UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2011**

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from__________ to __________.

Commission File Number: **333-144396**

GNC Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	**20-8536244** (I.R.S. Employer Identification No.)
300 Sixth Avenue **Pittsburgh, Pennsylvania** (Address of principal executive offices)	**15222** (Zip Code)

Registrant s telephone number, including area code: **(412) 288-4600**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [ ] Yes [**X**] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [ ] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer[**X**] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ] Yes [**X**] No

As of May 4, 2011, the number of outstanding shares of Class A common stock, par value $0.001 per share (the Class A common stock), and the number of outstanding shares of Class B common stock, par value $0.001 per share (the Class B common stock), of GNC Holdings, Inc. were 90,063,598 shares and 13,782,311 shares, respectively.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, including share data)

	March 31, 2011 (unaudited)	December 31, 2010
Current assets:		
Cash and cash equivalents	$ 373,857	$ 193,902
Receivables, net	104,270	102,874
Inventories (Note 3)	419,512	381,949
Prepaids and other current assets	40,445	40,569
Total current assets	938,084	719,294
Long-term assets:		
Goodwill (Note 4)	625,672	625,241
Brands (Note 4)	720,000	720,000
Other intangible assets, net (Note 4)	145,542	147,224
Property, plant and equipment, net	192,056	193,428
Deferred financing fees, net	17,177	14,129
Other long-term assets	5,375	5,767
Total long-term assets	1,705,822	1,705,789
Total assets	$ 2,643,906	$ 2,425,083
Current liabilities:		
Accounts payable	$ 156,203	$ 98,662
Accrued payroll and related liabilities	25,568	25,656
Accrued interest (Note 5)	2,983	13,372
Current portion, long-term debt (Note 5)	13,592	28,070
Deferred revenue and other current liabilities	82,555	69,065
Total current liabilities	280,901	234,825
Long-term liabilities:		
Long-term debt (Note 5)	1,188,001	1,030,429
Deferred tax liabilities, net	289,134	288,015
Other long-term liabilities	31,704	33,950
Total long-term liabilities	1,508,839	1,352,394
Total liabilities	1,789,740	1,587,219
Preferred stock, $0.001 par value, 60,000 shares authorized:		
Series A, 30,500 shares designated, 30,134 shares issued, 29,867 shares outstanding and 267 shares held in treasury at March 31, 2011, and December 31, 2010	222,613	218,381
Stockholders equity:		
Common stock, $0.001 par value, 150,000 shares authorized:		
Class A, 59,968 shares issued and 59,199 shares outstanding and 769 shares held in treasury at March 31, 2011 and December 31, 2010	60	60
Class B, 28,169 shares issued and outstanding at March 31, 2011 and December 31, 2010	28	28
Paid-in-capital	452,526	451,728
Retained earnings	176,915	171,224

Treasury stock, at cost		(2,277)		(2,277)
Accumulated other comprehensive income (loss)		4,301		(1,280)
Total stockholders equity		631,553		619,483
Total liabilities and stockholders equity	$	2,643,906	$	2,425,083

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited)

(in thousands, except per share data)

	Three months ended March 31,	
	2011	**2010**
Revenue	$ 506,008	$ 465,019
Cost of sales, including costs of warehousing, distribution and occupancy	322,161	299,120
Gross profit	183,847	165,899
Compensation and related benefits	71,273	67,833
Advertising and promotion	14,207	15,454
Other selling, general and administrative	28,483	25,505
Foreign currency gain	(167)	(76)
Transaction related costs	12,362	-
Operating income	57,689	57,183
Interest expense, net (Note 5)	38,376	16,612
Income before income taxes	19,313	40,571
Income tax expense	9,390	14,910
Net income	$ 9,923	$ 25,661
Income per share - Basic and Diluted:		
Net income	$ 9,923	$ 25,661
Preferred stock dividends	(4,232)	(4,962)
Net income available to common shareholders	$ 5,691	$ 20,699
Earnings per share:		
Basic	$ 0.07	$ 0.24
Diluted	$ 0.06	$ 0.24
Weighted average common shares outstanding:		
Basic	87,367	87,339
Diluted	90,088	87,574

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity and Comprehensive Income (Loss)

(unaudited)

(in thousands, including share data)

	Class A Common Stock Shares	Class A Common Stock Dollars	Class B Common Stock Shares	Class B Common Stock Dollars	Treasury Stock	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity
Balance at December 31, 2010	**59,199**	**$ 60**	**28,169**	**$ 28**	**$ (2,277)**	**$ 451,728**	**$ 171,224**	**$ (1,280)**	**$ 619,483**
Comprehensive income (loss):									
Net income	-	-	-	-	-	-	9,923	-	9,923
Unrealized gain on derivatives designated and qualified as cash flow hedges, net of tax of $2,718	-	-	-	-	-	-	-	4,751	4,751
Foreign currency translation adjustments	-	-	-	-	-	-	-	830	830
Comprehensive income									*15,504*
Preferred stock dividends	-	-	-	-	-	-	(4,232)	-	(4,232)
Non-cash stock-based compensation	-	-	-	-	-	798	-	-	798
Balance at March 31, 2011	**59,199**	**$ 60**	**28,169**	**$ 28**	**$ (2,277)**	**$ 452,526**	**$ 176,915**	**$ 4,301**	**$ 631,553**
Balance at December 31, 2009	**59,170**	**$ 60**	**28,169**	**$ 28**	**$ (2,474)**	**$ 448,556**	**$ 95,263**	**$ (7,199)**	**$ 534,234**
Comprehensive income (loss):									
Net income	-	-	-	-	-	-	25,661	-	25,661
Unrealized gain on derivatives designated and qualified as cash flow hedges, net of tax of $159	-	-	-	-	-	-	-	279	279
Foreign currency translation adjustments	-	-	-	-	-	-	-	950	950
Comprehensive income									*26,890*
Issuance of class A common stock	**14**	-	-	-	-	90	-	-	90
Preferred stock dividends	-	-	-	-	-	-	(4,962)	-	(4,962)
Non-cash stock-based compensation	-	-	-	-	-	842	-	-	842
Balance at March 31, 2010	**59,184**	**$ 60**	**28,169**	**$ 28**	**$ (2,474)**	**$ 449,488**	**$ 115,962**	**$ (5,970)**	**$ 557,094**

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Three months ended March 31, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 9,923	$ 25,661
Adjustments to reconcile net income to net cash provided by operating activities:		
Write-off of deferred financing fees - early debt extinguishment	13,402	-
Amortization of original issue discount - early debt extinguishment	1,556	-
Depreciation expense	9,576	9,564
Amortization of intangible assets	1,909	2,186
Amortization of deferred financing fees	896	1,056
Amortization of original issue discount	108	99
Increase in provision for inventory losses	4,568	1,946
Non-cash stock-based compensation	798	842
Increase (decrease) in provision for losses on accounts receivable	151	(122)
Changes in assets and liabilities:		
Increase in receivables	(2,221)	(2,082)
Increase in inventory	(40,799)	(20,846)
Decrease in other working capital	2,131	10,218
Increase in accounts payable	57,603	47,144
Decrease in interest payable	(10,389)	(8,474)
Increase in accrued liabilities	15,397	4,926
Net cash provided by operating activities	64,609	72,118
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(7,768)	(7,313)
Franchise store conversions	-	4
Store acquisition costs	(608)	(230)
Net cash used in investing activities	(8,376)	(7,539)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of 2007 Senior Credit Facilty	(644,382)	-
Redemption of Senior Toggle Notes	(300,000)	-
Redemption of Senior Subordinated Notes	(110,000)	-
Issuance of Class A Common Stock	-	90
Borrowings on 2011 Senior Credit Facility	1,196,200	-
Payments on long-term debt	(389)	(599)
Financing fees	(17,346)	-
Net cash provided by (used in) financing activities	124,083	(509)
Effect of exchange rate on cash and cash equivalents	(361)	(39)
Net increase in cash and cash equivalents	179,955	64,031
Beginning balance, cash and cash equivalents	193,902	89,948
Ending balance, cash and cash equivalents	$ 373,857	$ 153,979

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1. NATURE OF BUSINESS

General Nature of Business. GNC Holdings, Inc., formerly GNC Acquisition Holdings Inc., a Delaware corporation (Holdings , and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the Company), is a leading specialty retailer of nutritional supplements, which include: vitamins, minerals and herbal supplements (VMHS), sports nutrition products, diet products and other wellness products.

The Company s organizational structure is vertically integrated as the operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three primary segments: retail, franchising and manufacturing/wholesale. Corporate retail store operations are located in North America and Puerto Rico, and in addition the Company offers products domestically through GNC.com and www.drugstore.com. Franchise stores are located in the United States and 48 international countries (including distribution centers where retail sales are made). The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, Pennsylvania and South Carolina. The Company manufactures the majority of its branded products, but also merchandises various third party products. Additionally, the Company licenses the use of its trademarks and trade names.

The processing, formulation, packaging, labeling and advertising of the Company s products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (FDA), Federal Trade Commission (FTC), Consumer Product Safety Commission, United States Department of Agriculture and the Environmental Protection Agency. These activities are also regulated by various agencies of the states and localities in which the Company s products are sold.

NOTE 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been omitted. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the prospectus (the Prospectus) contained in the Company s Registration Statement on Form S-1, as amended (Registration No. 333-169618), which was declared effective on March 31, 2011 (the Registration Statement). There have been no material changes to the application of critical accounting policies and significant judgments and estimates since December 31, 2010.

The accompanying unaudited consolidated financial statements include all adjustments (consisting of a normal and recurring nature) that management considers necessary for a fair statement of financial information for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2011.

Principles of Consolidation. The consolidated financial statements include the accounts of Holdings, all of its subsidiaries and a variable interest entity. All material intercompany transactions have been eliminated in consolidation.

Use of Estimates*.* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. Accordingly, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Some of the most significant estimates pertaining to the Company include the valuation of inventories, the allowance for doubtful accounts, income tax valuation allowances and the recoverability of long-lived assets. On a regular basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Financial Instruments and Derivatives. As part of the Company s financial risk management program, it has historically used certain derivative financial instruments to reduce its exposure to market risk for changes in interest rates primarily in respect of its long-term debt obligations. The Company has not historically entered into, and does not intend to enter into, derivative transactions for speculative purposes and holds no derivative instruments for trading purposes. Floating-to-fixed interest rate swap agreements, designated as cash flow hedges of interest rate risk, were entered into from time to time to hedge the Company s exposure to interest rate changes on a portion of the Company s floating rate debt. The interest rate swap agreements converted a portion of the Company s floating rate debt to fixed rate debt. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an upfront premium. The Company recorded the fair value of these contracts as an asset or a liability, as applicable, in the balance sheet, with the offset to accumulated other comprehensive income (loss), net of tax. The Company measured hedge effectiveness by assessing the changes in the fair value or expected future cash flows of the hedged item. The ineffective portions, if any, were recorded in interest expense in the current period.

Derivatives designated as hedging instruments were recorded in the consolidated balance sheet at fair value as follows:

		Fair Value	
	Balance Sheet Location	**March 31, 2011 (unaudited)**	**December 31, 2010**
		(in thousands)	
Interest Rate Products	Other current liabilities	$ -	$ 4,395
Interest Rate Products	Other long-term liabilities	$ -	$ 3,074

For the period ended December 31, 2010, the Company had interest rate swap agreements outstanding that effectively converted notional amounts of an aggregate $550.0 million of debt from floating to fixed interest rates. The four outstanding agreements were to mature between April 2011 and September 2012. Amounts related to derivatives were reported in accumulated other comprehensive income (loss) and reclassified to interest expense as interest payments were made on the Company s variable-rate debt. In conjunction with a refinancing transaction (the Refinancing) on March 4, 2011, the Company repaid in full the 2007 Senior Credit Facility (the 2007 Senior Credit Facility), its outstanding Senior Notes and its outstanding Senior Subordinated Notes (as defined below), and the four agreements were settled and terminated for an aggregate cash payment of $8.7 million. During the first quarter of 2011, $8.1 million of accumulated unrealized losses on the swaps was reclassified to interest expense, of which $5.8 million was accelerated due to the debt retirement and swap terminations on March 4, 2011. No such derivative instruments are currently outstanding.

Components of gains and losses recorded in the consolidated balance sheet and consolidated income statements for the three months ended March 31, 2011 and 2010 were as follows:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
	(unaudited) (in thousands)				
2011					
Interest Rate Products	$	(639)	Interest income (expense)	$	(8,108)
2010					
Interest Rate Products	$	(3,659)	Interest income (expense)	$	(4,097)

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Transaction Related Cost. The Company recognizes transaction related costs as expenses in the period incurred. For the three months ending March 31, 2011, the Company recognized $12.4 million of these expenses.

Recently Issued Accounting Pronouncements

As of March 31, 2011, there were no recently issued accounting standard that are expected to have a material impact on the Company s consolidated financial statements.

NOTE 3. INVENTORIES

Inventories at each respective period consisted of the following:

	March 31, 2011 (unaudited)	December 31, 2010
	(in thousands)	
Finished product ready for sale	$ 345,595	$ 319,212
Work-in-process, bulk product and raw materials	66,952	57,165
Packaging supplies	6,965	5,572
	$ 419,512	$ 381,949

NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill represents the excess of purchase price over the fair value of identifiable net assets of acquired entities. In accordance with the standard on intangibles and goodwill, goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Other intangible assets with finite lives are amortized on a straight-line or declining balance basis over periods not exceeding 35 years.

For the three months ended March 31, 2011, the Company acquired ten franchise stores. These acquisitions were accounted for utilizing the acquisition method of accounting and the Company recorded the acquired inventory, fixed assets, franchise rights and goodwill, with an applicable reduction to receivables and cash. The total purchase price associated with these acquisitions was

$1.5 million, of which $0.6 million was paid in cash.

