ALLIANCE MEDIA HOLDINGS INC.
AND SUBSIDIARIES

Consolidated Financial Statements

June 30, 2015

ALLIANCE MEDIA HOLDINGS INC. AND SUBSIDIARIES
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INDEPENDENT AUDITOR'S REPORT

To the Stockholders
Alliance Media Holdings Inc.
and Subsidiaries

We have audited the accompanying consolidated financial statements of Alliance Media Holdings Inc. (formerly Alliance Distributors Holding Inc.) and Subsidiaries, which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated income statements, statements of stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alliance Media Holdings Inc. (formerly Alliance Distributors Holding Inc.) and Subsidiaries as of June 30, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann CPAs

October 29, 2015

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ALLIANCE MEDIA HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2015 and 2014
(In thousands, except per share amounts)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 347	$ 155
Accounts receivable-net	4,948	3,689
Inventory	14,633	12,495
Advances to suppliers	-	22
Prepaid expenses and other current assets	194	256
Deferred income taxes	593	541
Total current assets	20,715	17,158
PROPERTY AND EQUIPMENT – NET	102	118
DEFERRED INCOME TAXES	129	129
OTHER ASSETS	63	54
TOTAL	$21,009	$17,459
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Asset-based revolving loan – bank	$6,488	$7,634
Current portion of long-term debt	-	239
Accounts payable	6,288	1,659
Accrued expenses and other current liabilities	550	709
Total current liabilities	13,326	10,241
DEFERRED RENT	23	19
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Series A Convertible Non-Redeemable Preferred Stock, $.001 par value; 8,269 shares authorized; none issued and outstanding	-	-
Common stock, $.001 par value; 100,000 shares authorized; 44,157 shares issued and outstanding	44	44
Additional paid-in capital	3,684	3,549
Retained earnings	3,932	3,606
Total stockholders' equity	7,660	7,199
TOTAL	$21,009	$17,459

See notes to consolidated financial statements.

ALLIANCE MEDIA HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
YEARS ENDED JUNE 30, 2015 and 2014
(In thousands, except per share amounts)

	2015	2014
NET SALES	$54,126	$60,853
COST OF SALES	47,185	52,500
GROSS PROFIT	6,941	8,353
OPERATING COSTS AND EXPENSES	5,986	6,003
INCOME FROM OPERATIONS	955	2,350
Interest expense	297	371
INCOME BEFORE PROVISION FOR INCOME TAXES	658	1,979
Provision for income taxes	332	740
NET INCOME	$ 326	$ 1,239
Net income per share – basic and diluted	$ 0.01	$ 0.03
Weighted-average common shares outstanding – basic	44,157	44,157
Weighted-average common shares outstanding – diluted	44,630	44,657

See notes to consolidated financial statements.

ALLIANCE MEDIA HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED JUNE 30, 2015 and 2014
(In thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
Balance, July 1, 2013	-	-	44,157	44	3,479	2,367	5,890
Stock-based compensation expense	-	-	-	-	70	-	70
Net income	-	-	-	-	-	1,239	1,239
Balance, June 30, 2014	-	-	44,157	44	3,549	3,606	7,199
Stock-based compensation expense	-	-	-	-	135	-	135
Net income	-	-	-	-	-	326	326
Balance, June 30, 2015	-	$ -	44,157	$ 44	$ 3,684	$ 3,932	$ 7,660

See notes to consolidated financial statements.

