

JACLYN, INC.

**OTC MARKETS GROUP
QUARTERLY REPORT**

for the Fiscal Quarter ended May 31, 2014

Forward-Looking Statements

In order to keep stockholders and investors informed of the future plans of Jaclyn, Inc. (which, together with its subsidiaries, is referred to alternatively in this Quarterly Report as the “Company,” “we,” “us,” and/or “our”), this Quarterly Report contains and, from time to time, other oral or written statements issued by us may contain, forward-looking statements concerning, among other things, our future plans and objectives that are or may be deemed to be forward-looking statements. However, forward-looking statements are subject to a number of known and unknown risks and uncertainties that may cause our actual results, trends, performance or achievements, or industry trends and results, to differ materially from the future results, trends, performance or achievements expressed or implied by such forward-looking statements. Those risks and uncertainties may include, but are not limited to, general economic and business conditions; competition; potential changes in customer spending; acceptance of our product offerings and designs; the variability of consumer spending resulting from changes in domestic economic activity; a highly promotional retail environment; any significant variations between actual amounts and the amounts estimated for those matters identified as our critical accounting estimates as well as other significant accounting estimates made in the preparation of our financial statements; and the impact of current and potential hostilities in various parts of the world; as well as other geopolitical concerns. You are urged to consider all such factors. In light of the uncertainty inherent in such forward-looking statements, you should not consider their inclusion to be a representation that such forward-looking matters will be achieved. We assume no obligation for updating any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Item 1. Exact name of the issuer and the address of its principal executive offices.

The exact name of the issuer is Jaclyn, Inc. The address of the issuer’s principal executive offices is as follows:

Jaclyn, Inc.
197 West Spring Valley Avenue
Maywood, New Jersey 07607
Phone no.: (201) 909-6000
Fax no.: (201) 226-7801
Website: www.jaclyninc.com

The person responsible for our investor relations is Jaclyn Hartstein, Corporate Secretary, who may be reached as provided above or at jaclyn.hartstein@jaclyninc.com.

Item 2. Shares outstanding.

We are authorized to issue a total of 6,000,000 shares of capital stock. We are authorized to issue 5,000,000 shares of our common stock, and 1,000,000 shares of our preferred stock. No shares of preferred stock were issued or outstanding as of May 31, 2014. The following sets forth certain information concerning our authorized and outstanding shares of common stock as of May 31, 2014:

No. of shares authorized:	5,000,000
No. of shares outstanding:	2,279,981
Freely tradable shares (public float):	976,457
Total number of beneficial holders:	189(1)
Total number of record holders:	102

(1) Beneficial holders are holders of shares of our common stock in street name, and the number of such holders is based on estimated information furnished to our transfer agent by Broadridge Financial Solutions, Inc. (“Broadridge”). Since actual historical information as to the total number of beneficial holders is not generally available, we have assumed that the total number of beneficial holders on May 31, 2014 is the same as the approximate number reported to us by our transfer agent as of June 19, 2014, the record date for our annual meeting of stockholders which is scheduled to be held on August 6, 2014.

Item 3. Interim financial statements.

The following unaudited condensed consolidated financial statements for the Company’s fiscal quarter ended May 31, 2014 are attached to this Quarterly Report and are incorporated by reference herein:

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Item 4. Management’s discussion and analysis or plan of operation.

Overview

The Company and its subsidiaries are engaged in the design, manufacture, distribution and sale of women's and children's apparel, and fabric handbags, sport bags, backpacks, cosmetic bags, and related products. Our apparel lines include women's loungewear, sleepwear, dresses and sportswear, and lingerie, as well as infants' and children's clothing. Our products are, for the most part, made to order, and are marketed and sold to a range of retailers, primarily national mass merchandisers.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our financial statements and related notes. We believe the application of our accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically evaluated for continued reasonableness, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates. However,

since future events and their impact cannot be determined with certainty, actual results may differ from our estimates, and such differences could be material to the consolidated financial statements.

