2,157
Cash Flows from Investing Activities:			
Proceeds from sale of property and equipment	-	2	-
Purchases of property and equipment	(425)	(538)	(361)
Net cash used in investing activities	(425)	(536)	(361)
Cash Flows from Financing Activities:			
Repurchase of common stock	(303)	(33)	(735)
Proceeds from long-term debt	17	13	-
Repayment of long-term obligations	(165)	(248)	(266)
Proceeds from exercise of stock options	86	16	266
Net cash used in financing activities	(365)	(252)	(735)
Effect of exchange rate changes on cash	(240)	(242)	53
Increase (decrease) in cash and cash equivalents	(1,063)	2,056	1,114
Cash and cash equivalents:			
Beginning	6,314	4,258	3,144
Ending	\$ 5,251	\$ 6,314	\$ 4,258

(Continued)

**Boss Holdings, Inc.
and Subsidiaries**

Consolidated Statements of Cash Flows (Continued)

Periods Ended December 27, 2014, December 28, 2013 and December 29, 2012

(Dollars in Thousands)

	2014		2013		2012
Supplemental Disclosures of Cash Flows Information, cash payments for:					
Interest paid	\$ 29	\$	40	\$	52
Income taxes paid	199		27		191

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 gloves, boots, rainwear, pet supplies and 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 manufacturers' 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. Years 2014, 2013 and 2012 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, net of recoveries was \$(39), \$(9) and \$55 for the periods ended 2014, 2013 and 2012, 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 27, 2014 and December 28, 2013, the Company's accrual for customer advertising and promotional activities totaled \$1,037 and \$823, respectively. 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 \$531, \$513 and \$470 for 2014, 2013 and 2012, 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 8).

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.

The cost and accumulated amortization of other intangible assets as of December 27, 2014 and December 28, 2013 are as follows:

	Estimated Life (Years)	Cost	Accumulated Amortization	Net Book Value
2014				
Customer lists/noncompete:				
AGA	5	\$ 300	\$ 300	\$ -
Aries-customer list	5	29	26	3
Aries-noncompete	4	100	100	-
Trademarks	5	266	237	29
Product certifications	5	63	7	56
Product certifications	4	18	5	13
		<u>\$ 776</u>	<u>\$ 675</u>	<u>\$ 101</u>
2013				
Customer lists/noncompete:				
AGA	5	\$ 300	\$ 250	\$ 50
Aries-customer list	5	29	20	9
Aries-noncompete	4	100	85	15
Trademarks	5	243	222	21
Patents	10	15	15	-
Product certifications	5	3	-	3
Product certifications	4	16	1	15
		<u>\$ 706</u>	<u>\$ 593</u>	<u>\$ 113</u>

**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)

Estimated future amortization of intangible assets is as follows:

Period ending:		
December 26, 2015	\$	32
December 31, 2016		22
December 30, 2017		21
December 29, 2018		17
December 28, 2019		9
	\$	<u>101</u>

The Company's goodwill impairment evaluation as of December 27, 2014 and December 28, 2013 indicated that the goodwill was not impaired.

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 combined account balances at each institution periodically exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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 (loss).

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 production costs 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 2014, 2013 and 2012 was \$1,535, \$1,231 and \$1,258, 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)

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.

Earnings per share: Basic net earnings per common share are 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.

Subsequent events: The Company has evaluated subsequent events through July 13, 2015, the date on which the financial statements were issued, in preparing the consolidated financial statements and notes thereto.

Note 2. Property and Equipment

Property and equipment as of December 27, 2014 and December 28, 2013 is as follows:

	2014	2013
Land	\$ 410	\$ 410
Machinery and equipment	2,630	2,515
Buildings and improvements	2,654	2,647
Office furniture and equipment	3,633	3,284
Construction in progress	38	96
	<u>9,365</u>	<u>8,952</u>
Less accumulated depreciation	6,310	5,856
	<u>\$ 3,055</u>	<u>\$ 3,096</u>

**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 27, 2014 and December 28, 2013 is as follows:

	2014	2013
BHI revolving line of credit. (A)	\$ -	\$ -
Boss Canada Inc revolving line of credit. (B)	-	-
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.	433	485
Boss Canada Inc. term note payable to a lender. Note paid in full during 2014.	-	31
Capital lease obligations with various lending agencies. Requiring total monthly payments of approximately \$1, including various interest rates and maturity dates. Collateralized by leased equipment.	28	96
	<u>461</u>	<u>612</u>
Less current maturities	440	164
	<u>\$ 21</u>	<u>\$ 448</u>

(A) Effective June 30, 2013, the Company modified its loan and security agreement (the Credit Agreement) with a commercial bank. The revised Credit Agreement expires June 30, 2015 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 1.56% as of December 27, 2014). The Company incurs an unused line fee of 1/8% per annum on the unused portion of the credit facility. As of December 27, 2014 and December 28, 2013, the Company had no borrowings on the revolving credit facility. Availability under this credit agreement was \$7,000 as of December 27, 2014.

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 June 24, 2013, the Company modified its loan and security agreement (the Credit Agreement) with a commercial bank for Boss Canada. The revised Credit Agreement expired in June 30, 2014.

**Boss Holdings, Inc.
and Subsidiaries**

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

Note 3. Long-Term Obligations (Continued)

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

Periods ending:		
December 26, 2015	\$	440
December 31, 2016		12
December 30, 2017		5
December 29, 2018		3
December 28, 2019		1
	<u>\$</u>	<u>461</u>

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 office and operating facilities' leases was \$564, \$519 and \$491 for 2014, 2013 and 2012, respectively.

