Anacomp, Inc.

Consolidated Financial Statements

Years Ended September 30, 2015 and 2014

Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

Contents

Mayer Hoffman McCann P.C.
An Independent CPA Firm

10616 Scripps Summit Court
San Diego, California 92131
858-795-2000 ph
858-795-2001 fx
www.mhmcpa.com

Independent Auditors' Report

To the Board of Directors and Stockholders of
Anacomp, Inc.
San Diego, California

We have audited the accompanying consolidated financial statements of **Anacomp, Inc.** (a Delaware corporation), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 **Anacomp, Inc.** as of September 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

San Diego, California
June 22, 2016

ANACOMP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

Assets	***September 30, 2015***	*September 30, 2014*
Current assets:		
Cash and cash equivalents	**$ 5,340**	$ 4,776
Accounts receivable, net of allowance for doubtful accounts of $0, in both periods	**1,120**	1,301
Restricted short-term certificates of deposit	**60**	300
Prepaid expenses and other current assets	**126**	133
Total current assets	**6,646**	6,510
Property and equipment, net	**590**	338
Other assets	**42**	42
Pension assets	**4,659**	5,385
Total Assets	**$ 11,937**	$ 12,275
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 89**	$ 91
Accrued compensation, benefits and withholdings	**305**	248
Other accrued liabilities	**228**	72
Current portion of long-term promissory note, net of debt discount	**1,197**	2,014
Current portion of capital lease obligations	**47**	99
Total current liabilities	**1,866**	2,524
Capital lease obligations, less current portion	**184**	9
Long-term promissory note, net of debt discount	**532**	511
Pension obligation	**7,619**	8,788
Total Liabilities	**10,201**	11,832
Stockholders' Equity:		
Common stock, $.000001 par value; 10,000,000 shares authorized; 3,702,510 shares issued and outstanding at September 30, 2015 and 2014	**-**	-
Additional paid-in capital	**94,082**	94,016
Accumulated other comprehensive loss	**(1,596)**	(2,025)
Accumulated deficit	**(90,750)**	(91,548)
Total Stockholders' Equity	**1,736**	443
Total Liabilities and Stockholders' Equity	**$ 11,937**	$ 12,275

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

ANACOMP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands)

Years Ended September 30,	**2015**	2014
Revenues	**$ 9,766**	$ 7,509
Cost of revenues	**5,602**	4,630
Gross profit	**4,164**	2,879
Operating expenses:		
Selling, general and administrative	**3,235**	2,003
Income from operations	**929**	876
Other income (expense):		
Interest income	**1**	1
Amortization of debt discount	**(129)**	(107)
Interest expense	**(2)**	(2)
Income before income taxes	**799**	768
Income tax provision	**(1)**	(4)
Net income	**$ 798**	$ 764

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

ANACOMP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

Years Ended September 30,	**2015**	2014
Net income	**$ 798**	$ 764
Other comprehensive loss:		
Reduction in minimum pension liability	**45**	(659)
Translation adjustment	**384**	226
Comprehensive income	**$ 1,227**	$ 331

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

ANACOMP, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands, except share amounts)

	Common Stock		Additional	Accumulated Other	Accumulated	
	Shares	Amount	Paid-in Capital	Comprehensive Income	Deficit	Total
SEPTEMBER 30, 2013	3,702,510	$ -	$ 93,896	$ (1,592)	$ (92,312)	$ (8)
Net income	-	-	-	-	764	764
Stock-based compensation	-	-	120	-	-	120
Additional minimum pension liability	-	-	-	(659)	-	(659)
Translation adjustment	-	-	-	226	-	226
SEPTEMBER 30, 2014	3,702,510	$ -	$ 94,016	$ (2,025)	$ (91,548)	$ 443
Net income	-	-	-	-	798	798
Stock-based compensation	-	-	66	-	-	66
Reduction in minimum pension liability	-	-	-	45	-	45
Translation adjustment	-	-	-	384	-	384
SEPTEMBER 30, 2015	3,702,510	$ -	$ 94,082	$ (1,596)	$ (90,750)	$ 1,736

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

ANACOMP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Years Ended September 30,