Liquidity and Capital Resources

The net decrease in cash and cash equivalents for the three-month period ended May 31, 2014 of \$572,000 was the result of funds provided by operating activities totaling \$12,874,000, offset by funds used in financing activities totaling \$13,400,000, and by funds used in investing activities of \$46,000.

Net cash provided by operating activities resulted primarily from a decrease in accounts receivable of \$16,444,000, which was partly offset by an increase in prepaid expenses and other assets of \$1,039,000, primarily from first quarter fiscal 2014 tax benefits, and by a decrease in accounts payable and other current liabilities totaling \$1,614,000, primarily due to payments for inventory purchases accrued as of February 28, 2014.

Net cash provided by investing activities totaling \$46,000 reflects purchases of property and equipment.

Funds used in financing activities totaling \$13,400,000 was the result of net bank payments under the Company's bank line of credit.

The Company has a credit facility which was amended on May 22, 2013. The term of the credit facility has been extended until November 30, 2015 and continues to provide for short-term loans and the issuance of letters of credit in an aggregate amount not to exceed \$60,000,000. Based on a borrowing formula, the Company may borrow up to \$30,000,000 in short-term loans (\$40,000,000 during the period from September 15 to December 15 during each year) and up to \$60,000,000 including letters of credit. The borrowing formula allows for an additional amount of letters of credit to be issued during the Company's peak borrowing season from March through October. The Company also pays an unused line fee on a quarterly basis of one-quarter of one percent on the difference between \$30,000,000 and the average daily outstanding principal balance of loans under the credit facility. Borrowings under the credit facility bear interest based on, at the Company's option: (a) the bank's base rate with a minimum interest rate of 3.25%, or (b) a floating Libor rate, or a fixed Libor rate for interest periods of 1, 2, or 3 months, with a minimum Libor rate of 0.50%, plus 250 basis points. The Company's non-real estate assets are pledged to the bank as collateral. The credit facility continues to require that the Company maintain minimum tangible net worth and interest coverage as well as a debt to equity requirement, each measured annually.

At May 31, 2014 the Company had \$21,444,000 of additional availability (based on the borrowing formula) under its credit facility. At May 31, 2014 the interest rate on borrowing was 3.00%, and the Company was contingently obligated on open letters of credit with an aggregate face amount of \$11,262,000.

The Company believes that funds provided by operations, existing working capital, and the Company's bank line of credit should be sufficient to meet working capital needs for the next twelve months.

There were no material commitments for capital expenditures at May 31, 2014.

Contractual Obligations and Commercial Commitments

To facilitate an understanding of our contractual obligations and commercial commitments, the following data is provided as of May 31, 2014:

Payments Due by Period

Contractual Obligations (1)	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 years
Notes Payable (2)	\$ 3,900,000	\$3,900,000	\$ -	\$ -	\$ -
Royalties	195,000	68,000	127,000	-	-
Operating Leases	10,041,000	1,651,000	3,134,000	3,046,000	2,191,000
Total Contractual Obligations	\$14,136,000	\$5,619,000	\$3,261,000	\$3,046,000	\$2,191,000

- (1) We currently enter into arrangements with vendors to purchase merchandise up to three months in advance of expected delivery. These purchase orders do not contain any significant termination payments or other penalties if cancelled.
- (2) The notes payable balance does not include any amounts for future interest costs. The outstanding balance under our short-term line of credit at July 8, 2014 was \$9,400,000.

Amount of Commitment Expiration Per Period

Other Commercial Commitments	Total Amounts Committed	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Letters of Credit	\$11,262,000	\$11,262,000	-	-	-
Total Commercial Commitments	\$11,262,000	\$11,262,000	-	-	-

Off-Balance Sheet Arrangements

The Company has not created, and is not a party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating the Company's business. The Company does not have any arrangements or relationships with entities that are not consolidated into the financial statements that are reasonably likely to materially affect the Company's liquidity or the availability of capital resources.

