TACTICAL HOLDINGS, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and Consolidating Information

Years Ended December 31, 2011 and 2010

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Financial Statements and Consolidating Information
Years Ended December 31, 2011 and 2010

Table of Contents

• Certified Public Accountants
• Business Advisors

p: 865.583.0091
f: 865.583.0560
w: rodefermoss.com
608 Mabry Hood Road
Knoxville, TN 37932

RM
RODEFER MOSS & CO, PLLC

Independent Auditors' Report

To the Board of Directors, Stockholders, and Members
Tactical Holdings, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Tactical Holdings, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tactical Holdings, Inc. and Subsidiaries as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information on pages 19 and 20 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied to the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
October 24, 2012

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2011 and 2010

	2011	2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 6,029,126	$ 12,160,586
Accounts receivable, net of allowance for doubtful accounts of $323,129 in 2011 and $94,196 in 2010	12,608,815	15,045,953
Inventories, net of valuation allowances of $8,915,821 in 2011 and $1,496,865 in 2010	36,178,173	44,239,943
Prepaid expenses and other current assets	3,837,018	1,588,876
Deferred taxes, current	548,256	1,203,414
Total current assets	59,201,388	74,238,772
Property and equipment, net	21,022,663	22,910,246
Other Noncurrent Assets		
Goodwill	35,528,000	47,215,684
Intangible assets, net of accumulated amortization of $7,690,001 in 2011 and $11,763,915 in 2010	8,840,165	23,830,353
Deferred taxes, noncurrent	5,811,496	2,792,973
Deposits and other noncurrent assets	449,311	939,614
Total other noncurrent assets	50,628,972	74,778,624
Total assets	$ 130,853,023	$ 171,927,642

See notes to the consolidated financial statements.

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Continued)
December 31, 2011 and 2010

	2011	2010
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Installment notes payable, due within one year	$ 1,843,283	$ 1,609,804
Capital lease obligation, due within one year	43,942	41,599
Accounts payable	13,487,620	12,169,989
Estimated earn-out liability, due within one year	9,808,680	16,467,937
Accrued expenses	2,913,255	4,435,943
Total current liabilities	28,096,780	34,725,272
Long-term Liabilities		
Line of credit	51,238,608	51,560,693
Estimated pension obligation	1,234,716	449,024
Installment notes payable, due after one year	3,168,993	4,592,979
Capital lease obligation, due after one year	853,653	897,595
Fair value of derivative liability	77,244	68,916
Deferred taxes, due after one year	4,154,851	3,483,429
Estimated earn-out liability, due after one year	8,255,799	39,082,771
Deferred service revenue	396,064	4,841
Total long-term liabilities	69,379,928	100,140,248
Total liabilities	97,476,708	134,865,520
Stockholders' Equity		
Class L, 12% common stock, $0.01 par value; 600,000 shares authorized, 518,418 issued and outstanding	5,184	5,184
Class A common stock, $0.01 par value; 100,000 shares authorized, 8,803 issued and outstanding	88	88
Additional paid-in capital	31,706,834	31,706,834
Retained earnings	2,618,316	5,796,238
Accumulated other comprehensive loss, net of income taxes	(954,107)	(446,222)
Total stockholders' equity	33,376,315	37,062,122
Total liabilities and stockholders' equity	$ 130,853,023	$ 171,927,642

See notes to the consolidated financial statements.

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Income
Years Ended December 31, 2011 and 2010

	2011	2010
Net sales	$ 148,074,096	$ 144,984,033
Cost of goods sold	124,113,353	99,101,711
Gross profit	23,960,743	45,882,322
Selling, General and Administrative Expenses	17,160,853	17,103,220
Income from operations	6,799,890	28,779,102
Other (Expense) Income		
Interest expense related to estimated earn-out liability	(3,492,330)	(3,907,293)
Interest expense, other	(2,518,913)	(837,913)
Change in estimated earn-out liability	23,056,518	(8,252,645)
Amortization of intangibles	(4,820,978)	(7,063,895)
Impairment of intangibles and goodwill	(21,856,891)	-
Management fees	(919,290)	(923,284)
Other expenses	(2,101,086)	(24,676)
Total other expense	(12,652,970)	(21,009,706)
(Loss) income before income taxes	(5,853,080)	7,769,396
Income tax benefit (expense)	2,675,158	(1,973,158)
Net income (loss)	$ (3,177,922)	$ 5,796,238

See notes to consolidated financial statements.

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2011 and 2010

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Stockholders'
	Class L	Class A	Capital	Loss	Earnings	Equity
Balances at January 1, 2010	$ 5,184	$ -	$ 62,307,316	$ (706,542)	$ 4,109,114	$ 65,715,072
Net income	-	-	-	-	5,796,238	5,796,238
Dividends paid	-	-	(30,890,886)	-	(4,109,114)	(35,000,000)
Stock issued	-	88	290,404	-	-	290,492
Other comprehensive income						
Pension gain, net of tax	-	-	-	260,113	-	260,113
Amortization of prior service cost	-	-	-	207	-	207
Balances at December 31, 2010	5,184	88	31,706,834	(446,222)	5,796,238	37,062,122
Net loss	-	-	-	-	(3,177,922)	(3,177,922)
Other comprehensive loss						
Pension loss, net of tax	-	-	-	(507,885)	-	(507,885)
Balances at December 31, 2011	$ 5,184	$ 88	$ 31,706,834	$ (954,107)	$ 2,618,316	$ 33,376,315

See notes to consolidated financial statements.