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

Periods ending:		
December 26, 2015	\$	660
December 31, 2016		313
December 30, 2017		234
December 29, 2018		3
Total minimum lease payments	<u>\$</u>	<u>1,210</u>

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 \$547, \$454 and \$478 in 2014, 2013 and 2012, respectively. The Company has extended the agreement with provisions for the payment of guaranteed or minimum royalties of \$510 and \$425 in 2015 and 2016, respectively.

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. Stock option transactions are summarized as follows:

	Year Ended					
	December 27, 2014		December 28, 2013		December 29, 2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding, beginning	81,000	\$ 7.25	86,000	\$ 7.01	221,000	\$ 3.93
Granted	-	-	-	-	-	-
Exercised	(14,500)	7.00	(5,000)	3.20	(135,000)	1.97
Expired	(5,500)	7.00	-	-	-	-
Outstanding, ending	<u>61,000</u>	7.29	<u>81,000</u>	7.25	<u>86,000</u>	7.01
Options exercisable, end of year	<u>61,000</u>	\$ 7.29	<u>81,000</u>	\$ 7.25	<u>86,000</u>	\$ 7.01

Note 6. Earnings Per Share

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

	Period Ended		
	December 27, 2014	December 28, 2013	December 29, 2012
Numerator, earnings attributable to common stockholders	\$ 1,943	\$ 1,806	\$ 1,490
Denominator:			
Basic-weighted average common shares outstanding	2,039,960	2,028,862	2,053,230
Dilutive effect of employee stock options	23,905	21,711	39,526
Diluted outstanding shares	<u>2,063,865</u>	<u>2,050,573</u>	<u>2,092,756</u>
Basic earnings, per common share	\$ 0.95	\$ 0.89	\$ 0.73
Diluted earnings, per common share	0.94	0.88	0.71

**Boss Holdings, Inc.
and Subsidiaries**

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

Note 7. Related Party Transactions

During 2014, 2013 and 2012, compensation, fees and expense reimbursements paid to directors or their affiliates totaled \$446, \$412 and \$491, respectively.

Note 8. Goodwill and Intangible Assets

In connection with its purchase of Galaxy the Company recorded goodwill of \$2,853. 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 an acquisition since it has an indefinite life. In July 2012, the FASB issued guidance to amend and simplify the rules related to testing indefinite-lived intangible assets, including goodwill, for impairment. The revised guidance permits an entity to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is unlikely that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount. The determination of the reporting unit is based on the Company's organizational structure and the financial information that is provided to and reviewed by the chief operating decision maker.

The Company's goodwill impairment evaluation as of December 27, 2014, December 28, 2013 and December 29, 2012 indicated that its goodwill was not impaired.

The Company's evaluation used significant assumptions including: expected future revenue and expense growth rates, cost of capital, discount rate and forecasted capital expenditures. The projections for the Company's goodwill impairment evaluation as of December 27, 2014 assume continued sales growth for Galaxy and stable income from operations. 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 9. 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:

	Period Ended		
	December 27, 2014	December 28, 2013	December 29, 2012
Current income tax expense:			
Federal	\$ 733	\$ 135	\$ 253
State and local	198	138	138
	<hr/> 931	<hr/> 273	<hr/> 391
Deferred income tax expense (benefit):			
Federal	327	812	1,000
State and local	(4)	19	53
	<hr/> 323	<hr/> 831	<hr/> 1,053
Total income tax expense	<hr/> \$ 1,254	<hr/> \$ 1,104	<hr/> \$ 1,444

**Boss Holdings, Inc.
and Subsidiaries**

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

Note 9. 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 at the statutory rate and the actual income tax expense as reflected in the consolidated statements of income for the respective periods:

	Period Ended		
	December 27, 2014	December 28, 2013	December 29, 2012
Income tax expense computed			
at the U.S. corporate tax rate of 34%	\$ 1,087	\$ 989	\$ 998
Adjustments attributable to:			
State income taxes, net of the federal benefit	128	103	85
Change in deferred tax asset valuation allowance	-	-	(2,164)
Expiration of unused operating loss carryforwards	-	-	2,523
Effect of foreign operations	47	14	(5)
Other	(8)	(2)	7
Total income tax expense	\$ 1,254	\$ 1,104	\$ 1,444

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

	December 27, 2014	December 28, 2013
Deferred income tax assets:		
Accounts receivable	\$ 105	\$ 130
Accruals	143	268
Compensation related	304	303
Inventories	763	499
Intangibles	224	243
Tax credit carryforwards	36	425
Gross deferred tax assets	1,575	1,868
Deferred tax asset valuation allowance	36	36
Net deferred income tax assets	1,539	1,832
Deferred income tax liabilities	231	201
Net deferred income tax assets	1,308	1,631
Less current portion	1,432	1,312
Net deferred income tax assets (liabilities)	\$ (124)	\$ 319

**Boss Holdings, Inc.
and Subsidiaries**

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

Note 9. Income Taxes (Continued)

The Company follows 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 application of this guidance had no impact on the Company's consolidated financial statements.

During 2014, 2013 and 2012, there were no settlements with state taxing authorities. The Company is generally no longer subject to state, local and foreign income tax examinations by tax authorities for years prior to 2011, and no longer subject to U.S. federal income tax examinations for years prior to 2012. 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.