Results of Operations

Three Months ended May 31, 2014 compared to Three Months ended May 31, 2013

Net sales were \$31,590,000 and \$32,719,000 during the three-month periods ended May 31, 2014 and May 31, 2013, respectively. For the three-month period ended May 31, 2014, the Apparel category net sales were 11.8% lower than last year's comparable three-month period. Net sales in the Handbag category increased 7.0% compared to net sales in the comparable three-month period in fiscal 2014.

Sales by category were as follows:

Net sales for the Apparel category were \$16,030,000 for the three-month period ended May 31, 2014, or \$2,142,000 lower than the prior year's comparable three-month period. This 11.8% decrease was mainly due to a 23.5% decrease in our women's sleepwear business as well as a 7.4% decrease in orders in our children's apparel division, in each case due primarily to the timing of shipments.

Net sales totaling \$15,560,000 for the Handbags category in the first quarter of fiscal 2015 reflects an increase of \$1,013,000 in net sales for the comparable quarter in the prior year. The Handbags category net sales increase of 7% in the first quarter of the current fiscal year primarily reflected higher sales in our premium incentive business (up 7.0%) due primarily to the timing of shipments, as well as higher sales in our handbag business (up 6.5%), resulting from increased business from a significant customer, as well as to the timing of shipments.

Gross margins were 17.8% and 16.9% in the three-month periods ended May 31, 2014 and 2013, respectively. Gross margins by category were as follows:

Gross margin for the Apparel category decreased to 16.8% in the three-month period ended May 31, 2014, from 18.0% in the comparable quarter ended May 31, 2013. The 1.2 percentage point decrease was primarily the result of lower margins in the women's sleepwear business attributable to product mix, and by lower margins in the children's apparel business, due to material and labor cost increases in Asia which we were not able to pass along to our customers through higher pricing.

Overall gross margin for the Handbags category in the first quarter of fiscal 2015 was higher at 18.7% versus 15.5% in the comparable quarter last year. The premium incentive business experienced a gross margin increase in the current fiscal year attributable primarily to product mix, which was partly offset by a decrease in our handbag business gross margins also due to product mix.

For the three-month period ended May 31, 2014, shipping, selling and administrative expenses increased by \$21,000 to \$7,201,000 (or 22.8% of net sales compared to 21.9% in the prior year comparable three-month period). This increase was the result of a \$257,000 insurance recovery for business interruption from Hurricane Sandy which lowered expenses in the first quarter of last year. Without last year's business interruption insurance recovery, shipping, selling and administrative expenses would have been lower by \$ 236,000. This adjusted net decrease in shipping, selling and administrative expenses was mainly due to lower product

development costs of \$252,000, lower selling costs totaling \$128,000 (resulting from lower sales compensation), and by lower general and administrative expenses of \$94,000, not fully offset by higher sales commissions of \$106,000 due to sales mix, higher shipping and warehousing costs of \$93,000 and by higher royalty expense totaling \$37,000.

Interest expense totaling \$87,000 in the first quarter of fiscal 2015 compared to \$82,000 in the prior year's comparable quarter. The increase is primarily the result of a slightly higher level of average borrowing in the fiscal quarter ended May 31, 2014.

For the three-month period ended May 31, 2014 the Company had a loss before income taxes of \$1,676,000. This compares with a pre-tax loss in the prior year's comparable quarter totaling \$1,737,000, or a decrease in loss before income taxes of \$61,000. The slight improvement in the three-month period ending May 31, 2014 loss before income taxes, was primarily the result of higher gross profit margins, offset somewhat by higher interest expense and higher selling, general and administrative expenses, as discussed above.

For the three-month period ended May 31, 2014 the Company had a net loss of \$930,000. This compares with a net loss in the prior year's comparable quarter totaling \$993,000.