The following table summarizes the Company s goodwill activity:

	Retail	Franchising	Manufacturing/ Wholesale	Total
	(in thousands)			
Balance at December 31, 2010	$ 305,097	$ 117,303	$ 202,841	$ 625,241
Acquired franchise stores	431	-	-	431
Balance at March 31, 2011 (unaudited)	$ 305,528	$ 117,303	$ 202,841	$ 625,672

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table summarizes the Company s intangible asset activity:

	Retail Brand	Franchise Brand	Operating Agreements (in thousands)	Franchise Rights	Total
Balance at December 31, 2010	$ 500,000	$ 220,000	$ 146,223	$ 1,001	$ 867,224
Acquired franchise stores	-	-	-	227	227
Amortization expense	-	-	(1,713)	(196)	(1,909)
Balance at March 31, 2011 (unaudited)	$ 500,000	$ 220,000	$ 144,510	$ 1,032	$ 865,542

The following table reflects the gross carrying amount and accumulated amortization for each major intangible asset:

	Estimated Life in years	Cost	March 31, 2011 Accumulated Amortization (unaudited)	Carrying Amount	Cost	December 31, 2010 Accumulated Amortization	Carrying Amount
				(in thousands)			
Brands - retail	-	$ 500,000	$ -	$ 500,000	$ 500,000	$ -	$ 500,000
Brands - franchise	-	220,000	-	220,000	220,000	-	220,000
Retail agreements	25-35	31,000	(4,406)	26,594	31,000	(4,143)	26,857
Franchise agreements	25	70,000	(11,317)	58,683	70,000	(10,617)	59,383
Manufacturing agreements	25	70,000	(11,317)	58,683	70,000	(10,617)	59,383
Other intangibles	5	1,150	(600)	550	1,150	(550)	600
Franchise rights	1-5	3,929	(2,897)	1,032	3,702	(2,701)	1,001
		$ 896,079	$ (30,537)	$ 865,542	$ 895,852	$ (28,628)	$ 867,224

The following table represents future estimated amortization expense of other intangible assets, net, with definite lives at March 31, 2011:

Years ending December 31,	Estimated amortization expense (unaudited) (in thousands)
2011	5,572
2012	7,167
2013	7,020
2014	6,744
2015	6,683
Thereafter	112,356
Total	$ 145,542

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 5. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt at each respective period consisted of the following:

	March 31, 2011 (unaudited)	December 31, 2010
	(in thousands)	
2011 Senior Credit Facility	$ 1,196,235	$ -
2007 Senior Credit Facility	-	644,382
Senior Notes	-	298,372
Senior Subordinated Notes	-	110,000
Mortgage	5,326	5,711
Capital leases	32	34
Total Debt	1,201,593	1,058,499
Less: current maturities	(13,592)	(28,070)
Long-term Debt	$ 1,188,001	$ 1,030,429

The Company s net interest expense for each respective period was as follows:

	Three months ended March 31, 2011	Three months ended March 31, 2010
	(unaudited) (in thousands)	
2007 Senior Credit Facility:		
Term Loan	$ 4,815	$ 7,555
Revolver	71	111
Senior Notes	4,808	4,856
Senior Subordinated Notes	3,054	2,956
Deferred fees writedown - early extinguishment	13,402	-
Deferred financing fees amortization	896	1,056
Termination of interest rate swaps	5,819	-
2011 Senior Credit Facility:		
Term Loan	3,926	-
Revolver	49	-
Mortgage	89	115
OID amortization	108	99
OID writedown - early extinguishment	1,556	-
Interest income	(217)	(136)
Interest expense, net	$ 38,376	$ 16,612

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Accrued interest at each respective period consisted of the following:

	March 31, 2011 (unaudited)	December 31, 2010
	(in thousands)	
2011 Senior Credit Facility	$ 2,983	$ -
2007 Senior Credit Facility	-	4,173
Senior Notes	-	5,717
Senior Subordinated Notes	-	3,482
Total	$ 2,983	$ 13,372

On March 4, 2011, General Nutrition Centers, Inc. (Centers), a wholly owned subsidiary of Holdings, entered into the 2011 Senior Credit Facility, consisting of a $1.2 billion term loan facility (the Term Loan Facility) and an undrawn $80.0 million revolving credit facility (the Revolving Credit Facility and, together with the Term Loan Facility, the 2011 Senior Credit Facility). The Term Loan Facility will mature in March 2018. The Revolving Credit Facility will mature in March 2016. Interest on the 2011 Senior Credit Facility accrues at a variable rate and was 4.25% at March 31, 2011. Interest is accrued at a rate, at the Company s option, per annum equal to (A) the sum of (i) the greatest of (a) the prime rate (as publicly announced by JPMorgan Chase Bank, N.A. as its prime rate in effect), (b) the federal funds effective rate plus 0.50% and, (c) one month adjusted LIBOR (or if greater, 1.25%) plus 1.0% plus (ii) 2.0% or (B) the sum of (i) adjusted LIBOR (or if greater, 1.25%) plus (ii) 3.0%. Additionally, the Company is required to pay a commitment fee to the lenders under the Revolving Credit Facility in respect of unutilized revolving loan commitments at a rate of 0.5% per annum. As of March 31, 2011 $8.2 million of the Revolving Credit Facility was pledged to secure letters of credit. The 2011 Senior Credit Facility is collateralized by first priority pledges (subject to permitted liens) of the equity interests of each of Centers and Centers domestic subsidiaries. In connection with the Refinancing on March 4, 2011, the Company incurred $17.3 million in deferred financing costs. The $1.2 billion TermLoan Facility was recorded net of original issue discount of $3.8 million.

The 2011 Senior Credit Facility contains customary covenants, including incurrence covenants and certain other limitations on the ability of GNC Corporation, Centers, and Centers subsidiaries to incur additional debt, guarantee other obligations, grant liens on assets, make investments or acquisitions, dispose of assets, make optional payments or modifications of other debt instruments, pay dividends or other payments on capital stock, engage in mergers or consolidations, enter into sales and leaseback transactions, enter into arrangements that restrict our and our subsidiaries ability to pay dividends or grant liens, engage in transactions with affiliations, and change the passive holding company status of GNC Corporation. The Revolving Credit Facility also requires that, to the extent borrowings outstanding thereunder exceed $25 million, we meet a senior secured debt ratio of consolidated senior secured debt to consolidated EBITDA (as defined in the Revolving Credit Facility). Such ratio test is 4.75 to 1.00 for the period from June 30, 2011 through and including March 31, 2013, and 4.25 to 1.00 thereafter.

As of March 31, 2011, the Company believes that it is in compliance with all covenants under the 2011 Senior Credit Facility.

At December 31, 2010 the interest rate for the 2007 Senior Credit Facility was 2.5%. At December 31, 2010, the interest rate for the Senior Notes was 5.8%. In connection with the Refinancing on March 4, 2011, the 2007 Senior Credit Facility, Senior Notes, and Senior Subordinated Notes were repaid.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 6. FINANCIAL INSTRUMENTS

At March 31, 2011 and December 31, 2010, the Company s financial instruments consisted of cash and cash equivalents, receivables, franchise notes receivable, accounts payable and long-term debt. The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates their fair value because of the short maturity of these instruments. Based on the interest rates currently available and their underlying risk, the carrying value of the franchise notes receivable approximates their fair value. These fair values are reflected net of reserves, which are recognized according to Company policy. The Company determined the estimated fair values of its debt by using currently available market information and estimates and assumptions where appropriate. As considerable judgment is required to determine these estimates, changes in the assumptions or methodologies may have an effect on these estimates. The carrying amount and estimated fair values of the Company s financial instruments are as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(unaudited)			
	(in thousands)			
Cash and cash equivalents	$ 373,857	$ 373,857	$ 193,902	$ 193,902
Receivables, net	104,270	104,270	102,874	102,874
Franchise notes receivable, net	4,909	4,909	4,496	4,496
Accounts payable	156,203	156,203	98,662	98,662
Long-term debt (including current portion)	1,201,593	1,201,593	1,058,499	1,007,070

NOTE 7. COMMITMENTS AND CONTINGENCIES

Litigation

The Company is engaged in various legal actions, claims and proceedings arising in the normal course of business, including claims related to breach of contracts, products liabilities, intellectual property matters and employment-related matters resulting from the Company s business activities. As with most actions such as these, an estimation of any possible and/or ultimate liability cannot always be determined. The Company continues to assess the requirement to account for additional contingencies in accordance with the standard on contingencies. If the Company is required to make a payment in connection with an adverse outcome in these matters, it could have a material impact on its financial condition and operating results.

As a manufacturer and retailer of nutritional supplements and other consumer products that are ingested by consumers or applied to their bodies, the Company has been and is currently subjected to various product liability claims. Although the effects of these claims to date have not been material to the Company, it is possible that current and future product liability claims could have a material adverse impact on its business or financial condition. The Company currently maintains product liability insurance with a deductible/retention of $3.0 million per claim with an aggregate cap on retained loss of $10.0 million. The Company typically seeks and has obtained contractual indemnification from most parties that supply raw materials for its products or that manufacture or market products it sells. The Company also typically seeks to be added, and has been added, as an additional insured under most of such parties insurance policies. The Company is also entitled to indemnification by a former owner of the Company for certain losses arising from claims related to products containing ephedra or Kava Kava sold prior to December 5, 2003. However, any such indemnification or insurance is limited by its terms and any such indemnification, as a practical matter, is limited to the creditworthiness of the indemnifying party and its insurer, and the absence of significant defenses by the insurers. The Company may incur material products liability claims, which could increase its costs and adversely affect its reputation, revenues and operating income.

Hydroxycut Claims. On May 1, 2009, the FDA issued a warning on several Hydroxycut-branded products manufactured by Iovate Health Sciences U.S.A., Inc. (Iovate). The FDA warning was based on 23 reports of liver injuries from consumers who claimed to have used the products between 2002 and 2009. As a result, Iovate voluntarily recalled 14 Hydroxycut-branded products. Following the recall, the Company was named, among other defendants, in approximately 60 lawsuits related to Hydroxycut-branded products in 13 states. Iovate previously accepted the Company s tender request for defense and indemnification under its purchasing agreement with the Company and, as such, Iovate has accepted the Company s request for defense and indemnification in the Hydroxycut matters. The Company s ability to obtain full recovery in respect of any claims against the Company in connection with products manufactured by Iovate under the indemnity is dependent on Iovate s insurance coverage, the creditworthiness of its insurer, and the absence of significant defenses by such insurer. To the extent the Company is not fully compensated by Iovate s insurer, it can seek recovery directly from Iovate. The Company s ability to fully recover such amounts may be limited by the creditworthiness of Iovate.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

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As of March 31, 2011, there were 57 pending lawsuits related to Hydroxycut in which the Company had been named: 51 individual, largely personal injury claims and six putative class action cases, generally inclusive of claims of consumer fraud, misrepresentation, strict liability and breach of warranty. As any liabilities that may arise from these matters are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

By court order dated October 6, 2009, the United States Judicial Panel on Multidistrict Litigation consolidated pretrial proceedings of many of the pending actions in the Southern District of California (In re: Hydroxycut Marketing and Sales Practices Litigation, MDL No. 2087).

Pro-Hormone/Androstenedione Cases. The Company is currently defending five lawsuits (the Andro Actions) in California, Florida, New Jersey, New York, and Pennsylvania relating to the sale by the Company of certain nutritional products, between 1999 and 2004, alleged to contain the ingredients commonly known as Androstenedione, Androstenediol, Norandrostenedione, and Norandrostenediol (collectively, Andro Products). In each of the Andro Actions, plaintiffs sought, or are seeking, to certify a class and obtain damages on behalf of the class representatives and all those similarly-situated who purchased from the Company certain nutritional supplements alleged to contain one or more Andro Products. During the first quarter of 2011, the sole Andro Action filed in California was settled for an immaterial amount, pending approval by the court. Unlike the other states in which the plaintiffs reside, California law prohibits one of the ingredients; therefore the Company does not believe that the outcome in California provides a basis for determining the potential outcome of the other Andro Actions. As any liabilities that may arise from these other Andro Actions are not probable or reasonably estimable at this time, no liability has been accrued in the accompanying financial statements.

Commitments

The Company maintains certain purchase commitments with various vendors to ensure its operational needs are fulfilled. As of March 31, 2011, such future purchase commitments consisted of $10.5 million of advertising commitments. Other commitments related to the Company s business operations cover varying periods of time and are not significant. All of these commitments are expected to be fulfilled with no adverse consequences to the Company s operations of financial condition.

Environmental Compliance

In March 2008, the South Carolina Department of Health and Environmental Control (the DHEC) requested that the Company investigate contamination associated with historical activities at our South Carolina facility. These investigations have identified chlorinated solvent impacts in soils and groundwater that extend offsite from our facility. The Company is awaiting DHEC approval of the scope of additional investigations in order to understand the extent of these impacts and develop appropriate remedial measures for DHEC approval. At this state of the investigation, however, it is not possible to estimate the timing and extent of any remedial action that may be required, the ultimate cost of remediation, or the amount of the Company s potential liability.

In addition to the foregoing, the Company is subject to numerous federal, state, local, and foreign environmental and health and safety laws and regulations governing its operations, including the handling, transportation, and disposal of the Company s non-hazardous and hazardous substances and wastes, as well as emissions and discharges from its operations into the environment, including discharges to air, surface water, and groundwater. Failure to comply with such laws and regulations could result in costs for remedial actions, penalties, or the imposition of other liabilities. New laws, changes in existing laws or the interpretation thereof, or the development of new facts or changes in their processes could also cause the Company to incur additional capital and operation expenditures to maintain compliance with environmental laws and regulations and environmental permits. The Company also is subject to laws and regulations that impose liability and cleanup responsibility for releases of hazardous substances into the environment without regard to fault or knowledge about the condition or action causing the liability. Under certain of these laws and regulations, such liabilities can be imposed for cleanup of previously owned or operated properties, or for properties to which substances or wastes that were sent in connection with current or former operations at its facilities. The presence of contamination from such substances or wastes could also adversely affect the Company s ability to sell or lease its properties, or to use them as collateral for financing. From time to time, the Company has incurred costs and obligations for correcting environmental and health and safety noncompliance matters and for remediation at or relating to certain of its properties or properties at which its waste has been disposed. The Company believes it has complied with, and is currently complying with, its environmental obligations pursuant to environmental and health and safety laws and regulations and that any liabilities for noncompliance will not have a material adverse effect on its business or financial performance. However, it is difficult to predict future liabilities and obligations, which could be material.

GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 8. STOCK-BASED COMPENSATION PLANS

2011 Stock Plan

On April 6, 2011, Holdings completed an initial public offering of its Class A common stock (the IPO). In connection with the IPO, Holdings adopted the GNC Holdings, Inc. 2011 Stock and Incentive Plan (the 2011 Stock Plan). The 2011 Stock Plan is administered by the Holdings Compensation Committee (the Compensation Committee).

Up to 8.5 million shares of Class A common stock may be issued under the 2011 Stock Plan (subject to adjustment to reflect certain transactions and events specified in the 2011 Stock Plan for any award grant). If any award granted under the 2011 Stock Plan expires, terminates or is cancelled without having been exercised in full, the number of shares underlying such unexercised award will again become available for awards under the 2011 Stock Plan. The total number of shares of Class A common stock available for awards under the 2011 Stock Plan will be reduced by (i) the total number of stock options or stock appreciation rights exercised, regardless of whether any of the shares of Class A common stock underlying such awards are not actually issued to the participant as the result of a net settlement and (ii) any shares of Class A common stock used to pay any exercise price or tax withholding obligation. In addition, the number of shares of Class A common stock that are subject to restricted stock, performance shares or other stock-based awards that are not subject to the appreciation of the value of a share of Class A common stock (Full Share Awards) that may be granted under the 2011 Stock Plan is limited by counting shares granted pursuant to such awards against the aggregate share reserve as 1.8 shares for every share granted. If any stock option, stock appreciation right or other stock-based award that is not a Full Share Award is cancelled, expires or terminates unexercised for any reason, the shares covered by such awards will again be available for the grant of awards under the 2011 Stock Plan. If any shares of Class A common stock that are subject to restricted stock, performance shares or other stock-based awards that are Full Share Awards are forfeited for any reason, 1.8 shares of Class A common stock will again be available for the grant of awards under the 2011 Stock Plan.

On March 31, 2011, options, with a weighted average exercise price of $19.51, were granted to purchase up to 570,000 shares of Class A common stock under the 2011 Stock Plan.

2007 Stock Plan

In 2007, Holdings adopted the GNC Acquisition Holdings Inc. 2007 Stock Incentive Plan (the 2007 Stock Plan). Following the IPO, the Company will not grant any additional awards under the 2007 Stock Plan. The 2007 Stock Plan provided for the granting of stock options, restricted stock and other stock based awards. The 2007 Stock Plan was available to certain eligible employees, directors, consultants or advisors as determined by the Compensation Committee. Stock options under the 2007 Stock Plan were generally granted with exercise prices at or above fair market value, typically vested over a four- or five-year period and expired ten years from the date of grant. No stock appreciation rights, restricted stock, deferred stock or performance shares were granted under the 2007 Stock Plan.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

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The following table outlines Holdings total stock options activity under the 2007 Stock Plan:

	Total Options	Weighted Average Exercise Price
Outstanding at December 31, 2010	9,344,188	$ 7.60
Forfeited	(84,000)	10.87
Outstanding at March 31, 2011	9,260,188	$ 7.58
Exercisable at March 31, 2011	6,808,185	$ 6.72

Stock Based Compensation Expense

The Company utilizes the Black Scholes model to calculate the fair value of options under all the Holdings plans. The resulting compensation cost is recognized in the Company s financial statements over the option vesting period. At March 31, 2011, the net unrecognized compensation cost was $6.0 million and is expected to be recognized over a weighted average period of approximately 3.4 years.

