UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

■ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended June 30, 2016

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________________ to ________________

Commission File Number 001-33468

POINT.360

(Exact name of registrant as specified in its charter)

California	**01-0893376**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2701 Media Center Drive, Los Angeles, CA	**90065**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (323) 987-9444

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated Filer	☐
Non-accelerated filer	☐	Smaller reporting company	☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [ ] No [X]

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter (December 31, 2015) was approximately $1.6 million. As of August 15, 2016, there were 12,630,506 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement (to be filed by October 28, 2016) relating to its 2016 annual meeting of shareholders are incorporated by reference into Part III of this Form 10-K.

CAUTIONARY STATEMENT

In our capacity as Company management, we may from time to time make written or oral forward-looking statements with respect to our long-term objectives or expectations which may be included in our filings with the Securities and Exchange Commission (the "SEC"), reports to stockholders and information provided in our web site.

The words or phrases "will likely," "are expected to," "is anticipated," "is predicted," "forecast," "estimate," "project," "plans to continue," "believes," or similar expressions, identify "forward-looking statements". Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. We wish to caution you not to place undue reliance on any such forward-looking statements, which speak only as of the date made. We are calling to your attention important factors that could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements.

The following list of important factors may not be all-inclusive, and we specifically decline to undertake an obligation to publicly revise any forward-looking statements that have been made to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events. Among the factors that could have an impact on our ability to achieve expected operating results and growth plan goals and/or affect the market price of our stock are:

- our recent history of losses and the need to raise additional operating capital ;
- Point.360's past breaches of credit agreements;
- our highly competitive marketplace;
- the risks associated with dependence upon significant customers;
- our ability to execute our expansion strategy;
- our ability to effectively and profitably absorb and manage our July 8, 2015 purchase of the assets of Modern VideoFilm;
- our ability to repay the indebtedness that we incurred in connection with our purchase of the assets of Modern VideoFilm, the repayment of which is secured by the pledge of substantially all of our assets other than accounts receivable and real property:
- the uncertain ability to manage in a changing environment;
- our dependence upon, and our ability to adapt to, technological developments;
- dependence on key personnel;
- our ability to maintain and improve service quality;
- fluctuation in quarterly operating results and seasonality in certain of our markets;
- possible significant influence over corporate affairs by significant shareholders;
- our ability to operate effectively as a stand-alone, publicly traded company; and
- the cost associated with being compliant with the Sarbanes-Oxley Act of 2002 and the consequences of failing to implement effective internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002.

Other factors not identified above, including the risk factors described in the "Risk Factors" section of this Form 10-K, may also cause actual results to differ materially from those projected by our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control.

You should consider the areas of risk described above, as well as those set forth under the heading "Risk Factors" below, in connection with considering any forward-looking statements that may be made in this Form 10-K and elsewhere by us and our businesses generally. Except to the extent of any obligation to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events.

PART 1

ITEM 1. BUSINESS

Point.360 (“Point.360” or the “Company”) is a leading integrated media management services company providing film, video and audio post-production, archival, duplication and data distribution services to motion picture studios, television networks, independent production companies and multinational companies. We provide the services necessary to edit, master, reformat and archive our clients’ audio, video, and film content, which include television programming, feature films, and movie trailers. On July 8, 2015, Point.360 acquired the assets of Modern VideoFilm to expand the Company’s service offering (see Note 12 of Notes to Consolidated Financial Statements elsewhere in this Form 10-K). The Company also rents and sells DVDs and video games directly to consumers through its Movie>Q retail stores.

We seek to capitalize on growth in demand for the services related to the manipulation and distribution of rich media content without assuming the production or ownership risk of any specific television program, feature film, advertising or other form of content. The primary users of our services are entertainment studios that generally choose to outsource such services due to the sporadic demand and the fixed costs of maintaining a high-volume physical plant. We also serve the DVD rental market which has been at least partially abandoned by the closedown of larger chain video rental stores.