	2015	2014
Cash flows from operating activities:		
Net income	**$ 798**	$ 764
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**208**	217
Net amortization of debt discount	**129**	107
Stock-based compensation	**66**	120
Changes in assets and liabilities:		
Accounts receivables	**181**	(102)
Restricted short-term certificates of deposit	**240**	-
Prepaid expenses and other assets	**9**	239
Accounts payable	**(1)**	(12)
Accrued compensation, benefits and withholdings	**59**	57
Pension obligation	**(16)**	-
Other accrued liabilities	**154**	(157)
Net cash provided by operating activities	**1,827**	1,233
Cash flows from investing activities:		
Purchases of property and equipment	**(226)**	(247)
Net cash used in investing activities	**(226)**	(247)
Cash flows from financing activities:		
Principal payments on promissory note	**(925)**	(655)
Principal payments on capital lease obligations	**(110)**	(134)
Net cash used in financing activities	**(1,035)**	(789)
Effect of exchange rate changes on cash and cash equivalents	**(2)**	-
Increase in cash and cash equivalents	**564**	197
Cash and cash equivalents at beginning of year	**4,776**	4,579
Cash and cash equivalents at end of year	**$ 5,340**	$ 4,776
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	**$ 3**	$ 2
Taxes	**$ 26**	$ 5

Non-Cash Investing and Financing Activities:

During the year ended September 30, 2015, the Company agreed to pay a convenience fee of approximately $175 in relation to an amendment to the promissory note entered into during 2015 (see Note 4).

During the year ended September 30, 2014, the Company agreed to pay approximately $11 in additional principal on its promissory note in relation to an amendment entered into during 2014 (see Note 4).

During the years ended September 30, 2015 and 2014, the Company acquired approximately $233 and $117, respectively, of property and equipment under capital lease arrangements (see Note 11).

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

NOTE 1.
ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

Description of Business

Anacomp®, Inc. (the "Company"), was incorporated in the State of Delaware on March 20, 2013, which was the result of a merger with Anacomp®, Inc, a State of Indiana corporation as of April 16, 1968. The purpose of the merger was to change the Company's state of incorporation from Indiana to Delaware and to change the authorized amount of common stock and preferred stock available to be issued. The Company's primary offices and operations are in San Diego, California and Chantilly, Virginia.

The Company provides its customers with document and information capture, conversion, retention, and business process management through the Company's on-demand delivery infrastructure in their document management centers or as a customized on-site solution.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates include the allowance for doubtful accounts receivable, the amounts to be paid to settle contingent liabilities, if any, the assumptions used to determine the valuation allowance on deferred tax assets and assumptions used in the application of fair value methodologies to calculate the fair value of pension assets and obligations. Accordingly, actual results could differ from those estimates. It is reasonably possible that the significant estimates used will change within the next year.

Cash and Cash Equivalents

Cash equivalents primarily represent highly liquid investments, with original maturities of 90 days or less, in money market funds that are convertible to a known amount of cash and carry an insignificant interest rate risk.

Restricted Short-Term Certificates of Deposit

The Company holds certificates of deposit that will mature within one year as required by the Company's workers compensation insurance policy. As of September 30, 2015 and 2014, the Company had restricted short-term certificates of deposit of approximately $60,000 and $300,000, respectively.

Accounts Receivable

The Company grants unsecured credit to substantially all of its customers. Management does not believe that it is exposed to any extraordinary credit risk as a result of this policy. The Company maintains a reserve for potential credit losses and, historically, such losses have been within management's estimates. When evaluating the adequacy of the allowance for doubtful accounts, the Company specifically analyzes accounts receivable as well as historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in the Company's customer payment terms.

Revenue Recognition

The Company derives revenues from the development and implementation of document services solutions. The Company recognizes revenues in accordance with authoritative guidance. Accordingly, the Company recognizes revenue when all of the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. This generally occurs at the time the documents are sent to and received by the Company's customers.

Property and Equipment

Property and equipment, which include leasehold improvements, are recorded at cost and depreciated or amortized using the straight-line method over estimated useful lives. Leasehold improvements are amortized over the shorter of their estimated useful life or the remaining term of the related lease. Processing equipment and other property and equipment have useful lives ranging from two to ten years. Repair and maintenance costs are expensed as incurred.

Defined Benefit Pension Plans

The Company recognizes the funded status (the difference between the fair value of plan assets and the projected benefit obligations) of its defined benefit plan in the consolidated balance sheets, with a corresponding adjustment to accumulated other comprehensive income, net of tax, to measure the fair value of plan obligations.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the combination of the tax payable for the year and the change during the year in deferred tax assets and liabilities.