ALLIANCE MEDIA HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 and 2014
(In thousands)

	2015	2014
OPERATING ACTIVITIES:		
Net income	$ 326	$ 1,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	61	70
Stock-based compensation expense	135	70
Amortization of deferred financing costs included in interest expense	28	29
Deferred rent	4	8
Deferred income taxes	(52)	(247)
Changes in operating assets and liabilities:		
Accounts receivable	(1,259)	3,518
Inventory	(2,138)	1,455
Advances to suppliers	22	623
Prepaid expenses and other assets	55	148
Accounts payable	4,629	(3,876)
Accrued expenses and other current liabilities	(159)	271
Net cash provided by operating activities	1,652	3,308
INVESTING ACTIVITIES:		
Purchase of property and equipment	(45)	(21)
Net cash used in investing activities	(45)	(21)
FINANCING ACTIVITIES:		
Payment of asset-based revolving loan – bank, net of proceeds	(1,146)	(2,687)
Payment of long-term debt	(239)	(761)
Payment of deferred financing costs	(30)	(25)
Net cash used in financing activities	(1,415)	(3,473)
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	192	(186)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	155	341
CASH AND EQUIVALENTS, END OF YEAR	$ 347	$ 155

See notes to consolidated financial statements.

ALLIANCE MEDIA HOLDINGS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alliance Media Holdings Inc. ("Alliance"; formerly Alliance Distributors Holding Inc.) is a distributor of video game consoles, peripherals, accessories and software to customers throughout the United States for most key manufacturers and third-party publishers in the video game industry. Alliance publishes and develops console and downloadable video games as Alliance Digital Media and Alliance Game Studios through its wholly-owned subsidiary, Alliance Metaversal Studio LLC. The consolidated financial statements include the accounts of Alliance and its wholly-owned subsidiaries (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

In June 2015, Alliance changed its name from Alliance Distributors Holding Inc. to Alliance Media Holdings Inc.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the 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. Actual results could differ from those estimates. Significant estimates reflected in these financial statements relate primarily to allowance for doubtful accounts, reserves for slow-moving or aged inventory and the realization of deferred tax assets.

Cash Equivalents

For financial statement purposes (including cash flows), the Company considers all highly liquid instruments purchases with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts

The Company establishes credit terms for new clients based upon management's review of their credit information and projects terms, performs ongoing credit evaluations of its customers, adjusting credit terms when management believes appropriate based upon payment history and an assessment of their current creditworthiness. The Company records an allowance for doubtful accounts for estimated losses resulting from the inability of its clients to make required payments. The Company determines this allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, estimate of the client's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. While credit losses have generally been within expectations and the provisions established, the Company cannot guarantee that credit loss rates in the future will be consistent with those experienced in the past. In addition, the Company has credit exposure if the financial condition of one of its major clients were to deteriorate. In the event that the financial condition of its clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be necessary. It is reasonably possible that the Company's estimate of the allowance for doubtful accounts will change. As of June 30, 2015 and 2014, the Company's allowance for doubtful accounts totaled approximately $77,000.

Inventory

Inventory consists entirely of finished goods held for sale and is reported at the lower of cost or market, on the average cost basis. The Company receives price protection from certain of its suppliers for merchandise that may be slow-moving or aged. The Company evaluates the adequacy of its slow-moving or aged inventory quarterly and writes down its inventory to fair value based upon the price protection received or current market value. While write-downs have been within expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same level of write-downs as in the past. At times, the Company makes advance payments to vendors to procure and ensure delivery of certain high demand products. Such deposits are reflected as advances to suppliers in the consolidated balance sheet. The Company does not offer warranties to its customers but will accept returns of product claimed to be defective and reimburse the customers for the purchase price paid. The majority of the Company's suppliers in turn accept these returns by customers. There are no reserves for warranties as of June 30, 2015 and 2014. At June 30, 2015 and 2014, there was $1,810,000 and $819,000, respectively, of inventory in-transit.

Property and Equipment

Property and equipment is recorded at cost. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased assets at the inception of the lease. Leasehold improvements are amortized over the lesser of the lease terms or the assets' useful lives. When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation and amortization is provided over the estimated useful lives of the related assets using the straight-line method.

The estimated useful lives for significant property and equipment categories are as follows:

Leasehold improvements	up to 4 years
Computers, office equipment and furniture	2 to 7 years
Computer software	2 to 3 years
Vehicles	4 years

Royalties and Licenses

Royalty-based obligations with content licensors are either paid in advance and capitalized as prepaid royalties or are accrued as incurred and subsequently paid. These royalty-based obligations are generally expensed to cost of sales at the greater of the contractual rate or an effective royalty rate based on the total projected net revenue for contracts with guaranteed minimums. As of June 30, 2015 and 2014, prepaid royalties were not significant.