Since January 1, 1997, Point.360 completed acquisitions of companies providing similar services. We will continue to evaluate acquisition opportunities to enhance our operations and profitability. In 2004, Point.360 acquired International Video Conversions, Inc. (“IVC”), a leading digital intermediate and digital mastering facility. In 2005, Point.360 acquired Visual Sound, a provider of captioning services. In 2007, Point.360 purchased the business of Eden FX, a producer of sophisticated visual effects and graphics for feature films, television programming and commercials. In November 2008, the Company purchased the assets and business of Video Box Studios. In April 2009, the Company purchased the assets of and business of MI Post. In September and November 2009, we purchased assets and intellectual property to form the foundations of our Movie>Q initiative. In July 2015, the Company acquired the assets of Modern VideoFilm, Inc., a provider of content management and creative post production services. As a result of these acquisitions, we are one of the most diversified providers of technical and distribution services in our markets, and therefore are able to offer our customers a single source for such services at prices that reflect our scale economies.

Markets

We derive revenues primarily from the entertainment industry, consisting of major and independent motion picture and television studios, cable television program suppliers and television program syndicators. On a more limited basis, we also service national television networks, local television stations, corporate or instructional video providers, and educational institutions. Movie>Q provides consumers with a DVD rental alternative to the “big box” rental retail chain stores who have abandoned the space.

The entertainment industry creates motion pictures, television programming, and interactive multimedia content for distribution through theatrical exhibition, home video, pay and basic cable television, direct-to-home, private cable, broadcast television, on-line services and video games. Content is released into a "first-run" distribution channel, and later into one or more additional channels or media. In addition to newly produced content, film and television libraries may be released repeatedly into distribution. Entertainment content produced in the United States is exported and is in increasingly high demand internationally. We believe that several trends in the entertainment industry will have a positive impact on our business, including growth in worldwide demand for original entertainment content, the development of new markets for existing content libraries, increased demand for innovation and creative quality in domestic and foreign markets and wider application of digital technologies for content manipulation and distribution, including the emergence of new distribution channels.

Value-Added Services

Point.360 maintains video and audio post-production and editing facilities as components of its full service, value-added approach to its customers. The following summarizes the value-added post-production services that we provide to our customers:

Digital and Video Editing. Digital editing services are located in Burbank and Los Angeles, California. The editing suites are equipped with state-of-the-art digital editing equipment, including the Autodesk® Smoke® and Avid® Symphony Nitris which provide precise and repeatable electronic transfer of data, video and/or audio information from one or more sources to a new master to effect complex transitions from source to source while simultaneously inserting titles and/or digital effects over background video. Video is edited into completed programs such as television shows, DVD compression masters, movie trailers, electronic press kits, specials, and corporate and educational presentations.

Digital Color Correction. Substantially all film content ultimately is distributed to the home video, broadcast, cable or pay-per-view television markets, requiring that film images be transferred electronically to a digitally mastered format. Each frame must be color corrected and adapted to the size and aspect ratio of a television screen in order to ensure the highest level of conformity to the original film version. We transfer film and data to digital formats using Spirit 4k Telecine, Imagica and Blackmagic DaVinci Resolve color correction systems. The re-mastering of studio film and television libraries to the HDTV broadcast standard has become a growing portion of our film transfer business, as well as affiliated services such as foreign language mastering, duplication and distribution.

Picture Restoration. Digital picture restoration occurs in all titles targeted for Blu-ray and standard definition DVD distribution as well as cable markets. Flaws in the picture such as dirt, scratches, splice bumps and excessive grain can be removed using our vast array of technologies and expertise. Tools incorporated in this process are daVinci Revival®, MTI Film DRS, Diamant Imagica XE Advanced wetgate scanner, and our proprietary Advanced Restoration Tools (A.R.T.). Once the picture elements are restored, new film negatives can also be derived from these polished digital elements.

Audio Post-Production. We digitally mix television shows, commercials, and independent features. We edit and create sound effects, assist in replacing dialog and re-record audio elements for integration with film and video elements. We design sound effects to give life to the visual images with a library of sound effects. Dialog replacement is sometimes required to improve quality, replace lost dialog or eliminate extraneous noise from the original recording. Re-recording combines sound effects, dialog, music and laughter or applause to complete the final product. In addition, the re-recording process allows the enhancement of the listening experience by adding specialized sound treatments, such as stereo, Dolby Digital®, SDDS®, THX® and Surround Sound®.

