The
Detroit Legal News.
Company

2015
Annual Report

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INDEPENDENT AUDITORS' REPORT

The Stockholders and Board of Directors
The Detroit Legal News Company:
Detroit, MI

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of The Detroit Legal News Company and subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, 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.

Auditors' 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 audits 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 on the auditors' 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 The Detroit Legal News Company and subsidiary as of December 31, 2015 and 2014 and the results of their operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

February 11, 2016

CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014

ASSETS	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents (note 1)	$10,997,196	$ 8,968,706
Accounts receivable— trade, less allowance for doubtful accounts of $239,000 and $252,000 at December 31, 2015 and 2014, respectively (note 10)	3,813,138	5,565,191
Note receivable (note 5)	26,543	—
Inventories (note 2)	351,931	287,657
Prepaid expenses	145,684	179,031
Deferred income taxes	69,000	98,000
Income tax receivable	—	16,601
Total current assets	15,403,492	15,115,186
Property, plant, and equipment (notes 3 and 6)	9,552,057	10,091,884
Less accumulated depreciation	(7,741,022)	(7,964,267)
Net property, plant, and equipment	1,811,035	2,127,617
Goodwill	5,492,000	5,492,000
Note receivable (note 5)	1,007,309	—
Other assets	114,771	112,927
Total assets	$23,828,607	$22,847,730

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 361,094	$ 546,591
Accrued expenses (note 10)	382,035	655,828
Unearned subscriptions	76,882	49,211
Unearned rent	7,523	18,750
Dividends Payable	1,208,160	—
Customer deposits	19,100	24,590
Income taxes payable	132,783	—
Total current liabilities	2,187,577	1,294,970
Deferred income taxes (note 9)	1,081,000	756,000
Total liabilities	3,268,577	2,050,970
STOCKHOLDERS' EQUITY:		
Common stock, $10 par value. Authorized 40,000 shares; issued and outstanding 37,755 shares	377,550	377,550
Additional paid-in capital	135,125	135,125
Retained earnings	15,105,372	15,077,566
Total Detroit Legal News stockholders' equity	15,618,047	15,590,241
Noncontrolling interest	4,941,983	5,206,519
Total stockholders' equity	20,560,030	20,796,760
Total liabilities and stockholders' equity	$23,828,607	$22,847,730

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2015 and 2014

	2015	2014
Net sales (note 10)	$18,272,103	$21,240,095
Cost of sales	9,691,113	11,348,347
Gross profit	8,580,990	9,891,748
Selling, general, and administrative expenses	6,421,868	7,199,671
Operating income	2,159,122	2,692,077
Other income:		
Interest income (note 5)	42,385	4,836
Gain on sale of building (note 5)	1,119,400	—
Loss on disposal of equipment	(6,570)	—
Rental income and other, net (note 6)	150,623	283,128
Total other income	1,305,838	287,964
Income before income taxes and minority interest	3,464,960	2,980,041
Income tax expense (note 9)	917,000	698,000
Net income	2,547,960	2,282,041
Less net income attributable to noncontrolling interest	1,085,464	1,198,178
Net income attributable to Detroit Legal News Company	$ 1,462,496	$ 1,083,863
Basic and diluted earnings per share (note 8)	$ 38.74	$ 28.71

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended December 31, 2015 and 2014

	Common stock	Additional paid-in capital	Retained earnings	Noncontrolling interest	Total stockholders' equity
Balances at December 31, 2013	$ 377,550	$ 135,125	$15,503,903	$ 5,808,341	$21,824,919
Net income	—	—	1,083,863	1,198,178	2,282,041
Dividends declared of $40.00 per common share ($10.00 regular, $30.00 special)	—	—	(1,510,200)	—	(1,510,200)
Distribution to noncontrolling interests	—	—	—	(1,800,000)	(1,800,000)
Balances at December 31, 2014	$ 377,550	$ 135,125	$15,077,566	$ 5,206,519	$20,796,760
Net income	—	—	1,462,496	1,085,464	2,547,960
Dividends declared of $38.00 per common share ($8.00 regular, $30.00 special)	—	—	(1,434,690)	—	(1,434,690)
Distribution to noncontrolling interests	—	—	—	(1,350,000)	(1,350,000)
Balances at December 31, 2015	$ 377,550	$ 135,125	$15,105,372	$ 4,941,983	$20,560,030

