



REVIEWED FINANCIAL STATEMENTS

As of and for the three months ended
June 30, 2016 and 2015

THE MARKETING ALLIANCE, INC.

TABLE OF CONTENTS

	Page
Independent Auditor's Review Report	1
Financial Statements	
Consolidated Balance Sheets as of June 30, 2016 and 2015	2
Consolidated Statements of Operations for the three months ended June 30, 2016 and 2015	3
Consolidated Statements of Shareholders' Equity for the three months ended June 30, 2016 and 2015	4
Consolidated Statements of Cash Flows for the three months ended June 30, 2016 and 2015	5
Notes to Consolidated Financial Statements	6

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 June 30, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity and cash flows for the three months 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
September 8, 2016

THE MARKETING ALLIANCE, INC.
CONSOLIDATED BALANCE SHEETS
As of June 30, 2016 and 2015
Unaudited – See Independent Auditor’s Review Report

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,786,592	\$ 5,690,621
Investments	6,041,042	5,705,269
Accounts receivable	7,758,435	8,260,918
Inventory	130,487	27,994
Current portion of notes receivable	254,352	603,337
Prepaid expenses	300,165	340,868
Prepaid income taxes	589,838	1,374,502
Total current assets	<u>20,860,911</u>	<u>22,003,509</u>
PROPERTY AND EQUIPMENT, net	<u>2,983,203</u>	<u>1,711,891</u>
OTHER ASSETS		
Notes receivable, net of current portion	806,027	553,488
Deposits and other assets	162,474	208,895
Goodwill	973,900	613,200
Intangible assets, net	476,929	343,649
Total other assets	<u>2,419,330</u>	<u>1,719,232</u>
	<u>\$ 26,263,444</u>	<u>\$ 25,434,632</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 6,040,862	\$ 7,344,792
Lines of credit payable	2,750,000	3,800,000
Current portion of notes payable	1,148,380	600,000
Current portion of deferred lease incentive	30,240	-
Total current liabilities	<u>9,969,482</u>	<u>11,744,792</u>
LONG-TERM LIABILITIES		
Notes payable	3,945,772	750,000
Deferred taxes	461,700	415,100
Long term portion of deferred lease incentive	325,051	-
Interest rate swap liability	127,455	6,786
Total long-term liabilities	<u>4,859,978</u>	<u>1,171,886</u>
Total liabilities	<u>14,829,460</u>	<u>12,916,678</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, 7,028,233 shares issued and outstanding	903,023	903,023
Retained earnings	10,530,961	11,614,931
Total shareholders' equity	<u>11,433,984</u>	<u>12,517,954</u>
	<u>\$ 26,263,444</u>	<u>\$ 25,434,632</u>

See notes to consolidated financial statements.

THE MARKETING ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended June 30, 2016 and 2015
Unaudited—See Independent Auditor’s Review Report

	Three Months Ended June 30,	
	2016	2015
Commission revenue	\$ 4,816,240	\$ 5,724,543
Family entertainment revenue	1,277,428	716,501
Construction revenue	136,001	299,210
Other revenue	42,000	4,900
Total revenues	<u>6,271,669</u>	<u>6,745,154</u>
Distributor related expenses:		
Distributor bonuses and commissions	3,316,060	4,219,782
Business processing and distributor costs	359,738	438,043
Depreciation	2,626	2,740
	<u>3,678,424</u>	<u>4,660,565</u>
Costs of construction:		
Direct and indirect costs of construction	78,294	194,917
Depreciation	84,297	87,404
	<u>162,591</u>	<u>282,321</u>
Family entertainment costs of revenue:	<u>296,191</u>	<u>195,086</u>
Total costs of revenues	<u>4,137,206</u>	<u>5,137,972</u>
Net operating revenue	<u>2,134,463</u>	<u>1,607,182</u>
General and administrative expenses:		
Compensation	884,330	664,215
Administrative and other	189,875	143,716
Rent and occupancy	400,473	217,882
Professional fees	112,467	129,064
Technology	68,771	67,359
Insurance	125,349	100,005
Travel and meetings	37,650	64,899
Depreciation and amortization	204,337	103,129
Payroll related	65,210	41,627
Office	173,860	134,003
Licenses and dues	1,478	2,004
Postage	10,478	11,062
Telephone	14,212	12,429
Bad debt recoveries	-	(12,500)
Telemarketing, advertising and promotional	3,352	4,548
Total general and administrative expenses	<u>2,291,842</u>	<u>1,683,442</u>
Operating loss	<u>(157,379)</u>	<u>(76,260)</u>
Other income (expense):		
Investment gain, net	275,320	5,484
Interest expense	(52,772)	(31,441)
Interest rate swap settlement expense	(14,772)	(3,220)
Interest rate swap, fair value adjustment	(21,512)	1,980
Income (loss) before provision for income taxes (benefit)	<u>28,885</u>	<u>(103,457)</u>
Provision for income taxes (benefit)	<u>9,887</u>	<u>(43,038)</u>
Net income (loss)	<u>\$ 18,998</u>	<u>\$ (60,419)</u>

