



REVIEWED FINANCIAL STATEMENTS

As of and for the three and nine months ended
December 31, 2014 and 2013

THE MARKETING ALLIANCE, INC.

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the Board of Directors and Shareholders
The Marketing Alliance, Inc.

Report on the Financial Statements

We have reviewed the accompanying consolidated balance sheets of The Marketing Alliance, Inc. and subsidiaries (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations for the three and nine month periods then ended, and the related consolidated statements of shareholders' equity and cash flows for the nine month periods then ended.

Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim consolidated financial information. A review of interim consolidated financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the consolidated financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

UHY **LLP**

Albany, New York
March 10, 2015

THE MARKETING ALLIANCE, INC.
CONSOLIDATED BALANCE SHEETS
As of December 31, 2014 and 2013
Unaudited – See Independent Auditor’s Review Report

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,926,647	\$ 6,453,033
Investments	5,157,790	4,394,572
Accounts receivable	7,770,170	8,845,734
Inventory	18,692	41,413
Current portion of notes receivable	458,256	241,829
Prepaid income taxes	695,976	323,670
Prepaid expenses	228,485	369,276
Total current assets	<u>20,256,016</u>	<u>20,669,527</u>
PROPERTY AND EQUIPMENT, net	<u>1,552,716</u>	<u>1,596,275</u>
OTHER ASSETS		
Notes receivable, net of current portion	631,836	687,053
Deposits and other assets	33,137	132,215
Goodwill	554,100	554,100
Intangible assets, net	209,133	313,940
Total other assets	<u>1,428,206</u>	<u>1,687,308</u>
	<u><u>\$ 23,236,938</u></u>	<u><u>\$ 23,953,110</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 5,752,880	\$ 6,235,085
Lines of credit payable	1,850,000	700,000
Deferred taxes	150,800	105,600
Current portion of notes payable	600,000	776,884
Total current liabilities	<u>8,353,680</u>	<u>7,817,569</u>
LONG-TERM LIABILITIES		
Notes payable	1,050,000	1,900,002
Deferred taxes	266,300	196,200
Interest rate swap liability	7,236	16,351
Total long-term liabilities	<u>1,323,536</u>	<u>2,112,553</u>
Total liabilities	<u>9,677,216</u>	<u>9,930,122</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, no par value; 50,000,000 shares authorized, 6,024,200 shares issued and outstanding	903,023	903,023
Retained earnings	12,656,699	13,119,965
Total shareholders' equity	<u>13,559,722</u>	<u>14,022,988</u>
	<u><u>\$ 23,236,938</u></u>	<u><u>\$ 23,953,110</u></u>

See notes to consolidated financial statements.

THE MARKETING ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Three and Nine Months Ended December 31, 2014 and 2013
Unaudited—See Independent Auditor’s Review Report

	Three Months Ended December 31		Nine Months Ended December 31	
	2014	2013	2014	2013
Commission revenue	\$ 6,313,729	\$ 5,877,841	\$ 17,497,231	\$ 16,946,100
Construction revenue	680,517	630,415	1,596,438	2,190,939
Family entertainment revenue	405,334	361,248	1,091,884	982,962
Total revenues	<u>7,399,580</u>	<u>6,869,504</u>	<u>20,185,553</u>	<u>20,120,001</u>
Distributor related expenses:				
Distributor bonuses and commissions	4,766,404	4,210,579	12,099,867	11,680,431
Business processing and distributor costs	422,350	343,556	1,346,932	1,156,763
Depreciation	2,736	3,145	8,114	8,833
	<u>5,191,490</u>	<u>4,557,280</u>	<u>13,454,913</u>	<u>12,846,027</u>
Costs of construction:				
Direct and indirect costs of construction	334,359	374,363	796,614	1,227,032
Depreciation	84,585	86,712	255,109	265,744
	<u>418,944</u>	<u>461,075</u>	<u>1,051,723</u>	<u>1,492,776</u>
Family entertainment costs of sales:	<u>57,651</u>	<u>76,445</u>	<u>199,871</u>	<u>175,261</u>
Total costs of revenues	<u>5,668,085</u>	<u>5,094,800</u>	<u>14,706,507</u>	<u>14,514,064</u>
Net operating revenue	<u>1,731,495</u>	<u>1,774,704</u>	<u>5,479,046</u>	<u>5,605,937</u>
General and administrative expenses:				
Compensation	566,772	706,722	1,673,467	2,121,334
Administrative and other	138,215	234,332	560,749	639,360
Rent and occupancy	115,057	126,258	360,778	370,796
Professional fees	111,120	106,786	382,232	308,329
Office	80,710	74,285	231,555	255,466
Insurance	78,826	53,198	230,149	193,916
Depreciation and amortization	68,204	74,722	212,700	203,055
Technology	54,423	44,912	197,033	184,977
Payroll related	34,329	25,441	99,161	110,214
Travel and meetings	109,337	77,678	157,694	135,416
Telephone	13,914	14,207	43,326	45,849
Postage	10,513	12,759	35,637	41,197
Licenses and dues	1,570	200	12,735	12,770
Telemarketing, advertising and promotional	7,977	505	15,709	5,619
Total general and administrative expenses	<u>1,390,967</u>	<u>1,552,005</u>	<u>4,212,925</u>	<u>4,628,298</u>
Operating income	<u>340,528</u>	<u>222,699</u>	<u>1,266,121</u>	<u>977,639</u>
Other income (expense):				
Investment gain (loss), net	(2,952)	227,105	(137,031)	257,055
Interest expense	(27,084)	(29,750)	(85,475)	(80,395)
Gain (loss) on disposal of assets	-	(3,184)	8,541	8,196
Interest rate swap, fair value adjustment	469	4,265	6,520	19,570
Income (loss) before provision for income taxes	<u>310,961</u>	<u>421,135</u>	<u>1,058,676</u>	<u>1,182,065</u>
Provision for income taxes (benefit)	<u>48,290</u>	<u>168,990</u>	<u>305,180</u>	<u>452,101</u>
Net income (loss)	<u>\$ 262,671</u>	<u>\$ 252,145</u>	<u>\$ 753,496</u>	<u>\$ 729,964</u>