Audio Restoration and Layback. Audio layback is the process of creating duplicate file (videotape or digital) masters with sound tracks that are different from the original recorded master sound track. Content owners selling their assets in foreign markets require the replacement of dialog with voices speaking local languages. In some cases, all of the audio elements, including dialog, sound effects, music and laughs, must be recreated, remixed and synchronized with the original file. Audio sources are premixed foreign language tracks or tracks that contain music and effects only. The latter is used to make a final file product that will be sent to a foreign country to permit addition of a foreign dialogue track to the existing music and effects track.

Closed Captioning and Subtitling. All broadcast material requires closed captioning. We are able to create closed captioning formatted for high definition and standard definition Blu-ray and DVD markets when requested. Subtitling is offered in over twenty foreign languages. Transcripts are created for legal review, subtitling and language dubbing in foreign markets.

Foreign Language Mastering. Programming designed for distribution in markets other than those for which it was originally produced is prepared for export through language translation and either subtitling or voice dubbing. We provide dubbed language recording and versioning followed by an audio layback and conform service that supports various audio, data and videotape formats to create an international language-specific master videotape. We also create music and effects tracks from programming shot before an audience to prepare television sitcoms for dialog recording and international distribution.

Standards Conversion. Throughout the world there are several different broadcasting "standards" in use. To permit a program recorded in one standard to be broadcast in another, it is necessary for the recorded program to be converted to the applicable standard. This process involves changing the number of video lines per frame, the number of frames per second, and the color system. We are able to convert video between all international formats, including NTSC, PAL high definition and standard definition. Our competitive advantages in this service line include our state-of-the-art systems and our detailed knowledge of the international markets with respect to quality-control requirements and technical specifications.

Broadcast Encoding. We provide encoding services for tracking global broadcast verification and intelligence service. Using processes which include high definition and standard definition Teletrax, V-chip, AFD, AMOL, and SIGMA encoding, a code is placed within the video portion of an advertisement or an electronic press kit. Such codes can be monitored from television broadcasts to determine which advertisements or portions of electronic press kits are shown on or during specific television programs, providing customers direct feedback on allotted airtime. We provide encoding services for a number of our motion picture studio clients to enable them to customize their promotional material.

Global Distribution and Syndication. We offer a broad range of technical services to domestic and international programmers. We service the basic and premium cable, broadcast syndication and direct-to-home market segments by providing the facilities and services necessary to assemble and distribute programming via high definition and standard definition satellite as well as fiber feeds to viewers in the United States, Canada and Europe. We provide facilities and services for the delivery of syndicated television programming in the United States and Canada. Our customer base consists of the major studios and independent distributors offering network programming, world-wide independent content owners offering niche market programming, and pay-per-view services marketing movies and special events to the cable industry and direct-to-home viewers.

Archival Services. We currently store approximately 500,000 videotape, audio and film elements in a protected environment. The storage and handling of videotape, audio and film elements require specialized security and environmental control procedures. We perform secure management archival services in all of our Burbank and state-of-the-art Media Center in Los Angeles.

New Markets

We believe that the development of value-added services will provide us with the opportunity to enter or increase our presence in several new or expanding markets.

International. Point.360 currently provides electronic and physical duplication and distribution services for rich media content providers. Furthermore, we believe that available electronic distribution methods will facilitate further expansion into the international distribution arena as such technologies become standardized and cost-effective. In addition, we believe that the growth in the distribution of domestic content into international markets will create increased demand for value-added services currently provided by us such as standards conversion and audio and digital mastering.

Web Content. We master webisode content for the domestic and international distribution markets. Point.360 mastering technologies include cost-effective audio design and mix, color grading, digital file creation, foreign language versioning, and global file deliveries. The growth of the platform delivery systems has accelerated the demand for content.

Picture Preservation. Our Visionary Archive process can archive color images to single strip 35mm black-and-white film. This revolutionary process encodes full color motion picture images onto a single reel of 35mm black-and-white Panchromatic stock using two-thirds less film stock than traditional color separations. It will eliminate registration, stabilization, warping, luminance and color fading issues. This process can be used for digital migration as well as preservation.