See notes to consolidated financial statements.

THE MARKETING ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended June 30, 2016 and 2015
Unaudited – See Independent Auditor's Review Report

	<u>Common Stock</u>		<u>Retained</u>	<u>Total</u>
	<u>Shares (a)</u>	<u>Amount</u>	<u>Earnings</u>	
Balances at April 1, 2015	7,028,233	\$903,023	\$11,675,350	\$12,578,373
Net (loss)	<u>-</u>	<u>-</u>	<u>(60,419)</u>	<u>(60,419)</u>
Balance at June 30, 2015	<u>7,028,233</u>	<u>\$903,023</u>	<u>\$11,614,931</u>	<u>\$12,517,954</u>
Balances at April 1, 2016	7,028,233	\$903,023	\$10,511,963	\$11,414,986
Net income	<u>-</u>	<u>-</u>	<u>18,998</u>	<u>18,998</u>
Balance at June 30, 2016	<u>7,028,233</u>	<u>\$903,023</u>	<u>\$10,530,961</u>	<u>\$11,433,984</u>

(a) Amounts have been retrospectively adjusted for the 7 for 6 stock split effective August 21, 2015.

THE MARKETING ALLIANCE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended June 30, 2016 and 2015
Unaudited – See Independent Auditor’s Review Report

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 18,998	\$ (60,419)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	291,260	193,273
Realized and unrealized investment (gains) losses	(243,358)	13,354
Deferred taxes	32,400	(60,500)
Amortization of deferred lease incentive	(7,559)	-
Interest rate swap adjustment	21,512	(1,980)
Reimbursement from landlord of leasehold incentive	362,850	-
Changes in operating assets and liabilities:		
Accounts receivable	629,503	(10,829)
Inventory	(85,770)	(9,880)
Prepaid expenses and other assets	105,359	(806,815)
Deposits and other assets	-	(41,936)
Accounts payable and accrued expenses	(632,490)	950,804
Net cash provided by operating activities	<u>492,705</u>	<u>165,072</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(148,953)	(33,090)
Proceeds from sale of property and equipment	14,253	-
Proceeds from sale of investments	131,348	148,748
Purchases of investments	(126,810)	(460,972)
Principal payments received on promissory notes	40,986	52,418
Advances under promissory notes	-	(10,000)
Net cash used in investing activities	<u>(89,176)</u>	<u>(302,896)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings under lines of credit	150,000	300,000
Repayments on long-term debt	(302,193)	(150,000)
Net cash (used in) provided by financing activities	<u>(152,193)</u>	<u>150,000</u>
Change in cash and cash equivalents	251,336	12,176
Cash and cash equivalents, beginning of period	<u>5,535,256</u>	<u>5,678,445</u>
Cash and cash equivalents, end of period	<u>\$ 5,786,592</u>	<u>\$ 5,690,621</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION		
Cash paid during the period for:		
Interest	<u>\$ 49,531</u>	<u>\$ 31,072</u>

See notes to consolidated financial statements.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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.