Stock-based compensation expense for each of the three months ended March 31, 2011 and 2010 was $0.8 million.

As of March 31, 2011, the weighted average remaining contractual life of outstanding options was 6.5 years. At March 31, 2011, the weighted average remaining contractual life of exercisable options was 5.9 years. The weighted average fair value of options granted during 2011 was $6.15 per share.

The Black Scholes model utilizes the following assumptions in determining a fair value: price of underlying stock, option exercise price, expected option term, risk-free interest rate, expected dividend yield, and expected stock price volatility over the option s expected term. As Holdings has had minimal exercises of stock options through December 31, 2010, 2009 and 2008 option term has been estimated by considering both the vesting period, which typically for the successor and predecessor plans has been five or four years, and the contractual term, which historically has been ten years. As the Company s underlying stock was not, as of March 31, 2011, publicly traded on an open market, the Company utilized its current peer group average to estimate the expected volatility. The assumptions used in the Company s Black Scholes valuation related to stock option grants made from the 2011 Stock Plan during the three months ended March 31, 2011 were as follows:

March 31, 2011

	(unaudited)
Dividend yield	0.00%
Expected option life	6.3-7.0 years
Volatility factor percentage of market price	38.5%
Discount rate	2.9%

As the Black-Scholes model utilizes certain estimates and assumptions, the existing models do not necessarily represent the definitive fair value of options for future periods. Assumptions used in the Black-Scholes option valuation model included the fair value of the stock, as the stock was not publicly traded, as of March 31, 2011, and volatility. The fair value of the stock was estimated based upon the net enterprise value of the Company, discounted to reflect the lack of liquidity and control associated with the stock. Volatility was estimated based upon the volatility in a sample peer group of companies. The average estimated fair value of Holdings Class A common stock for the three months ended March 31, 2011 was $15.05 per share.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 9. SEGMENTS

The Company has three reportable segments, each of which represents an identifiable component of the Company for which separate financial information is available. This information is utilized by the Company s management to assess performance and allocate assets accordingly. The Company s management evaluates segment operating results based on several indicators. The primary key performance indicators are sales and operating income or loss for each segment. Operating income or loss, as evaluated by management, excludes certain items that are managed at the consolidated level, such as distribution and warehousing, impairments and other corporate costs. The following table represents key financial information for each of the Company s reportable segments, identifiable by the distinct operations and management of each: Retail, Franchising, and Manufacturing/Wholesale. The Retail reportable segment includes the Company s corporate store operations in the United States, Canada and its GNC.com business. The Franchise reportable segment represents the Company s franchise operations, both domestically and internationally. The Manufacturing/Wholesale reportable segment represents the Company s manufacturing operations in South Carolina and the Wholesale sales business. This segment supplies the Retail and Franchise segments, along with various third parties, with finished products for sale. The Warehousing and Distribution and Corporate costs represent the Company s administrative expenses. The accounting policies of the segments are the same as those described in the Basis of Presentation and Summary of Significant Accounting Policies .

The following table represents key financial information of the Company s segments:

	Three Months Ended			
	March 31, 2011		March 31, 2010	
	(unaudited)			
Revenue:				
Retail	$	383,703	$	350,834
Franchise		77,384		72,602
Manufacturing/Wholesale:				
Intersegment (1)		50,699		47,345
Third Party		44,921		41,583
Sub total Manufacturing/Wholesale		95,620		88,928
Sub total segment revenues		556,707		512,364
Intersegment elimination (1)		(50,699)		(47,345)
Total revenue	$	506,008	$	465,019

(1) Intersegment revenues are eliminated from consolidated revenue.

Operating income (loss):				
Retail	$	63,597	$	50,196
Franchise		25,356		21,972
Manufacturing/Wholesale		16,554		16,872
Unallocated corporate and other costs:				
Warehousing and distribution costs		(15,148)		(13,892)
Corporate costs		(20,308)		(17,965)

Transaction related costs		(12,362)		-
Sub total unallocated corporate and other costs		(47,818)		(31,857)
Total operating income	$	57,689	$	57,183

10. INCOME TAXES

The Company recognized $9.4 million of income tax expense (or 48.6% of pretax income) during the three months ended March 31, 2011 compared to $14.9 million (or 36.8% of pretax income) for the same period in 2010. The 2011 income tax expense includes $2.3 million, or 11.7% of pretax income, related to non deductible costs incurred related to the IPO during the period.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company files a consolidated U.S. federal tax return and various consolidated and separate tax returns as prescribed by the tax laws of the state, local, and international jurisdictions in which it and its subsidiaries operate. The Company has been audited by the Internal Revenue Service (the IRS) through its March 15, 2007 tax year. The Company has various state, local, and international jurisdiction tax years open to examination (the earliest open period is 2003), and is also currently under audit in certain state and local jurisdictions. As of March 31, 2011, the Company believes that it has appropriately reserved for any potential federal, state, local, and international income tax exposures.

The Company recorded additional unrecognized tax benefits of approximately $0.1 million during the three months ended March 31, 2011. The additional unrecognized tax benefits recorded during the three months ended March 31, 2011 are principally related to the continuation of previously taken tax positions. As of March 31, 2011 and December 31, 2010, the Company had $8.8 million and $8.7 million, respectively, of unrecognized tax benefits. As of March 31, 2011, the Company is not aware of any tax positions for which it is reasonably possible that the amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is $8.8 million. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company had accrued approximately $3.0 million and $2.7 million, respectively, for March 31, 2011 and December 31, 2010 in potential interest and penalties associated with uncertain tax positions. To the extent interest and penalties are not assessed with respect to the ultimate settlement of uncertain tax positions, amounts previously accrued will be reduced and reflected as a reduction of the overall income tax provision.

NOTE 11. FAIR VALUE MEASUREMENT

The standard on fair market measurement defines fair value, establishes a consistent framework for measuring fair value, and expands disclosures for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. The standard clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 - observable inputs such as quoted prices in active markets for identical assets and liabilities;

Level 2 - observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, other inputs that are observable, or can be corroborated by observable market data; and

Level 3 - unobservable inputs for which there are little or no market data, which require the reporting entity to develop its own assumptions.

The following table presents the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2011 by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	Level 2 **(unaudited)** **(in thousands)**	Level 3
Other current liabilities	$ -	$ -	$ -
Other long-term liabilities	$ 2,972	$ -	$ -

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GNC HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The following table presents the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2010 by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
		(in thousands)	
Other current liabilities	$ -	$ 4,395	$ -
Other long-term liabilities	$ 3,034	$ 3,074	$ -

The following is a description of the valuation methodologies used for these items, as well as the general classification of such items pursuant to the fair value hierarchy of the standard on Fair Value Measurements and Disclosures:

Other Current Liabilities and Other Long-term Liabilities. Other current liabilities and long-term liabilities classified as Level 1 consist of liabilities related to the Company s non-qualified deferred compensation plan. The liabilities related to this plan are adjusted based on changes in the fair value of the underlying employee-directed investment choices. Since the employee-directed investment choices are exchange traded equity indexes with quoted prices in active markets, the liabilities are classified within Level 1 on the fair value hierarchy. Other current liabilities and long-term liabilities classified as Level 2 consisted of the Company s interest rate swaps which were terminated on March 4, 2011.

In addition to the above table, the Company s financial instruments also consist of cash and cash equivalents, accounts receivable, accounts payable and long-term debt. The Company did not elect to value its long-term debt with the fair value option in accordance with the standard on Financial Instruments. The Company believes that the recorded values of all of its other financial instruments approximate their fair values because of their nature and respective durations.

NOTE 12. RELATED PARTY TRANSACTIONS

Management Services Agreement. Together with Holdings wholly owned subsidiary, GNC Acquisition Inc., Holdings entered into an Agreement and Plan of Merger (the Merger Agreement) with GNC Parent Corporation on February 8, 2007. Pursuant to the Merger Agreement and on March 16, 2007, GNC Acquisition Inc. was merged with and into GNC Parent Corporation, with GNC Parent Corporation as the surviving corporation and our wholly owned subsidiary (the Merger). In connection with the Merger, on March 16, 2007, Holdings entered into a Management Services Agreement (the ACOF Management Services Agreement) with ACOF Operating Manager II, L.P. (ACOF Manager), an affiliate of Ares Corporate Opportunities Fund II, L.P. (Ares), one of Holdings sponsors. The ACOF Management Service Agreement provided for an annual management fee of $750,000, payable quarterly and in advance to ACOF Manager, on a pro rata basis, until the tenth anniversary from March 16, 2007 plus any one-year extensions (which extensions occurred automatically on each anniversary date of March 16, 2007), as well as reimbursements for ACOF Manager s and its affiliates out-of-pocket expenses in connection with the management services provided under the ACOF Management Services Agreement. For the three months ended March 31, 2011 and 2010, $187,500 had been paid pursuant to this agreement.

The ACOF Management Services Agreement provided that upon consummation of a change in control transaction or a bona fide initial public offering, ACOF Manager would receive, in lieu of quarterly payments of the annual management fee, an automatic fee equal to the net present value of the aggregate annual management fee that would have been payable to ACOF Manager during the remainder of the term of the agreement, calculated in good faith by Holdings board of directors (the Board). Upon consummation of the IPO in April 2011, $5.6 million was paid pursuant to this agreement and the agreement was terminated. This amount was accrued and expensed in transaction related costs during the period ended March 31, 2011.

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Special Dividend. Ontario Teachers Pension Plan Board (OTPP), as the holder of Holdings Class B common stock, was entitled to receive an annual special dividend payment equal to an aggregate amount of $750,000 per year when, as and if declared by the Board (the Special Dividend). The Special Dividend was payable in equal quarterly installments on the first day of each quarter commencing on April 1, 2007 and for ten years thereafter (the Special Dividend Period). For the three months ended March 31, 2011 and 2010, $187,500 was paid pursuant to this arrangement.

Upon the consummation of a change in control transaction or a bona fide initial public offering, OTPP was entitled to receive, in lieu of quarterly payments of the special dividend payments, an automatic payment equal to the net present value of the aggregate amount of the special dividend payments that would have been payable to OTPP during the remainder of the Special Dividend Period, calculated in good faith by the Board. Upon consummation of the IPO in April 2011, $5.6 million was paid to OTPP and the arrangement was terminated. This amount was accrued and expensed in transaction related costs during the period ended March 31, 2011.

2007 Senior Credit Facility. Upon consummation of the Merger, Centers entered into the 2007 Senior Credit Facility, under which various funds affiliated with Ares, were lenders. Under the 2007 Senior Credit Facility, these affiliated funds made term loans to Centers in the amount of $65.0 million and $62.1 million, as of the consummation of the Merger and December 31, 2010, respectively. In addition, as of December 31, 2010, an aggregate of $2.9 million in principal and $11.0 million in interest had been paid to affiliates of Ares in respect of amounts borrowed under the 2007 Senior Credit Facility. Borrowings under the 2007 Senior Credit Facility had accrued interest at a weighted average rate of 4.6% per year. In connection with the Refinancing and as of March 4, 2011, the remaining principal amount of $62.1 million and an additional amount of $0.5 million in interest was paid to affiliates of Ares.

2011 Senior Credit Facility. Various funds affiliated with Ares are lenders under the 2011 Senior Credit Facility. These affiliated funds have made term loans to Centers in the amount of $120.0 million. In connection with the Company s repayment of $300.0 million of outstanding borrowings under the Term Loan Facility with proceeds from the IPO, funds affiliated with Ares received approximately $30.0 million, representing their pro rata positions in the Term Loan Facility. Interest represented $0.1 million of the $30.0 million paid to Ares.

Lease Agreements. At March 31, 2011, the Company was party to 18 lease agreements, as lessee, with Cadillac Fairview Corporation, a direct wholly owned subsidiary of OTPP, as lessor, with respect to properties located in Canada. For each of the three months ended March 31, 2011 and 2010, the Company paid $0.7 million under the lease agreements. Each lease was negotiated in the ordinary course of business on an arm s length basis.

NOTE 13. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance of the condensed consolidated financial statements herein. On April 6, 2011, the Company completed the IPO pursuant to which 25.875 million shares of Class A common stock were sold at an initial public offering price of $16.00 per share. Holdings issued and sold 16 million shares, and certain of Holdings shareholders sold 9.875 million shares, which included 3.375 million shares sold pursuant to the underwriters option to purchase additional shares. The Company used the net proceeds from the IPO, together with cash on hand (including additional funds from the Refinancing), to redeem all outstanding Series A preferred stock, par value $0.001 per share (the Series A preferred stock), repay $300 million of outstanding borrowings under the Term Loan Facility and pay sponsor-related obligations of approximately $11.1 million.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with Item 1, Financial Statements in Part I of this quarterly report on Form 10-Q.

Forward-Looking Statements

The discussion in this section includes forward-looking statements within the meaning of federal securities laws. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, and other information that is not historical information. Forward-looking statements can often be identified by the use of terminology such as subject to, believe, anticipate, plan, expect, intend, est project, may, will, should, would, could, can, the negatives thereof, variations thereon and similar expressions, or by discu strategy.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including those set forth under Item 1A, Risk Factors of Part II of this quarterly report on Form 10-Q), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- significant competition in our industry;
- unfavorable publicity or consumer perception of our products;
- increases in the cost of borrowings and limitations on availability of additional debt or equity capital;
- our debt levels and restrictions in our debt agreements;
- the incurrence of material product liability and product recall costs;
- loss or retirement of key members of management;
- costs of compliance and our failure to comply with new and existing governmental regulations, including but not limited to, tax regulations;
- costs of litigation and the failure to successfully defend lawsuits and other claims against us;
- the failure of our franchisees to conduct their operations profitably and limitations on our ability to terminate or replace under-performing franchisees;

- economic, political and other risks associated with our international operations;
- our failure to keep pace with the demands of our customers for new products and services;
- disruptions in our manufacturing system or losses of manufacturing certifications;
- disruptions in our distribution network;
- the lack of long-term experience with human consumption of ingredients in some of our products;
- increases in the frequency and severity of insurance claims, particularly claims for which we are self-insured;
- the failure to adequately protect or enforce our intellectual property rights against competitors;
- changes in raw material costs and pricing of our products;
- failure to successfully execute our growth strategy, including any delays in our planned future growth, testing and development of our new store formats, any inability to expand our franchise operations or attract new franchisees, or any inability to expand our company-owned retail operations;
- changes in applicable laws relating to our franchise operations;
- damage or interruption to our information systems;
- the impact of current economic conditions on our business;
- natural disasters, unusually adverse weather conditions, pandemic outbreaks, boycotts and geo-political events; and
- our failure to maintain effective internal controls.

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We caution that these forward-looking statements, and those described elsewhere in this report, involve material risks and uncertainties and are subject to change based on factors beyond our control as discussed in Item 1A, Risk Factors of Part II of this quarterly report on Form 10-Q. Consequently, forward-looking statements should be regarded solely as our current plans, estimates, and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance, or achievements. We do not undertake and specifically decline any obligation to update, republish, or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events.

Business Overview

GNC Holdings, Inc., headquartered in Pittsburgh, Pa., is a leading global specialty retailer of health and wellness products, including vitamins, minerals, and herbal supplement products, sports nutrition products and diet products, and trades on the New York Stock Exchange under the symbol GNC .