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Net (loss) income	$ (3,177,922)	$ 5,796,238
Adjustments to reconcile net (loss) income to net cash flows from operating activities		
Depreciation and amortization	8,278,343	10,198,649
Impairment of intangibles and goodwill	21,856,891	-
Change in estimated earn-out liability	(23,056,518)	8,252,645
Change in accrued interest on earn-out liability	985,250	1,133,251
Bad debt expense (recovery)	361,275	(132,450)
Increase in inventory valuation allowance	7,418,956	716,342
Loss (gain) on sale of property and equipment	1,919,437	(35,371)
Loss on derivative instrument	8,328	57,662
(Increase) decrease in assets		
Accounts receivable	2,075,863	1,342,178
Inventories	642,814	(15,732,478)
Prepaid expenses and other current assets	(2,248,142)	23,142
Deferred taxes	(1,691,943)	(22,912)
Deposits and other noncurrent assets	490,303	(297,395)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(205,057)	1,941,841
Estimated pension obligation	277,807	(84,489)
Deferred service revenue	391,223	(14,521)
Net cash flows from operating activities	14,326,908	13,142,332
Cash Flows From Investing Activities		
Proceeds from the disposal of property and equipment	100,050	-
Acquisition of property and equipment	(3,589,266)	(4,549,772)
Net cash flows from investing activities	(3,489,216)	(4,549,772)
Cash Flows From Financing Activities		
Proceeds from the issuance of common stock	-	88
Capital contributions	-	290,404
Principal payments on earn-out liability	(15,414,961)	(9,887,342)
Principal payments on installment notes payable	(1,190,507)	(2,033,660)
Principal payments on capital lease obligation	(41,599)	(10,806)
Net borrowings (repayments) on line of credit	(322,085)	4,040,551
Net cash flows from financing activities	(16,969,152)	(7,600,765)
Net change in cash and cash equivalents	(6,131,460)	991,795
Cash and cash equivalents at the beginning of the year	12,160,586	11,168,791
Cash and cash equivalents at the end of the year	$ 6,029,126	$ 12,160,586

See notes to consolidated financial statements.

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows - Continued
Years Ended December 31, 2011 and 2010

	2011	2010
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 4,939,336	$ 3,332,484
Cash paid during the year for income taxes	$ 1,340,583	$ 2,600,130

Supplemental non-cash investing and financing activities:

During the year ended December 31, 2010, the Company purchased a new building through a capital lease obligation of $950,000.

During the year ended December 31, 2010, the Company paid a $35,000,000 dividend to its stockholders. The dividend was funded through a borrowing on the Company's line of credit.

NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS

Organization - Tactical Holdings, Inc., is the parent corporation of Tactical Holdings Operations, Inc. ("Operations"). Operations has two wholly-owned subsidiaries, Wellco Enterprises, Inc. ("Wellco") and Altama Delta Corporation ("Altama"), as well as one 75% owned subsidiary - Massif Holdings, LLC ("Massif, LLC"). Tactical Holdings, Inc., and Subsidiaries (the "Company") is primarily engaged in the manufacture and sale of military and other rugged footwear primarily through Wellco and Altama. Massif, LLC is a leading supplier of flame resistant technical apparel and fabrics in the United States of America.

Wellco has two wholly-owned subsidiaries, Ro-Search, Inc. ("RoSearch") and Mo-Ka Shoe Corporation ("Moka Shoe"). RoSearch's primary operating activity is the development, manufacture and sale of specialized machinery and materials for the manufacture of military and other rugged footwear as well as rendering technical assistance and other services to the licensees of its equipment. Moka Shoe is a Delaware corporation and leases a facility in Puerto Rico. During the year ended December 31 2011, the Company incurred approximately $986,000 to consolidate those operations into its other existing facilities.

Altama has a wholly-owned subsidiary, Altama Delta (Puerto Rico) Corporation ("Altama PR"), which is a Delaware corporation and has a facility in Puerto Rico for the manufacture of military and other rugged footwear.

Nature of Business - Substantially all of the Company's operating activity is from the sale of military and other rugged footwear, fire resistant technical outdoor fabrics and apparel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - The accompanying consolidated financial statements include the consolidated accounts of the Company and its wholly-owned subsidiary, Operations, Operation's wholly-owned subsidiaries, which include Wellco and its wholly-owned subsidiaries, RoSearch and Moka Shoe, and Altama and its wholly-owned subsidiary, Altama PR, and the Company's 75% interest in Massif, LLC and its wholly-owned subsidiary, Massif Mountain Gear Company, LLC ("MMG"). All significant intercompany transactions and balances have been eliminated.