Foreign Currency Translation

The financial position and changes in pension obligations of the Company's inactive German subsidiary are measured using the foreign subsidiary's local currency as the functional currency. Revenues and expenses of such subsidiaries have been translated into U.S. dollars at average exchange rates prevailing during the period. Assets and liabilities have been translated at the rates of exchange on the balance sheet date. The resulting translation gain and loss adjustments are recorded directly as a separate component of stockholders' equity (deficit). The cumulative translation adjustment, which is recorded in accumulated other comprehensive income, increased approximately $384,000 and $226,000 for the years ended September 30, 2015 and 2014, respectively.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2015-14 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on October 1, 2019. Early application is permitted for the Company beginning October 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the effect that ASU No. 2015-14 will have on the consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Imputation of Interest, to simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The new standard was effective for the Company on October 1, 2016. Early adoption is permitted. The Company early adopted this guidance as of October 1, 2014. The adoption of this guidance did not have a material effect on the consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred income taxes. This update requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The new standard is effective for the Company on October 1, 2018. Early adoption is permitted. The Company is currently evaluating the effect that ASU No. 2015-17 will have on the consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02, Leases, to facilitate an increase in transparency and comparability between organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key leasing arrangements. The new standard is effective for the Company on October 1, 2020. Early adoption is permitted. The Company is currently evaluating the effect that ASU No. 2016-02 will have on the consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, to simplify accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for the Company on October 1, 2017. Early adoption is permitted. The Company is currently evaluating the effect that ASU No. 2016-09 will have on the consolidated financial statements and related disclosures.

NOTE 2.
FAIR VALUE MEASUREMENTS:

The Company accounts for fair value measurements in accordance with authoritative guidance, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements.

Authoritative guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level - 1: Uses unadjusted quoted prices that are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level - 2: Uses inputs other than Level 1 that are either directly or indirectly observable as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rate volatility factors, are corroborated by readily observable data.

Level - 3: Uses inputs that are unobservable and are supported by little or no market activity and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participants' assumptions.

The following tables set forth the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy as of September 30, 2015 and 2014. As required by authoritative guidance, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Fair Value at September 30, 2015		
(In thousands)	**Level 1**	**Level 2**	**Level 3**
Item measured at fair value on a recurring basis:			
Pension assets excluded from net pension obligation in accordance with authoritative guidance (see Note 6)	$ -	$ -	$ 4,659
Pension assets included in net pension obligation (see Note 6)	-	-	3,572
	$ -	$ -	$ 8,231

	Fair Value at September 30, 2014		
(In thousands)	**Level 1**	**Level 2**	**Level 3**
Item measured at fair value on a recurring basis:			
Pension assets excluded from net pension obligation in accordance with authoritative guidance (see Note 6)	$ -	$ -	$ 5,385
Pension assets included in net pension obligation (see Note 6)	-	-	4,085
	$ -	$ -	$ 9,470

The following table presents the changes in the fair value of the Company's financial assets categorized as Level 3 for the years ended September 30, 2015 and 2014:

(In thousands)	Pension assets excluded from net pension obligation in accordance with authoritative guidance (see Note 6)	Pension assets included in net pension obligation (see Note 6)	Total
Balance as of September 30, 2013	$ 5,871	$ 4,390	$ 10,261
Realized and unrealized gains, pension settlements - net	(486)	(305)	(791)
Balance as of September 30, 2014	$ 5,385	$ 4,085	$ 9,470
Realized and unrealized losses, pension settlements - net	(726)	(513)	(1,239)
Balance as of September 30, 2015	$ 4,659	$ 3,572	$ 8,231

The Company's pension assets are classified within Level 3 of the fair value hierarchy as they represent the cash surrender value of insurance contracts that are held to carry out the provisions of the plan and to finance the benefits offered under the plan. All plan assets are held in a trust and managed in a policyholder pool in Germany by outside investment managers. The investment objectives of the portfolio of plan assets are designed to generate returns that will enable the plans to meet their future obligations.

The Company monitors the activity within each level and any changes with the underlying valuation techniques or inputs utilized to recognize if any transfers between levels are necessary. That determination is made, in part, by working with outside valuation experts for Level 3 instruments and monitoring market related data and other valuation inputs for Level 1 and Level 2 instruments.