Seasonality

The Company's business is subject to substantial seasonal variations. In that regard, our net sales and net earnings generally have been higher during the period from June to November (which now represents our second and third fiscal quarters) and coincides with sales to our customers for back-to-school and holiday shopping, while net sales and net earnings for the other months of our fiscal year are typically lower due, in part, to the traditional slowdown by our customers immediately following the winter holiday season. Accordingly, any significant decrease in back-to-school and winter holiday shopping could have a material adverse effect on our financial condition and results of operations. The Company's quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including, among other things, the timing of shipments to customers and economic conditions. The Company believes this is the general pattern associated with its sales to the retail industry and expects this pattern will continue in the future. Consequently, comparisons between quarters are not necessarily meaningful and the results for any quarter are not necessarily indicative of future results.

Item 5. Legal proceedings.

To the Company's knowledge, there are no current, past, pending or threatened legal proceedings or administrative actions either by or against the Company that, in the Company's opinion, could have a material effect on its business, financial conditions or operations, nor, to the Company's knowledge, are there any current, past, pending or threatened trading suspensions by a securities regulator.

Item 6. Defaults upon senior securities.

None.

Item 7. Other information.

None.

Item 8. Exhibits.

None.

Item 9. Certifications.

I, Robert Chestnov, President and Chief Executive Officer of Jaclyn, Inc., certify that:

1. I have reviewed this quarterly disclosure statement of Jaclyn, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this quarterly update.

Date: July 10, 2014

/s/ Robert Chestnov

I, Anthony Christon, Vice President and Chief Financial Officer of Jaclyn, Inc., certify that:

1. I have reviewed this quarterly disclosure statement of Jaclyn, Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this quarterly update.

Date: July 10, 2014

/s/ Anthony Christon

JACLYN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands)

	May 31, 2014 (Unaudited)	February 28, 2014 (See below)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,062	\$ 1,634
Accounts receivable, net	16,889	33,281
Inventories	10,922	10,902
Prepaid expenses and other current assets	3,761	2,723
TOTAL CURRENT ASSETS	32,634	48,540
Property, plant and equipment, net	3,521	3,560
Notes receivable, net of discount	993	993
Goodwill	3,338	3,338
Other assets	236	235
TOTAL ASSETS	\$ 40,722	\$ 56,666
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable – bank	\$ 3,900	\$ 17,300
Accounts payable	8,539	8,691
Other current liabilities	4,822	6,284
TOTAL CURRENT LIABILITIES	17,261	32,275
Other liabilities	1,740	1,740
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Preferred stock, none issued and outstanding	-	-
Common stock	3,369	3,369
Additional paid-in capital	9,471	9,471
Retained earnings	16,806	17,736
	29,646	30,576
Less: Common shares in treasury at cost	7,925	7,925
TOTAL STOCKHOLDERS' EQUITY	21,721	22,651
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 40,722	\$ 56,666

The February 28, 2014 Balance Sheet is derived from audited financial statements.

See notes to condensed consolidated unaudited financial statements.

JACLYN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In Thousands, Except Share Amounts)

Three Months Ended
May 31,

	<u>2014</u>	<u>2013</u>
Net sales	\$ 31,590	\$ 32,719
Cost of goods sold	<u>25,978</u>	<u>27,194</u>
Gross profit	<u>5,612</u>	<u>5,525</u>
Shipping, selling and administrative expenses	7,201	7,180
Interest expense	<u>87</u>	<u>82</u>
	<u>7,288</u>	<u>7,262</u>
Loss before provision for income taxes	(1,676)	(1,737)
Income tax benefit	746	744
Net loss	<u>\$ (930)</u>	<u>\$ (993)</u>
Net loss per common share – basic	<u>\$ (.41)</u>	<u>\$ (.44)</u>
Weighted average number of shares outstanding - basic	<u>2,280,000</u>	<u>2,280,000</u>
Net loss per common share – diluted	<u>\$ (.41)</u>	<u>\$ (.44)</u>
Weighted average number of shares outstanding - diluted	<u>2,280,000</u>	<u>2,280,000</u>

See notes to condensed consolidated unaudited financial statements.