Revenue Recognition - Revenue from government contracts is recognized upon inspection and acceptance by the Government's Quality Assurance Representative ("QAR"), thereby transferring ownership to the government. After QAR inspection and acceptance, the Company invoices and receives payment from the government and distributes the related footwear in accordance with government-issued delivery orders.

Revenues from the sale of fabric, apparel and footwear (other than from government contracts) are recorded at the time of shipment.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits.

Accounts Receivable - Accounts receivable from the sale of products and services are recorded at net realizable value. The Company's policy is to generally require either a confirmed irrevocable bank letter of credit or advance payment on significant orders from most of its foreign customers. For all other customers, the Company grants credit to customers on an unsecured basis. The Company provides an allowance for doubtful accounts that is based upon a review of outstanding receivables, historical collections information, and existing economic conditions. Accounts that are deemed uncollectible are subsequently written off based on individual credit evaluations and specific circumstances of the customer through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Inventories - Raw materials and supplies are valued at the lower of approximate costs determined on the first-in first-out basis or market. Finished goods and work in process are valued at the lower of actual cost, determined on a specific identification basis, or market.

Property and Equipment - Property and equipment are stated at cost. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation/amortization are removed from the accounts and the resulting gain or loss is included in operations. Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. Depreciation and amortization are calculated beginning in the month that the assets are placed in service using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	40 years
Machinery and equipment	5 - 20 years
Furniture and fixtures	3 - 10 years
Computer equipment	3 - 10 years
Vehicles	5 years

Leasehold improvements are amortized using the straight line method over the shorter of the respective lease term or the estimated useful lives of the related assets.

Goodwill - Goodwill represents the excess of cost over the fair value of net assets acquired through acquisitions. Management evaluates goodwill on an annual basis for impairment.

Intangible Assets - Intangible assets consist of trade names, customer contracts and relationships, and loan origination fees. Intangible assets are amortized over their estimated useful lives.

Impairment of Long-Lived Assets - The Company reviews its long-lived assets, including intangible assets, for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If the sum of the expected cash flows, undiscounted and without interest, is less than the carrying amount of the asset, an impairment loss is recognized as the amount by which the carrying amount of the asset exceeds its fair value. The Company recognized an impairment loss of $21,856,891 for the year ended December 31, 2011. No impairment of long-lived assets was recorded for the year ended December 31, 2010.

Income Taxes - Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of assets and liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced, if necessary, by a valuation allowance if it is more likely than not that the expected tax benefits will not be realized.

MMG is registered as an Oregon limited liability company and qualifies as a partnership for Internal Revenue Service purposes. Accordingly, MMG's net income flows through to the members and is taxed at the members' respective tax rates for federal and state tax purposes.

The Company recognizes tax loss contingencies when it is probable that a liability had been incurred and the amount of the loss could be reasonably estimated. The amount recognized would be subject to estimates and management's judgment with respect to the likely outcome of each uncertain tax position. Although the tax years ending December 31, 2008 through December 31, 2011 remain open for examination by various taxing authorities, it is management's opinion that no significant uncertain tax positions remain open at December 31, 2011.

Advertising - Advertising costs are expensed as incurred. Total advertising and marketing expense for the years ended December 31, 2011 and 2010 approximated $439,000 and $667,000, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Research and Development - Research and development costs are expensed as incurred.

Concentration of Customers Risk - The Company's sales are predominately derived from contracts and purchase orders with agencies of the U.S. Government or where those agencies are the end users of the Company's products. The loss or delay of all or a substantial portion of our sales to the U.S. Government would have a material adverse effect on our results of operations and cash flows. Agencies of the U.S. Government accounted for approximately 80 percent and 83 percent of the Company's sales for the years ended December 31, 2011 and December 31, 2010, respectively. Accounts receivable from those customers represented 84 percent and 64 percent of the accounts receivable at those dates, respectively.

Concentration of Supply Risk - MMG uses a single manufacturer for a component that represents a majority of its sales. The majority of Wellco's and Altama's sales contracts currently specify that the companies use a component produced by one supplier.

Interest Rate Swaps - The Company's net income and cash flows may be negatively impacted by fluctuating interest rates. To manage this market risk, the Company enters into interest rate swap agreements ("swaps") to fix the interest rate on a portion of its variable rate debt. The difference received or paid on swaps is included in operations. The Company's swaps do not qualify for hedge accounting; therefore, the change in fair value is recorded in current year earnings each period. The fair value represents the amount the Company would receive or pay to terminate the agreement, using current prevailing interest rates at a given valuation date.

Use of Estimates - 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 disclosure of contingent assets and liabilities at the date of the financial statement and the amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to the 2010 balances to conform to the 2011 presentation with no effect on previously reported net income or stockholders' equity.

Date of Management's Review - The Group has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2011, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through October 24, 2012, the date these financial statements were available for release.