NOTE 3.
FIXED ASSETS:

Fixed assets consisted of the following as of September 30, 2015 and 2014:

(In thousands)	**2015**	2014
Office Equipment (2 years)	**$ 88**	$ 86
Operating Equipment (2 - 10 years)	**1,418**	973
Leasehold Improvements	**184**	171
	1,690	1,230
Less accumulated depreciation	**1,100**	892
Total	**$ 590**	$ 338

Total depreciation expense for the year ended September 30, 2015 was approximately $208,000 of which approximately $191,000 was recorded in cost of sales and approximately $17,000 was recorded in selling, general, and administrative expenses in the consolidated statement of income.

Total depreciation expense for the year ended September 30, 2014 was approximately $217,000 of which approximately $199,000 was recorded in cost of sales and approximately $18,000 was recorded in selling, general, and administrative expenses in the consolidated statement of income.

NOTE 4.
DEBT:

On May 25, 2007, the Company acquired certain assets of Caselogistix, Inc. (“CLX”) a litigation support, document review and software application company. Total consideration included $7.0 million to be paid over the fiscal years commencing October 1, 2007 and ending September 30, 2010. On April 21, 2009 the Company and CLX restructured the agreement and entered into a non-interest bearing unsecured promissory note for the $7.0 million that was to be paid over the fiscal years listed above to $7.15 million to be paid over the fiscal years commencing October 1, 2008 and ending September 30, 2012. On July 28, 2011 the Company and CLX amended and restated the non-interest bearing unsecured promissory note to extend the payments of the principal balance of $4.8 million to December 2015. In consideration of the amendment to the non-interest bearing unsecured promissory note, the Company granted CLX a warrant to purchase 205,441 shares of Class A Common Stock of the Company. The warrant has an exercise price of $0.01 per share and may be exercised at any time from July 28, 2011 until July 28, 2021 (see Note 8). In accordance with authoritative guidance, the Company recorded a debt discount on the non-interest bearing unsecured promissory note based upon an imputed interest of 4.75% resulting in a debt discount of approximately $520,000, which the Company will amortize over the term of the agreement using the effective interest method. In March and September 2013, the Company entered into amendments to modify the amount of principal payments through the end of the term of the agreement, which ends on December 31, 2015. During March 2014, the Company entered into an additional amendment to modify the principal payment schedule during the remaining term of the contract. As a term of the amendment entered into during March 2014, the debt was increased by approximately $11,000, which was included as an additional component of the Company’s debt discount and will be amortized over the remaining life of the promissory note. During March 2015, the Company entered into an additional amendment to modify the principal payment schedule and extend the payments of the principal balance of $2.3 million to December 2016. As a term of the amendment entered into during March 2015, the Company agreed to pay a convenience fee of approximately $175,000 to CLX, which was included as an additional component of the Company’s debt discount and will be amortized over the remaining life of the promissory note.

The Company evaluated each amendment to its promissory note in accordance with authoritative guidance, noting that the amendments were not considered "substantially different" from the original loan and therefore the modifications did not represent a debt extinguishment. Amortization for the debt discount amounted to approximately $129,000 and $107,000 for the years ended September 30, 2015 and 2014, respectively, which has been recorded in other income (expense) in the consolidated statements of income.

The non-interest bearing unsecured promissory note payable at September 30, 2015 and 2014 consisted of the following:

	As of September 30, 2015		
(In thousands)	**Principal**	**Unamortized Discount**	**Total**
Non-interest bearing unsecured promissory note (discount is based on imputed interest rate of 8.99%):			
Current portion	$ 1,310	$ 113	$ 1,197
Long-term portion	542	10	532
	$ 1,852	$ 123	$ 1,729

	As of September 30, 2014		
(In thousands)	**Principal**	**Unamortized Discount**	**Total**
Non-interest bearing unsecured promissory note (discount is based on imputed interest rate of 3.79%):			
Current portion	$ 2,086	$ 72	$ 2,014
Long-term portion	516	5	511
	$ 2,602	$ 77	$ 2,525

The future principal payments of the non-interest bearing unsecured promissory note are as follows:

Fiscal Year	**Amount** (In Thousands)
2016	$ 1,310
2017	542
	$ 1,852

NOTE 5.
OTHER ACCRUED LIABILITIES:

Other accrued liabilities consist of the following as of September 30, 2015 and 2014:

(In thousands)	**2015**	2014
Unearned revenue	**$ 131**	$ -
Other accrued liabilities	**97**	72
	$ 228	$ 72

NOTE 6.
RETIREMENT PLANS:

Defined Contribution Plans

The Company sponsors a retirement savings plan that qualifies under Section 401(k) of the Internal Revenue Code. Participating employees may contribute up to 15% of their pretax salary, but not more than statutory limits. The Company may contribute, at its discretion, up to fifty cents for each dollar a participant contributes, with a maximum contribution of $2,500 per employee per plan year. For fiscal years 2015 and 2014 the Company did not contribute to the retirement savings plan.