See notes to consolidated financial statements.

THE MARKETING ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended December 31, 2014 and 2013
Unaudited – See Independent Auditor's Review Report

	Common Stock		Retained Earnings	Total
	Shares (a)	Amount		
Balances at April 1, 2013	6,024,200	\$ 903,023	\$ 12,390,001	\$ 13,293,024
Net income	-	-	729,964	729,964
Balance at December 31, 2013	<u>6,024,200</u>	<u>\$ 903,023</u>	<u>\$ 13,119,965</u>	<u>\$ 14,022,988</u>
Balances at April 1, 2014	6,024,200	\$ 903,023	\$ 11,903,203	\$ 12,806,226
Net income	-	-	753,496	753,496
Balance at December 31, 2014	<u>6,024,200</u>	<u>\$ 903,023</u>	<u>\$ 12,656,699</u>	<u>\$ 13,559,722</u>

(a) Amounts have been retrospectively adjusted for the 6 for 5 stock split that was effective July 26, 2013 and the 2 for 1 stock split that was effective February 28, 2014.

THE MARKETING ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended December 31, 2014 and 2013
Unaudited – See Independent Auditor’s Review Report

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 753,496	\$ 729,964
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	475,923	477,632
Gain on disposal of assets	(8,541)	(8,196)
Realized and unrealized investment (gains) losses	283,172	(187,482)
Deferred taxes	(176,900)	(107,400)
Interest rate swap adjustment	(6,520)	(19,570)
Changes in operating assets and liabilities:		
Accounts receivable	(163,106)	406,145
Inventory	24,965	42,586
Prepaid expenses and other assets	689,754	(69,823)
Deposits and other assets	99,088	-
Accounts payable and accrued expenses	87,050	(617,449)
Net cash provided by operating activities	2,058,381	646,407
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(507,619)	(375,537)
Disposal of property and equipment	49,960	54,716
Proceeds from sale of investments	520,324	629,743
Purchases of investments	(715,782)	(599,807)
Principal payments received on promissory notes	270,256	161,281
Advances under promissory notes	(329,933)	(182,943)
Net cash used in investing activities	(712,794)	(312,547)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments under lines of credit	(500,000)	700,000
Repayments on long-term debt	(450,000)	(588,113)
Net cash (used in) provided by financing activities	(950,000)	111,887
Change in cash and cash equivalents	395,587	445,747
Cash and cash equivalents, beginning of period	5,531,060	6,007,286
Cash and cash equivalents, end of period	\$ 5,926,647	\$ 6,453,033
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the period for:		
Interest	\$ 88,127	\$ 80,395
Income taxes	\$ 213,217	\$ 1,099,183

See notes to consolidated financial statements.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Significant Accounting Policies

Organization

The Marketing Alliance, Inc. (the Company) is a consortium of independent life insurance general agents located throughout the United States. Headquartered in St. Louis, Missouri, the Company provides the benefits of pooled production and resources, including access to carriers and services, that otherwise may not be available to the agencies.

In September 2012, the Company, through two subsidiaries, began providing family entertainment in Illinois and Missouri.

In July 2011, the Company, through a subsidiary, began providing construction, heavy equipment and trenching services in Iowa.

Significant Accounting Policies

Basis of accounting and principles of consolidation:

The Company's policy is to prepare its financial statements on the accrual basis. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries:

- TMA Marketing, Inc. ("Marketing")
- Empire Construction and Trenching, Inc. ("Empire")
- TMA Technologies, Inc. ("Technologies")
- Felton McCrary Brokerage, Inc. ("Felton")
- TMA Play MO, Inc. and TMA Play IL, Inc. ("Monkey Joes")
- TMA Realty, Inc. ("Realty")

Marketing began operations during 2004 and earns commissions on annuity products. Empire began operations in July of 2011. Monkey Joes began operations in September 2012. Technologies and Felton are inactive. Realty began operations in September 2014 and owns the building housing Empire's operations. All significant intercompany accounts and transactions have been eliminated.