As of March 31, 2011, GNC has more than 7,300 locations, of which more than 5,600 retail locations are in the United States (including 895 franchise and 2,029 Rite Aid franchise store-within-a-store locations) and franchise operations in 48 countries (including distribution centers where retail sales are made). The Company which is dedicated to helping consumers Live Well is a diversified, multi-channel business model that derives revenue from product sales through company-owned retail stores, domestic and international franchise activities, third party contract manufacturing, e-commerce, and corporate partnerships. Our broad and deep product mix, which is focused on high-margin, premium, value-added nutritional products, is sold under GNC proprietary brands, including Mega Men, Ultra Mega, GNC Wellbeing, Pro Performance, and Longevity Factors, and under nationally recognized third party brands.

Revenues and Operating Performance from our Segments

We measure our operating performance primarily through revenues and operating income from our three segments, Retail, Franchise, and Manufacturing/Wholesale, and through the management of unallocated costs from our warehousing, distribution and corporate segments, as follows:

- *Retail:* Retail revenues are generated by sales to consumers at our company-owned stores and online through GNC.com. Although we believe that our retail and franchise businesses are not seasonal in nature, historically we have experienced, and expect to continue to experience, a variation in our net sales and operating results from quarter to quarter, with the first half of the year being stronger than the second half of the year. Our industry is expected to grow at an annual average rate of approximately 5.3% through 2015. As a leader in our industry, we expect our organic retail revenue growth to be consistent with projected industry growth as a result of our disproportionate market share, scale economies in purchasing and advertising, strong brand awareness and vertical integration.

- *Franchise:* Franchise revenues are generated primarily from:

—

Cash dividends paid

(84,119
)

(344,659
)
Net cash provided by (used in) financing activities from continuing operations

1,497,450

(344,659
)
Net cash provided by (used in) financing activities from discontinued operations

—

—

Net cash provided by (used in) financing activities

1,497,450

(344,659
)

Net decrease in cash and cash equivalents

(849,633
)

(2,604,231
)
Cash and cash equivalents, beginning of year

1,358,223

3,962,454

Cash and cash equivalents, end of year

508,590

1,358,223

Less: cash and cash equivalents of discontinued operations at end of year

30,882

102,972

Cash and cash equivalents of continuing operations at end of year

$
477,708

$
1,255,251

See accompanying notes to consolidated financial statements.

Arrhythmia Research Technology, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

1. Description of Business

Arrhythmia Research Technology, Inc., a Delaware corporation ("ART"), through its wholly-owned subsidiary, Micron Products, Inc. ("Micron", and collectively with ART, the "Company") is a diversified manufacturer specializing in plastic molding, precision metal and plastics machining and specialty coatings, including precious metal plating. The Company is also engaged in the development and licensing of signal-averaged electrocardiographic software. The Company's Pennsylvania subsidiary RMDDxUSA Corporation and its Prince Edward Island subsidiary RMDDx Corporation, collectively "WirelessDx", discontinued operations in the third quarter of 2012.

ART was founded in 1986 and completed an initial public offering in 1988 and its shares were listed on the American Stock Exchange (now the NYSE MKT), in 1992. Its stock trades under the symbol HRT. The Company has grown organically and through acquisitions. Today, the Company has diversified manufacturing capabilities with the capacity to participate in full product life cycle activities from early stage development and engineering from prototyping to full scale manufacturing as well as packaging and product fulfillment services. The Company competes globally, with over half of its revenue derived from exports.

Operating matters and liquidity

The Company has experienced net operating losses from June 2011 through December 31, 2012, including a net loss of $6.1 million for the twelve months then ended. The Company had borrowings of $800,000 under its line of credit with a bank at December 31, 2012 and $446,000 of available funds under this line of credit based upon its borrowing base formula. The borrowings under this line of credit were paid in full, and the line was closed, on April 1, 2013.

On March 29, 2013, the Company entered into a multi-year credit facility with a Massachusetts based bank. The new credit facility includes a revolving line of credit ("revolver") of up to $4.0 million, a commercial term loan of $1.5 million and an equipment line of credit of $1.0 million.

The $4.0 million revolver, which provides for borrowings up to 80% of net eligible receivables and 50% of net eligible raw materials inventory, replaces the previous $3.0 million demand line of credit which was scheduled to expire April 30, 2013. The revolver has a maturity date of June 30, 2015.

The $1.5 million commercial term loan was used to refinance existing Equipment notes and to fund other current liabilities of continuing operations. The term loan has a five year term with a maturity date of March 29, 2018.

The equipment line of credit of $1.0 million is for the purchase of capital equipment. Advances on the equipment line shall not exceed 80% of the invoice amount of the equipment being purchased. The term of the equipment line of credit is six years, maturing on March 29, 2019, inclusive of a one year maximum draw period.

In an effort to better control costs and overall operations, the Company decided to discontinue operations of its WirelessDx segment. For the twelve months ended December 31, 2012, net cash used in discontinued operations was $2.3 million.

As the Company resumes its focus on its core business, Micron, further cost savings will be identified and cost savings actions will be implemented, if necessary, in order to meet the Company's cash flow needs through December 31, 2013.

The Company expects that its current and anticipated financial resources, including the new credit facility, are adequate to maintain current and planned operations through December 31, 2013. However, if the Company is not successful in generating sufficient revenues, it may not be able to fund its debt obligations or fund operations beyond December 31, 2013. The Company also expects to continue to expand its product offerings and improve sales with new and existing channels. The Company expects to meet its goals in these areas and generate the additional cash needed to fund operations into 2013 and beyond; however, there can be no assurance that it will be able to do so. The ability of the Company to realize the carrying value of its assets depends on its ability to successfully execute on its long-term business plan.

2. Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of ART and Micron. All inter-company balances and transactions have been eliminated in consolidation. In the fourth quarter of 2011, the Company changed the functional currency of its discontinued Canadian subsidiary, RMDDx Corporation, from Canadian dollars to U.S. Dollars in order to more accurately account for the discontinued operations.

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 statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

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Revenue Recognition

Revenue is recorded when all criteria for revenue recognition have been satisfied, which is generally when goods are shipped to the Company's customers. Product revenue is recognized in the period when persuasive evidence of an arrangement with a customer exists, the products are shipped and title has transferred to the customer, the price is fixed or determined and collection is probable.

The Company defers revenue recognition on the sale of certain molds and tools, as well as certain engineering and validation services, until customer acceptance, including inspection and installation requirements, as defined, are achieved. The Company evaluates revenue arrangements with potential multi-element deliverables to determine if there is more than one unit of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there are no customer-negotiated refunds or return rights for the undelivered elements. The selling price for each deliverable is based on vendor-specific objective evidence (“VSOE”) if available, third-party evidence (“TPE”) if VSOE is not available, or best estimate of selling price (“BESP”) if neither VSOE or TPE is available. When possible, revenue is allocated to the elements based on VSOE or TPE for each element. For arrangements where VSOE or TPE cannot be established, the Company uses BESP for the allocation of arrangement consideration. The objective of BESP is to determine the price at which the Company would typically transact a standalone sale of the product or service. BESP is determined by considering a number of factors including the Company's pricing policies, internal costs and gross margin objectives, current market conditions, information gathered from experience in customer negotiations and the competitive landscape.

The Company enters into arrangements containing multiple elements which may include a combination of the sale of molds, tooling, engineering and validation services and production units. The Company has determined that sale of certain molds, tooling, engineering and validation services, and the production units, represent one unit of accounting, based on an assessment of the respective standalone value, as defined in ASC 605-25, “Revenue Recognition: Multiple-Element Arrangements.”

The Company evaluates the merits and individual uniqueness of each transaction, the related product(s), and the customer, to determine if the arrangement qualifies for revenue recognition as multiple element arrangements. The Company determined that the estimated product life-cycle, and historical knowledge of the customer, will determine the appropriate life over which the deferred revenue will be amortized into revenue, which generally takes place within two to five years of the initiation of the arrangement. Revenue for the production units is recognized upon shipment.

The Company cannot adequately predict short-term or long-term future production units in a consistent and meaningful manner given the prototyping and sampling nature of these molds and associated products. Many of these products require validation of a new design or acceptable end product and their viability in their respective competitive marketplaces. Therefore, the future production possibilities are unpredictable and sometimes volatile making the Company unable to account for the transactions under the Units of Production method. Therefore, management has determined that the most appropriate method of amortizing the amounts into revenue is the straight-line method. The life over which the deferred revenue will be amortized into revenue will be determined based upon the terms of the arrangement, estimated product life-cycle, historical knowledge of the customer and any other relevant information. Management estimates that the amortization of the arrangements will generally take place over a two to five year period.

Furthermore, the Company will use these factors in determining when it may be appropriate to accelerate remaining deferred revenue into income for products for customers who may have excessive time lags between the making of the mold and the production of units from the mold. Product life-cycles, customer supply chains, customer financial performance and other items may be indicators to management that realization of future production orders for the product may be more likely than not, improbable. At such point, management may determine, in its estimates, that it is appropriate to recognize the remaining revenue.

In connection with the preparation of the consolidated financial statements for the year ended December 31, 2012, the Company reviewed the accounting treatment of revenue recognition for certain molds, tooling and validation services (collectively “Tooling”) and their relation to molding or machining of production units for sale to the customer. As a result of such review, management determined that the Company had been incorrectly recognizing revenue for certain Tooling transactions by not deferring the related revenue in accordance with guidance set forth in ASC 605-25, “Revenue Recognition: Multiple-Element Arrangements.”

The Company has determined that the errors were immaterial to the overall presentation of prior year financial statements and therefore has revised the prior year audited, December 31, 2011 financial statements, as well as the December 31, 2010 ending retained earnings, as more fully described in Note 2.

Additionally, the Company has presented revised quarterly unaudited financial information, to correct errors in the revenue recognition for certain Tooling transactions, for the quarterly periods ended March 31, 2012, June 30, 2012 and September 30, 2012 as well as the prior period quarterly unaudited financial information for the periods ended March 31, 2011, June 30, 2011 and September 30, 2011 and the audited period ended December 31, 2011 (See Note 14).

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The Company also recognizes revenue in accordance with ASC 985-605 "Software - Revenue Recognition" for software licenses it sells. Revenue is recognized when licenses are sold as the revenue cycle is completed with no warranty, returns or technical support to customers. Total revenue from software sales was immaterial in relation to consolidated revenues.

Fair value of financial instruments

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term nature of such instruments. The carrying amount of the Company's long-term and respective short-term portion of equipment notes was $991,213 and $267,043, at December 31, 2012 which approximates the fair value of these instruments as these notes were paid in full in April 2013. There was no outstanding debt at December 31, 2011.

In addition to the equipment notes, the Company had a line of credit with an outstanding balance of $800,000 at December 31, 2012 which approximates the fair value of this instrument due to the variable interest rates. There was no outstanding balance on the line of credit at December 31, 2011.

The Equipment notes and the line of credit were both paid off and closed on April 1, 2013.

Concentration of credit risk

Financial instruments which potentially expose the Company to concentrations of credit risk, as defined by Accounting Standards Codification (“ASC”) 310 “Receivables”, consist primarily of trade accounts receivable and cash. Accounts receivable are customer obligations due under normal trade terms. A large portion of the Company's products are sold to large diversified medical and defense product manufacturers. The Company does not generally require collateral for its sales; however, the Company believes that its terms of sale provide adequate protection against significant credit risk.

During the years ended December 31, 2012 and December 31, 2011, the Company had one major customer which accounted for over 10% of sales. The three largest customers accounted for 28%, 9%, and 8% of sales in 2012 as compared with 34%, 8%, and 7% of sales in 2011. The loss of any one or more of these customers may have an immediate significant adverse effect on our financial results. Currently, the Company generally does not receive purchase volume commitments extending beyond several months. Large corporations can shift focus away from a need for the Company’s products and services with little or no warning.

It is the Company’s policy to place its cash in high quality financial institutions. The Company does not believe significant credit risk exists above federally insured limits with respect to these institutions.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and on deposit in high quality financial institutions with maturities of three months or less at the time of purchase.

Allowance for doubtful accounts

Management regularly reviews accounts receivable to determine if any receivables will potentially be uncollectible. The Company includes any accounts receivable balances that are determined to be uncollectible, along with a general reserve, to determine the overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, management believes the allowance for doubtful accounts of $117,098 and $58,496 as of December 31, 2012 and December 31, 2011, respectively are reasonable.

Inventories

The Company values its inventory at the lower of average cost (FIFO) or net realizable value. The Company reviews its inventory for quantities in excess of production requirements, obsolescence and for compliance with internal quality specifications. Any adjustments to inventory would be equal to the difference between the cost of inventory and the estimated net market value based upon assumptions about future demand, market conditions and expected cost to distribute those products to market. The Company records adjustments to account for potential scrap during normal manufacturing operations or potential obsolesce for slow moving inventory.

Prepaid Tooling

Costs related to the pre-production design and development for certain molds, tooling and validation services (collectively “Tooling”) are classified as other current and other non-current assets as applicable. Prepaid Tooling costs include such costs associated with the production of tools sold to customers, for which the Company is recording corresponding deferred revenue. As deferred revenue is amortized into revenue, the associated prepaid tooling costs are expensed to cost of sales. At December 31, 2012 the Company had other current assets of $263,475 and other non-current assets of $214,596 related to prepaid tooling. At December 31, 2011 the Company had other current assets of $130,409 and other non-current assets of $87,978 related to prepaid tooling.

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Property, plant and equipment

Property, plant and equipment are recorded at cost and include expenditures which substantially extend their useful lives. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to earnings as incurred. When equipment is retired or sold, the resulting gain or loss is reflected in earnings.

Goodwill and indefinite-lived intangibles

The Company accounts for goodwill and indefinite lived intangibles in accordance with ASC 350 “Intangibles – Goodwill and Other.” Goodwill is reviewed for impairment annually, or when events arise that could indicate that impairment exists. The provisions of ASC 350 require that the Company perform a two-step impairment test. In the first step, the Company compares the fair value of its reporting units to the carrying value of the reporting units. If the carrying value of the net assets assigned to the reporting units exceeds the fair value of the reporting units, then the second step of the impairment test is performed in order to determine the implied fair value of the reporting units' goodwill. If the carrying value of the reporting units' goodwill exceeds its implied fair value, an impairment loss equal to the difference is recorded.

The Company's annual goodwill impairment test is conducted at December 31 of each calendar year and interim evaluations are performed when the Company determines that a triggering event has occurred that would more likely than not reduce the fair value of its goodwill below it carrying value. During the third quarter of 2012, due to a decline in the market price of the Company's stock, the market capitalization of the Company was below the carrying value which management considered a triggering event.

Therefore, management performed an impairment analysis as of September 30, 2012. Based on the Step 1 analysis, management determined that the fair value of the reporting unit, in this case, the entire Company, was below the carrying value as of September 30, 2012. The Company's step 1 analysis was performed using the income approach in which the Company utilized a discounted cash flow analysis to determine the fair value of its reporting unit. The income approach requires management to estimate a number of factors which are considered Level 3 inputs, including projected future operating results, economic projections, anticipated future cash flows and discount rates. As part of its valuation to determine the total impairment charge, the Company is also required to perform a Step 2 analysis which includes estimating the fair value of significant tangible and intangible long-lived assets.

As a result, the Company preliminarily determined that the full value of its goodwill was impaired. The Company recorded, in the third quarter of 2012 an estimated preliminary impairment charge of $1,479,727. Step 2 of the impairment test was completed in the fourth quarter of 2012 and it was determined that the full value of its goodwill was in fact impaired. The goodwill impairment charge for the year ended December 31, 2012 was $1,479,727.

At December 31, 2011, the market price of the Company's stock was trading lower than its book value for a prolonged period. The Company was required to acknowledge this as a possible triggering event and that an impairment may exist. In addition, the Company had reorganized its reporting unit structure to combine the three reporting units (Micron Products, New England Molders, and Leominster Tool) with goodwill into one reporting unit. The combined reporting unit better reflects the synergies between these components and aligns the segment with how management reviews and operates the business. An analysis of goodwill of the three reporting units prior to combining was performed to determine fair value using income and market approaches. The income approach is based on a discounted cash methodology that includes assumptions of, among other things, forecast income, cash flow, growth rates, and long-term discount rates, all of which require significant judgment. The market approach utilizes the Company's market data as well as market data from publicly traded companies that are similar to the Company. There are inherent uncertainties related to these factors and the judgment applied in the analysis.