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income attributed to Detroit Legal News Company	$1,462,496	$ 1,083,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	314,930	379,880
Loss on sale of fixed assets	6,570	—
Gain on sale of building	(1,119,400)	—
Deferred income taxes	354,000	143,000
Income attributed to noncontrolling interests	1,085,464	1,198,178
Increase (decrease) in allowance for doubtful accounts	(13,000)	(266,000)
Changes in assets and liabilities which increase (decrease) cash flows:		
Accounts receivable-trade	1,765,053	887,885
Inventories	(64,274)	43,417
Income taxes receivable and payable	149,384	(43,719)
Prepaid expenses	33,347	(40,089)
Other assets	(1,844)	92,038
Accounts payable	(185,497)	146,873
Accrued expenses	(273,793)	(1,903)
Other current liabilities	10,954	15,137
Net cash provided by operating activities	3,524,390	3,638,560
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of building	185,548	—
Acquisition of property, plant, and equipment	(104,918)	(315,630)
Net cash used in investing activities	80,630	(315,630)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(226,530)	(1,510,200)
Distributions to noncontrolling interests	(1,350,000)	(1,800,000)
Net cash used in financing activities	(1,576,530)	(3,310,200)
Net increase (decrease) in cash and cash equivalents	2,028,490	12,730
Cash and cash equivalents at beginning of year	8,968,706	8,955,976
Cash and cash equivalents at end of year	$10,997,196	$ 8,968,706
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$ 413,000	$ 552,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2015 and 2014

(1) Summary of Significant Accounting Policies

(a) Description of Business

The Detroit Legal News Company operates in two lines of business. As Inland Press, it produces and sells sheet fed commercial printing, principally to customers located in southeastern Michigan. In addition, the Company's subsidiary Detroit Legal News Publishing, LLC (DLNP), publishes legal newspapers. All newspapers are circulated principally to subscribers in southern Michigan.

Rates charged for the publication of certain legal notices are regulated by the State of Michigan. There were no rate changes in 2015 or 2014.

(b) Principles of Consolidation

The consolidated financial statements include the operations of The Detroit Legal News Company (the Company) and those of its 55%-owned subsidiary, DLNP, a limited liability corporation. All significant intercompany balances and transactions have been eliminated in consolidation. Pursuant to a Member Operating Agreement, the members share in the net profits of DLNP in proportion to their respective ownership percentages.

(c) Cash Equivalents

Cash equivalents consist principally of money market funds with an initial term of less than three months and FDIC insured certificates of deposits with initial terms of less than one year. For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of one year or less to be cash equivalents. The Company maintains certain cash in depository accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

(d) Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience together with individual review for collectability of all accounts with past due balances over 60 days. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(e) Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

(f) Impairment of Long-Lived Assets and Long-Lived Assets Held for Disposal

Long-lived assets, such as property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows, expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. To date no impairment losses have been recognized.

Continued

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Depreciation is computed using straight-line methods over the estimated useful lives of the assets.

(h) Goodwill

Goodwill represents the excess of costs over fair value of assets of businesses acquired. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested annually on December 31st for impairment or more frequently if events and circumstances indicate the asset might be impaired. Intangible assets with finite lives are amortized over their respective estimated useful lives and their estimated residual values and reviewed for impairment.

An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. To date, no impairment losses have been recorded.

(i) Subscription Revenue Recognition

Subscription revenue is recorded as unearned subscriptions at the time of billing and is recognized as sales on a publication basis over the subscription period. Other revenues are recognized at the time services are rendered or upon shipment.

(j) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Uncertain Income Tax Position

The tax effects from an uncertain tax position are recognized in the financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Company believes that no uncertain tax positions were taken during the current year, which would require recording an additional liability.

(l) Use of Estimates

The preparation of the financial statements requires management of the Company to make a number of estimates and assumptions relating to 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 period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill; valuation allowances for receivables, inventories and deferred income tax assets; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

Continued

(m) Subsequent Events

Management has evaluated subsequent events through the date on which the financial statements were available to be issued.

(2) Inventories

Inventories consist of the following at December 31, 2015 and 2014:

	2015	2014
Paper, ink, and plate material	$ 291,108	$ 222,445
Work in process	60,823	65,212
	$ 351,931	$ 287,657

(3) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at December 31, 2015 and 2014:

	2015	2014	Estimated Useful Lives
Land and improvements	$ 190,035	$ 290,035	—
Buildings and improvements	2,049,823	2,242,348	10 to 40 years
Machinery and equipment	7,312,199	7,559,501	3 to 15 years
	$ 9,552,057	$10,091,884	

(4) Line of Credit

The Company has a $3,000,000 line of credit available at the bank's prime rate. This line of credit expires on June 1, 2016. At December 31, 2015 and 2014, no amounts were borrowed under this line of credit.