The Company, through nine subsidiaries, provides family entertainment in Florida, Illinois, Missouri and North Carolina under the name “Monkey Joes.”

The Company, through a subsidiary, provides 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:

<u>Entity</u>	<u>Year operations began</u>
TMA Marketing, Inc. (“Marketing”)	2004
Empire Construction and Trenching (“Empire”)	2011
TMA Technologies, Inc. (“Technologies”)	Inactive
Felton McCrary Brokerage, Inc. (“Felton”)	Inactive
TMA Play MO, Inc.	2012
TMA Play IL, Inc.	2012
TMA Realty, Inc. (“Realty”)	2014
TMA Play Sunrise, Inc.	2015
TMA Play Pines, Inc.	2015
TMA Play Gastonia, Inc.	2015
TMA Play Pineville, Inc.	2015
TMA Play University Inc.	2015
TMA Play Matthews, Inc.	2015
TMA Play Rivers, Inc.	2016

All significant intercompany accounts and transactions have been eliminated.

Revenue recognition:

Commission income from insurance companies, including production bonuses and deferred first year commissions, is recorded as of the effective date of coverage. Contingent commissions are recognized when the performance threshold has been met and is not subject to reversal.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Revenue recognition: (Continued)

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. 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.

Monkey Joes revenues are generated principally through admissions and concessions sales with proceeds received in cash or via credit card at the point of sale. Revenues related to gift cards and discount tickets are recognized when redeemed, or when the likelihood of redemption becomes remote. The determination of the likelihood of redemption is based on an analysis of actual historical redemption trends.

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 of drainage tile raw materials used by Empire, and food, beverages, merchandise, paper products and other supplies used in the Monkey Joes business.

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 statements 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 are determined based on assumptions that market participants would use in pricing an asset or liability.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Fair value measurements: (continued)

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 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.

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.

Interest rate swap agreement:

The Company enters 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 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, March 2018 and October 2022.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 swaps outstanding are considered free standing derivatives and are not designed as hedges.

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 40 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 June 30, 2016 and 2015, no allowance was deemed necessary.

Goodwill and purchased intangible assets:

The Company's methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the cost of the acquisition over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. The Company assigns assets acquired (including goodwill) and liabilities assumed as of the date of acquisition.

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment. The Company regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends and lower projections of profitability that may impact future operating results.

The Company amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

Goodwill and purchased intangible assets: (Continued)

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. The Company assesses the fair value of the assets based on the amount of the undiscounted future cash flow that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of an asset, plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When the Company identifies an impairment, it reduces the carrying value of the group of assets to comparable market values, when available and appropriate, or to its estimated fair value based on a discounted cash flow approach.

Intangible assets are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. The Company evaluates the useful lives of its intangible assets each reporting period to determine whether events and circumstances require revising the remaining period of amortization.

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 2015 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 September 8, 2016, the date the financial statements were available for issuance.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 — INVESTMENTS

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

	June 30, 2016			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stocks	\$ 3,586,600	\$ 925,521	\$ 424,286	\$ 4,087,835
Preferred stocks	307,019	18,340	489	324,870
Fixed income securities	325,121	28,434	100,000	253,555
Mutual funds	70,791	-	23,201	47,590
Limited partnerships	650,000	691,714	14,522	1,327,192
	<u>\$ 4,939,531</u>	<u>\$ 1,664,009</u>	<u>\$ 562,498</u>	<u>\$ 6,041,042</u>
	June 30, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Common stocks	\$ 3,105,710	\$ 787,894	\$ 329,233	\$ 3,564,371
Preferred stocks	477,353	18,459	1,669	494,143
Fixed income securities	225,145	29,354	-	254,499
Mutual funds	65,669	-	15,682	49,987
Limited partnership	650,000	692,269	-	1,342,269
	<u>\$ 4,523,877</u>	<u>\$ 1,527,976</u>	<u>\$ 346,584</u>	<u>\$ 5,705,269</u>

Proceeds from the sale of investments were \$175,524 for the three months ended June 30, 2016, resulting in gross realized gains of \$14,824 and gross realized losses of \$15,381 for the three months ended June 30, 2016.