Management determined impairment was required for the Leominster Tool portion of the goodwill equal to $85,239.

The Company changed the goodwill annual test date to December 31 aligning the test with the year end audit. As required, the Company's independent registered public accounting firm issued a preferability letter on the matter.

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Long-lived and intangible assets
In accordance with ASC 360, "Long-Lived Assets," the Company assesses the impairment of long-lived assets and intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying value may not be fully recoverable. In the third quarter of 2012, the Company experienced a triggering event as a result of the goodwill impairment as described above. When the Company's management determines that an impairment indicator has been met, an ASC 360 step 1 analysis is done using undiscounted cash flows of long-lived assets or asset groups. In 2012, $33,192 of certain patents related to Predictor UK and Predictor Europe approval were deemed to be impaired, while in 2011, certain groups of long-lived assets used in production and research and development were impaired for $153,079. Intangible assets consist of the following:

		December 31, 2012			December 31, 2011		
	Weighted Average remaining life (yrs)	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Patents and Trademarks	13	$480,750	$(456,361)	$24,389	$381,605	$(361,942)	$19,663
Patents and Trademarks pending	—	110,702	—	110,702	106,766	—	106,766
Trade names	9	33,250	(12,250)	21,000	33,250	(9,916)	23,334
Total Intangible assets		$624,702	$(468,611)	$156,091	$521,621	$(371,858)	$149,763

Income taxes
The Company accounts for income taxes in accordance with ASC 740 "Income Taxes," which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using tax rates in effect for the year in which the differences are expected to reverse. For the years ended December 31, 2012 and 2011, no valuation allowance has been recorded against deferred tax assets from continuing operations.
The Company recorded a valuation allowance against certain foreign and state deferred tax assets associated with discontinued operations. For the years ended December 31, 2012 and 2011, a valuation allowance of $470,900 and $351,000 is maintained against these assets for which the realization of tax benefit is not more likely than not.
Share-based compensation
The Company accounts for share-based compensation under the provisions of ASC 718 "Stock Compensation," which establishes accounting for equity instruments exchanged for employee services. Under ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant).
Comprehensive income
The Company follows the provisions of ASC 220 "Comprehensive Income," which establishes standards for reporting and display of comprehensive income, its components, and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. There were no changes in comprehensive income in 2012 or 2011, respectively. The Company has accumulated comprehensive income of $42,502 from changes in currency valuations with our Canadian operations as of December 31, 2012 and 2011.
Preferred stock
The Company has 2,000,000 shares of $1 par value preferred stock authorized. No shares have been issued.
(Loss) earnings per share data
The Company follows the provisions of ASC 260 "Earnings Per Share," which requires the Company to present its basic earnings per share and diluted earnings per share, and certain other earnings per share disclosures for each year presented. Basic earnings per share is computed by dividing income available to common shareholders by the

weighted average number of common shares outstanding. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the denominator is increased to include the average number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, the numerator is adjusted for any changes in income that would result from the assumed conversions of those potential shares. As of December 31, 2012 and 2011 there were 285,000 and 409,000 options outstanding, respectively, that were anti-dilutive and were not included in the calculation of earnings or loss per share.

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Basic and diluted EPS computations are as follows:

Years ended December 31,	2012	2011 (Revised)
Net loss available to common shareholders	$(6,137,934)	$(1,308,674)
Weighted average common shares outstanding	2,775,428	2,790,514
(Loss) income per share - basic		
Continuing Operations	(0.86)	0.27
Discontinued Operations	(1.36)	(0.74)
Loss per share - basic	$(2.22)	$(0.47)
Net loss available to common shareholders	$(6,137,934)	$(1,308,674)
Weighted average common shares outstanding, basic	2,775,428	2,790,514
Assumed conversion of net common shares issuable under stock option plans	—	—
Weighted average common and common equivalent shares outstanding, diluted	2,775,428	2,790,514
(Loss) income per share - diluted		
Continuing Operations	(0.86)	$0.27
Discontinued Operations	(1.36)	$(0.74)
Loss per share - diluted	$(2.22)	$(0.47)

In the fourth quarter of 2012, it was determined that WirelessDx did not meet certain milestones as defined in the original purchase and sale agreement. The agreement had provided for contingent consideration in the form of shares of Common Stock of the Company. These shares were held in escrow to either (1) be released to certain previous shareholders of WirelessDx upon achieving the milestones, or (2) be returned to the Company upon notice that the milestones had not been achieved. Once the Company determined that the milestones had not been achieved, the Company notified the escrow agent and requested the return of the shares to the Company. Management has recorded the return of the 86,275 shares into treasury stock in the amount of $235,436.

Segments

The Company follows the provisions of ASC 280 “Segment Reporting,” which requires reporting of selected information about operating segments in interim and annual financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas, and major customers. ASC 280 defines operating segments as components of an enterprise that engage in business activities that may earn revenues and incur expenses, which have separate financial information available, and are evaluated regularly by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources and in assessing performance.

For the year ended December 31, 2012, the Company's previously reported ART segment represented, expressed as a percentage of consolidated results, 0.1%, 2.7% and 7.1% of revenue, net income and total assets, respectively. These results are not quantitatively material and were not regularly reviewed by the CODM. Additionally, in 2012, the Company discontinued operations of it's WirelessDx segment. For these reasons, management determined during the fourth quarter of 2012, that the Company's results will be reported as one segment. Corresponding information for 2011 has been reclassified accordingly. See also, Note 11.

Research and development

Research and development expenses include costs directly attributable to the conduct of research and development programs primarily related to the development of our software products, technology related to the medical services subsidiary and improving the efficiency and capabilities of our manufacturing processes. Such costs include salaries, payroll taxes, employee benefit costs, materials, supplies, depreciation on research equipment, and services provided by outside contractors. All costs associated with research and development programs are expensed as incurred.

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Recent accounting pronouncements

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". The ASU is effective for interim and annual periods beginning after December 15, 2011, with early adoption permitted. The new guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder's equity and states that an entity has the option to present the total of comprehensive income, the components of income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive are presented. This ASU changes the financial statement presentation of comprehensive income but has not had any material impact on the Company's results of operations, cash flows, or financial position.

In September 2011, the FASB issued ASU 2011-08, "Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment." The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The new guidance allows an entity the option to first assess qualitative factors to determine whether existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment leads to the determination that the fair value of the reporting unit is not more likely than not less than the carrying value, then performing a two-step impairment test is no longer necessary. These amendments have not had a material impact on the Company's results of operations, cash flows, or financial position.

Reclassification of prior period balances

Certain reclassifications have been made to prior period amounts to conform to the current year presentation, primarily related to discontinued operations and deferred revenue. In the third quarter of 2012 the Company discontinued the operations of the Company's WirelessDx subsidiaries and has therefore reclassified the 2011 results of the WirelessDx subsidiaries as discontinued operations (Note 12). In 2012 the Company revised 2011 balances to correct errors in the revenue recognition of certain Tooling transactions as described more fully below and in Note 14.

Revision of prior period financial statements

In 2012, the Company identified prior period errors relating to the accounting for certain Tooling transactions. The Company had been incorrectly recognizing revenue for certain Tooling transactions by not deferring the related revenue in accordance with guidance set forth in ASC 605-25, “Revenue Recognition: Multiple-Element Arrangements.”

As a result of the error in revenue recognition of multiple element arrangements, reported revenue and costs of sales have been overstated and total assets and total liabilities have been understated. The impact on net income will increase the net loss or decrease the net income in the respective periods. The Company has evaluated the impact of these items on the consolidated financial statements for 2010 (opening retained earnings), 2011 and 2012.

In evaluating whether the Company's previously issued consolidated financial statements were materially misstated, the Company considered the guidance in ASC 250, "Accounting for Changes and Error Corrections," ASC 250-10-S99-1, "Assessing Materiality" and ASC 250-10-S99-2 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." The Company concluded that these errors were not material individually or in the aggregate to any of the prior reporting periods, and therefore, amendments of previously filed reports were not required. As such, the revisions for these corrections to the applicable prior periods are reflected in the financial information included herein.

The prior period financial statements included in this filing have been revised to reflect the correction of these errors, the effects of which have been provided in summarized format below.

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Revised consolidated balance sheet amounts
The impact of the error correction on reporting periods prior to December 31, 2010 have been reflected as a cumulative adjustment to the December 31, 2010 consolidated balance sheets as adjusted in the table below.

December 31, 2010	As originally reported	Correction of error adjustments	As revised
Total assets	20,287,996	402,786	20,690,782
Total liabilities	2,862,557	478,045	3,340,602
Retained earnings	9,790,304	(75,259)	9,715,045
Total shareholders' equity	17,425,439	(75,259)	17,350,180
Total liabilities and shareholders' equity	20,287,996	402,786	20,690,782

The impact of the error correction on the consolidated balance sheet and statement of operations as of December 31, 2011 and for the year then ended is as follows:

December 31, 2011	As originally reported	Adjusted for discontinued operations	Correction of error adjustments	As revised
Assets				
Current assets:				
Deferred income taxes	$ 23,700	$ —	$ 30,270	$ 53,970
Deposits, prepaid expenses and other current assets	668,482	(172,596)	130,412	626,298
Total current assets	9,010,271	—	160,679	9,170,950
Other non-current assets	—	—	87,978	87,978
Total assets	19,227,430	—	248,658	19,476,088
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	—	—	159,044	159,044
Total current liabilities	2,891,593	—	159,044	3,050,637
Long term liabilities:				
Long term deferred revenue	—	—	136,075	136,075
Total long term liabilities	483,401	—	136,075	619,476
Total liabilities	3,374,994	—	295,119	3,670,113
Shareholders' equity:				
Retained earnings	8,108,173	—	(46,461)	8,061,712
Total shareholders' equity	15,852,436	—	(46,461)	15,805,975
Total liabilities and shareholders' equity	19,227,430	—	248,658	19,476,088

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Revised consolidated statement of operations

	For the year ended December 31, 2011			
	As previously reported	Adjusted for discontinued operations	Correction of error adjustments	As revised
Net revenues	$24,256,373	$(133,203)	$182,927	$24,306,097
Cost of sales	19,648,470	(797,706)	135,366	18,986,130
Gross profit	4,607,903	664,503	47,561	5,319,967
(Loss) income from operations	(1,218,783)	2,314,630	47,561	1,143,408
(Loss) income before income taxes	(1,353,672)	2,463,174	47,561	1,157,063
Income tax (benefit) provision	(16,200)	387,950	18,763	390,513
Net (loss) income	(1,337,472)	—	28,798	(1,308,674)
(Loss) income per share from continuing operations - basic and diluted	(0.48)	—	0.01	(0.47)

Revised consolidated statements of stockholders' equity
The impact on reporting periods prior to December 31, 2010 have been reflected as a cumulative adjustment to retained earnings in the statement of changes in stockholders' equity as adjusted in the table below.

	For the year ended December 31, 2010		
	As previously reported	Correction of error adjustment	As revised
Retained earnings	$9,790,304	$(75,259)	$9,715,045
Total shareholders' equity	17,425,439	(75,259)	17,350,180

	For the year ended December 31, 2011		
	As previously reported	Correction of error adjustment	As revised
Net (loss) income	$(1,337,472)	$28,798	$(1,308,674)
Retained earnings	8,108,173	(46,461)	8,061,712
Total shareholders' equity	15,852,436	(46,461)	15,805,975

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Revised consolidated statement of cash flows

	For the year ended December 31, 2011			
	As originally reported	Adjust for discontinued operations	Correction of error adjustment	As revised
Net (loss) income	$(1,337,472)	$—	$28,798	$(1,308,674)
Deferred income taxes	160,300	(13,000)	18,763	166,063
Changes in operating assets and liabilities:				
Deposits, prepaid expenses and other assets	(293,418)	18,325	75,668	(199,425)
Other non-current assets	—	—	59,697	59,697
Accounts payable, accrued expenses and other current liabilities	335,406	(132,392)	(119,440)	83,574
Other non-current liabilities	—	—	(63,486)	(63,486)
Net cash provided by operating activities	926,488	—	—	926,488

3. Inventories, net

Inventories, net consist of the following:

December 31,	2012	2011
Raw materials	$521,908	$645,906
Work-in-process	248,159	395,176
Finished goods	1,645,037	2,226,400
Total	$2,415,104	$3,267,482

The value of silver in our inventory as raw materials, in work-in-process or as a plated surface on finished goods had an estimated value of $541,804 and $886,002 in 2012 and 2011, respectively.

4. Property, Plant and Equipment, Net

Property, plant and equipment consist of the following:

December 31,	Asset Lives (in years)	2012	2011
Machinery and equipment	3 to 15	$12,298,011	$11,696,124
Building and improvements	20	4,293,725	4,158,921
Vehicles	3 to 5	94,227	160,140
Furniture, fixtures, computers and software	3 to 5	1,246,807	1,238,782
Land		202,492	202,492
Construction in progress		103,269	353,532
Total property, plant and equipment		18,238,531	17,809,991
Less: accumulated depreciation		(11,080,019)	(10,168,682)
Property, plant and equipment, net		$7,158,512	$7,641,309

For the year ended December 31, 2012, the Company recorded $1,412,170 of depreciation expense compared to $1,369,418 for the year ended December 31, 2011.

5. Debt

For the period ended December 31, 2012, the Company had the following outstanding debt. At December 31, 2011 the Company had no debt outstanding.

	December 31, 2012
Demand line of credit	$800,000
Debt:	
Equipment notes	1,258,256
Less current portion	267,043
Total long-term debt	$991,213

At December 31, 2012, the Company had a demand line of credit that provided for borrowings up to 80% of eligible accounts receivable, and eligible finished goods inventories up to a $700,000 maximum at a rate of 2% over LIBOR. The interest rate at December 31, 2012 was 2.21%. This facility had no borrowing base charge. During the year ended December 31, 2012, an aggregate of $800,000 was drawn on the line. The outstanding borrowings on the line of credit at December 31, 2012 and December 31, 2011was $800,000 and $0, respectively.

The agreement contains covenants that apply upon drawing on the line. The covenants relate to various matters including notice prior to executing further borrowings and security interests, merger or consolidation, acquisitions, guarantees, sales of assets other than in the normal course of business, leasing, changes in ownership and payment of dividends. This line was paid off and closed, on April 1, 2013, as part of a new bank facility as described more fully below and in Note 13, Subsequent Events.

The Company had a master lease agreement with its bank that allows for money to be drawn on standard terms for the purchase of equipment. During the twelve months ended December 31, 2012, two Equipment notes were entered into under this master lease agreement. In the first quarter of 2012, Micron entered into an Equipment note for $523,269. This Equipment note was structured in such a way that the Company received a cash payout for amounts already paid to vendors of $262,960, with the remaining $260,309 paid by the bank directly to the equipment vendors making total principal amount of the Equipment note entered into $523,269. The cash payout is part of the proceeds from Equipment note on the statement of cash flows. The remaining amount of $260,309 was a non-cash event and is disclosed in the supplemental cash flow schedule. At December 31, 2012, the outstanding balance of this Equipment note was $450,758. In the second quarter of 2012, WirelessDx, under this master lease agreement, entered an Equipment note for $888,649. This Equipment note was structured in such a way that the Company received a cash payout for amounts already paid to vendors of $672,272. The remaining $216,378 was paid by the bank directly to the equipment vendors making total principal amount of the Equipment note entered into $888,649. The cash payout is part of the proceeds from equipment note on the statement of cash flows. The remaining amount of $216,378 was a non-cash event and is disclosed in the supplemental cash flow schedule. This WirelessDx Equipment note was guaranteed by ART, therefore, all amounts associated with this note are reflected as part of continuing operations on the balance sheet and statement of cash flows. At December 31, 2012, the outstanding balance of this Equipment note was $807,498.