JACLYN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Thousands)

	Three Months Ended May 31,	
	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Net loss	\$ (930)	\$ (993)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	85	85
Allowances	(52)	(235)
Changes in assets and liabilities:		
Accounts receivable, net	16,444	12,375
Inventories	(20)	128
Prepaid expenses and other assets	(1,039)	(1,052)
Accounts payable and other current liabilities	(1,614)	(937)
Net cash provided by operating activities	<u>12,874</u>	<u>9,371</u>
Cash Flows From Investing Activities:		
Purchase of property and equipment	(46)	(114)
Proceeds from Notes Receivable	-	252
Net cash (used in) provided by investing activities	<u>(46)</u>	<u>138</u>
Cash Flows From Financing Activities:		
Net decrease in notes payable - bank	(13,400)	(9,200)
Net cash used in financing activities	<u>(13,400)</u>	<u>(9,200)</u>
Net (decrease) increase in Cash and Cash Equivalents	<u>(572)</u>	<u>309</u>
Cash and Cash Equivalents, beginning of period	1,634	998
Cash and Cash Equivalents, end of period	<u>\$1,062</u>	<u>\$1,307</u>
Supplemental Cash Flow Disclosures:		
Interest paid	\$ 110	\$ 104
Taxes paid	<u>\$ 68</u>	<u>\$ 277</u>

See notes to condensed consolidated unaudited financial statements.

JACLYN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(UNAUDITED, In Thousands, except Share Amounts)
THREE MONTHS ENDED MAY 31, 2014

	Common Stock				Treasury Stock		
	Shares	Amount	Additional Paid In Capital	Retained Earnings	Shares	Amount	Total
Balance, February 28, 2014	3,368,733	\$3,369	\$9,471	\$17,736	1,088,752	\$7,925	\$22,651
Net loss	-	-	-	(930)	-	-	(930)
Balance, May 31, 2014	<u>3,368,733</u>	<u>\$3,369</u>	<u>\$9,471</u>	<u>\$16,806</u>	<u>1,088,752</u>	<u>\$7,925</u>	<u>\$21,721</u>

See notes to condensed consolidated unaudited financial statements.

JACLYN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 - SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Jaclyn, Inc. and its subsidiaries (the “Company”) are engaged in the design, manufacture, marketing and sale of apparel, handbags, accessories and related products. The Company sells its products to retailers, including department and specialty stores, national chains, major discounters and mass volume retailers, throughout the United States.

The Company’s fiscal year end is the last day in February.

Basis of Presentation

The accompanying unaudited condensed consolidated balance sheet as of May 31, 2014, the condensed consolidated statements of operations and the condensed consolidated statements of cash flows for the three-month periods ended May 31, 2014 and 2013, respectively, and the condensed consolidated statements of stockholders’ equity for the three-month period ended May 31, 2014, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Disclosure Statement for the fiscal year ended February 28, 2014. The results of operations for the three-month period ended May 31, 2014 are not necessarily indicative of operating results for the full fiscal year.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Standards Codification 718, “Share Based Payment”. Accordingly, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, which if unvested will vest as the requisite service is rendered.

JACLYN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2 - STOCK OPTIONS

The Company maintains the Jaclyn, Inc. 2007 Stock Incentive Plan, or the “2007 Plan,” which was approved by stockholders in 2007. The 2007 Plan permits the Company to make grants of stock options, stock appreciation rights, or “SARs,” restricted stock, restricted stock units, and stock awards to employees, as well as stock options, SARs, restricted stock, and restricted stock units to its non-employee directors. On October 6, 2009, a stock award of 150,000 shares of common stock was granted to one executive officer under the 2007 Plan, leaving 20,000 shares available for future awards under the 2007 Plan. In addition, at the Annual Stockholders Meeting held on December 1, 2009, the stockholders approved an additional 125,000 shares of common stock to be made available under the 2007 Plan.