NOTE 3 - INVENTORIES

Inventories consisted of the following at December 31, 2011 and 2010:

	2011	2010
Raw materials	$ 20,357,101	$ 21,857,269
Work in progress	3,922,621	4,614,935
Finished goods	20,836,902	19,264,604
	45,116,624	45,736,808
Less valuation allowances	(8,938,451)	(1,496,865)
Inventory, net	$ 36,178,173	$ 44,239,943

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2011 and 2010:

	2011	2010
Land	$ 334,556	$ 334,556
Buildings	5,205,560	5,146,178
Machinery and equipment	19,639,949	29,786,339
Furniture and fixtures	900,077	1,511,367
Computer equipment	2,990,418	2,861,506
Vehicles	63,844	128,089
Leasehold improvements	1,559,819	1,989,167
	30,694,223	41,757,202
Less accumulated depreciation and amortization	(10,274,342)	(19,209,403)
	20,419,881	22,547,799
Construction in progress	602,782	362,447
Property and equipment, net	$ 21,022,663	$ 22,910,246

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2011 and 2010 approximated $3,457,000 and $3,135,000, respectively.

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS

Goodwill is assigned to specific reporting units and is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. During 2011, the Company determined that the carrying amounts of Wellco, Altama, and Massif, LLC's goodwill and intangible assets exceeded their fair values, which were estimated based on the present value of expected future cash inflows. Accordingly, the Company recognized a goodwill impairment of $11,687,684 in 2011.

Intangible assets consisted of the following at December 31, 2011 and 2010:

Description	Useful Life	2011	2010
Trade names	Up to 15 years	$ 2,330,000	$ 9,440,000
Customer contracts and relationships	Up to 8 years	12,000,000	21,260,000
Loan origination fees	Up to 2 years	-	154,268
Intellectual property	Up to 15 years	2,200,166	4,740,000
		16,530,166	35,594,268
Less accumulated amortization		(7,690,001)	(11,763,915)
Intangible assets, net		$ 8,840,165	$ 23,830,353

NOTE 5 - GOODWILL AND INTANGIBLE ASSETS (Continued)

Management reviews intangible assets for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. During 2011, the Company determined that, based on estimated future cash flows, the carrying amount of trade names, customer contracts and relationships, and intellectual property exceeded its fair value by $10,169,207 and recognized an impairment of that amount.

Management estimates that the Massif trade name, valued at $1,880,000, has an indefinite life and therefore, is not subject to amortization. Amortization of the remaining intangible assets for the years ended December 31, 2011 and 2010 approximated $4,821,000 and $7,064,000, respectively. Amortization of intangible assets for each of the next five years will approximate the following amounts:

2012	$ 4,693,000
2013	1,053,000
2014	599,000
2015	275,000
2016	101,000
Thereafter	239,000
	$ 6,960,000

NOTE 6 - INSTALLMENT NOTES PAYABLE

Installment notes payable at December 31, 2011 and 2010 consisted of the following:

	2011	2010
Altama has a note payable to a bank as part of a credit facility due quarterly in payments of $50,000 through December 2013, bearing interest of LIBOR plus 2.37%	$ 400,000	$ 600,000
Wellco has notes payable to a bank as part of a revolving and term credit agreement due in quarterly installments totaling $259,000, maturing at various dates through October 2014, bearing interest at rates ranging from LIBOR plus 2.10% to 2.71%	4,606,297	5,407,000
Other notes payable due in various monthly installments of up to $57,834, maturing at various dates through May 2013, and bearing interest at rates ranging from 0% to 7.70%	5,979	195,783
	5,012,276	6,202,783
Less installments due within one year	(1,843,283)	(1,609,804)
	$ 3,168,993	$ 4,592,979

Maturities of installment notes payable are summarized as follows:

Year ending December 31,	
2012	$ 1,843,283
2013	1,221,993
2014	1,947,000
	$ 5,012,276

NOTE 7 - CAPITAL LEASE OBLIGATION

During the year ended December 31, 2010, the Company moved into a new operating facility in Lexington, Tennessee. The Company paid cash of $299,660 and entered into a capital lease for the remaining $950,000 of the purchase price. The lease expires in September 2015 and has a net book value of $897,596 at December 31, 2011. The operating facility associated with the lease has a net book value of $1,672,044 at December 31, 2011. Amortization of the operating facility under the capital lease is included in depreciation expense. Future minimum lease payments and the net present value of future minimum lease payments are summarized as follows:

Year ending December 31,	
2012	$ 95,250
2013	95,250
2014	95,250
2015	791,174
	1,076,924
Less amounts representing interest	(179,329)
Present value of minimum lease payments	897,595
Less capital lease obligation, due within one year	(43,942)
Capital lease obligation, due after one year	$ 853,653

NOTE 8 - LINE OF CREDIT

The Company has a $60,000,000 revolving bank line of credit to be used for the payment of a $35,000,000 dividend as well as general operating purposes bearing interest at 30-day LIBOR plus 350 basis points which expires April 30, 2013. This revolving bank line of credit is limited to a percentage of the Company's eligible assets and is secured by substantially all of the assets of the Company. The bank agreement includes certain restrictive covenants that include minimum earnings before interest, taxes, depreciation and amortization ("EBITDA"), funded debt to EBITDA ratio and fixed charge coverage ratio. Borrowings under the line of credit amounted to $51,238,608 and $51,560,693 at December 31, 2011 and 2010, respectively.