Defined Benefit Pension Plans

During 2015 and 2014, the Company maintained retirement plans in place for its inactive German subsidiary that qualify as defined benefit pension plans. The plans provide benefits based primarily on length of service and final average earnings. Funding policy for the plans is to contribute amounts sufficient to meet minimum funding requirements as set forth in employee benefit and tax laws.

In accordance with U.S. GAAP, the consolidated balance sheets reflect unfunded pension obligations of approximately $7.6 million and $8.8 million as of September 30, 2015 and 2014, respectively. U.S. GAAP requires that the Company exclude certain German insurance contracts from the plan assets, which were valued at approximately $4.6 million and $5.4 million as of September 30, 2015 and 2014, respectively. These assets are included on the Company’s consolidated balance sheets as “Pension assets.” These assets exist only to provide a component of the total pension benefits payable to German employees, consistent with local law. The unfunded pension obligation would be approximately $3.0 million and $3.4 million at September 30, 2015 and 2014, respectively, when reviewing the plans and including these additional assets.

The investment objectives of the portfolio of plan assets are designed to generate returns that will enable the plans to meet their future obligations. The precise amount for which these obligations will be settled depends on future events, including the life expectancy of the Plans' members. The obligations are estimated using actuarial assumptions, based on the current economic environment. The strategy balances the requirement to generate return using higher-returning assets such as equity securities, with the need to control risk in the plans with less volatile assets, such as fixed income securities.

The discount rate assumptions used for pension plan accounting reflect the prevailing rates available on high-quality, fixed-income debt instruments. The discount rate used was 2.4% and 2.5% for the years ended September 30, 2015 and 2014, respectively. The Company uses a September 30 measurement date for all of its pension plans.

The following table sets forth the benefit obligation, fair value of plan assets (excluding the $4.7 million and $5.4 million Pension assets as of September 30, 2015 and 2014, respectively, noted above), and the funded status of the Company's plan; amounts recognized in the Company's consolidated financial statements; and the assumptions used in determining the actuarial present value of the benefit obligations as of September 30, 2015 and 2014:

(dollars in thousands)	**2015**	2014
Change in projected benefit obligation:		
Benefit obligation at the beginning of the year	**$ 12,873**	$ 13,231
Interest cost	**284**	453
Actuarial (gain) loss	**67**	700
Foreign currency exchange rate changes	**(1,456)**	(849)
Benefits and expenses paid	**(577)**	(662)
Benefit obligation at the end of the year	**11,191**	12,873
Change in the fair value of plan assets:		
Fair value of plan assets at the beginning of the year	**4,085**	4,390
Expected return on plan assets	**108**	141
Actuarial gain (loss)	**47**	67
Foreign currency exchange rate changes	**(462)**	(268)
Benefits and expenses paid	**(206)**	(245)
Fair value of plan assets at the end of the year	**3,572**	4,085
Funded status	**(7,619)**	(8,788)
Unrecognized actuarial loss	**1,185**	1,658
Additional minimum liability	**(1,185)**	(1,658)
Net amount recognized	**$ (7,619)**	$ (8,788)

Plan assets were comprised of the following at September 30, 2015 and 2014:

	2015	2014
Equity securities	**-**	-
Debt securities	**-**	-
Other	**100%**	100%
Total	**100%**	100%

(dollars in thousands)	**2015**	2014
Components of net periodic benefit costs were as follows:		
Interest cost on projected benefit obligations	**$ 284**	$ 453
Recognized actuarial loss	**14**	-
Expected return on plan assets	**(108)**	(141)
Net periodic benefit costs	**$ 190**	$ 312

The weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30, 2015 and 2014 were:

	2015	2014
Discount rate	**2.4%**	2.5%
Expected return on plan assets	**3.0%**	3.0%
Pension increases	**1.5%**	1.5%

The following discloses information about the Company’s defined benefit pension plan that had an accumulated benefit obligation in excess of plan assets as of September 30, 2015 and 2014 were:

(dollars in thousands)	**2015**	2014
Projected benefit obligation	**$ 11,191**	$ 12,873
Accumulated benefit obligation	**$ 11,191**	$ 12,873
Fair value of plan assets	**$ 3,572**	$ 4,085

The following benefit payments are expected to be paid as follows (dollars in thousands):

Years ended September 30,	
2016	$ 563
2017	$ 588
2018	$ 596
2019	$ 601
2019	$ 613
2020 - 2024	$ 3,048

The Company made contributions to the plan of approximately $26,000 and $16,000 during the years ended September 30, 2015 and 2014, respectively, which were used to fund benefits paid to participants in excess of the return on plan assets.

NOTE 7.
STOCK PLANS:

The Company has reserved 1,203,400 shares of common stock for issuance to employees of Anacomp, Inc. or its subsidiaries as incentive compensation. The Company currently maintains two such compensation plans, consisting of the 2001 Stock Option Plan and the 2004 Outside Directors Compensation Plan (the “2004 Plan”).

On February 26, 2004, the Company’s shareholders approved the 2004 Plan, which provides for the future issuance of stock options, restricted stock and deferred stock units. A maximum of 100,000 of the authorized but unissued or reacquired shares of the Company’s Common Stock may be issued under this plan.

On December 1, 2013, the Company’s shareholders approved the 2014 Plan, which provided the issuance of an aggregate 270,000 stock options to members of management for the purchase of authorized but unissued or reacquired shares of the Company’s common stock.

Stock-Based Compensation Valuation Assumptions

The Company records stock-based compensation in accordance with ASC No. 718, *Compensation - Stock Compensation* and ASC No. 505-50, *Equity - Equity-Based Payments to Non-Employees*. The Company estimates the fair value of stock options using the Black-Scholes option pricing model. The fair value of stock options granted is recognized as expense over the requisite service period.

The Company’s volatility assumption is based on a combination of the historical volatility of the Company’s common stock and the volatilities of similar companies over a period of time equal to the expected term of the stock options. The Company uses the simplified method for estimating a stock option’s expected term as it does not have sufficient historical share option exercise experience to reliably estimate an expected term. For the risk-free interest rate, the Company uses the observed interest rates appropriate for the term of time options are expected to be outstanding. The dividend yield assumption is based on the Company’s history and expectation of dividend payouts.

The following weighted- average assumptions were used for options granted during 2015 and 2014 under the ASC No. 718 requirements:

	2015	2014
Weighted average risk-free rate	-	1.55%
Weighted average volatility	-	118.32%
Dividend yield	-	0.00%
Expected life	-	5.58 years

Stock-based compensation expense for employees in 2015 and 2014 was $66,000 and $120,000, respectively, and is included as a component of selling, general and administrative expenses.

Stock Option Activity

Transactions under the Company's stock option plans are summarized as follows:

	Shares	Weighted-Avg. Exercise Price
Outstanding on September 30, 2013	110,598	$ 6.62
Granted	270,000	1.15
Exercised	-	-
Canceled	-	-
Outstanding on September 30, 2014	380,598	$ 2.74
Granted	-	-
Exercised	-	-
Canceled	-	-
Outstanding on September 30, 2015	380,598	$ 2.74

The following table summarizes all options outstanding and exercisable by price range as of September 30, 2015:

Options Outstanding				Options Vested	
Exercise Prices	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Price	Options Exercisable	Weighted-Average Exercise Price
$0.01 - $4.58	337,598	7.25	$ 1.84	253,223	$ 2.45
$4.59 - $7.50	3,000	1.61	7.50	3,000	7.50
$7.51 - $10.00	40,000	2.06	10.00	40,000	10.00
	380,598	6.66	$ 2.74	296,223	$ 2.48

The intrinsic value of options outstanding and vested and unvested expected to vest at September 30, 2015 was approximately $87,000. As of September 30, 2015, there was approximately $76,000 of unrecognized non-cash compensation cost related to unvested options, which will be recognized over a weighted average period of 1.17 years.

NOTE 8.
WARRANTS:

In consideration of the July 28, 2011, amendment to the non-interest bearing unsecured promissory note with CLX (see Note 4) the Company issued a warrant to purchase 205,441 shares of Common Stock of the Company. The warrant has an exercise price of $0.01 per share and may be exercised at any time from July 28, 2011 until July 28, 2021. The Company valued the warrant using the Black-Scholes option pricing model using the following assumptions: term of 10 years, a risk free interest rate of 3%, a dividend yield of 0%, and volatility of 33%, which amounted to approximately $21,000 which was not considered significant.