The Equipment notes under this master lease agreement were paid off on April 1, 2013, as part of a new bank facility as described more fully below and in Note 13, Subsequent Events.

The future minimum payments, at December 31, 2012, are as follows:

	2013	2014	2015	2016	2017	Thereafter	Total
Equipment notes	$267,043	$277,531	$288,428	$299,754	$125,500	$—	$1,258,256

On, March 29, 2013, the Company entered into a multi-year credit facility with a Massachusetts based bank to replace the existing demand line of credit. The new credit facility includes a revolver of up to $4.0 million, a commercial term loan of $1.5 million and an equipment line of credit of $1.0 million.

The $4.0 million revolver, which provides for borrowings up to 80% of net eligible receivables and 50% of net eligible raw materials inventory, replaces the previous $3.0 million demand line of credit which was scheduled to expire April 30, 2013. The $800,000 outstanding balance on the demand line of credit was paid of and closed on April 1, 2013 as part of the new bank facility. The revolver has a maturity date of June 30, 2015.

The $1.5 million commercial term loan was used to refinance existing Equipment notes and to fund other current liabilities of continuing operations. The term loan has a five year term with a maturity date of March 29, 2018.

The equipment line of credit of $1.0 million is for the purchase of capital equipment. Advances on the equipment line of credit shall not exceed 80% of the invoice amount of the equipment being purchased. The term of the equipment line of credit is six years, maturing on March 29, 2019, inclusive of a one year maximum draw period.

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6. Income Taxes
The income tax (benefit) provision consists of the following:

Years Ended December 31,	2012	2011 (Revised)
Current:		
Federal	$—	$192,313
State	(6,717)	(91,800)
Total current income taxes	(6,717)	100,513
Deferred:		
Federal	(319,475)	494,700
State	(549,800)	(204,700)
Foreign	—	—
Total deferred income taxes	(869,275)	290,000
Total income tax (benefit) provision	$(875,992)	$390,513

The components of deferred income taxes are as follows:

Years Ended December 31,	2012	2011 (Revised)
Deferred income taxes:		
Current deferred tax assets:		
Inventories	$89,900	$13,100
Bad debt reserve	93,600	23,100
Accrued Expenses	68,900	30,270
Total current deferred tax assets	252,400	66,470
Long-term deferred tax assets:		
Net operating loss carryforward	2,290,400	208,000
Foreign net operating loss carryforwards	287,500	351,000
Federal and state tax credit carryforward	298,300	283,000
Patents and intangibles	115,200	42,000
Stock compensation	81,300	54,000
Other long term	447,500	—
Total long-term deferred tax assets	3,520,200	938,000
Total deferred tax assets	3,772,600	1,004,470
Deferred tax valuation allowance	(470,900)	(351,000)
Deferred tax assets, net of allowance	3,301,700	653,470
Current deferred tax liabilities:		
Prepaid expenses	(53,000)	(12,500)
Total current deferred tax liabilities	(53,000)	(12,500)
Long-term deferred tax liability:		
Property, plant and equipment	(980,800)	(1,057,000)
Total long-term deferred tax liabilities	(980,800)	(1,069,500)
Total deferred tax liabilities	(1,033,800)	(1,069,500)
Net deferred tax assets (liabilities)	$2,267,900	$(416,030)

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As required by ASC 740-10, Accounting for Income Taxes, the Company records deferred income tax assets or liabilities for the temporary differences between the book value and tax bases in assets and liabilities. In assessing the realization of the Company's deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of the Company's deferred income tax assets depends upon generating future taxable income during the periods in which the Company's temporary differences become deductible and before the Company's net operating loss carryforwards expire. The Company evaluates the recoverability of the Company's deferred income tax assets by assessing the need for a valuation allowance on a quarterly basis. If management determines that it is more likely than not that the Company's deferred income tax assets will not be recovered, the Company establishes a valuation allowance against some or all of the Company's deferred income tax assets. Recording a valuation allowance or reversing a valuation allowance could have a significant effect on the Company's future results of operations and financial position. Management is unaware of any recent or expected future changes in tax laws that would have a material impact on the Company's financial statements.

For the year ended December 31, 2012, the Company has federal and state net operating loss carryforwards totaling $5,288,000 and $5,854,000, respectively, which begin to expire in 2031. The Company also had federal and state tax credit carryovers of $149,000 and $247,000, respectively. The federal and state credits begin to expire in 2026 and 2014, respectively.

The Company has recorded a valuation allowance against the foreign portion of its deferred tax assets of discontinued operations of $470,900 for the period ended December 31, 2012 as compared to $351,000 for 2011 (Note 12), consisting of a net operating loss carryforward. Based on the Company's pre-tax income for the years since the acquisition, the Company has determined that realization of the assets cannot be considered more likely than not at this time. The Company assesses the need for the valuation allowance on a quarterly basis. If and when the Company determines the valuation allowance should be released, the adjustment would result in a tax benefit in the consolidated statement of operations.

ASC 740, Accounting for Income Taxes, clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing a minimum recognition threshold and measurement of a tax position taken or expected to be taken in a tax return. For the years ended December 31, 2012 and 2011, the Company had no material unrecognized tax benefits.

The Company files a consolidated federal income tax return. The actual income tax provision differs from the Federal statutory income tax rate (34%) as follows:

Years Ended December 31,	2012	2011 (Revised)
Tax (benefit) provision computed at statutory rate	$(1,106,054)	$393,370
Increases (reductions) due to:		
State income taxes, net of federal benefit	(299,200)	(262,698)
Goodwill impairment	422,900	—
Permanent differences	20,500	61,500
Tax credits (Federal and State)	—	(89,900)
Differences on prior returns (Federal and State)	59,500	180,225
Other	26,362	108,016
Income tax (benefit) expense	$(875,992)	$390,513

The Company files income tax returns in the U.S. Federal jurisdiction, Canadian jurisdiction and various state jurisdictions. The periods from 2009 to 2011 remain open to examination by the IRS and state jurisdictions. The Company believes it is not subject to any significant tax risk. The Company does not have any accrued interest or penalties associated with any unrecognized tax benefits, nor were any interest expenses recognized during the years ended December 31, 2012 and 2011.

7. Employee Benefit Plans

The Company sponsors an Employee Savings and Investment Plan under Section 401(k) of the Internal Revenue Code covering all eligible employees of the Company. Employees can contribute up to 90% of their eligible compensation to the maximum allowable by the IRS. The Company's matching contributions are at the discretion of the Company. The Company's matching contributions in 2012 and 2011 were $43,149 and $41,082, respectively.

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8. Commitments and Contingencies

Legal Matters

The Company is from time to time subject to legal proceedings, threats of legal action and claims which arise in the ordinary course of our business. With respect to three specific matters, aggregate claims have been asserted of approximately $700,000. Management believes the maximum reasonably possible loss related to these matters is substantially less than the amounts asserted. Management, with its external legal counsel, intends to vigorously defend these matters and management believes that it has meritorious defenses in all such matters. Accordingly, no accrual has been recorded for these matters as of December 31, 2012. Management believes that the ultimate resolution of these matters, including like recoveries from insurance carriers if unfavorable outcomes occur, will not have a material adverse effect on our results of operations or financial condition.

Severance Agreement

On October 26, 2012, James E. Rouse, the Company's Chief Executive Officer resigned. Due to his resignation, the Company entered into a severance agreement with Mr. Rouse. The Company accrued the full amount of the severance package in the amount of $210,739 (salary and benefits) in 2012. The severance agreement provides for payments through the end of 2013 but will have no impact on the results of operations for 2013.

Operating Leases

The Company leases vehicles and equipment under non-cancelable lease arrangements ranging from three to five years. Lease expense under all operating leases was approximately $207,591 and $163,893 in 2012 and 2011, respectively.

On December 31, 2009, the Company received a payment of $677,810 for a sale lease-back transaction related to new production equipment installed during the second half of 2009. This transaction created a long-term deferred gain on the sale of assets of $22,347, which is being amortized over the life of the lease.

Future minimum operating lease payments as of December 31, 2012 are approximately as follows:

Year	Amount
2013	$207,591
2014	207,591
2015	45,591
2016 and thereafter	—
Total	$460,773

9. Supplemental Cash Flow Information

Cash paid for interest and taxes for the years ended December 31 are as follows:

	2012	2011
Cash paid for interest	$8,984	$240
Cash paid for taxes	—	132,000

Non-cash adjustments to continuing operations included the following items:

	2012	2011
Acquisition of fixed assets with equipment notes	$476,687	$—

Non-cash adjustments to discontinued operations included the following items:

	2012	2011
Impairment of fixed assets	$1,063,321	$—
Patent impairment	$56,912	$—

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10. Stock Options

The Company accounts for non-cash share-based compensation under ASC 718 “Stock Compensation,” which establishes accounting for equity instruments exchanged for employee services. Under ASC 718, share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee’s requisite service period (generally the vesting period of the equity grant).

For the year ended December 31, 2012 and 2011, share-based compensation included in general and administrative expenses amounted to $112,811 and $109,128, respectively.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Key assumptions used to estimate the fair value of the stock options include the exercise price of the award, the expected option term, and the expected volatility of the Company’s stock over the option’s expected term, the risk free interest rate over the option’s expected term, and the Company’s expected annual dividend yield. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company’s stock options for the years ended December 31, 2012 and 2011. Estimates of fair values are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

There were no new option grants in 2012. The fair value of the option grants in 2011 were estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011
Expected option term (1)	6.5
Expected volatility factor (2)	31.24%
Risk-free interest rate (3)	2.10%
Expected annual dividend yield	0.98%

(1) The option life was determined using the simplified method for estimated expected option life, which qualifies as “plain-vanilla” options. Going forward the Company expects to use historical data.

(2) The stock volatility for each grant is determined based on the review of the experience of the weighted average of historical daily price changes of the Company’s common stock over the most recent year.

(3) The risk-free interest rate for periods equal to the expected term of the share option is based on the U.S. Treasury yield curve in effect at the time of grant.

Share-Based Incentive Plan

On March 10, 2010, the Company's Board of Directors adopted the Arrhythmia Research Technology, Inc. 2010 Equity Incentive Plan (the “2010 Plan”) upon the recommendation of the Compensation Committee. The 2010 Plan was approved by stockholders at the 2010 Annual Meeting. The 2010 Plan authorizes the issuance of an aggregate of 500,000 shares, namely, 400,000 shares of our common stock plus an aggregate of 100,000 shares previously reserved for issuance under the Company's 2005 Stock Award Plan (the “2005 Plan”). The 2010 Plan replaced in its entirety the 2005 Plan, under which no grants have been made. The Company's 2001 Stock Option Plan (the "2001 Plan"), which expired in 2011, will continue to govern outstanding options but no further options will be granted under the 2001 Plan. Of the 285,000 options issued and outstanding, 157,000 are related to the 2001 Plan and 128,000 are related to the 2010 Plan. The Company has one plan providing the Company flexibility to award a mix of stock options, equity incentive grants, performance awards and other types of stock-based compensation and under which an aggregate of 500,000 shares have been reserved for such grants.

At December 31, 2012, the Company had one stock option plan that includes both incentive and non-qualified stock options to be granted to certain eligible employees, non-employee directors, or consultants. The maximum number of shares reserved for issuance is 500,000 shares. The options granted have either six or ten year contractual terms and either vest immediately or vest annually over a five-year term.

At December 31, 2012, there were 340,000 shares available for future grants under the above stock option plan.

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The following table sets forth the stock option transactions for the years ended December 31, 2012 and 2011:

	Number of options	Weighted average Exercise Price	Weighted average remaining contractual term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	314,500	$6.96	3.3	$—
Granted	160,000	7.54		—
Exercised	—	—		—
Forfeited/expired	(65,500)	9.86		—
Outstanding at December 31, 2011	409,000	6.78	5.4	—
Exercisable at end of year	109,200	7.85	2.4	—
Granted	—	—		—
Exercised	—	—		—
Forfeited/expired	(124,000)	0.58		—
Outstanding at December 31, 2012	285,000	$2.44	4.8	$—
Exercisable at end of year	138,900	$2.53	3.1	$—

There were no new stock options granted during 2012.
During the year ended December 31, 2012 and 2011, no options were exercised. At December 31, 2012 and 2011, the intrinsic value of the exercisable options is $0.
The following table sets forth the status of the Company's non-vested options for the year ended December 31, 2012:

	Number of shares	Weighted average Fair Value
Non-Vested at December 31, 2011	299,800	$1.38
Granted	—	—
Vested	(74,300)	0.67
Canceled/expired	(79,400)	0.15
Non-Vested at December 31, 2012	146,100	$2.04

The following table presents the average price and contractual life information about options outstanding and exercisable at December 31, 2012:

Exercise Price	Number of Outstanding Shares	Weighted Average Remaining Contractual Life (years)	Options Currently Exercisable
$3.41	68,000	3.01	31,700
$7.15	79,000	1.00	65,200
$23.10	10,000	0.18	10,000
$9.86	54,000	8.38	14,000
$5.73	74,000	8.42	18,000
	285,000		138,900

As of December 31, 2012, there was $130,202 of unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plans. This cost is expected to be recognized over a weighted average period of 3.28 years.

11. Industry and Geographic Segments

For the year ended December 31, 2012, the Company's previously reported ART segment represented, expressed as a percentage of consolidated results, 0.1%, 2.7% and 7.1% of revenue, net income and total assets, respectively. These results are not quantitatively, material and were not regularly reviewed by the Company's Chief Operating Decision Maker (the “CODM”). Additionally, in 2012, the Company discontinued operations of it's WirelessDx segment. For these reasons, management determined in the fourth quarter of 2012 that the Company's results will be reported as one segment. Corresponding information for 2011 has been reclassified accordingly.

The CODM manages the operations and reviews the results of operations as a single reporting unit. While the Company operates its business as one segment, the Company has diversified manufacturing capabilities as evidenced by its diverse product offerings across several industry categories supporting customers around the globe.

The following table sets forth, for the periods indicated, the consolidated revenues and percentages of revenues derived from the sales of the Company's products and services in certain industry segments. The year ended December 31, 2011 has been revised for both discontinued operations and for errors as further described in Note 2 and Note 14.

	Revenues for the Years Ended December 31,			
	2012	%	2011 (Revised)	%
Medical	$ 17,453,573	84	$ 19,650,536	81
Defense	1,293,662	6	2,491,438	10
Consumer Products	838,956	4	1,266,484	5
Industrial	525,069	3	140,197	1
Other	531,310	3	757,442	3
Total	$ 20,642,570	100	$ 24,306,097	100

The following table sets forth, for the periods indicated, the consolidated revenues and percentages of revenues derived from the sales of all of the Company's products and services in certain geographic markets. The year ended December 31, 2011 has been revised for both discontinued operations and for errors as further described in Note 2 and Note 14.

	Revenues for the Years Ended December 31,			
	2012	%	2011 (Revised)	%
United States	$ 8,955,831	43	$ 9,574,936	39
Canada	5,691,931	28	8,182,587	34
Europe	1,653,171	8	2,421,582	10
Pacific Rim	1,949,558	9	2,127,178	9
Other	2,392,079	12	1,999,814	8
Total	$ 20,642,570	100	$ 24,306,097	100

During the years ended December 31, 2012 and December 31, 2011, the Company had one major customer which accounted for over10% of sales. The three largest customers accounted for 28%, 9% and 8% of sales in 2012 as compared with 34%, 8% and 7% of sales in 2011.