NOTE 9 - EMPLOYEE BENEFIT PLANS

Defined Contributions Plans - Operations sponsors a 401(k) salary reduction plan covering all qualified employees of Operations, Wellco, RoSearch, and Altama. Employees may contribute a percentage of their compensation according to the maximum federally established limits. The Company's matching contributions are discretionary and determinable by the Company. The Company made contributions of $17,291 and $14,569 for the years ended December 31, 2011 and 2010, respectively.

MMG sponsors a Simple IRA salary reduction plan available to all of its qualified employees. The employees may contribute a percentage of their compensation according to the maximum federally established limits. MMG's matching contributions, up to a maximum 3 percent match, as determinable by the Company, follow Simple IRA guidelines. MMG made contributions of $96,403 and $89,626 for the years ended December 31, 2011 and 2010, respectively.

NOTE 9 - EMPLOYEE BENEFIT PLANS - (Continued)

Defined Benefit Plans - The Company has two noncontributory defined benefit pension plans. One of those plans was frozen in 2009. The benefits are based on years of service and compensation. The Company's funding policy is to contribute amounts to the pension trust at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), but not in excess of the maximum tax-deductible amount. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

Below are various analyses and other information relating to the Company's pension liabilities, assets and expenses as of December 31, 2011 and 2010 using census data as of and for the years ended December 31, 2011 and 2010:

	2011	2010
Obligation and funded status:		
Fair value of plan assets	$ 4,318,800	$ 4,596,853
Benefit obligation	(5,553,516)	(5,045,877)
Funded status	$ (1,234,716)	$ (449,024)
Company contributions	$ 157,928	$ 160,602
Benefit payments	$ (515,317)	$ (551,245)
Pension obligation recognized in the consolidated balance sheet	$ (1,234,716)	$ (449,024)

Net periodic benefit cost and other amounts recognized in other comprehensive loss for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Net periodic benefit cost	$ 174,097	$ 210,218
Other changes in plan assets and benefit obligations recognized in other comprehensive loss:		
Net gain	769,724	(394,218)
Amortization of prior service cost	-	(207)
Deferred income tax (cost) benefit	(261,839)	134,105
Total recognized in other comprehensive loss (gain)	507,885	(260,320)
Total recognized in net periodic benefit cost and other comprehensive loss	$ 681,982	$ (50,102)

NOTE 9 - EMPLOYEE BENEFIT PLANS - (Continued)

Amounts recognized in accumulated other comprehensive loss for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Unrecognized net loss	$ 1,445,818	$ 675,887
Unrecognized prior service cost	-	207
Deferred income tax cost	(491,711)	(229,872)
	$ 954,107	$ 446,222

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $35,210 and $17,501, respectively.

	2011	2010
Weighted-average assumptions used to determine benefit obligations:		
Assumed discount rate	5.00%	6.00%
Rate of compensation increase, for the pay-related benefit plan	3.00%	4.50%
Weighted-average assumptions used to determine net periodic benefit cost:		
Assumed discount rate	5.00%	6.00%
Expected long-term rate of return on planned assets	7.00%	6.75%
Rate of compensation increase, for the pay-related benefit plan	3.00%	4.50%

The allocation of investment funds was selected as one that limits risk while providing higher returns on Plan assets than guaranteed rate funds, and still providing adequate liquidity to meet payments to retirees.

	2011	2010
Pension plan's weighted-average asset allocations by asset category:		
Equity securities	47.00%	45.00%
Debt securites	5.00%	5.00%
Other	48.00%	50.00%
	100.00%	100.00%

The Company expects to contribute $282,848 to the pension plans for the year ending December 31, 2012.

The Company estimates the following future benefit payments to be paid:

2012	$ 459,438
2013	380,225
2014	378,359
2015	373,416
2016	384,625
2017-2021	1,763,591

NOTE 10 - INCOME TAXES

The provision for income taxes consisted of the following for the years ended December 31, 2011 and 2010:

	December 31, 2011		
	Federal	State	Total
Current	$ (3,251,349)	$ 1,476,428	$ (1,774,921)
Deferred	-	(900,237)	(900,237)
	$ (3,251,349)	$ 576,191	$ (2,675,158)

	December 31, 2010		
	Federal	State	Total
Current	$ 1,375,054	$ 619,776	$ 1,994,830
Deferred	(260,490)	238,818	(21,672)
	$ 1,114,564	$ 858,594	$ 1,973,158

Significant components to the Company's deferred tax assets (liabilities) consisted of the following at December 31, 2011 and 2010:

	2011	2010
Deferred tax assets:		
Accounts receivable	$ 130,867	$ 38,448
Inventory, including additional 263(A) costs for tax purposes	276,107	902,044
Net operating loss carryforward	3,441,013	539,144
Unpaid vacation accruals	86,318	-
Charitable contributions	54,964	-
Intangible assets	3,820,631	2,756,751
Deferred tax assets before valuation allowance	7,809,900	4,236,387
Valuation allowance	(1,450,148)	(240,000)
Total deferred tax assets, net of valuation allowance	6,359,752	3,996,387
Deferred tax liabilities:		
Property and equipment	(4,154,851)	(3,483,429)
Total deferred tax liabilities	(4,154,851)	(3,483,429)
Net deferred tax asset	$ 2,204,901	$ 512,958

Deferred tax assets have been reduced by a valuation allowance to reflect the amount of assets that the Company believes will ultimately be realized.