Each quarter, the management also evaluates the expected future realization of the Company’s royalty-based assets to determine amounts deemed unlikely to be realized through product sales. Any impairments or losses determined post-launch are charged to cost of revenue.

Software Development Costs

Pursuant to ASC 985-605, *Software: Revenue Recognition*, software development costs incurred for video games to be sold or otherwise marketed are required to be capitalized after the technological feasibility of the software is established. Under the Company’s current practice of developing downloadable and social content video games, the technological feasibility of the underlying software for a new game is not established until substantially all product development and testing is complete and the game is ready for release. As such, costs incurred in downloadable game development are included in operating costs and expenses until such time as the product is ready for release. Thereafter, costs incurred for ongoing maintenance and upgrades are included in cost of sales.

Impairment of Long-Lived Assets

Long-lived assets, such as property, plant and equipment, and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company assesses its assets for impairment based on the estimated future undiscounted cash flows expected to result from the use of the asset and records impairment losses when this amount is less than the carrying amount. Impairment losses are recorded for the excess of the assets' carrying amount over their fair value, which is generally determined based on the estimated future discounted cash flows over the remaining useful life of the asset using a discount rate determined by management at the date of the impairment review. Management believes at this time that the carrying value and useful life of long-lived assets continue to be appropriate.

Deferred Rent

The Company accounts for scheduled rent increases contained in its leases on a straight-line basis over the non-cancellable lease term.

Revenue Recognition

The Company commences revenue recognition when all the following conditions are satisfied: a) there is persuasive evidence of an arrangement; b) the goods have been shipped to the customer or the services have been provided; c) the collection of the fees is reasonably assured; and d) the amount of fees to be paid by the customer is fixed or determinable.

In accordance with the criteria set forth in ASC 985-605 and Staff Accounting Bulletin ("SAB") No. 104, *Revenue Recognition*, the Company generally recognizes a sale of downloadable digital content when the download is purchased by a customer. The Company recognizes advertising revenue for advertisements within the downloadable digital content as advertisements are delivered to customers as long as evidence of the arrangement exists, the price is fixed or determinable, and collectibility is reasonably assured.

Income Taxes

The Company accounts for income taxes using the liability method, which requires the recognition of deferred tax assets or liabilities for the temporary differences between the financial reporting and tax bases of the Company's assets and liabilities and for tax carryforwards at enacted statutory rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company establishes accruals for uncertain tax positions taken or expected to be taken in a tax return when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities that have full knowledge of all relevant information. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Favorable or unfavorable adjustment of the accrual for any particular issue would be recognized as an increase or decrease to income tax expense in the period of a change in facts and circumstances.

As of June 30, 2015 and 2014, there are no unrecognized tax benefits, and there have been no income tax related interest or penalties accrued in the years ended June 30, 2015 and 2014. If and when applicable, the Company will report interest expense and penalties related to income tax liabilities as a component of its provision for income taxes. Tax years commencing July 1, 2011 are subject to tax examination.

Operating Costs and Expenses

The Company includes shipping and handling costs in operating costs and expenses. For the years ended June 30, 2015 and 2014, the Company incurred approximately $693,000 and $1,019,000, respectively, of such costs.

Advertising expenses totaling approximately $30,000 and $37,000 for the years ended June 30, 2015 and 2014, respectively, are charged to operations in the period in which they are incurred.

Fair Value of Financial Instruments

The carrying amounts of significant financial instruments, which include accounts receivable, accounts payable and accrued expenses, approximated fair value as of June 30, 2015 and 2014 due to their short-term maturities. Borrowings under the financing agreements approximate fair value due to their variable interest rate.

Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted net income per share is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding during the period increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of the outstanding options is reflected in diluted earnings per share by application of the treasury stock method.