On January 15, 2010, under the 2007 Plan, an additional stock award of 100,000 shares of common stock was granted to the same executive officer of the Company, of which 25,000 vested immediately and 25,000 shares vested on January 15th of each of the next three years. As of May 31, 2014, there were no unrecognized compensation costs remaining related to outstanding awards.

As of May 31, 2014 there were a total of 45,000 shares of common stock available for future grant under the 2007 Plan.

The Company had maintained a stockholder-approved stock option plan for key employees and consultants of the Company, and a stockholder-approved stock option plan for non-employee directors, as follows: The Company’s 2000 Stock Option Plan, as amended, or the “2000 Plan”, provided for the grant of options to purchase up to an aggregate of 550,000 shares of common stock. The 2000 Plan is no longer in effect and there are no outstanding options remaining. Effective November 29, 2005, the Company terminated the 1996 Non-Employee Director Stock Option Plan, or the 1996 Plan. While no further options are being granted under the 1996 Plan, it remains in effect as to outstanding options.

There were no stock award transactions during the three-month period ended May 31, 2014.

JACLYN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3 – INVENTORIES

Inventories consist of the following components (in thousands):

	<u>May 31, 2014</u>	<u>February 28, 2014</u>
Raw Materials	\$ 5	\$ 3
Finished Goods	10,917	10,899
	<u>\$ 10,922</u>	<u>\$ 10,902</u>

4 - NET LOSS PER SHARE

The Company's calculation of Basic and Diluted Net Loss Per Common Share follows (in thousands, except share amounts):

	Three-Months Ended May 31, 2014	Three-Months Ended May 31, 2013
Basic Net Loss Per Common Share		
Net Loss	\$(930)	\$(993)
Basic Weighted Average Shares Outstanding	2,280,000	2,280,000
Basic Net Loss Per Common Share	<u>\$(.41)</u>	<u>\$(.44)</u>
	Three-Months Ended May 31, 2014	Three-Months Ended May 31, 2013
Diluted Net Loss Per Common Share		
Net Loss	\$(930)	\$(993)
Basic Weighted Average Shares Outstanding	2,280,000	2,280,000
Add: Dilutive Options	-	-
Diluted Weighted Average Shares Outstanding	<u>2,280,000</u>	<u>2,280,000</u>
Diluted Net Loss Per Common Share	<u>\$(.41)</u>	<u>\$(.44)</u>

For the three-month periods ended May 31, 2014 and 2013, all options have been excluded from the net loss per share calculations since the Company incurred a loss and inclusion of the options would have been anti-dilutive. At May 31, 2014, there were outstanding options to purchase 2,000 shares of the Company's Common Stock.

JACLYN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5 - PROPERTY, PLANT AND EQUIPMENT

On June 17, 2011, the Company completed the sale to D.R. Mon Group, Inc. of the Company's former executive office and warehouse facility, plus one of the three parking lots, located in West New York, New Jersey. The properties were sold for an aggregate gross sales price of \$4,145,588, of which \$1,474,778 (before normal closing costs) was paid in cash at closing, and the remaining amounts were paid by the delivery to the Company at closing of a series of two-year promissory notes. As of May 31, 2014 all of the notes, except one, have been repaid in full. Subsequent to May 31, 2014, the maturity date of the remaining promissory note was extended until June 2015 as provided for in the promissory note. The obligations of the purchaser under the agreements are personally guaranteed by the purchaser, and the obligations under the promissory note are secured by a first priority mortgage on a portion of the properties sold by the Company.

One of the two remaining lots in West New York, New Jersey was sold for a gross cash price of \$375,000 on January 20, 2012, and the remaining parking lot was sold for an aggregate gross cash price of \$850,000 on November 15, 2012. With the sale of this last parking lot, the Company concluded the sale of its former real estate holdings in West New York, New Jersey.