The Company has state and federal operating loss carryforwards of approximately $3,440,000, which begin to expire in 2022, available to reduce future taxable income.

NOTE 11 - COMMON STOCK

Class L Common Stock accumulates dividends quarterly at the rate of 12% per annum based on the unreturned original cost of the stock plus any unpaid dividends from prior quarters. Dividends totaling $35,000,000 were paid to shareholders in 2010. Of the $35,000,000 paid, $34,083,740 was paid to GGC ("GGC", the Company's majority owner). The remaining $916,260 was paid to the Class A stockholders. No dividends were paid to during 2011.

NOTE 12 - STOCK OPTIONS

During the year ended December 31, 2010, the Company entered into stock option agreements with two of its key officers (the "officers"). Under the agreement, the Company granted the officers the option to acquire a total of 9,266 shares of the Company's Class A common stock, par value $0.01 per share, at an exercise price of $33 per share. The options expire May 23, 2017. On December 27, 2010, the officers exercised 8,803 of these options resulting in the issuance of $88 of Class A common stock and $290,404 of contributed capital. No stock option agreements were entered into during 2011. In early 2012, the officer holding the remaining 463 stock options resigned, and these remaining options were terminated within 30 days of his resignation.

NOTE 13 - RELATED PARTY TRANSACTIONS

The Company pays management fees to GGC. Such expenses amounted to approximately $919,000 and $923,000 for the years ended December 31, 2011 and 2010, respectively.

The Company purchased approximately $258,000 of software from a company that is owned by GGC during the year ended December 31, 2010. No software was purchased during the year ended December 31, 2011. The Company purchased training, maintenance, support and consulting services of approximately $54,000 and $194,000 from that company during the years ended December 31, 2011 and 2010, respectively.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A valuation hierarchy has been established for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

At December 31, 2011, the Company had no assets carried at fair value subject to remeasurement on a recurring basis. The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
Interest rate swap contract	$ -	$ 77,244	$ -	$ 77,244
Non-monetary transaction	-	956,010	-	956,010
Estimated earn-out liability	-	-	18,064,479	18,064,479
	$ -	$ 1,033,254	$ 18,064,479	$ 19,097,733

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (Continued)

At December 31, 2010, the Company had no assets carried at fair value subject to remeasurement on a recurring basis. The following table provides the liabilities carried at fair value measured on a recurring basis as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
Interest rate swap contract	$ -	$ 68,916	$ -	$ 68,916
Estimated earn-out liability	-	-	55,550,708	55,550,708
	$ -	$ 68,916	$ 55,550,708	$ 55,619,624

The following table sets forth the summary of changes in the fair value of the Company's level 3 liabilities for the years ended December 31, 2011 and 2010:

	2011	2010
Fair value at the beginning of the year	$ 55,550,708	$ 56,052,154
Change in estimated fair value	(23,056,518)	8,252,645
Principal and interest payments	(17,922,041)	(12,661,384)
Accrued interest, net of accretion	3,492,330	3,907,293
Fair value at the end of the year	$ 18,064,479	$ 55,550,708

NOTE 15 - EARN-OUT LIABILITY

As stated in Note 1, on May 28, 2009, the Company acquired a 75% interest in Massif, LLC, which acquired a 100% interest in MMG simultaneous with the Company's acquisition of Massif, LLC. Upon consumption of the acquisition, the Company owns 100% of the Class A membership interests in Massif, LLC; and the former owners of MMG own 100% of the Class B membership interests in Massif, LLC. The Class A members hold 100% of the voting rights and are entitled to 100% of the profits, subject to earn-out payments due Class B members under terms of the purchase agreement.

The Company is obligated to make annual earn-out payments to the Class B members through May 13, 2014. The earn-out payments are equal to 50 percent of the amount by which Massif, LLC's annual gross profit exceeds $14,200,000 (pro-rated for periods less than one year). Management's estimates of the fair value of the total earn-out liability at December 31, 2011 and 2010 were $18,064,479 and $55,550,708, respectively.

NOTE 16 - BARTER TRANSACTIONS

During the third quarter of fiscal year 2011, the Company entered into a barter transaction, exchanging inventory items with a net book value of $733,189 for barter credits that are redeemable for a percentage of certain future expenses. The fair value of the barter credits was $968,350. The barter credits expire in July 2014.

During the fiscal year ended December 31, 2011, the Company utilized trade credits in the amount of $14,450. Additionally, as of December 31, 2011, the Company established a reserve of $838,931 for lower expected purchases of products and services that can be applied against the credits prior to their expiration.