(5) Gain on Sale of Building

On April 17, 2015, the Company sold certain land and a building to an unrelated party for $1,300,000. The property had an original cost of approximately $226,000 and a carrying value of $100,000. After selling related expenses, the sale of the property resulted in a gain on sale of approximately $1,119,400, which is depicted on the Consolidated Statement of Income.

At closing the Company received $250,000 prior to selling related expenses and entered into a land contract with the purchaser regarding the remaining $1,050,000 balance. The Company received a note for that remaining balance based on a 20 year amortization schedule with terms of 6% interest and a final balloon payment of approximately $899,000 due in May of 2020. In 2015, the Company received approximately $16,000 in principal payments and approximately $39,000 in interest payments related to the land contract. The principal payments due as of December 31, 2015 are shown in the current and non-current sections of the Consolidated Balance Sheets under the title Note receivable. The approximate $39,000 in interest payments are included under the title interest income in the Consolidated Summary of Income. The Company has elected to treat this transaction under the installment method for tax purposes.

Continued

(6) Operating Leases

Prior to the sale of the land and building described in the footnote (5), the Company leased that land and building to an unrelated party. Lease payments derived from that property were approximately $67,000 in 2015 and $206,000 in 2014. Expenses related to this lease were approximately $38,000 in 2015 and $108,000 in 2014.

The Company also owns a parking lot which it leases to an unrelated party. Lease revenues were approximately $56,000 in 2015 and $53,000 in 2014. The current lease expires on December 31, 2016. Lease revenues in 2016 are expected to be approximately $59,000.

On January 2, 2013, the Company entered into a 60 month operating lease with a lessor regarding high end copier equipment. The lease called for monthly payments of approximately $3,700 per month for 60 months. Expenses related to this lease were approximately $44,400 in 2015 and 2014.

DLNP leases various office spaces with an initial three to four year term expiring between 2017 and 2019. Total rent expense associated with these leases for 2015 and 2014 was $177,089 and $175,414, respectively.

Future minimum lease payments for office space under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of December 31, 2015 are:

Year ending December 31:

2016	$ 134,421
2017	124,369
2018	71,614
2019	12,740
Total minimum lease payments	$ 343,144

(7) Defined Contribution Plans

The Company sponsors a 401(k) savings plan which covers substantially all Inland Press employees. The plan is funded by employee contributions through salary reductions. The Company pays all administrative costs of the plan. The Company also funds employer contributions to its defined contribution/401(k) plan for eligible salaried employees. Additional employer contributions are made to the Company's respective union employee's 401(k) accounts as a result of negotiated labor contracts. Total employer contributions for both union and non-union employees totaled $259,089 in 2015 and $351,357 in 2014.

DLNP sponsors a 401(k) savings plan which covers substantially all DLNP employees. The plan is funded by employee contributions through salary reductions. DLNP contributes 3 percent of compensation to the plan for each employee. DLNP contributions were $65,142 in 2015 and $70,000 in 2014. DLNP pays all administrative costs of the plan.

Continued

(8) Basic and Diluted Earnings Per Share

Basic earnings per share (EPS) was computed by dividing net income by 37,755, the weighted average number of shares of common stock outstanding during the year. Diluted EPS would not differ from basic EPS as the Company has no securities or other contracts to issue common stock that would have a potentially dilutive effect on the EPS calculation.

(9) Income Taxes

Income tax expense for the years ended December 31, 2015 and 2014 consists of:

	2015	2014
Current federal income tax	$ 469,000	$ 472,000
Current state and local income tax	94,000	83,000
Deferred taxes	354,000	143,000
	$ 917,000	$ 698,000

Income tax expense as reported differs from the amount computed by applying the U.S. federal income tax rate of 34% for the tax years ended December 31, 2015 and December 31, 2014, to income before income taxes and noncontrolling interest as a result of the following:

	2015	2014
Computed "expected" tax expense	$ 1,178,000	$ 1,013,000
Increase (reduction) in income taxes resulting from:		
Noncontrolling interest in earnings of DLNP	(369,000)	(407,000)
Local income tax, net of federal benefit	62,000	55,000
Other, net	46,000	37,000
Income taxes	$ 917,000	$ 698,000

The tax effects of temporary differences at December 31, 2015 and 2014, that give rise to deferred tax assets and liabilities are presented below:

	2015	2014
Deferred tax assets:		
Accrued vacation pay	$ 34,000	$ 34,000
Allowance for doubtful accounts	52,000	67,000
Inventory	51,000	62,000
Other	11,000	18,000
Total deferred tax assets	148,000	181,000
Deferred tax liabilities:		
Unbilled revenue	54,000	64,000
Accumulated depreciation	267,000	293,000
Prepaid insurance	21,000	19,000
Goodwill	508,000	461,000
Sale of Building	307,000	—
Other	3,000	2,000
Total deferred tax liabilities	1,160,000	839,000
Net deferred tax liability	$ 1,012,000	$ 658,000

Deferred income taxes as recorded in the consolidated balance sheets as of December 31, 2015 and 2014 are as follows:

	2015	2014
Current assets	$ 69,000	$ 98,000
Long-term liability	(1,081,000)	(756,000)
Total	$(1,012,000)	$ (658,000)

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

The Company is subject to taxation in various jurisdictions. The Company continues to remain subject to examination by U.S. federal authorities for the years 2012 through 2015 and for State authorities for the years 2011 through 2015. Management believes that all tax positions taken on the Company's returns during the years that remain open to examination would more likely than not be sustained under examination by federal and state authorities. Accordingly, the Company has not recorded any liability for unrecognized tax benefits related to certain tax positions taken on its various income tax returns. Interest and penalties related to income tax liabilities, if, and when applicable, would be included as a component of income tax expense in the accompanying statements of income.

(10) Related Party Transactions

In the past, DLNP has sold advertising space for legal notices to an entity related to one of its noncontrolling members, pursuant to an exclusivity agreement with that entity. As of the end of 2014, the noncontrolling member is no longer related to that entity. The consolidated financial statements include sales to this noncontrolling member's former entity of approximately $4,109,000 and $4,460,000 in 2015 and 2014, respectively and related accounts receivable of approximately $1,075,000 and $1,235,000 at December 31, 2015 and 2014, respectively.

An exclusivity agreement between DLNP and the entity formerly related to one of DLNP's noncontrolling members remains in effect by its terms until that noncontrolling member or any successor entity, is no longer a member of DLNP.

Accrued expenses related to a consulting agreement with a DLNP member (see note 11), were $0 and approximately $158,000 at December 31, 2015 and 2014, respectively.

(11) Commitments and Contingencies

On November 30, 2005, an entity wholly owned by Dolan Media Inc. purchased a 35% minority interest in DLNP from existing DLNP minority members. Detroit Legal News maintains a 55% ownership in DLNP. Concurrently with the transaction, the members entered into a new Member Operating Agreement. In accordance with the terms of the new Member Operating Agreement, any DLNP member may exercise a "shootout" provision on a date within 60 days prior to November 30, 2011 and each November 30th after that, by declaring a value for DLNP as a whole. If this were to occur, each of the remaining DLNP members must decide whether it is a buyer of that member's interest or a seller of its own interest in DLNP at this declared value. At that time, the Company's management may deem it prudent to exercise its option to purchase the interest of one or both of the remaining DLNP members. Should this be the case, the Company may be required to seek additional funding. No party exercised its "shoot out" provision in 2015 or 2014.

Unless otherwise agreed to by the members, the Member Operating Agreement provides for mandatory quarterly cash distributions by DLNP of excess cash, additional distributions as deemed appropriate by the DLNP Board of Directors, and distributions to pay income taxes caused by DLNP taxable income. No distribution shall be declared or made if, after giving it effect, DLNP would not be able to pay its debts as they become due in the usual course of business or DLNP's total assets would be less than the sum of its total liabilities.

Concurrent with the above described, DLNP entered into a multi-year consulting agreement with a member which requires annual fees at the lesser of $500,000 or 7% of DLNP's net income, as defined. DLNP is also required to purchase and maintain certain key man life insurance during the term of the agreement. The amount of the annual premium on the policy shall be paid by DLNP, but deducted from the compensation due the member. This consulting agreement along with future annual fees was terminated as of December 31, 2014. (note 10).

NOTES

NOTES

DIRECTORS

BRADLEY L. THOMPSON II, *Chairman and President*
(term expires April, 2016)

RICHARD E. RASSEL, *Secretary*
(term expires April, 2018)

BURTON D. FARBMAN
(term expires April, 2017)

STEPHEN B. FOWLER
(term expires April, 2017)

LESLIE A. MURPHY
(term expires April, 2018)

RONALD J. PALMER
(term expires April, 2016)

ROBERT V. PETERSON
(term expires April, 2018)

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