12. Discontinued Operations

At a special meeting of the Board of Directors ("Board") held on July 13, 2012, the Board authorized the Company's management to consider strategic alternatives on the most favorable terms it could obtain, for all or some portion of the assets of the WirelessDx subsidiaries. This plan triggered the subsidiaries to be classified as assets held for sale and discontinued operations in the third quarter of 2012. On September 4, 2012, the Board, on the recommendation of management authorized the discontinuance of operations and disposition of the assets of WirelessDx.

The expenses and charges related to the termination of WirelessDx operations and its liquidation which were estimated and recorded during the third quarter aggregated to $2.4 million. These expenses and charges comprised of the following major components: (i) $1.0 million related to the impairment of fixed assets, net of liquidation proceeds;

(ii) $0.1 million related to the early termination of multiple lease contracts; (iii) $1.0 million for a contingent liability of an unmet performance obligation related to an economic incentive package related to the discontinued operations. The liability is carried on the balance sheet of continuing operations as the liability has been guaranteed by ART. The outcome of this liability will be determined on or before June 2014;

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(iv) $0.3 million in employee related and other one-time expenses associated with the orderly shutdown of the monitoring operation. The Company sold the majority of the assets prior to the end of 2012.
Net revenues from discontinued operations for the years ended December 31, 2012 and 2011 were $372,955 and $133,203, respectively. Loss from discontinued operations is presented net of income tax benefits of $1,814,223 and $387,949 for the years ended December 31, 2012 and 2011, respectively.
The assets and liabilities of the discontinued operations as of December 31, 2012 and 2011 are presented in the condensed consolidated balance sheet excluding intercompany loans which exceed net book value listed below:

	December 31, 2012	December 31, 2011
Cash	$30,882	$102,972
Trade and other accounts receivable, net of allowance for doubtful accounts of $159,508 and $0, respectively	—	41,375
Inventories, net	—	2,000
Prepaid expenses and other assets	3,419	172,593
Total current assets from discontinued operations	34,301	318,940
Property and equipment, net of impairment and accumulated depreciation of $1,434,947 and $224,911, respectively	284,300	946,361
Total non-current assets from discontinued operations	284,300	946,361
Total assets from discontinued operations	$318,601	$1,265,301
Accounts payable	477,324	176,019
Accrued expenses	123,247	73,996
Total current liabilities from discontinued operations	600,571	250,015
Total liabilities from discontinued operations	$600,571	$250,015

13. Subsequent Events

New Credit Facility

On, March 29, 2013, the Company entered into a multi-year credit facility with a Massachusetts based bank. The new credit facility includes a revolving line of credit ("revolver") of up to $4.0 million, a commercial term loan of $1.5 million and an equipment line of credit of $1.0 million. The previous bank facility was paid of and closed on April 1, 2013.
The $4.0 million revolver, which provides for borrowings up to 80% of net eligible receivables and 50% of net eligible raw material inventory, will replace the existing revolving line of credit with the Company's previous lender. This revolver allows for interest only payments during the term of the facility with the full principal outstanding balance to be paid upon maturity on June 30, 2015, or earlier. Interest is calculated using the floating Wall Street Journal Prime Rate plus 0.25%. This revolver carries a provision for a quarterly unused facility fee equal to 0.25% per annum of the average daily undisbursed face amount of the revolver during the three months immediately preceding the applicable due date and has no prepayment penalty.
The commercial term loan of $1.5 million was used to refinance existing Equipment notes and to fund other current liabilities from continuing operations. This term loan requires monthly principal and interest payments over the five year term of the loan which matures on March 29, 2018. The interest rate on the loan is a fixed 4.25% per annum. This term loan carries a prepayment penalty of 3% in years 1 and 2, 2% in years 3 and 4 and 1% in year 5 of the amount prepaid.
The equipment line of credit of $1.0 million is for the purchase of capital equipment. Advances on the equipment line shall not exceed 80% of the invoice amount of the equipment being purchased. The term of this equipment line is six years, maturing on March 29, 2019, inclusive of a maximum one year draw period. Payments are to be made over a 72 month period, inclusive of an interest only period. Repayment shall consist of monthly interest only payments commencing on the date of the loan through the earlier of: (i) one year from the date of closing or (ii) the date upon

which the equipment line of credit is fully advanced (the "Conversion Date"). On the Conversion Date, principal and interest payments will be due and payable monthly in an amount sufficient to pay the loan in full based upon an amortization schedule commensurate with the remaining term of the loan. During the interest only period, the interest rate shall be floating at the Wall Street Journal Prime Rate plus 0.25%. Commencing on the Conversion Date, the interest rate will be automatically adjusted to a per annum rate equal to the greater of: (i) the Federal Home Loan Bank of Boston's Five Year Amortizing Rate as of the Conversion Date plus 3.00% or (ii) 4.25%, which interest rate shall be fixed until maturity.

This multi-year credit facility contains covenants related to various matters including certain financial covenants, notice prior to executing further borrowings and security interests, merger or consolidation, acquisitions, guarantees, sales of assets other than in the normal course of business, leasing, changes in ownership and payment of dividends. The lender has a first priority security interest in all assets of the Company.

On April 1, 2013, the commercial term loan of $1.5 million was used to refinance the existing Equipment notes. Additionally, the new line of credit facility was used to pay off the existing line of credit.

Departure and Appointment of Officers

As disclosed in the Current Report on Form 8-K filed with the Securities and Exchange Commission, on March 25, 2013, Mr. Michael S. Gunter resigned as a director of Arrhythmia Research Technology, Inc. (the “Company”) and Micron Products, Inc. (“Micron Products”) effective immediately and notified the Board that his service as Interim Chief Executive Officer of the Company would end on March 31, 2013, namely, the end of the period during which he agreed to serve in such position.

On March 28, 2013, the Board of Directors appointed Salvatore Emma, Jr., age 53, as President and Chief Executive Officer of the Company, Micron Products, and of the Company's other subsidiaries effective April 1, 2013. The Board of Directors unanimously appointed Mr. Emma as a director of the Company and Micron Products effective April 1, 2013. Prior to this appointment, Mr. Emma served as Vice President and General Manager of Micron Products since 2008. As Vice President and General Manager, Mr. Emma guided efforts in strategy, operations, innovation and continuous improvement to meet the needs of leading multinational corporations and other customers in the medical products, defense, commercial, and consumer markets. Mr. Emma joined Micron Products in 2007 as Director of Information Technology.

Prior to joining Micron Products, Mr. Emma was an enterprise information systems consultant from 1995 to 2007. His consulting engagements during this time included: Munters Corporation, a manufacturer of climate control equipment, Lawrence Pumps, Inc., an industrial pump manufacturer, Convergent Energy, Inc., a manufacturer of lasers and Micron Products, Inc. In this role, he led a variety of strategic initiatives including ERP implementation, business intelligence, information systems design, programming, and business systems architecture. Previously, he served as Corporate Controller at Kervick Enterprises, Inc., an aerospace and orthopedics investment casting and forging manufacturing company. Mr. Emma holds a Bachelor of Science in Business Administration with a minor in Computer Science from Fitchburg State University.

Mr. Emma is not related to any other director or executive officer of the Company.

14. Revised Condensed Quarterly Financial Information (Unaudited)

2012 Quarterly Revisions

The unaudited quarterly financial information for the periods ended March 31, 2012, June 30, 2012 and September 30, 2012 have been revised to correct errors in the revenue recognition for certain Tooling transactions, and their effect on revenue, cost of sales, total assets and total liabilities, in accordance with ASC 605-25, “Revenue Recognition: Multiple-Element Arrangements”, as more fully described in Note 2, Accounting Policies. The Company reviewed the impact of the errors on prior periods in accordance with ASC 250 "Accounting Changes and Error Corrections", and determined that the errors were not material to the overall presentation of prior period financial statements. Therefore, the Company has revised the condensed quarterly financial statements below which highlight the impact of the errors, quarterly and year to date, for the first three quarters of 2012.

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Notes to Consolidated Financial Statements
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The impact of the errors on the Company's balance sheet as of September 30, 2012 is summarized below:

September 30, 2012	As originally reported	Correction of error adjustment	As revised
Assets			
Current assets:			
Deferred income taxes	$—	$59,493	$59,493
Deposits, prepaid expenses and other current assets	745,531	222,019	967,550
Total current assets	7,962,690	281,512	8,244,202
Other non-current assets	—	218,299	218,299
Total assets	17,632,493	499,811	18,132,304
Liabilities and Shareholders' Equity			
Current liabilities:			
Deferred revenue	—	281,746	281,746
Total current liabilities	5,595,292	281,746	5,877,038
Long-term liabilities:			
Long-term deferred revenue	—	309,377	309,377
Total Long-term liabilities	1,068,992	309,477	1,378,469
Total liabilities	6,664,284	591,123	7,255,407
Shareholders' equity:			
Retained earnings	3,139,296	(91,312)	3,047,984
Total shareholders' equity	10,968,209	(91,312)	10,876,897
Total liabilities and shareholders' equity	17,632,493	499,811	18,132,304

The impact of the errors on the Company's statement of operations from for the three and nine months ended September 30, 2012 is summarized below:

	Three months ended September 30, 2012			Nine months ended September 30, 2012		
	As originally reported	Correction of error adjustment	As revised	As originally reported	Correction of error adjustment	As revised
Net revenues	$4,839,812	$119,222	$4,959,034	$15,881,161	$(296,004)	$15,585,157
Cost of sales	4,112,599	85,338	4,197,937	13,106,456	(221,930)	12,884,526
Gross profit	727,213	33,884	761,097	2,774,705	(74,074)	2,700,631
Loss from operations	(1,774,241)	33,884	(1,740,357)	(1,918,649)	(74,074)	(1,992,723)
Loss before taxes	(1,782,569)	33,884	(1,748,685)	(1,941,780)	(74,074)	(2,015,854)
Income tax benefit	(309,500)	13,367	(296,133)	(580,400)	(29,223)	(609,623)
Loss before discontinued operations	(1,473,069)	20,517	(1,452,552)	(1,361,380)	(44,851)	(1,406,231)
Net loss	(3,469,124)	20,517	(3,448,607)	(4,884,760)	(44,851)	(4,929,611)
Loss per share - basic and diluted	(1.24)	0.01	(1.24)	(1.75)	(0.02)	(1.77)
Weighted average shares outstanding, basic and diluted	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514

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The impact of the errors on the Company's statement of cash flows for nine months ended September 30, 2012 is summarized below:

	Nine months ended September 30, 2012		
	As originally reported	Correction of error adjustment	As revised
Net loss	$(4,884,760)	$(44,851)	$(4,929,611)
Deferred income taxes	(259,400)	(29,223)	(288,623)
Changes in operating assets and liabilities:			
Deposits, prepaid expenses and other assets	(446,126)	(91,609)	(537,735)
Other non-current assets	—	(130,321)	(130,321)
Accrued expenses and other current liabilities	779,017	122,702	901,719
Other non-current liabilities	—	173,302	173,302
Net cash used in operating activities	(1,498,361)	—	(1,498,361)

The impact of the errors on the Company's balance sheet as of June 30, 2012 is summarized below:

June 30, 2012	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Assets				
Current assets:				
Deferred income taxes	$64,100	$—	$72,860	$136,960
Deposits, prepaid expenses and other current assets	1,348,816	(97,254)	244,167	1,495,729
Total current assets	8,334,194	(461,624)	317,027	8,189,597
Other non-current assets	—	—	281,489	281,489
Total assets	19,364,280	2,494,759	598,516	22,457,555
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	—	—	312,041	312,041
Total current liabilities	3,809,909	(578,098)	312,041	3,543,852
Long-term liabilities:				
Long-term deferred revenue	—	—	398,304	398,304
Total Long-term liabilities	1,137,187	(272,722)	398,304	1,262,769
Total liabilities	4,947,096	(850,820)	710,345	4,806,621
Shareholders' equity:				
Retained earnings	6,608,419	3,938,692	(111,829)	10,435,282
Total shareholders' equity	14,417,184	3,345,579	(111,829)	17,650,934
Total liabilities and shareholders' equity	19,364,280	2,494,759	598,516	22,457,555

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The impact of the errors on the Company's statement of operations for the three and six months ended June 30, 2012 is summarized below:

	Three months ended June 30, 2012				Six months ended June 30, 2012			
	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Net revenues	$4,976,985	$(151,776)	$(30,708)	$4,794,501	$11,282,167	$(240,818)	$(415,226)	$10,626,123
Cost of sales	4,702,364	(514,614)	(22,724)	4,165,026	9,897,121	(903,266)	(307,268)	8,686,587
Gross profit	274,621	362,838	(7,984)	629,475	1,385,046	662,448	(107,958)	1,939,536
Loss from operations	(1,581,071)	1,091,287	(7,984)	(497,768)	(2,212,732)	2,068,325	(107,958)	(252,365)
Loss before taxes	(1,588,249)	1,091,287	(7,984)	(504,946)	(2,227,535)	2,068,325	(107,958)	(267,168)
Income tax benefit	(548,000)	334,000	(3,150)	(217,150)	(811,900)	541,000	(42,590)	(313,490)
(Loss) income before discontinued operations	(1,040,249)	757,287	(4,834)	(287,796)	(1,415,635)	1,527,325	(65,368)	46,322
Net loss	(1,040,249)	—	(4,834)	(1,045,083)	(1,415,635)	—	(65,368)	(1,481,003)
Loss per share - basic and diluted	(0.37)	—	—	(0.37)	(0.51)	—	(0.02)	(0.53)
Weighted average shares outstanding, basic and diluted	2,790,514		2,790,514	2,790,514	2,790,514		2,790,514	2,790,514

The impact of the errors on the Company's statement of cash flows for six months ended June 30, 2012 is summarized below:

	Six months ended June 30, 2012		
	As originally reported	Correction of error adjustment	As revised
Net loss	$(1,415,635)	$(65,368)	$(1,481,003)
Deferred income taxes	(807,400)	(42,590)	(849,990)
Changes in operating assets and liabilities:			
Deposits, prepaid expenses and other assets	(685,290)	(113,757)	(799,047)
Other non-current assets	—	(193,511)	(193,511)
Accrued expenses and other current liabilities	156,368	152,997	309,365
Other non-current liabilities	—	262,229	262,229
Net cash used in operating activities	(1,333,062)	—	(1,333,062)

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December 31, 2012 and 2011

The impact of the errors on the Company's balance sheet as of March 31, 2012 is summarized below:

March 31, 2012	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Assets				
Current assets:				
Deferred income taxes	$64,100	$—	$69,710	$133,810
Deposits, prepaid expenses and other current assets	1,109,653	(77,239)	290,756	1,323,170
Total current assets	9,632,253	(325,078)	360,466	9,667,641
Other non-current assets	—	—	212,176	212,176
Total assets	19,887,615	2,489,614	572,642	22,949,871
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	—	—	375,363	375,363
Total current liabilities	3,775,994	(513,679)	375,363	3,637,678
Long-term liabilities:				
Long-term deferred revenue	—	—	304,274	304,274
Total Long-term liabilities	681,169	415,000	304,274	1,400,443
Total liabilities	4,457,163	(98,679)	679,637	5,038,121
Shareholders' equity:				
Retained earnings	7,648,669	3,181,376	(106,995)	10,723,050
Total shareholders' equity	15,430,452	2,588,293	(106,995)	17,911,750
Total liabilities and shareholders' equity	19,887,615	2,489,614	572,642	22,949,871

The impact of the errors on the Company's statement of operations for the three months ended March 31, 2012 is summarized below:

	Three months ended March 31, 2012			
	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Net revenues	$6,305,182	$(89,042)	$(384,518)	$5,831,622
Cost of sales	5,194,757	(388,652)	(284,544)	4,521,561
Gross profit	1,110,425	299,610	(99,974)	1,310,061
(Loss) income from operations	(631,660)	977,037	(99,974)	245,403
(Loss) income before taxes	(639,285)	977,037	(99,974)	237,778
Income tax benefit	(263,900)	207,000	(39,440)	(96,340)
(Loss) income before discontinued operations	(375,385)	770,037	(60,534)	334,118
Net loss	(375,385)	—	(60,534)	(435,919)
Loss per share - basic and diluted	(0.13)	—	(0.02)	(0.16)
Weighted average shares outstanding, basic and diluted	2,790,514	—	2,790,514	2,790,514

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Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The impact of the errors on the Company's statement of cash flows for three months ended March 31, 2012 is summarized below:

	Three months ended March 31, 2012		
	As originally reported	Correction of error adjustment	As revised
Net loss	$(375,385)	$(60,534)	$(435,919)
Deferred income taxes	(259,400)	(39,440)	(298,840)
Changes in operating assets and liabilities:			
Deposits, prepaid expenses and other assets	(446,126)	(160,346)	(606,472)
Other non-current assets	—	(124,198)	(124,198)
Accrued expenses and other current liabilities	779,017	216,319	995,336
Other non-current liabilities	—	168,199	168,199
Net cash used in operating activities	(805,077)	—	(805,077)

2011 Quarterly Revisions

The unaudited quarterly financial information for the periods ended March 31, 2011, June 30, 2011, and September 30, 2011 have been revised to correct errors in the revenue recognition for certain Tooling transactions, and their effect on revenue, cost of sales, total assets and total liabilities, in accordance with ASC 605-25, “Revenue Recognition: Multiple-Element Arrangements”, as more fully described in Note 2, Accounting Policies. The Company reviewed the impact of the errors on prior periods in accordance with ASC 250 "Accounting Changes and Error Corrections", and determined that the errors were not material to the overall presentation of prior period financial statements. Therefore, the Company has revised the condensed quarterly financial information presented below to correct for the error on a quarterly and year to date basis, for each quarter of 2011.