Revenue recognition:

Commission income from insurance companies, including production bonuses, is recorded when earned. Deferred first year commissions (commissions associated with policy dates prior to December 31, 2014) are recorded in the period earned or in the period received when such amounts cannot reasonably be estimated. Distributor commissions and bonuses are governed by individual distribution agreements and revenue is recorded in the period that the related commission income is earned.

Empire recognizes revenue from long-term contracts on the percentage-of-completion method of accounting for fixed price construction contracts or on the cost-plus fee contract method. Under the fixed price method, revenue is determined by applying the percentage-of-completion of contracts in each year to estimated final revenue on a ratio of costs incurred to date to total estimated costs. That method is used because management considers total cost to be the best available measure of progress on the contracts. Because of inherent uncertainties in estimating costs, it is at least reasonably possible that the estimates used will change within the near term.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Revenue recognition: (continued)

Costs of construction include all direct material and labor costs and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts, if any, are made in the period in which such losses are determined. Revenues recognized in excess of amounts billed are included in accounts receivable and at December 31, 2014 and 2013 those amounts were not material. There were no billings in excess of revenues recognized.

Monkey Joes revenues are recognized on a cash basis, net of sales taxes.

Cash and cash equivalents:

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. From time to time, the Company has on deposit with certain banks and brokerage firms, cash and cash equivalents which exceed the amount subject to Federal Deposit Insurance Corporation (FDIC) or Securities Investor Protection Corporation (SIPC) limits. The Company attempts to mitigate this risk by depositing its cash and cash equivalents with high credit quality institutions.

Inventory:

Inventory is stated at the lower of cost or market using the first-in first-out method. Inventory consists primarily of drainage tile raw materials used by Empire.

Investments:

Investments consist principally of common stocks, preferred stocks, mutual funds, fixed income securities, limited partnership interests, and notes receivable. Investments are classified as trading securities and are stated at fair value. Net realized gains and losses from the sales of investments, as well as unrealized gains and losses, are reflected in the statement of operations.

Fair value measurements:

The Company follows the accounting for fair value measurements and disclosures for financial assets and liabilities, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and requires disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement, and fair value measurements should be determined based on assumptions that market participants would use in pricing an asset or liability.

The accounting for fair value measurements and disclosures for financial assets and liabilities establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into three general levels: Level 1 inputs are quoted prices in active markets for identical assets or liabilities; Level 2 inputs include data points

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Fair value measurements: (continued)

that are observable such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) such as interest rates and yield curves that are observable for the asset and liability, either directly or indirectly; Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Income taxes:

The Company follows guidance issued by the Financial Accounting Standards Board (“FASB”) regarding accounting for uncertainty in income taxes. This guidance clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions.

Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement.

None of the Company’s federal or state income tax returns is currently under examination by the Internal Revenue Service (“IRS”) or state authorities. However, years 2011 and later remain subject to examination by the IRS and respective states.

Deferred taxes are provided on the asset and liability method whereby deferred taxes are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A tax valuation allowance is established as needed, to reduce net deferred tax assets to the amount expected to be realized.

Swap agreement:

The Company entered into interest rate swap agreements to reduce the impact of changes in interest rates on its variable rate term loans (Note 11). The swap agreements are contracts to exchange the debt obligations’ variable rate interest payments for fixed rate interest payments on certain notional amounts expiring at various dates. The notional amounts of the interest rate swap agreements are used to measure amounts to be paid or received and does not represent the amount of exposure or credit loss. The differential paid or received under the interest rate swap agreements is recognized as an adjustment to interest expense. The actual market or credit exposure of this type of financial instrument is significantly less than the notional amount. The primary risk associated with the swap is the inability of the counterparty to meet the terms of the contract. The Company does not expect the counterparty to fail to meet its respective obligations. The agreements mature in March 2017 and March 2018.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Swap agreement: (continued)

FASB ASC 815, *Derivatives and Hedging*, requires the Company to recognize all derivatives as either assets or liabilities in the consolidated balance sheet and measure those instruments at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow, or foreign currency hedges, and establishes accounting standards for reporting changes in the fair value in the consolidated balance sheet and recognizing the offsetting gains or losses as adjustments to be reported in net income or other comprehensive income as appropriate. The interest rate swap is considered a free standing derivative.

Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided utilizing straight line and accelerated methods over estimated useful lives ranging from 5 to 7 years.

Notes receivable:

Notes receivable are stated at unpaid principal balances, less an allowance for uncollectable amounts. Interest is recognized over the term of the note, and is calculated using the simple interest method on principal amounts outstanding. Notes are considered impaired when based on current information or factors, it is probable that the Company will not collect the principal and interest payments according to the loan agreement. Notes are placed on nonaccrual status when management believes, after considering economic conditions, business conditions, and collection efforts, that the notes are impaired or collection of interest is doubtful. At December 31, 2014 and 2013, there were no past due notes receivable, and no allowance was deemed necessary.

Estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications:

Certain items have been reclassified in the 2013 financials to conform to the current period's presentation.

Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through March 10, 2015, the date the financial statements were available for issuance.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 2 – INVESTMENTS

The cost, fair value and gross unrealized gains and losses of investments by major security type are as follows:

	December 31, 2014			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stocks	\$ 2,632,029	\$ 662,311	\$ 269,120	\$ 3,025,220
Preferred stocks	427,352	20,952	449	447,855
Fixed income securities	325,157	22,315	100,000	247,472
Mutual funds	62,179	-	13,864	48,315
Limited partnerships	650,000	738,928	-	1,388,928
	<u>\$ 4,096,717</u>	<u>\$ 1,444,506</u>	<u>\$ 383,433</u>	<u>\$ 5,157,790</u>
	December 31, 2013			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stocks	\$ 1,957,645	\$ 719,784	\$ 107,600	\$ 2,569,829
Preferred stocks	272,352	17,806	2,639	287,519
Fixed income securities	325,178	13,854	100,000	239,032
Mutual funds	53,551	1,265	-	54,816
Limited partnership	650,000	593,376	-	1,243,376
	<u>\$ 3,258,726</u>	<u>\$ 1,346,085</u>	<u>\$ 210,239</u>	<u>\$ 4,394,572</u>

Proceeds from the sale of investments were \$222,107 and \$525,335 for the three and nine months ended December 31, 2014, resulting in gross realized gains of \$54,451 and \$116,523 and gross realized losses of \$7,825 and \$41,695 for the three and nine months ended December 31, 2014, respectively.

Proceeds from the sale of investments were \$324,504 and \$629,743 for the three and nine months ended December 31, 2013, resulting in gross realized gains of \$22,492 and \$74,219 and gross realized losses of \$78,084 and \$92,749 for the three and nine months ended December 31, 2013, respectively.

Investments are pledged as collateral pursuant to margin agreements entered into by the Company. No amounts were outstanding at December 31, 2014 and 2013 under the margin agreements.

Net investment income for the three months ended December 31, 2014 and 2013 is as follows:

	2014	2013
Interest and dividend income	\$ 119,843	\$ 37,406
Realized gains (losses) on investments, net	46,626	(24,467)
Unrealized gains (losses) on investments, net	(155,020)	233,555
Investment management fees	(14,401)	(19,389)
Net investment income (loss)	<u>\$ (2,952)</u>	<u>\$ 227,105</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 2 – INVESTMENTS (Continued)

Net investment income for the nine months ended December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 201,058	\$ 119,544
Realized gains on investments, net	74,828	12,595
Unrealized gains (losses) on investments, net	(358,000)	174,887
Investment management fees	<u>(54,917)</u>	<u>(49,971)</u>
Net investment income (loss)	<u><u>\$(137,031)</u></u>	<u><u>\$ 257,055</u></u>

In connection with the notes receivable due from a private company, the Company received warrants to purchase 300,000 shares of stock in the private company at rates ranging from \$1.20 to \$5.00 per share or current share price, whichever is lower, depending on when the warrants are exercised. The warrants, 150,000 each, can be exercised at any time through June 18, 2016 and May 31, 2017. The fair value of the warrants was determined to be zero at both the date of receipt and December 31, 2014.

In connection with an investment agreement dated August 2010 with a banking corporation, the Company purchased 5,000 units. A unit consists of 4 shares of common stock and 1 detachable and transferable warrant to purchase 1 share of common stock to be exercised within 3 years of the agreement. In August 2013, the warrants were exercised as detailed in the agreement and the company purchased 5,000 shares of common stock.

NOTE 3 – FAIR VALUE MEASUREMENTS

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013:

Common and preferred stocks, and fixed income securities: Valued at the closing price reported on the active market on which the individual securities are traded. Securities traded on inactive markets are valued by reference to similar instruments are categorized in Level 2. Securities which are not traded on active or inactive markets and no comparable assets exist are categorized in Level 3 and are valued using internal models.

Mutual funds: Valued at the net asset value (NAV) of shares held at year end.

Limited partnership investments: There are four limited partnership investments. Three investments are valued using data as provided by the general partner of the limited partnership. These limited partnerships actively trade and invest (by establishing both "long" and "short" positions) in domestic and foreign equity securities and options, equity futures contracts and options, other private placement investments, and securities issued or guaranteed by the United States government and related instruments. The fourth investment is valued using market data for public securities as provided by the general partner of the limited partnership. The partnership actively trades and invests (by establishing "long" positions only) in domestic and foreign equity securities.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

(A) Securities that are listed on a national securities exchange or NASDAQ or over-the-counter market are valued at the last reported sales price on the last day of the year, or the last reported bid and asked price. Securities for which market quotations are not readily available are valued at their fair value as determined in good faith under consistently applied procedures established by the General Partner, such as pricing models, discounted cash flow methodologies or similar techniques.

Warrants: Warrants are valued using a Black-Scholes model employing estimated share values, interest rates, volatility and term and are categorized in Level 2 of the fair value hierarchy.

Interest Rate Swap: Valued at fair value derived from mid-market values. A single value for each derivative transaction is used, even if compromised by multiple legs. Value has been measured based on estimates of the amount needed to settle the agreement. Such calculations were based on changes in market conditions and/or assumptions underlying valuation models.