Options to purchase approximately 4.5 million and 6.4 million shares of common stock during the years ended

June 30, 2015 and 2014, respectively, were outstanding but not included in the computation of diluted income per share because the options' exercise price was greater than the average market price of the common shares and, therefore, the effect would have been antidilutive.

The computational components of basic and diluted earnings per share are as follows (shares in thousands):

	2015	2014
Basic:		
Weighted-average shares outstanding and used in the computation of basic net income per share	44,157	44,157
Net income per share attributable to common stockholders - basic	$0.01	$0.03
Diluted:		
Weighted-average shares outstanding and used in the computation of basic net income per share	44,157	44,157
Dilutive effect of stock options	473	500
Shares used in the computation of diluted net income per share	44,630	44,657
Net income per share attributable to common stockholders - diluted	$0.01	$0.03

Stock-Based Compensation

The Company recognizes compensation expense for all equity-based compensation awards issued to employees based on the grant date fair value of those awards.

Note 2 – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information (in thousands) are as follows:

Cash paid during the years ended June 30, 2015 and 2014 for:	2015	2014
Interest	$299	$366
Income taxes	$219	$831

Note 3 - CONCENTRATIONS OF CREDIT RISK, SIGNIFICANT CUSTOMERS AND SUPPLIERS

Accounts Receivable and Major Customers

Concentrations of credit risk with respect to accounts receivable are limited because a large number of customers make up the Company's customer base, thus spreading the trade credit risk. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. The Company performs credit evaluations of its customers but generally does not require collateral to support accounts receivable. One customer with multiple divisions accounted for approximately 55% and 51% of the Company's sales for the years ended June 30, 2015 and 2014, respectively. A second customer accounted for 11% of the Company's sales for the year ended June 30, 2014. No other customer accounted for more than 10% of the Company's sales in the fiscal 2015 or 2014 periods. If a significant customer terminates or modifies its relationship with the Company, future results could be materially and adversely affected. At June 30, 2015 and 2014, the amounts due from one customer approximated $3.9 million and $3.0 million, respectively, and are included in accounts receivable on the accompanying consolidated balance sheets.

Fluctuations in Operating Results and Seasonality

The Company has experienced fluctuations in its operating results as a result of the timing of the introduction of new titles; variations in sales of titles developed for particular platforms; market acceptance of its titles; sequels or enhancements of existing titles; projected and actual changes in platforms; the timing and success of title introductions by its competitors; product returns; changes in pricing policies by the Company and its competitors; order cancellations; and delays in shipment. Sales of various titles are also seasonal, with peak shipments typically occurring in the fourth calendar quarter as a result of increased demand for titles during the holiday season. Annual comparisons of operating results are not necessarily indicative of future operating results.

Major Suppliers

For the year ended June 30, 2015, the Company's three largest suppliers in the aggregate accounted for approximately 49% of total purchases, and the ten largest suppliers in the aggregate accounted for approximately 82% of total purchases. For the year ended June 30, 2014, the Company's two largest suppliers in the aggregate accounted for approximately 49% of total purchases, and the ten largest suppliers in the aggregate accounted for approximately 85% of total purchases. If a significant supplier terminates or modifies its relationship with the Company, future results could be materially and adversely affected.

Note 4 - PROPERTY AND EQUIPMENT

Property and equipment stated at cost less accumulated depreciation and amortization (in thousands) consists of the following at June 30, 2015 and 2014:

	2015	2014
Leasehold improvements	$ 36	$ 60
Computers, office equipment and furniture	250	225
Software	139	127
Vehicles	49	49
Total	474	461
Less accumulated depreciation and amortization	372	343
	$ 102	$ 118

Depreciation and amortization expense approximated $61,000 and $70,000 for the years ended June 30, 2015 and 2014, respectively.