NOTE 9.
INCOME TAXES:

For the years ended September 30, 2015 and 2014, the components of income (loss) before income taxes were:

(dollars in thousands)		**2015**		2014
United States	**$**	**833**	$	794
Foreign		**(34)**		(26)
	$	**799**	$	768

For the years ended September 30, 2015 and 2014, the components of the consolidated income tax provision are summarized below:

(dollars in thousands)		**2015**		2014
Current				
Federal	**$**	**(1)**	$	-
Foreign		**-**		-
State		**2**		4
Sub-total	**$**	**1**	$	4
Deferred				
Federal		**-**		-
Foreign		**-**		-
State		**-**		-
	$	**1**	$	4

The following is a reconciliation of income taxes from continuing operations calculated at the United States federal statutory rate to the provision for income taxes:

(dollars in thousands)	**2015**	2014
Income taxes at statutory rates	**$ 262**	$ 238
State income tax, net of federal benefit	**113**	(9)
Permanent items	**24**	1
Foreign tax differential	**1**	1
Rate Adjustment	**63**	(65)
Expiring credits & other	**49**	(1)
Change in valuation allowance	**(511)**	(161)
	$ 1	$ 4

For the years ended September 30, 2015 and 2014, the components of deferred tax assets and liabilities are as follows:

(dollars in thousands)	**2015**	2014
DEFERRED TAX ASSETS:		
Tax effects of future temporary differences related to:		
Accrued expenses and reserves	**$ 834**	$ 1,146
Depreciation and amortization	**181**	177
Other	**395**	956
Total Deferred Tax Assets	**$ 1,410**	$ 2,279
Tax effects of carryforward benefits:		
Federal net operating loss carryforwards	**$ 43,330**	$ 42,984
Foreign net operating loss carryforwards	**8,662**	8,651
Tax effects of carryforwards	**51,992**	51,635
Tax effects of future taxable differences and carryforward benefits	**53,402**	53,914
Less valuation allowance	**(53,402)**	(53,914)
Net deferred tax asset	**$ -**	$ -

According to authoritative guidance, deferred tax assets may be recognized for temporary differences that will result in deductible amounts in future periods. A valuation allowance is recorded if based upon the weight of available evidence it is more likely than not that some portion or all of the deferred tax assets will not be realized. Realization of the net deferred tax asset is dependent upon generating sufficient taxable income during the periods in which the temporary differences will reverse. As of September 30, 2015 and 2014, the Company has established a valuation allowance for all jurisdictions for which it is more likely than not that the deferred tax assets will not be realized.

As of September 30, 2015 and 2014, the Company had net operating loss carryforwards for federal tax purposes of approximately $110.2 million and $108.9 million, respectively, which begin to expire in 2024, unless previously utilized. As of September 30, 2015 and 2014, the Company had net operating loss carryforwards for state tax purposes of approximately $126.5 million and $129.5 million, which began to expire in 2015, unless previously utilized. In addition, the Company also has foreign net operating losses that do not expire.

Pursuant to Internal Revenue Code Section 382 and 383, use of the Company's net operating loss carryforwards may be limited if a cumulative change in ownership of more than 50% has occurred within a three-year period.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrual for interest and penalties on the Company's balance sheets and has not recognized interest and/or penalties in the statements of operations for the years ended September 30, 2015 and 2014.

The Company accounts for income taxes in accordance with authoritative guidance which addresses accounting for the uncertainty in income taxes. The evaluation of a tax position in accordance with this topic is a two-step process. The first step involves recognition. The Company determines whether it is more-likely-than-not that a tax position will be sustained upon tax examination, including resolution of any related appeals or litigation, based on only the technical merits of the position. The technical merits of a tax position derive from both statutory and judicial authority (legislation and statutes, legislative intent, regulations, rulings, and case law) and their applicability to the facts and circumstances of the tax position. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement.

A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate resolution with a taxing authority.

The Company is subject to taxation in the US, Canada, and various states jurisdictions. For the years ended September 30, 2015 and 2014, management has evaluated the various tax positions reflected in the Company's income tax returns for both federal and state jurisdictions. Management believes that there are no tax positions for which a liability for unrecognized tax benefits should be recorded as of September 30, 2015. The Company's tax years from 2003 are subject to examination by the United States and various state authorities due to the carry forward of unutilized NOLs.