The following table presents the fair value hierarchy for the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

Investments	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 2,687,578	\$ 297,000	\$ 40,642	\$ 3,025,220
Preferred stock	447,855	-	-	447,855
Fixed income	147,472	-	100,000	247,472
Mutual funds	48,315	-	-	48,315
Limited partnerships	-	-	1,388,928	1,388,928
Total assets at fair value	<u>\$ 3,331,220</u>	<u>\$ 297,000</u>	<u>\$ 1,529,570</u>	<u>\$ 5,157,790</u>
Interest Rate Swap Liability	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	\$ -	\$ 7,236	\$ -	\$ 7,236
Total interest rate swap	<u>\$ -</u>	<u>\$ 7,236</u>	<u>\$ -</u>	<u>\$ 7,236</u>

The following table presents the fair value hierarchy for the Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2013

Investments	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 2,349,034	\$ 198,150	\$ 22,645	\$ 2,569,829
Preferred stock	287,519	-	-	287,519
Fixed income	139,032	-	100,000	239,032
Mutual funds	54,816	-	-	54,816
Limited partnership	-	-	1,243,376	1,243,376
Total assets at fair value	<u>\$ 2,830,401</u>	<u>\$ 198,150</u>	<u>\$ 1,366,021</u>	<u>\$ 4,394,572</u>
Interest Rate Swap Liability	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	\$ -	\$ 16,351	\$ -	\$ 16,351
Total interest rate swap	<u>\$ -</u>	<u>\$ 16,351</u>	<u>\$ -</u>	<u>\$ 16,351</u>

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NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The following is a roll-forward of Level 3 fair value instruments for the nine months ended December 31, 2014 and 2013:

	Limited Partnership Interests	Common Stocks	Fixed Income
Balance, April 1, 2013	\$ 1,148,665	\$ 22,645	\$ 100,000
Unrealized losses relating to instruments still held at the reporting date	(5,289)	-	-
Purchases	100,000	-	-
Balance, December 31, 2013	<u>\$ 1,243,376</u>	<u>\$ 22,645</u>	<u>\$ 100,000</u>
Balance, April 1, 2014	\$ 1,369,687	\$ 22,645	\$ 100,000
Unrealized gains relating to instruments still held at the reporting date	19,241	-	-
Purchases	-	17,997	-
Balance, December 31, 2014	<u>\$ 1,388,928</u>	<u>\$ 40,642</u>	<u>\$ 100,000</u>

Quantitative information about Level 3 Fair Value Investments:

	Fair Value at December 31, 2014	Valuation Techniques	Unobservable Input
Fixed income securities	\$100,000	Discounted expected cash flows	Probability of default (50%) Discount rate 4.5%
Private equity investments	\$40,642	Conversion rate of recent private transactions	Recent private transaction rate
Limited partnership investments	\$1,388,928	See (A) above	See (A) above

The nature and risk of certain investments by major category at December 31, 2014 are presented as follows:

	Fair Value	Unfunded Commitments	Redemption Provisions
Limited Partnerships	\$ 1,388,928	\$50,000	Quarterly with 30 days notice

The Company has various processes and controls in place to ensure that fair value is reasonably estimated. The Company's investment committee, which reports to the Board of Directors, sets the valuation policies for investments and is responsible for the determination of fair value.

The investment committee, together with independent investment advisors, (1) compares price changes between periods to current market conditions, (2) compares trade prices of securities to fair value estimates, (3) compares prices from multiple pricing sources, and (4) performs ongoing due diligence to confirm that independent pricing services use market-based parameters for valuation. Valuation approaches are reviewed on an ongoing basis and revised as necessary based on changing market conditions to ensure values represent a reasonable exit price.

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NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Commissions receivable	\$ 1,866,569	\$ 1,787,063
Deferred first year commissions	5,267,878	6,699,073
Construction receivables	252,642	70,490
Other	383,081	289,108
	<u>\$ 7,770,170</u>	<u>\$ 8,845,734</u>

NOTE 5 – NOTES RECEIVABLE

Notes receivable at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Distributor notes receivable, receivable in aggregate monthly installments of approximately \$28,000 including interest at rates ranging from 2.25% to 5.50% per annum, final maturity in May 2021. The notes are generally collateralized by amounts payable pursuant to individual distribution agreements and security interests in certain assets of the distributors. Certain of the notes are personally guaranteed by principals of the distributors.	\$ 1,090,092	\$ 928,882
Less current portion	<u>458,256</u>	<u>241,829</u>
Long-term portion	<u>\$ 631,836</u>	<u>\$ 687,053</u>

Estimated future principal payments to be received as of December 31, 2014 are as follows:

2015	\$ 458,256
2016	291,863
2017	114,606
2018	96,531
2019	68,513
Thereafter	<u>60,323</u>
	<u>\$ 1,090,092</u>

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NOTE 6 – INTANGIBLE ASSETS AND GOODWILL

Intangible assets consist of a covenant not to compete acquired in July 2011 related to the Empire acquisition, and two covenants not to compete, two franchise agreements, and goodwill acquired in September 2012 related to the Monkey Joe's acquisitions.