Note 5 - FINANCING AGREEMENTS

The Company extended its $25 million revolving loan facility with PNC Bank, NA (the "PNC Facility") to expire on May 31, 2020. Borrowings under the revolving loan facility are based on eligible inventory and receivables, and accrue interest based on either the bank's alternate base rate (as defined) or the Eurodollar rate plus 2.5%. The revolving loan facility is also subject to a 0.25% unused facility fee. The PNC Facility is secured by substantially all the assets of the Company and is subject to the Company's compliance with certain financial covenants. The Company was in compliance with these covenants at June 30, 2015. The Company also had a term loan with PNC Bank which was repaid in full as of June 30, 2015.

At June 30, 2015 and 2014, the interest rate on borrowings outstanding on revolving loans was 2.69% and 2.71%, respectively. The interest rate on the term loan was 3.35% at June 30, 2014. In connection with the loan facility renewal, the Company paid fees totaling $30,000, which are being amortized over the remaining term of the facility. Prior to fiscal 2015, the Company paid fees totaling $75,000, which were amortized.

Included in interest expense for the years ended June 30, 2015 and 2014 are amortized financing expenses totaling approximately $28,000 and $29,000, respectively.

Note 6 - INCOME TAXES

The components of the provision for (benefit from) income taxes for the years ended June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Current:		
Federal	$ 324	$ 838
State and local	60	149
	384	987
Deferred:		
Federal	(43)	(210)
State and local	(9)	(37)
	(52)	(247)
Total	$ 332	$ 740

The Company's effective tax rate for the year ended June 30, 2015 is higher than what would be expected if statutory rates were applied to income principally due to the write off of approximating $66,000 in deferred tax assets as a result of the expiration of unexercised stock options granted to certain directors and employees in 2005.

Significant components of the Company's net deferred tax assets at June 30, 2015 and 2014 are as follows (in thousands):

	2015	2014
Net operating loss carryforwards	$ 2,104	$ 2,110
Reserves and other items not currently deductible	556	495
Equity compensation not currently deductible	136	155
Other	50	34
	2,846	2,794
Less: valuation allowance	(2,124)	(2,124)
Net deferred tax assets	$ 722	$ 670
Net deferred tax asset – current	$ 593	$ 541
Net deferred tax asset – non-current	129	129
	$ 722	$ 670

At June 30, 2015, the Company had federal and state net operating loss carryforwards (NOLs) of approximately $5.4 million. The federal NOLs expire through 2023 and the state NOLs expire through 2016. In assessing the realization of deferred tax assets, management considers whether it is more likely than not that all or some portion of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and net operating losses are utilized. Based on a consideration of these factors, the Company has established a valuation allowance of approximately $2,124,000 at June 30, 2015 and 2014 primarily due to the uncertainty surrounding the realization of the NOLs that resulted from a 2004 stock exchange agreement. Pursuant to Internal Revenue Code Section 382 of the Tax Reform Act of 1986 (the "Act"), the utilization of NOLs is limited in the case of certain transactions including significant changes in ownership interests. The Company has determined that based upon the terms of a 2004 stock exchange agreement, an

ownership change pursuant to this Act had occurred. As a result, the NOLs are significantly limited. The Company considered many factors when assessing the likelihood of future realization of the deferred tax assets, including the Company's recent cumulative earnings experience, expectation of future income, and other relevant factors. The valuation allowance did not change during the years ended June 30, 2015 and 2014.

Note 7 - RETIREMENT PLAN

The Company sponsors a 401(k) contributory plan (the "Plan") for the benefit of employees who are at least 21 years of age. The Company's management determines, at its discretion, any annual contributions. The Company elected not to contribute to the Plan for the years ended June 30, 2015 and 2014.

Note 8 - STOCK PLANS

In 2015, the Company adopted the 2014 Stock Plan (the "2014 Plan") to grant equity and equity-linked awards up to a maximum of 6,600,000 shares of common stock. The Company also has a 2004 Stock Plan (the "2004 Plan") and a 2006 Stock Plan (the "2006 Plan"). Beginning in January 2015, no stock awards may be granted from either of these earlier plans. If stock option grants are exercised, the Company expects to issue shares from its currently authorized common shares.

