

**GuildMaster, Inc.**

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**Unaudited Restated Consolidated Financial Statements**

**Year ended June 30, 2011**

### **Explanatory Note**

During 2012 the Company discovered errors in its accounting for inventory and accounts payable at its wholly-owned Indonesian subsidiary totaling \$318,000. These errors were primarily the result of intentional manipulation by the plant Controller, who is no longer an employee of the Company. The errors occurred between the years 2007 and 2011. The Company has corrected these errors by retroactively restating prior years' financial statements. The Company has increased financial controls in the Indonesian production facility and in the United States and has hired a new audit firm to conduct more intensive audit procedures in the Indonesian facility for fiscal year 2012.

Additionally, during 2011 the Company recorded a receivable in the amount of \$56,425 for certain taxes remitted in error by the subsidiary to an agency of the Indonesian government. An audit has been completed of these amounts by the taxing authority and the Company believes it will receive a refund. The Company has restated the June 30, 2011 financial statements to defer recognition of this gain contingency until confirmation of the amount of the anticipated refund is obtained.

The accompanying unaudited 2011 financial statements have been restated to reflect correction of these items.

**GuildMaster, Inc.**  
**Unaudited Consolidated Balance Sheet**  
**June 30, 2011**

**ASSETS**

	<u><b>2011</b></u> <u><b>(Restated)</b></u>
<b>Current Assets</b>	
Cash and cash equivalents	\$ 721,742
Receivables	
Trade accounts receivable, net of allowance – \$122,813	1,334,544
Other	29,632
Inventories	2,482,953
Prepaid expenses and other	<u>246,251</u>
Total current assets	<u>4,815,122</u>
Property and equipment, net of accumulated depreciation – \$929,425	349,734
Goodwill	3,258,938
Other	<u>38,332</u>
	<u>3,647,004</u>
	<u><u>\$ 8,462,126</u></u>

**GuildMaster, Inc.**  
**Unaudited Consolidated Balance Sheet**  
**June 30, 2011**

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

	<b>2011</b> <b><u>(Restated)</u></b>
Current Liabilities	
Accounts payable	\$ 1,580,644
Accrued salaries and commissions	65,770
Other accrued expenses	237,971
Bank line of credit	1,698,076
Current portion of stockholders' notes	<u>457,670</u>
Total current liabilities	4,040,131
Notes payable to stockholders, less current portion	<u>157,589</u>
Total liabilities	<u>4,197,720</u>
Stockholders' equity (deficit)	
Common stock, \$.001 par value; 50,000,000 shares	25,862
Additional paid-in capital	17,983,767
Accumulated deficit	<u>(13,745,223)</u>
Stockholders' equity (deficit)	<u>4,264,406</u>
Total liabilities and stock and stockholders' equity (deficit)	<u><u>\$ 8,462,126</u></u>

**GuildMaster, Inc.**  
**Unaudited Consolidated Statement of Income**  
**Year Ended June 30, 2011**

	<b>2011</b> <b>(Restated)</b>
	<u>                    </u>
Net sales	\$ 12,506,530
Cost of goods sold	<u>7,396,939</u>
Gross profit	<u>5,109,591</u>
Operating expenses	
Selling	2,555,900
General and administrative	<u>2,382,002</u>
	<u>4,937,902</u>
Operating income	<u>171,689</u>
Other income (expense)	
Interest income	2,955
Interest expense	(132,908)
Loss on disposal of assets	(4,929)
Other	<u>5,991</u>
Total other income (expense)	<u>(128,891)</u>
Net income	<u><u>\$ 42,798</u></u>

**GuildMaster, Inc.**  
**Unaudited Consolidated Statement of Stockholders' Equity (Deficit)**  
**Year Ended June 30, 2011**

	Common Stock Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Total
Balances as previously reported, July 1, 2010	25,812,181	\$ 25,812	\$ 17,967,504	\$ (13,711,687)	\$ 4,281,629
Adjustments for correction of errors	-	-	-	(76,334)	(76,334)
Balances as restated, July 1, 2010	<u>25,812,181</u>	<u>25,812</u>	<u>17,967,504</u>	<u>(13,788,021)</u>	<u>4,205,295</u>
Issuance of common stock options	-	-	12,813	-	12,813
Stock grant	50,000	50	3,450	-	3,500
Net income, restated	-	-	-	42,798	42,798
Balances, June 30, 2011	<u><u>25,862,181</u></u>	<u><u>25,862</u></u>	<u><u>17,983,767</u></u>	<u><u>(13,745,223)</u></u>	<u><u>4,264,406</u></u>

**GuildMaster, Inc.**  
**Unaudited Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2011**

	<b>2011</b> <b><u>(Restated)</u></b>
<b>Operating Activities</b>	
Net loss	\$ 42,798
Items not requiring cash	
Depreciation and amortization	133,860
Compensatory issuance of common stock and stock options	16,313
Loss on disposal of property and equipment	4,929
Changes in	
Trade accounts receivable	20,410
Inventories	(577,384)
Prepaid expenses and other current assets	(19,914)
Accounts payable	411,322
Accrued expenses and other	96,572
Net cash provided by operating activities	<u>128,906</u>
<b>Investing Activities</b>	
Purchase of property and equipment	<u>(177,855)</u>
Net cash (used in) investing activities	<u>(177,855)</u>
<b>Financing Activities</b>	
Principal payments on stockholder's notes payable	(99,419)
Net borrowings on bank line of credit	<u>252,348</u>
Net cash provided by financing activities	<u>152,929</u>
<b>Increase in Cash and Cash Equivalents</b>	103,980
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>617,762</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 721,742</u></u>
 <b>Supplemental Cash Flows Information</b>	
Interest paid	\$ 149,721
Income taxes paid	\$ 25,494

**GuildMaster, Inc.**  
**Note to Unaudited Consolidated Statements**  
**Year Ended June 30, 2011**

**Restatement of 2011 Financial Statements**

The aggregate impact of corrections to prior years' financial statement line items are summarized below:

	<b>As Restated</b>	<b>As Previously Reported</b>	<b>Effect of Change</b>
<b>Balance Sheet</b>			
Inventories	\$2,482,953	\$2,698,253	(\$215,300)
Trade accounts receivable	1,278,119	\$1,334,544	(56,425)
Total current assets	4,758,697	5,030,422	(271,725)
Total assets	8,462,126	8,733,851	(271,725)
Accounts payable	1,580,644	1,477,965	102,679
Total current liabilities	4,040,131	3,937,452	102,679
Total liabilities	4,197,720	4,095,041	102,679
Accumulated deficit	(13,745,223)	(13,370,819)	(374,404)
Total stockholders' equity	4,264,406	4,638,810	(374,404)
Total liabilities and stockholders' equity	8,462,126	8,733,851	(271,725)
<b>Income Statement and Statement of Cash Flows</b>			
Cost of goods sold	7,396,939	7,098,869	298,070
Gross profit	5,109,591	5,407,661	(298,070)
Operating income	171,689	469,759	(298,070)
Net income	42,798	340,868	(298,070)
<b>Statement of Cash Flows</b>			
Net income	42,798	340,868	(298,070)
Changes in Trade accounts receivable	20,410	(36,015)	56,425
Changes in Inventories	(577,384)	(792,684)	215,300
Changes in Accounts payable and other	411,322	384,977	26,345