	Beginning Balance, April 1, 2014	Additions	Deletions	Ending Balance, December 31, 2014
Covenants Not To Compete	\$339,708	\$ -	\$ -	\$ 339,708
Franchise Agreements	181,000	-	-	181,000
Amortization	<u>(239,518)</u>	<u>(72,057)</u>	<u>-</u>	<u>(311,575)</u>
	<u>\$281,190</u>	<u>\$ (72,057)</u>	<u>\$ -</u>	<u>\$ 209,133</u>
Goodwill	<u>\$554,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 554,100</u>

	Beginning Balance, April 1, 2013	Additions	Deletions	Ending Balance, December 31, 2013
Covenant Not To Compete	\$339,708	\$ -	\$ -	\$ 339,708
Franchise Agreements	181,000	-	-	181,000
Amortization	<u>(113,909)</u>	<u>(92,859)</u>	<u>-</u>	<u>(206,768)</u>
	<u>\$406,799</u>	<u>\$ (92,859)</u>	<u>\$ -</u>	<u>\$ 313,940</u>
Goodwill	<u>\$554,100</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 554,100</u>

Amortization expense for the three and nine months ended December 31, 2014, respectively was \$20,552 and \$72,057. Amortization expense for the three and nine months ended December 31, 2013, respectively was \$30,953 and \$92,859.

Estimated amortization for the next five years for the covenants not to compete and the franchise agreements is as follows:

2015	\$ 81,839
2016	71,987
2017	44,823
2018	<u>10,484</u>
	<u>\$209,133</u>

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NOTE 7 – PROPERTY AND EQUIPMENT

Net property and equipment is comprised of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land and building	\$ 245,604	\$ -
Office equipment	1,803,306	1,655,015
Construction equipment	1,705,788	1,671,952
	<u>3,754,698</u>	<u>3,326,967</u>
Less accumulated depreciation	<u>2,201,982</u>	<u>1,730,692</u>
	<u>\$ 1,552,716</u>	<u>\$ 1,596,275</u>

Depreciation expense was \$134,973 and \$403,865 for the three and nine months ended December 31, 2014, respectively. Depreciation expense was \$133,628 and \$384,773 for the three and nine months ended December 31, 2013, respectively.

NOTE 8 – LINES OF CREDIT

The Company has five lines of credit available:

The first line of credit borrowing is under a \$3,500,000 short-term bank line of credit facility. Borrowings under the line of credit bear interest at the British Banker Association LIBOR rate ('BBA LIBOR') plus 2% (2.1695% at December 31, 2014), and is collateralized by all accounts receivable, inventory and property and equipment. The credit facility contains both financial and non-financial covenants. The credit facility matures September 30, 2015. At December 31, 2014, \$1,850,000 was outstanding. At December 31, 2013, \$300,000 was outstanding.

Under a second line of credit, the Company has available a \$750,000 (\$500,000 at December 31, 2013) revolving line of credit bearing interest based on changes in an Independent index which is the Highest Wall Street Journal Prime Base Lending Rate. Interest on the unpaid balance of the note will be calculated using a rate of .25 percentage points over the Index. The credit facility requires an annual 30 day clean-up period. The index at December 31, 2014 is 3.25%, resulting in a rate of 3.5%. The note is due on demand. At December 31, 2014 no amount was outstanding. At December 31, 2013, \$400,000 was outstanding.

Under the third line of credit, the Company has available a \$1,000,000 (\$500,000 at December 31, 2013) demand grid note credit facility. Borrowings under the note bear interest at prime plus one quarter percent (.25%) and are due on demand. The credit facility is subject to an annual review by the lender. At December 31, 2014 and 2013, no amount was outstanding.

Under the fourth line of credit, the Company has available a \$250,000 revolving line of credit facility. Borrowings under the note bear interest at prime plus 1% (with a floor of 4.75%) and is due on demand. The credit facility requires an annual 30 day clean-up period, is subject to an annual review by the lender and requires that the Company maintain a minimum deposit account balance of \$250,000 with the lender. At December 31, 2014 and 2013 no amount was outstanding.

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NOTE 8 – LINES OF CREDIT (Continued)

The Company obtained a fifth line of credit in the amount of \$250,000 bearing interest based on changes in an Independent index which is the Highest Wall Street Journal Prime Base Lending Rate, and is collateralized by accounts receivable, inventory and property and equipment, subject to a first claim by the bank noted in the first paragraph. Interest on the unpaid balance of the note will be calculated using a rate of .25 percentage points over the Index. The credit facility requires an annual 30 day clean-up period. The index at December 31, 2014 is 3.25%, resulting in a rate of 3.5%. The note is due on demand. At December 31, 2014 and 2013, no amount was outstanding.