6 - REPURCHASE OF SHARES FOR TREASURY

The Company previously announced that the Board of Directors authorized the repurchase by the Company of up to 475,000 shares of its common stock and the Company purchased 365,033 shares of common stock through the end of the second quarter of 2013. During the third quarter of 2013, the Company announced that the Board of Directors authorized the repurchase by the Company of an additional 240,033 shares of common stock (or a revised total of up to 350,000 shares of its common stock), which may be made from time to time in the open market, through privately negotiated transactions (subject to general market and other conditions), and may be made from both affiliates and control stockholders of the Company, and from unaffiliated stockholders of the Company. The Company intends to finance these repurchases from its own funds from operations and/or from its bank credit facility. During the three-month period ended May 31, 2014, the Company did not purchase any shares of common stock under this repurchase program.

As of May 31, 2014, the Company has purchased a total of 574,811 shares of its common stock under this program at a cost of approximately \$3,097,000.

JACLYN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7 - CREDIT FACILITIES

The Company has a credit facility which was amended on May 22, 2013. The term of the credit facility has been extended until November 30, 2015 and continues to provide for short-term loans and the issuance of letters of credit in an aggregate amount not to exceed \$60,000,000. Based on a borrowing formula, the Company may borrow up to \$30,000,000 in short-term loans (\$40,000,000 during the period from September 15 to December 15 during each year) and up to \$60,000,000 including letters of credit. The borrowing formula allows for an additional amount of letters of credit to be issued during the Company's peak borrowing season from March through October. The Company also pays an unused line fee on a quarterly basis of one-quarter of one percent on the difference between \$30,000,000 and the average daily outstanding principal balance of loans under the credit facility. Borrowings under the credit facility bear interest based on, at the Company's option: (a) the bank's base rate with a minimum interest rate of 3.25%, or (b) a floating Libor rate, or a fixed Libor rate for interest periods of 1, 2, or 3 months, with a minimum Libor rate of 0.50%, plus 250 basis points. The Company's non-real estate assets are pledged to the bank as collateral. The credit facility continues to require that the Company maintain minimum tangible net worth and interest coverage as well as a debt to equity requirement, each measured annually.

At May 31, 2014 the Company had 21,444,000 of additional availability (based on the borrowing formula) under its credit facility. At May 31, 2014 the interest rate on borrowing was 3.00%, and the Company was contingently obligated on open letters of credit with an aggregate face amount of \$11,262,000.

JACLYN, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8 - COMMITMENTS AND CONTINGENCIES

As of May 31, 2014, the Company leases office facilities under non-cancelable leases, with escalation clauses, that expire in various years through the fiscal year ending February 29, 2020.

Future minimum payments under non-cancelable operating leases with initial or remaining terms of one year or more are as follows (in thousands):

Year Ended Last Day of <u>February</u>	Office and Showroom Facilities
2015	\$ 1,578
2016	1,651
2017	1,575
2018	1,559
2019	1,487
Thereafter	2,191
	<u>\$10,041</u>

The Company has entered into licensing arrangements with several companies. Minimum royalties as of May 31, 2014 are as follows: \$67,500 payable prior to the fiscal year ended February 28, 2015; \$90,000 payable prior to the fiscal year ended February 28, 2016; and \$37,500 payable prior to the fiscal year ended February 28, 2017.

From time to time, the Company and its subsidiaries may be subject to claims and may become a party to legal proceedings that arise in the normal course of business. At May 31, 2014 there were no material, pending legal proceedings or material claims to which the Company was a party.

The Company has not provided any financial guarantees as of May 31, 2014.

9 - INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and in various states and a foreign location. The U.S. federal and various state filings for the fiscal years ended 2011 through 2014 and the foreign filings (Hong Kong) for fiscal years ended 2010 through 2014 remain open for examination by the taxing authorities. The Company believes that its tax positions comply with applicable tax laws and that it has adequately provided for these matters. The Company does not believe it is reasonably possible that its unrecognized tax benefits will significantly change within the next twelve months.