As of December 31, 2011, the Company had $117,079, net, in trade credits, recorded on the consolidated balance sheet. The credits expected to be utilized in the next twelve months in the amount of $43,364 are included in prepaid expenses and other assets and the remaining $73,715 is included in deposits in the Company's consolidated balance sheet at December 31, 2011.

NOTE 17 - COMMITMENTS AND CONTINGENCIES

Lease Commitments - The Company leases certain manufacturing and administrative facilities under cancelable and non-cancelable operating leases with various expiration dates extending through 2015. Rent expense approximated $754,000 in each of the years ended December 31, 2011 and 2010.

Scheduled future minimum rental payments under all non-cancellable operating lease agreements as of December 31, 2011 are approximately:

2012	$ 665,000
2013	462,000
2014	431,000
2015	94,000
	$ 1,652,000

NOTE 18 - SUBSEQUENT EVENTS

On March 31, 2012, the Company did not make a scheduled earn-out liability payment to the Massif, LLC Class B members. During this same timeframe, the Company began negotiations with Wells Fargo regarding modifications to the existing 2010 Loan and Security Agreement (the “Loan and Security Agreement”). The Company also commenced negotiations with Class B members regarding modifications to the existing Massif, LLC agreement.

As of September 10, 2012, the Company executed a term sheet providing for incremental borrowing base availability on its revolving bank line of credit and $7 million of cash investment from GGC, with $4 million to be applied against amounts outstanding on the revolving line of credit and $3 million to be used by the Company for general working capital purposes. The $7 million obligation will have a second lien on substantially all assets of the Company and will accrue payment-in-kind (“PIK”) interest at 12 percent per annum. The term sheet also resulted in additional PIK interest on the Wells Fargo revolving line of credit of 4 percent per annum over-and-above the existing cash-pay interest of three-month LIBOR plus 4 percent. The maturity on the revolving line of credit remained unchanged at April 30, 2013. On October 5, 2012, the Company entered into the Fifth Modification to the Loan and Security Agreement (the “Fifth Modification”). In addition to encompassing the conditions of the term sheet, the Fifth Modification also called for shortening the maturities on the Wellco and Altama Installment Notes Payable to April 30, 2013. The Fifth Modification also replaced the covenants in the 2010 Loan and Security Agreements with a Minimum Liquidity Covenant and a Minimum Delinquent Trade Payables covenant.

On October 5, 2012, the Company executed the Restructuring Agreement with the Massif, LLC Class B members. The Restructuring Agreement resulted in the waiver of $18.1 million of combined earn-out liability obligations accrued on the balance sheet December 31, 2011.