Proceeds from the sale of investments were \$148,748 for the three months ended June 30, 2015, resulting in gross realized gains of \$28,503 and gross realized losses of \$17,023 for the three months ended June 30, 2015.

Investments are pledged as collateral pursuant to margin agreements entered into by the Company. No amounts were outstanding at June 30, 2016 and 2015 under the margin agreements.

Net investment income for the three months ended June 30, 2016 and 2015 is as follows:

	2016	2015
Interest and dividend income	\$ 46,763	\$ 45,398
Realized (losses) gains on investments, net	(557)	11,480
Unrealized gains (losses) on investments, net	243,915	(24,834)
Investment management fees	(14,801)	(26,560)
Net investment income	<u>\$ 275,320</u>	<u>\$ 5,484</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 2 — INVESTMENTS (Continued)

In connection with notes receivable due from a private company, the Company received two 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. 150,000 warrants expired June 18, 2016 and 150,000 warrants can be exercised at any time through May 31, 2017. The fair value of the warrants was determined to be zero at both the date of receipt and June 30, 2016.

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 June 30, 2016 and 2015:

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 and 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 daily closing price as reported by the fund.

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.

Warrants: Warrants are valued using a Black-Scholes model employing estimated share values, interest rates, volatility and term.

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 MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 — FAIR VALUE MEASUREMENTS (Continued)

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 June 30, 2016:

Investments	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 3,516,745	\$ 538,650	\$ 32,440	\$ 4,087,835
Preferred stock	324,870	-	-	324,870
Fixed income	153,555	-	100,000	253,555
Mutual funds	47,590	-	-	47,590
Limited partnerships	-	-	1,327,192	1,327,192
Total assets at fair value	<u>\$ 4,042,760</u>	<u>\$ 538,650</u>	<u>\$ 1,459,632</u>	<u>\$ 6,041,042</u>
Interest Rate Swap Liability	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	\$ -	\$ 127,455	\$ -	\$ 127,455
Total interest rate swap	<u>\$ -</u>	<u>\$ 127,455</u>	<u>\$ -</u>	<u>\$ 127,455</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 June 30, 2016:

Investments	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Common stocks	\$ 3,226,729	\$ 297,000	\$ 40,642	\$ 3,564,371
Preferred stock	494,143	-	-	494,143
Fixed income	154,499	-	100,000	254,499
Mutual funds	49,987	-	-	49,987
Limited partnership	-	-	1,342,269	1,342,269
Total assets at fair value	<u>\$ 3,925,358</u>	<u>\$ 297,000</u>	<u>\$ 1,482,911</u>	<u>\$ 5,705,269</u>
Interest Rate Swap Liability	Liabilities at Fair Value			
	Level 1	Level 2	Level 3	Total
Interest Rate Swap	\$ -	\$ 6,786	\$ -	\$ 6,786
Total interest rate swap	<u>\$ -</u>	<u>\$ 6,786</u>	<u>\$ -</u>	<u>\$ 6,786</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 — FAIR VALUE MEASUREMENTS (Continued)

The following is a roll-forward of Level 3 fair value instruments for the three months ended June 30, 2016 and 2015:

	<u>Limited Partnership Interests</u>	<u>Common Stocks</u>	<u>Fixed Income</u>
Balance, April 1, 2016	\$ 1,236,187	\$ 23,440	\$ 100,000
Unrealized gain relating to instruments still held at the reporting date	91,005	-	-
Purchases	-	9,000	-
Balance, June 30, 2016	<u>\$ 1,327,192</u>	<u>\$ 32,440</u>	<u>\$ 100,000</u>
Balance, April 1, 2015	\$ 1,407,933	\$ 40,642	\$ 100,000
Unrealized loss relating to instruments still held at the reporting date	(65,664)	-	-
Purchases	-	-	-
Balance, June 30, 2015	<u>\$ 1,342,269</u>	<u>\$ 40,642</u>	<u>\$ 100,000</u>

Quantitative information about Level 3 Fair Value Investments:

	<u>Fair Value at June 30, 2016</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>
Fixed income securities	\$100,000	Discounted expected cash flows	Probability of default (50%) Discount rate 4.5%
Private equity investments	\$32,440	Conversion rate of recent private transactions	Recent private transaction rate
Limited partnership investments	\$1,327,192	See (A) below	See (A) below

(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.