The impact of the errors on the Company's balance sheet as of September 30, 2011 is summarized below:

September 30, 2011	As originally reported	Correction of error adjustment	As revised
Assets			
Current assets:			
Deferred income taxes	$355,000	$30,733	$385,733
Deposits, prepaid expenses and other current assets	430,915	154,955	585,870
Total current assets	10,868,195	185,688	11,053,873
Other non-current assets	—	141,621	141,621
Total assets	20,017,041	327,309	20,344,350
Liabilities and Shareholders’ Equity			
Current liabilities:			
Deferred revenue	—	209,401	209,401
Total current liabilities	2,732,283	209,401	2,941,684
Long-term liabilities:			
Long-term deferred revenue	—	165,079	165,079
Total Long-term liabilities	402,483	165,079	567,562
Total liabilities	3,134,766	374,480	3,509,246
Shareholders’ equity:			
Retained earnings	9,152,408	(47,171)	9,105,237
Total shareholders’ equity	16,882,275	(47,171)	16,835,104
Total liabilities and shareholders’ equity	20,017,041	327,309	20,344,350

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The impact of the errors on the Company's statement of operations for the three and nine months ended September 30, 2011 is summarized below:

	Three months ended September 30, 2011			Nine months ended September 30, 2011		
	As originally reported	Correction of error adjustment	As revised	As originally reported	Correction of error adjustment	As revised
Net revenues	$6,756,850	47,032	$6,803,882	$18,929,495	103,566	$19,033,061
Cost of sales	5,266,184	18,302	5,284,486	14,827,889	57,177	14,885,067
Gross profit	1,490,666	28,730	1,519,396	4,101,606	46,389	4,147,994
Income from operations	537,704	28,730	566,434	1,126,014	46,389	1,172,403
Income before taxes	540,453	28,730	569,183	1,138,234	46,389	1,184,623
Income tax provision	—	11,334	11,334	103,000	18,301	121,301
Income before discontinued operations	540,453	17,396	557,849	1,035,234	28,088	1,063,322
Net loss	(74,013)	17,396	(56,617)	(301,424)	28,088	(273,336)
Loss per share - basic and diluted	(0.03)	0.01	(0.02)	(0.11)	0.01	(0.10)
Weighted average shares outstanding, basic and diluted	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514

The impact of the errors on the Company's statement of cash flows for the nine months ended September 30, 2011 is summarized below:

	Nine months ended September 30, 2011		
	As originally reported	Correction of error adjustment	As revised
Net loss	$(301,424)	$28,088	$(273,336)
Deferred income taxes	(253,035)	18,300	(234,735)
Changes in operating assets and liabilities:			
Deposits, prepaid expenses and other assets	37,884	51,123	89,007
Other non-current assets	—	6,054	6,054
Accrued expenses and other current liabilities	176,096	(69,083)	107,013
Other non-current liabilities	—	(34,482)	(34,482)
Net cash provided by operating activities	254,500	(10)	254,490

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December 31, 2012 and 2011

The impact of the errors on the Company's balance sheet as of June 30, 2011 is summarized below:

June 30, 2011	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Assets				
Current assets:				
Deferred income taxes	$355,000	$(117,000)	$42,067	$280,067
Deposits, prepaid expenses and other current assets	356,258	(106,778)	167,956	417,436
Total current assets	10,744,497	(550,085)	210,023	10,404,435
Other non-current assets	—	—	146,922	146,922
Total assets	19,150,609	647,081	356,945	20,154,635
Liabilities and Shareholders’ Equity				
Current liabilities:				
Deferred revenue	—	—	222,969	222,969
Total current liabilities	1,631,664	(197,804)	222,969	1,656,829
Long-term liabilities:				
Long-term deferred revenue	—	—	198,543	198,543
Total Long-term liabilities	403,599	446,535	198,543	1,048,677
Total liabilities	2,035,263	248,731	421,512	2,705,506
Shareholders’ equity:				
Retained earnings	9,394,657	507,546	(64,567)	9,837,636
Total shareholders’ equity	17,115,346	398,350	(64,567)	17,449,129
Total liabilities and shareholders’ equity	19,150,609	647,081	356,945	20,154,635

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The impact of the errors on the Company's statement of operations for the three and six months ended June 30, 2011 is summarized below:

	Three months ended June 30, 2011				Six months ended June 30, 2011			
	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Net revenues	$6,018,329	$(15,172)	$(64,311)	$5,938,846	$12,201,394	$(28,749)	$56,534	$12,229,179
Cost of sales	4,994,063	(166,256)	(44,630)	4,783,177	9,798,842	(237,136)	38,875	9,600,581
Gross profit	1,024,266	151,084	(19,681)	1,155,669	2,402,552	208,387	17,659	2,628,598
(Loss) income from operations	(416,380)	548,864	(19,681)	112,803	(357,685)	945,995	17,659	605,969
(Loss) income before taxes	(411,029)	552,319	(19,681)	121,609	(362,896)	960,677	17,659	615,440
Income tax (benefit) provision	(156,485)	156,485	(7,764)	(7,764)	(135,485)	273,485	6,967	144,967
(Loss) income before discontinued operations	(254,544)	395,834	(11,917)	129,373	(227,411)	687,192	10,692	470,473
Net loss	(254,544)	—	(11,917)	(266,461)	(227,411)	—	10,692	(216,719)
Loss per share - basic and diluted	(0.09)	—	—	(0.10)	(0.08)	$—	—	(0.08)
Weighted average shares outstanding, basic and diluted	2,790,514	—	2,790,514	2,790,514	2,790,514	—	2,790,514	2,790,514

The impact of the errors on the Company's statement of cash flows for the six months ended June 30, 2011 is summarized below:

	Six months ended June 30, 2011		
	As originally reported	Correction of error adjustment	As revised
Net loss	$(227,411)	$10,692	$(216,719)
Deferred income taxes	(253,035)	6,966	(246,069)
Changes in operating assets and liabilities:			
Deposits, prepaid expenses and other assets	637,890	38,122	676,012
Other non-current assets	—	753	753
Accrued expenses and other current liabilities	(926,759)	(55,515)	(982,274)
Other non-current liabilities	—	(1,018)	(1,018)
Net cash provided by operating activities	524,655	—	524,655

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The impact of the errors on the Company's balance sheet as of March 31, 2011 is summarized below:

March 31, 2011	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Assets				
Current assets:				
Deferred income taxes	$44,000	$(78,303)	$34,303	$—
Deposits, prepaid expenses and other current assets	406,667	(172,979)	152,164	385,852
Total current assets	10,381,409	(977,529)	186,467	9,590,347
Other non-current assets	—	—	118,084	118,084
Total assets	19,284,783	131,290	304,551	19,720,624
Liabilities and Shareholders' Equity				
Current liabilities:				
Deferred revenue	—	—	205,628	205,628
Total current liabilities	1,687,742	(159,694)	205,628	1,733,676
Long-term liabilities:				
Long-term deferred revenue	—	—	151,573	151,573
Total Long-term liabilities	250,251	290,000	151,573	691,824
Total liabilities	1,937,993	130,306	357,201	2,425,500
Shareholders' equity:				
Retained earnings	9,649,201	619,257	(52,650)	10,215,808
Total shareholders' equity	17,346,790	984	(52,650)	17,295,124
Total liabilities and shareholders' equity	19,284,783	131,290	304,551	19,720,624

The impact of the errors on the Company's statement of operations for the three months ended March 31, 2011 is summarized below:

	Three months ended March 31, 2011			
	As originally reported	Adjusted for discontinued operations	Correction of error adjustment	As revised
Net revenues	$6,183,065	$(13,577)	$120,845	$6,290,333
Cost of sales	4,804,779	(70,880)	83,505	4,817,404
Gross profit	1,378,286	57,303	37,340	1,472,929
Income from operations	58,695	397,131	37,340	493,166
Income before taxes	48,133	408,358	37,340	493,831
Income tax provision	21,000	117,000	14,731	152,731
Income before discontinued operations	27,133	291,358	22,609	341,100
Net income	27,133	—	22,609	49,742
Income per share - basic and diluted	0.01	—	—	0.02
Weighted average shares outstanding, basic	2,790,514	—	—	2,790,514
Weighted average shares outstanding, diluted	2,829,518	—	—	2,829,518

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The impact of the errors on the Company's statement of cash flows for the three months ended March 31, 2011 is summarized below:

	Three months ended March 31, 2011		
	As originally reported	Correction of error adjustment	As revised
Net income	$27,133	$22,609	$49,742
Deferred income taxes	(96,500)	14,730	(81,770)
Changes in operating assets and liabilities:			
Deposits, prepaid expenses and other assets	95,607	53,914	149,521
Other non-current assets	—	29,591	29,591
Accrued expenses and other current liabilities	869,564	(72,856)	796,708
Other non-current liabilities	—	(47,988)	(47,988)
Net cash used in operating activities	(969,354)	—	(969,354)

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Condensed Quarterly Financial Information (Unaudited)
The following table sets forth certain unaudited quarterly financial information for fiscal 2011 and 2012 and the revised opening retained earnings at December 31, 2010. The financial information for each quarterly period ended from December 31, 2010 through December 31, 2012 and has been revised to correct errors in the revenue recognition for certain Tooling transactions, and their effect on revenue, cost of sales, total assets and total liabilities, in accordance with ASC 605-25, “Revenue Recognition: Multiple-Element Arrangements.” This data should be read together with the Company's consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. The Company has prepared the unaudited information on a basis consistent with its audited financial statements and has included all adjustments of a normal and recurring nature, which, in the opinion of management are considered necessary to fairly present the Company's revenue, cost of sales, total assets and total liabilities for the quarters presented. The Company's historical operating results for any quarter are not necessarily indicative of results for any future period.

	For the Three Months Ended							
	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Net revenues	$6,290,333	$5,938,846	$6,803,882	$5,273,036	$5,831,622	$4,794,501	$4,959,034	$5,057,413
Cost of sales	4,817,404	4,783,177	5,284,486	4,101,063	4,521,561	4,165,026	4,197,937	4,964,067
Gross profit	1,472,929	1,155,669	1,519,396	1,171,973	1,310,061	629,475	761,097	93,346
Total operating expenses	979,763	1,042,866	952,962	1,200,968	1,064,658	1,127,243	2,501,454	1,320,523
Income (loss) from operations	493,166	112,803	566,434	(28,995)	245,403	(497,768)	(1,740,357)	(1,227,177)
Income (loss) from continuing operations before income taxes	493,831	121,609	569,183	(27,560)	237,778	(504,946)	(1,748,685)	(1,237,246)
Income tax provision (benefit)	152,731	(7,764)	11,334	234,212	(96,340)	(217,150)	(296,133)	(266,369)
Income (loss) before discontinued operations	341,100	129,373	557,849	(261,772)	334,118	(287,796)	(1,452,552)	(970,877)
Discontinued operations								
Loss from discontinued operations, net of taxes	(291,358)	(395,834)	(614,466)	(773,566)	(770,037)	(757,287)	(1,996,055)	(237,448)
Net income (loss)	49,742	(266,461)	(56,617)	(1,035,338)	(435,919)	(1,045,083)	(3,448,607)	(1,208,325)

Income (loss) per share - basic and diluted	0.02	(0.10)	(0.02)	(0.37)	(0.16)	(0.37)	(1.24)	(0.44)
Weighted average shares outstanding, basic	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,775,428
Weighted average shares outstanding, diluted	2,829,518	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,790,514	2,775,428

	Revised quarterly balance sheet data for the period ended								
	12/31/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012
Assets									
Current assets:									
Deferred income taxes	$51,533	$—	$280,067	$385,733	$53,970	$133,810	$136,960	$59,493	$199,432
Deposits, prepaid expenses and other current assets	603,088	385,852	417,436	585,870	626,298	1,323,170	1,495,729	967,550	574,999
Total current assets	11,672,307	9,590,347	10,404,435	11,053,873	9,170,950	9,667,641	8,189,597	8,244,202	7,078,177
Long-term deferred tax assets, net	—	—	—	—	—	—	—	1,862,600	2,068,538
Other non-current assets	147,675	118,084	146,922	141,621	87,978	212,176	281,489	218,299	214,596
Total assets	20,690,782	19,720,622	20,154,635	20,344,350	19,476,088	22,949,871	22,457,555	18,132,304	16,960,214
Liabilities and Shareholders' Equity									
Current liabilities:									
Deferred revenue	278,484	205,628	222,969	209,401	159,044	375,363	312,041	281,746	315,268
Deferred tax liability	—	38,697	—	—	—	—	—	—	—
Total current liabilities	2,834,673	1,733,676	1,656,829	2,941,684	3,050,637	3,637,678	3,543,852	5,877,038	5,936,352
Long-term liabilities:									
Long-term deferred revenue	199,561	151,573	198,543	165,079	136,075	304,274	398,304	309,377	326,982
Long-term deferred tax liabilities	288,500	523,500	834,500	387,965	470,000	666,000	452,000	—	—
Total long-term liabilities	505,929	691,824	1,048,677	567,562	619,476	1,400,443	1,262,769	1,378,469	1,327,129
Total liabilities	3,340,602	2,425,500	2,705,506	3,509,246	3,670,113	5,038,121	4,806,621	7,255,407	7,263,481
Shareholders' equity:									
Retained earnings	9,715,045	10,215,808	9,837,636	9,105,237	8,061,712	10,723,050	10,435,282	3,047,984	1,839,659
Total shareholders' equity	17,350,180	17,295,122	17,449,129	16,835,104	15,805,975	17,911,750	17,650,934	10,876,897	9,696,733
Total liabilities and shareholders' equity	20,690,782	19,720,622	20,154,635	20,344,350	19,476,088	22,949,871	22,457,555	18,132,304	16,960,214

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