Consolidating Balance Sheets
December 31, 2011

	Wellco Enterprises, Inc. and Subsidiaries	Altama Delta Corporation and Subsidiary	Massif Mountain Gear Company, LLC	Tactical Holdings & Operations, Inc.	Eliminations	Consolidated
ASSETS						
Current Assets						
Cash and cash equivalents	$ 153,782	$ 55,906	$ 5,534,416	$ 285,022	$ -	$ 6,029,126
Accounts receivable, net	2,284,152	978,065	9,346,598	-	-	12,608,815
Inventories, net	7,511,585	11,151,411	17,515,177	-	-	36,178,173
Intercompany receivables	(6,417)	5,179,527	21,699,748	7,676,074	(34,548,932)	-
Prepaid expenses and other current assets	438,004	26,781	56,909	3,315,324	-	3,837,018
Deferred taxes, current	142,263	67,195	264,500	74,298	-	548,256
Total current assets	10,523,369	17,458,885	54,417,348	11,350,718	(34,548,932)	59,201,388
Property and Equipment						
Land and buildings	4,064,546	1,475,570	-	-	-	5,540,116
Machinery and equipment	11,970,759	6,859,610	809,580	-	-	19,639,949
Furniture and equipment	334,521	257,230	1,619,331	1,679,413	-	3,890,495
Vehicles	16,291	18,400	2,000	27,153	-	63,844
Leasehold improvements and CIP	522,464	1,169,541	438,961	31,635	-	2,162,601
	16,908,581	9,780,351	2,869,872	1,738,201	-	31,297,005
Less accumulated depreciation	(4,715,733)	(3,474,219)	(1,215,108)	(869,282)	-	(10,274,342)
Property and equipment, net	12,192,848	6,306,132	1,654,764	868,919	-	21,022,663
Other Noncurrent Assets						
Goodwill	-	-	35,528,000	-	-	35,528,000
Intangible assets, net	530,000	640,000	7,670,165	-	-	8,840,165
Deferred taxes, noncurrent	539,144	-	3,820,631	1,451,721	-	5,811,496
Deposits and other noncurrent assets	214,008	24,989	15,250	195,064	-	449,311
Investments in subsidiaries	-	-	-	69,555,671	(69,555,671)	-
Total other noncurrent assets	1,283,152	664,989	47,034,046	71,202,456	(69,555,671)	50,628,972
Total assets	$ 23,999,369	$ 24,430,006	$ 103,106,158	$ 83,422,093	$ (104,104,603)	$ 130,853,023
LIABILITIES AND STOCKHOLDERS' AND MEMBERS' EQUITY						
Current Liabilities						
Installment notes payable, due within one year	$ 1,643,283	$ 200,000	$ -	$ -	$ -	$ 1,843,283
Capital lease obligation, due within one year	-	43,942	-	-	-	43,942
Accounts payable	1,350,224	2,831,413	9,001,795	304,188	-	13,487,620
Estimated earn-out liability, due within one year	-	-	9,808,680	-	-	9,808,680
Other accrued expenses	1,363,344	350,905	643,868	555,138	-	2,913,255
Intercompany payables	7,793,646	2,890,147	55,328	23,809,811	(34,548,932)	-
Total current liabilities	12,150,497	6,316,407	19,509,671	24,669,137	(34,548,932)	28,096,780
Long-term Liabilities						
Line of credit	10,610,831	16,464,904	-	24,162,873	-	51,238,608
Estimated pension obligation	1,234,716	-	-	-	-	1,234,716
Installment notes payable, due after one year	2,968,993	200,000	-	-	-	3,168,993
Capital lease obligation, due after one year	-	853,653	-	-	-	853,653
Fair value of derivative liability	77,244	-	-	-	-	77,244
Deferred taxes, due after one year	2,216,528	1,231,296	447,366	259,661	-	4,154,851
Estimated earn-out liability, due after one year	-	-	8,255,799	-	-	8,255,799
Deferred service revenue	100,591	288,288	7,185	-	-	396,064
Total long-term liabilities	17,208,903	19,038,141	8,710,350	24,422,534	-	69,379,928
Total liabilities	29,359,400	25,354,548	28,220,021	49,091,671	(34,548,932)	97,476,708
Stockholders' Equity						
Class L Common Stock	1,300,746	23,060	-	5,184	(1,323,806)	5,184
Class A Common Stock	-	-	-	88	-	88
Additional paid-in capital	11,972,903	7,283,663	-	31,706,834	(19,256,566)	31,706,834
Retained earnings and members' equity	(17,679,573)	(8,231,265)	74,886,137	2,618,316	(48,975,299)	2,618,316
Accumulated other comprehensive loss, net of income taxes	(954,107)	-	-	-	-	(954,107)
Total stockholders' equity	(5,360,031)	(924,542)	74,886,137	34,330,422	(69,555,671)	33,376,315
Total liabilities and stockholders' equity	$ 23,999,369	$ 24,430,006	$ 103,106,158	$ 83,422,093	$ (104,104,603)	$ 130,853,023

TACTICAL HOLDINGS, INC. AND SUBSIDIARIES
Consolidating Statements of Operations
Year Ended December 31, 2011

	Wellco Enterprises, Inc. and Subsidiaries	Altama Delta Corporation and Subsidiary	Massif Mountain Gear Company, LLC	Tactical Holdings & Operations, Inc.	Eliminations	Consolidated
Net sales	$ 26,671,992	$ 24,921,433	$ 96,480,671	$ -	$ -	$ 148,074,096
Cost of goods sold	32,634,031	28,624,028	62,855,294	-	-	124,113,353
Gross profit	(5,962,039)	(3,702,595)	33,625,377	-	-	23,960,743
Selling, General and Administrative Expenses	2,846,751	1,600,166	10,110,466	2,603,470	-	17,160,853
Income (loss) from operations	(8,808,790)	(5,302,761)	23,514,911	(2,603,470)	-	6,799,890
Other (Expense) Income						
Income from equity in subsidiaries	-	-	-	(7,456,096)	7,456,096	-
Interest expense related to estimated earn-out liability	-	-	(3,492,330)	-	-	(3,492,330)
Interest expense, other	(564,450)	(406,314)	3,697	(1,551,846)	-	(2,518,913)
Change in estimated earn-out liability	-	-	23,056,519	-	-	23,056,519
Amortization of intangibles	(277,794)	(495,672)	(4,047,512)	-	-	(4,820,978)
Impairment of intangibles and goodwill	(6,197,906)	(4,185,275)	(11,473,710)	-	-	(21,856,891)
Management fees	(995,233)	(995,233)	(1,548,116)	-	2,619,292	(919,290)
Other (expenses) income	(2,024,995)	(992,079)	(620,040)	4,155,319	(2,619,292)	(2,101,087)
Total other (expense) income	(10,060,378)	(7,074,573)	1,878,508	(4,852,623)	7,456,096	(12,652,970)
Income (loss) before income taxes	(18,869,168)	(12,377,334)	25,393,419	(7,456,093)	7,456,096	(5,853,080)
Income Tax Benefit (Expense)	(1,018,006)	(985,756)	400,749	4,278,171	-	2,675,158
Net (loss) income	$ (19,887,174)	$ (13,363,090)	$ 25,794,168	$ (3,177,922)	$ 7,456,096	$ (3,177,922)