The nature and risk of certain investments by major category at June 30, 2016 are presented as follows:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Provisions</u>
Limited Partnerships	\$ 1,327,192	\$50,000	Quarterly with 30 days notice

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 3 — FAIR VALUE MEASUREMENTS (Continued)

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.

NOTE 4 — ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Commissions receivable	\$ 1,214,822	\$ 1,549,380
Deferred first year commissions	6,019,770	5,899,340
Construction receivables	31,338	208,203
Other	492,505	603,995
	<u>\$ 7,758,435</u>	<u>\$ 8,260,918</u>

NOTE 5 — NOTES RECEIVABLE

Notes receivable at June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Distributor notes receivable, receivable in aggregate monthly installments of approximately \$18,900 including interest at rates ranging from 2.25% to 5.50% per annum, final maturity in March 2022. 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.	\$ 1,060,379	\$ 1,156,825
Less current portion	<u>254,352</u>	<u>603,337</u>
Long-term portion	<u>\$ 806,027</u>	<u>\$ 553,488</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 5 — NOTES RECEIVABLE (Continued)

Estimated future principal payments to be received as of June 30, 2016 are as follows:

2017	\$ 254,352
2018	203,363
2019	146,807
2020	130,888
2021	274,036
Thereafter	<u>50,933</u>
	<u><u>\$1,060,379</u></u>

NOTE 6 — INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill changes are as follows for each of the three months ended June 30:

	Beginning Balance, April 1, 2016	Additions	Deletions	Ending Balance, June 30, 2016
Covenants Not To Compete	\$571,408	\$ -	\$ -	\$ 571,408
Franchise Agreements	475,000	-	-	475,000
Amortization	<u>(518,304)</u>	<u>(51,175)</u>	<u>-</u>	<u>(569,479)</u>
	<u>\$528,104</u>	<u>\$ (51,175)</u>	<u>\$ -</u>	<u>\$ 476,929</u>
Goodwill	<u>\$973,900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 973,900</u>

	Beginning Balance, April 1, 2015	Additions	Deletions	Ending Balance, June 30, 2015
Covenants Not To Compete	\$451,808	\$ -	\$ -	\$ 451,808
Franchise Agreements	272,300	-	-	272,300
Amortization	<u>(346,302)</u>	<u>(34,157)</u>	<u>-</u>	<u>(380,459)</u>
	<u>\$377,806</u>	<u>\$ (34,157)</u>	<u>\$ -</u>	<u>\$ 343,649</u>
Goodwill	<u>\$613,200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 613,200</u>

Amortization expense for the three months ended June 30, 2016 was \$51,175. Amortization expense for the three months ended June 30, 2015 was \$34,157.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 6 — INTANGIBLE ASSETS AND GOODWILL (Continued)

Estimated amortization for the next five years is as follows:

2017	\$ 182,518
2018	123,639
2019	59,742
2020	37,468
2021	37,468
Thereafter	36,094
	<u>\$476,929</u>

NOTE 7 — PROPERTY AND EQUIPMENT

Net property and equipment is comprised of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Office equipment, furniture and fixtures	\$ 3,391,078	\$ 2,240,147
Construction equipment	1,643,420	1,711,100
Building	216,000	216,000
Leasehold improvements	975,142	30,489
Land	29,604	29,604
	<u>6,255,244</u>	<u>4,227,340</u>
Less accumulated depreciation	<u>3,272,041</u>	<u>2,515,449</u>
	<u>\$ 2,983,203</u>	<u>\$ 1,711,891</u>

Depreciation expense was \$240,085 for the three months ended June 30, 2016. Depreciation expense was \$159,116 for the three months ended June 30, 2015.