Information with respect to stock options pursuant to the 2004 Plan and 2014 Plan follows (no stock options have been awarded from the 2006 Plan):

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding – July 1, 2013	5,590	$.271	
Granted	1,750	$.240	
Forfeited	-		
Outstanding – June 30, 2014	7,340	$.263	
Granted	2,250	$.166	
Expired	(3,870)	$.325	
Outstanding – June 30, 2015	5,720	$.183	7.6 years
Exercisable at June 30, 2015	2,933	$.127	6.4 years

All the issued options are ten-year non-qualified stock option grants. In each of 2015 and 2014, the Company granted options under the 2004 Plan to purchase a total of 1,750,000 common shares to its officers and employees, all of which vest ratably in sixteen equal quarterly installments. In addition, in each of 2015 and 2014, the Company granted options under the 2004 Plan to purchase a total of 400,000 common shares to four independent directors, and in April 2015, the Company granted options to purchase 100,000 common shares under the 2014 Stock Plan to a fifth independent director. All options granted to independent directors vest at a rate of thirty percent immediately upon grant and the remaining seventy percent in eight equal quarterly installments. All stock options outstanding at June 30, 2015, which were awarded prior to July 1, 2013, are fully vested.

The fair value of the options-pricing model was calculated with the following weighted-average assumptions used: risk-free interest rate – 1.9 % in fiscal 2015 and 2.04% in 2014; expected life- seven years; expected volatility- 80% in fiscal 2015 and 2014. The fair value generated by the options-pricing model may not be indicative of the future benefit, if any, that may be received by the option holder. The total fair value of exercisable stock options at June 30, 2015 is approximately $369,000.

For the years ended June 30, 2015 and 2014, stock-based compensation expense related to the Company's 2004 Stock Plan totaled approximately $135,000 and $70,000, respectively, and is included in operating costs and expenses. In addition, at June 30, 2015, compensation cost related to non-vested stock options not yet recognized totaled approximately $382,000. This cost is expected to be recognized over a weighted-average period of 2.84 years.

The number and weighted-average grant date fair value of non-vested stock options for the years ended June 30, 2015 and 2014 is as follows:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Non-vested – July 1, 2013	350	$.050
Granted	1,750	$.175
Unvested portion forfeited	-	
Vested	(573)	$.122
Non-vested – June 30, 2014	1,527	$.166
Granted	2,250	$.117
Vested	(990)	$.134
Non-vested – June 30, 2015	2,787	$.138

Note 10 – COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

Leases

The Company leases its offices and warehouse space under operating leases which expire through October 2016. The future minimum lease payments, excluding escalation charges, for leases having a remaining non-cancelable term in excess of one year are shown below, which includes a lease that was consummated in August 2015:

Operating leases	(in thousands)
Fiscal year ending June 30, 2016	262
Fiscal year ending June 30, 2017	64
Total	326

For non-cancelable operating leases with scheduled rent increases, the Company recognized rent expense on a straight-line basis over the lease term. Rent expense for the years ended June 30, 2015 and 2014 was increased by approximately $4,000 and $8,000, respectively, related to rent abatement and the amortized portion of the scheduled rent increases.

Total rent expense charged to operations for the years ended June 30, 2015 and 2014 was approximately $280,000 and $229,000, respectively.

Employment Agreement

The Company has an employment agreement with an executive which provides for annual base compensation, health insurance and other fringe benefits, and contains certain confidentiality and non-compete provisions. The agreement expires in March 2016 and provides that in the event the Company terminates their employment without cause, the Company will pay severance.

Legal Proceedings

The Company is subject to claims and litigation arising in the ordinary course of business. Management does not believe that any liability from any reasonably foreseeable disposition of such claims and litigation, individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial statements.

Subsequent Events

The Company has evaluated subsequent events through October 29, 2015, which is the date the consolidated financial statements were available to be issued, and has concluded that no events or transactions took place which would require disclosure herein.