NOTE 10.
CONCENTRATIONS:

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade accounts receivable. The Company grants unsecured credit to its customers. Management believes its credit policies do not result in significant adverse risk and historically has not experienced any credit-related loss.

The Company maintains cash balances at a financial institution located in San Jose, California. Accounts at this institution are secured by the Federal Deposit Insurance Corporation. At times, bank balances held in this financial institution may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes that the Company is not exposed to any significant credit risk on cash and cash equivalents.

Customer Concentration

For the year ended September 30, 2015, two customers accounted for approximately 99% of revenues and had accounts receivable balances of approximately $1.1 million as of September 30, 2015. For the year ended September 30, 2014, two customers accounted for approximately 91% of revenues and had an accounts receivable balance of approximately $1.3 million as of September 30, 2014.

NOTE 11.
COMMITMENTS AND CONTINGENCIES:

Operating Leases

Anacomp has commitments under long-term operating leases, principally for building space and data service center equipment expiring at various dates through April 2017. The Company's rent and lease expense was approximately $0.3 million and $0.4 million for the years ended September 30, 2015 and 2014, respectively.

The following summarizes the future minimum lease payments under all non-cancelable operating lease obligations that extend beyond one year:

(dollars in thousands)	Lease Payments
Year Ending September 30,	
2016	$ 262
2017	117
	$ 379

Capital Leases

The Company periodically enters into capital leases, which are reported as assets and lease obligations in the accompanying consolidated financial statements. Property and equipment under capital leases totaled approximately $432,000 and $199,000 as of September 30, 2015 and 2014, respectively. Depreciation expense related to these capital leases was approximately $110,000 and $81,000 for the years ended September 30, 2015 and 2014, respectively.

The following summarizes the future minimum lease payments under capital leases as of September 30, 2015:

(dollars in thousands)	Lease Payments
Year Ending September 30,	
2016	$ 47
2017	44
2018	47
2019	50
2020	43
Thereafter	-
	$ 231

Legal Matters

In the normal course of business, the Company is occasionally named as a defendant in various lawsuits. Based on consultation with outside legal counsel, there are no outstanding claims or assessments on the Company, other than the matters noted below, which the Company believes could result in material loss as of the date of this report.

In May 2012, Cal-EPA's Department of Toxic Substances Control issued a Corrective Action Enforcement Order ("order") to companies that had formerly resided in a warehouse location in San Jose. The order requests that the named parties conduct an environmental investigation and cleanup of potential contamination at the property. Xidex Corporation, a predecessor company of Anacomp, was named as one of the parties in the order. The Company, along with others named in the order, are currently conducting an environmental study of the location to determine the extent of potential contamination, if any. As of September 30, 2015, the Company is unable to determine any potential loss in accordance with authoritative guidance and, therefore, has not recorded a loss contingency.

During the year ended September 30, 2015, the Company settled a claim with a former employee in the amount of $200,000. This amount was recorded in selling, general and administrative.

NOTE 12.
SUBSEQUENT EVENTS:

The Company has evaluated subsequent events through June 22, 2016, which is the date the consolidated financial statements were available to be issued.

At the beginning of fiscal year 2016, the Company determined that it was appropriate to shift its strategy and pursue a new contract. In the third fiscal quarter of 2016, the Company was awarded the contract. The contract stated that the services were required to be performed at a facility operated by the Company within 30 miles of the client's Project Management Office in St. Louis, Missouri.

Prior to the execution of the contract, the Company maintained two locations where conversion services were performed; one at the Company's headquarters in Oceanside, California and one at a satellite location in Chantilly, Virginia. As neither site met the requirement for the location of the facility, the shift in strategy to pursue the new contract required that the Company discontinue operations at the Chantilly location and establish a new facility in St. Louis. In May 2016, the Company entered into a 51-month lease agreement for the space in St. Louis, with three options to renew and extend the term of the lease for renewal term periods of three years. The costs required to shut down operations in Chantilly are not expected to be significant.

The following summarizes the future minimum lease payments under the Company's lease agreement in St. Louis:

(dollars in thousands)	Lease Payments
Year Ending September 30,	
2016	$ 22
2017	88
2018	89
2019	91
2020	76
Thereafter	-
	$ 366