NOTE 8 — LINES OF CREDIT

The Company has four 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%, resulting in a rate of 4.47% at June 30, 2016, and is collateralized by all accounts receivable, inventory and property and equipment. The credit facility contains both financial and non-financial covenants and matures September 30, 2016. At June 30, 2016, \$2,250,000 was outstanding. At June 30, 2015, \$2,500,000 was outstanding.

Under a second line of credit, the Company has available a \$750,000 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 June 30, 2016 is 3.50%, resulting in a rate of 3.75%. The note is due on demand. At June 30, 2016 and 2015, \$500,000 and \$400,000 were outstanding, respectively.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 8 — LINES OF CREDIT (Continued)

Under the third line of credit, the Company has available a \$1,000,000 demand grid note credit facility. Borrowings under the note bear interest at prime plus one quarter percent (3.75% at June 30, 2016) and are due on demand. The credit facility is subject to an annual review by the lender. At June 30, 2016, no amount was outstanding. At June 30, 2015, \$900,000 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 1.5% (with a floor of 4.75%) (5% at June 30, 2016) 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 June 30, 2016 and 2015, no amounts were outstanding.

NOTE 9 — ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Accounts payable	\$ 188,505	\$ 197,742
Technology benefits	259,161	359,964
Distributor commissions	1,418,158	1,643,704
Deferred first year commissions	3,137,284	3,283,977
Accrued compensation	620,194	418,746
Other	417,560	1,440,659
	<u>\$6,040,862</u>	<u>\$7,344,792</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 June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Current	\$ (22,513)	\$ 17,462
Deferred	32,400	(60,500)
	<u>\$ 9,887</u>	<u>\$ (43,038)</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 10 — INCOME TAXES (Continued)

Deferred tax assets and liabilities at June 30, 2016 and 2015 were attributable to the following:

	<u>2016</u>	<u>2015</u>
Deferred Tax Assets:		
Stock appreciation compensation	\$ 178,600	\$ 142,000
Intangible assets	96,100	65,700
Other	25,200	13,000
Impairment on investment other than temporary	36,100	36,100
	<u>336,000</u>	<u>256,800</u>
Total gross deferred tax assets		
Deferred Tax Liabilities:		
Unrealized gains on investments	(300,400)	(253,000)
Property and equipment	(497,300)	(418,900)
	<u>(797,700)</u>	<u>(671,900)</u>
Total gross deferred tax liabilities		
Total deferred taxes	<u>\$ (461,700)</u>	<u>\$ (415,100)</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 three months ended June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
Tax at federal statutory rate	\$ 9,195	32%	\$ (35,175)	34%
State income taxes	838	3%	(3,233)	3%
Other	(146)	-1%	(4,630)	-1%
	<u>\$ 9,887</u>	<u>34%</u>	<u>\$ (43,038)</u>	<u>36%</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 11 — LONG-TERM DEBT

Long-term debt as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Note payable to a bank, payable in 84 monthly principal payments ranging from \$50,731 to \$62,717 a month plus interest, payments commenced on November 30, 2015. The interest rate on the note is 2% plus BBA LIBOR (4.47% at June 30, 2016). The note matures on October 31, 2022. The note is collateralized by all deposits at the bank, accounts receivable, inventory and property and equipment and contains both financial and non-financial covenants.	\$4,344,152	\$ -
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 (4.47% at June 30, 2016). 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.	200,000	500,000
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 (4.47% at June 30, 2016). 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.	<u>550,000</u>	<u>850,000</u>
Total	5,094,152	1,350,000
Less current portion	<u>1,148,380</u>	<u>600,000</u>
Long-term portion	<u>\$ 3,945,772</u>	<u>\$ 750,000</u>

Future principal maturities at June 30, 2016 are as follows:

<u>Period ending June 30,</u>	
2017	\$1,148,380
2018	870,812
2019	669,048
2020	693,116
2021	718,056
Thereafter	<u>994,740</u>
	<u>\$5,094,152</u>

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 12 — SHAREHOLDERS' EQUITY.