NOTE 9 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at December 31, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Accounts payable	\$ 207,418	\$ 124,609
Technology benefits	220,501	-
Distributor commissions	1,935,739	1,725,726
Deferred first year commissions	2,903,940	3,692,341
Accrued compensation	436,398	692,489
Other	48,884	-
	<u>\$ 5,752,880</u>	<u>\$ 6,235,085</u>

Accrued technology benefits represents amounts payable pursuant to the Company's technology and marketing benefit program. The program is designed to encourage its member agencies to invest in technology and marketing by reimbursing the agencies for qualified expenditures. Agencies qualify for benefits based upon attaining annual production levels as defined in the program. Benefits payable under the program are based upon calendar year production and are payable in the calendar year subsequent to meeting production criteria.

NOTE 10 – INCOME TAXES

Income tax expense (benefit) for the three months ended December 31, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Current	\$ 178,420	\$ 112,990
Deferred	(130,130)	56,000
	<u>\$ 48,290</u>	<u>\$ 168,990</u>

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NOTE 10 – INCOME TAXES (Continued)

Income tax expense (benefit) for the nine months ended December 31, 2014 and 2013 is summarized as follows:

	2014	2013
Current	\$ 482,080	\$ 559,501
Deferred	<u>(176,900)</u>	<u>(107,400)</u>
	<u><u>\$ 305,180</u></u>	<u><u>\$ 452,101</u></u>

Deferred tax assets and liabilities at December 31, 2014 and 2013 were attributable to the following:

	2014	2013
Deferred Tax Assets:		
Stock appreciation compensation	\$ 118,900	\$ 128,700
Intangible assets	56,200	50,000
Capital loss carryforwards	-	10,300
Other	3,900	1,000
Impairment on investment other than temporary	<u>36,100</u>	<u>36,100</u>
Total gross deferred tax assets	<u>215,100</u>	<u>226,100</u>
Deferred Tax Liabilities:		
Unrealized gains on investments	(309,700)	(281,800)
Property and equipment	<u>(322,500)</u>	<u>(246,100)</u>
Total gross deferred tax liabilities	<u>(632,200)</u>	<u>(527,900)</u>
Total deferred taxes	<u><u>\$ (417,100)</u></u>	<u><u>\$ (301,800)</u></u>
Deferred Tax Liabilities, Current	\$ (150,800)	\$ (105,600)
Deferred Tax Liabilities, Long-Term	<u>(266,300)</u>	<u>(196,200)</u>
	<u><u>\$ (417,100)</u></u>	<u><u>\$ (301,800)</u></u>

The reconciliation of income taxes calculated at the Federal tax statutory rate to the Company's effective rate is set forth below for the nine months ended December 31, 2014 and 2013:

	2014		2013	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Tax at federal statutory rate	\$357,539	34%	\$401,902	34%
State income taxes	32,599	3%	36,644	3%
True up of prior year taxes	(68,826)	-7%	-	0%
Other	<u>(16,132)</u>	<u>-2%</u>	<u>13,555</u>	<u>1%</u>
	<u><u>\$305,180</u></u>	<u><u>29%</u></u>	<u><u>\$452,101</u></u>	<u><u>38%</u></u>

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NOTE 11 – LONG-TERM DEBT

Long-term debt as of December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Note payable to a bank, payable in fixed monthly principal payments of \$25,000 a month plus interest, payments commenced on April 30, 2012. The interest rate on the note is 2% plus BBA LIBOR (2.1695% at December 31, 2014). The note matures on March 31, 2017. The note is collateralized by all accounts receivable, inventory and property and equipment and contains both financial and non-financial covenants.	\$ 675,000	\$ 975,000
Note payable to a bank, payable in fixed monthly principal payments of \$25,000 a month plus interest, payments commenced on April 30, 2013. The interest rate on the note is 2% plus BBA LIBOR (2.1695% at December 31, 2014). The note matures on March 29, 2018. The note is collateralized by all accounts receivable, inventory and property and equipment and contains both financial and non-financial covenants.	975,000	1,275,000
In connection with the acquisition of the assets of JDC Construction, Inc. the Company executed a promissory note of \$540,000 due to the former owner of the related assets. The note began to accrue interest on April 1, 2012 at a rate of 5%. Interest only payments were made through April 1, 2013, and thereafter payments of interest and principal of approximately \$16,200 were made monthly. The note was scheduled to mature on April 1, 2016. The note was paid in full in February 2014.	-	426,886
Total	1,650,000	2,676,886
Less current portion	<u>600,000</u>	<u>776,884</u>
Long-term portion	<u><u>\$ 1,050,000</u></u>	<u><u>\$ 1,900,002</u></u>

Future principal maturities at December 31, 2014 are as follows:

<u>Period Ending December 31,</u>	
2015	\$ 600,000
2016	600,000
2017	375,000
2018	<u>75,000</u>
	<u><u>\$1,650,000</u></u>

NOTE 12 – SHAREHOLDERS' EQUITY

In July 2013, the Board of Directors declared a stock split of 6 shares for every 5 shares held by shareholders of record on July 26, 2013, payable on August 9, 2013. As a result, each shareholder received one new share of common stock for every five shares of common stock held as of the record date. All share amounts outstanding prior to July 26, 2013 have been retroactively adjusted for this split.

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NOTE 12 – SHAREHOLDERS’ EQUITY (Continued)

In February 2014, the Board of Directors declared a stock split of 2 shares for every 1 share held by shareholders of record on February 28, 2014, payable on March 28, 2014. As a result, each shareholder received one new share of common stock for every one share of common stock held as of the record date. All share amounts outstanding prior to February 28, 2014 have been retroactively adjusted for this split.

In February 2014, the Company amended its articles of incorporation to increase the number of authorized shares of stock from 10 million shares of common stock to 50 million shares of common stock and 10 million shares of preferred stock.

In November 2014, the Board of Directors authorized a \$.21 per share cash dividend for shareholders of record on December 12, 2014. The dividend was paid on January 30, 2015.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Leases

The Company has noncancellable operating leases for office, administration, processing, and family entertainment space at its St. Louis, Omaha, and Fairview Heights locations. Additionally, the Company leases office equipment under operating leases for use in both its administrative offices and in offices of several of its brokers, pursuant to its technology and marketing benefit program.

Approximate future minimum lease payments required under these operating leases at December 31, 2014 are as follows:

	<u>Office Space</u>	<u>Office Equipment</u>	<u>Total</u>
2015	\$ 376,818	\$ 41,735	\$ 418,553
2016	344,086	3,481	347,567
2017	161,250	351	161,601
2018	161,250	-	161,250
2019	67,188	-	67,188
	<u>\$1,110,592</u>	<u>\$ 45,567</u>	<u>\$1,156,159</u>

Rent expense for office space approximated \$112,600 and \$337,800 for the three and nine months ended December 31, 2014. Rent expense for office space approximated \$115,100 and \$338,800 for the three and nine months ended December 31, 2013. Rent expense for office equipment approximated \$20,300 and \$55,800 for the three and nine months ended December 31, 2014. Rent expense for office equipment approximated \$27,200 and \$79,600 for the three and nine months ended December 31, 2013. A substantial portion of the office equipment operating leases is classified as distributor related expenses in the accompanying consolidated statement of operations.

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NOTE 14 – CONCENTRATIONS

During the three and nine months ended December 31, 2014, the Company derived approximately 62% and 64%, respectively, of its commission income from three insurance carriers. During the three and nine months ended December 31, 2013, the Company derived approximately 60% and 61%, respectively, of its commission income from three insurance carriers.

NOTE 15 – BENEFIT PLANS

Profit Sharing Plan

The Company has a qualified profit sharing plan with 401(k) deferred compensation provisions. Substantially all employees are eligible to participate in the plan. The plan provides for both matching and discretionary contributions determined by the Board of Directors. Contributions under the plan were approximately \$14,700 and \$38,000 for the three and nine months ended December 31, 2014. Contributions under the plan were approximately \$11,700 and \$46,600 for the three and nine months ended December 31, 2013.

Stock Appreciation Plan

The Company maintains a stock appreciation plan (the “SAP”) for a member of management. Units of stock are allocated under a compensation agreement at a specified price per unit. The Company recognizes the estimated compensation cost of these stock appreciation units over the vesting term.

The estimated compensation cost is based on the Black-Scholes option model and is re-measured at each financial reporting date. Stock units cliff vest at the end of a five year period. Upon vesting, the value is calculated as the difference between the current value of the stock and the specified price per unit multiplied by the number of shares and paid in cash. Under the agreement, stock appreciation units were granted on April 1, 2010, 2011, 2012, 2013 and 2014.

Additionally, the stock appreciation units, whether vested or not vested, are entitled to receive payment in an amount equal to the actual cash dividends paid on shares of common stock, as of and when such dividends are paid.

NOTE 16 – RELATED PARTY TRANSACTIONS

The Company has entered into a service agreement with an affiliate of one of its brokers/agents for bookkeeping and other administrative services provided for the benefit of the Company. Administrative service fees and rent paid to the affiliated entity approximated \$145,200 and \$425,100 for the three and nine months ended December 31, 2014. Administrative service fees and rent paid to the affiliated entity approximated \$122,000 and \$287,100 for the three and nine months ended December 31, 2013.

The Company compensates its Board of Directors for attendance at its meetings. In addition, the Company compensates its Directors for work performed on behalf of the Company outside of their duties as Board members. Such compensation, which is computed and paid at an hourly rate commensurate with experience and expertise as determined by the Board of Directors, is classified as a component of compensation and net investment income in the accompanying consolidated statement of operations.

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NOTE 16 – RELATED PARTY TRANSACTIONS (Continued)

The Company previously leased office and warehouse space in Iowa for \$60,000 annually from the former owner of JDC Construction, Inc. The lease was terminated April 30, 2014. The Company purchased real property in Iowa for approximately \$240,000 to be used as office and warehouse space.

NOTE 17 – SUBSEQUENT ACQUISITION

On January 6, 2015, pursuant to the terms of an asset purchase agreement, The Company acquired substantially all of the assets and operations of two Monkey Joe's franchise locations (both in Florida), which provide indoor children's entertainment. The purchase price was \$450,000 which was paid in cash at closing.

As of the date of these financial statements, acquisition accounting has yet to be completed related to this transaction.