In July 2015, the Board of Directors declared a stock split of 7 shares for every 6 shares held by the shareholders of record on August 21, 2015, payable on September 25, 2015. As a result, each shareholder received one new share of common stock for every six shares of common stock held as of the record date. All share amounts outstanding prior to August 21, 2015 have been retroactively adjusted for this split.

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, Fairview Heights, Sunrise, Pembroke Pines, Gastonia, Charlotte, Pineville, Matthews and Cottleville 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 annual minimum lease payments required under these operating leases at June 30, 2016 are as follows:

	<u>Facilities</u>	<u>Office Equipment</u>	<u>Total</u>
2016	\$1,159,668	\$ 38,200	\$1,197,868
2017	1,057,886	28,673	1,086,559
2018	925,750	7,189	932,939
2019	686,177	-	686,177
2020	695,960	-	695,960
Thereafter	<u>2,570,837</u>	<u>-</u>	<u>2,570,837</u>
	<u>\$7,096,278</u>	<u>\$ 74,062</u>	<u>\$7,170,340</u>

Rent expense for facilities approximated \$371,300 and \$208,200 for the three months ended June 30, 2016 and 2015, respectively. Rent expense for office equipment approximated \$11,200 and \$18,700 for the three months ended June 30, 2016 and 2015, respectively. A substantial portion of the office equipment operating leases is classified as distributor related expenses in the accompanying consolidated statement of operations.

In connection with one of its leases, the Company received \$362,850 from its landlord to pay for leasehold improvements. This lease incentive is being amortized on a straight-line basis over the life of the lease as a reduction to rent expense. The lease expires in March, 2028.

NOTE 14 — CONCENTRATIONS

During the three months ended June 30, 2016, the Company derived approximately 61% of its commission income from three insurance carriers. During the three months ended June 30, 2015, the Company derived approximately 62%, of its commission income from three insurance carriers.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

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 \$15,600 and \$15,100 for the three months ended June 30, 2016 and 2015, respectively.

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. The liability under the plan was approximately \$495,200 and \$393,700 at June 30, 2016 and 2015, respectively.

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 \$129,000 for the three months ended June 30, 2016 and \$118,600 for the three months ended June 30, 2015.

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.

THE MARKETING ALLIANCE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE 17 — BUSINESS COMBINATION

Monkey Joes

On September 2, 2015 and December 1, 2015, the Company acquired the assets of four Monkey Joe's franchises through a series of agreements and transactions. The Company made the acquisitions in order to diversify its business. The total purchase price for the four locations combined was \$1,275,000. The franchises are located in Gastonia, North Carolina, Pineville, North Carolina, Charlotte, North Carolina and Matthews, North Carolina. The franchise for the Gastonia area was effective in December 2012 and the franchises for the Pineville, Charlotte and Matthews areas were effective in November 2011. All agreements are for initial terms of 10 years with the option to renew for 10 years each with the payment of the then current franchise fee. In connection with the transfer of the franchise agreements, the Company was required to pay transfer fees totaling \$20,000 which were capitalized as part of the cost of the franchise agreements.

The following table summarizes the fair value of identifiable assets and liabilities acquired in the business combination, and related intangible assets as of the acquisition date:

	<u>Amount</u>
Equipment	\$ 272,000
Leasehold Improvements	360,000
Franchise Agreements	182,700
Covenant Not To Compete	119,600
Goodwill	<u>360,700</u>
Value of Assets Acquired	<u>\$ 1,295,000</u>

The covenants not to compete are being amortized over 36 months from the closing dates (September 2, 2015 and December 1, 2015). The franchise agreements are being amortized over their remaining lives. As of the date of acquisition the remaining lives for the franchise agreements ranged from 73 to 86 months.

In connection with the asset acquisition the Company entered into four lease obligations for property that will result in total payments of approximately \$3,530,000. The Matthews lease expires in September 2017 and the other three leases expire in September 2025.