High Definition Television and Ultra High Definition ("HDTV" and "UHD"). We are capitalizing on opportunities created by emerging industry trends such as the emergence of digital television and its more advanced variant, high-definition television. HDTV has quickly become the mastering standard for domestic content providers. We believe that the aggressive timetable associated with such conversion, which has resulted both from mandates by the Federal Communications Commission for digital television and high-definition television as well as competitive forces in the marketplace, is likely to accelerate the rate of increase in the demand for these services. We maintain a state-of-the-art HDTV capability.

DVD and Video Game Rental and Sales - Movie>Q. In fiscal 2010, we purchased assets and intellectual property for a research and development project to address the viability of the DVD and video game rental business being abandoned by the closure of Movie Gallery/Hollywood Video and Blockbuster stores. The DVD rental market consists principally of online service (Netflix), vending machines (Redbox) and large video stores. We estimate the size of the abandoned market to be $2 to $3 billion.

As of June 30, 2016, we had opened three Movie>Q stores in Southern California. Each store employs an automated inventory management ("AIM") system in a 1,200-1,600 square foot facility. By saving space and personnel costs which caused the big box stores to be uncompetitive with lower priced online and vending machine rental alternatives, Movie>Q can offer up to a 10,000 unit selection to customers at competitive low rental rates. Movie>Q provides online reservations, an in-store destination experience, first run movie and game titles and a large unit selection (as opposed to 400-700 for a Redbox vending machine).

We may seek to expand the number of Movie>Q stores while further streamlining the design and production of the AIM system. Movie>Q provides the Company with a content distribution industry service offering.

Sales and Marketing

We market our services through a combination of industry referrals, formal advertising, trade show participation, special client events, and our Internet website. While we rely primarily on our reputation and business contacts within the industry for the marketing of our services, we also maintain a direct sales force to communicate the capabilities and competitive advantages of our services to potential new customers. Our marketing programs are directed toward communicating our unique capabilities and establishing us as the predominant value-added partner for our customers.

In addition to our traditional sales efforts directed at those individuals responsible for placing orders with our facilities, we also strive to negotiate "preferred vendor" relationships with our major customers. Through this process, we negotiate discounted rates with large volume clients in return for being promoted within the client's organization as an established and accepted vendor. This selection process tends to favor larger service providers such as Point.360 that (1) offer lower prices through scale economies, (2) have the capacity to handle large orders without outsourcing to other vendors, and (3) can offer a strategic partnership on technological and other industry-specific issues. We negotiate such agreements periodically with major entertainment studios and national broadcast networks.

Customers

Point.360 has added customers through acquisitions and by delivering a favorable mix of reliability, timeliness, quality, service and price. The integration of our facilities has given our customers a time advantage in the ability to deliver broadcast quality material. We market our services to major and independent motion picture and television production companies, television program suppliers and, on a more limited basis, national television networks, television program syndicators, corporations and educational institutions. Our motion picture clients include Disney, Twentieth Century Fox, NBC Universal, BBC, FremantleMedia, Warner Bros. and Paramount Pictures.

We solicit the motion picture and television industries to generate revenues. In the fiscal years ended June 30, 2014, 2015 and 2016, five major motion picture studios accounted for approximately 69%, 69% and 63% of Point.360's revenues, respectively. Sales to Twentieth Century Fox and affiliates comprised 25%, 23% and 17% of revenues in those periods, respectively. Sales to Disney were 22% of sales in 2014, 24% of sales in 2015 and 23% of sales in 2016. Sales to Twentieth Century Fox and affiliates were made to approximately 50 individual customers within the group.

We generally do not have exclusive service agreements with our clients. Because clients generally do not make arrangements with us until shortly before our facilities and services are required, we usually do not have any significant backlog of service orders. Our services are generally offered on an hourly or per unit basis based on volume.

Customer Service

We believe we have built a strong reputation in the market with a commitment to customer service. We receive customer orders via courier services, telephone, and the Internet. Our sales and customer service staff develops strong relationships with clients within the studios and is trained to emphasize our ability to confirm delivery, interpret supplied technical specifications, and meet difficult delivery time frames and provide reliable and cost-effective service. Studios select Point.360 because of our ability to meet often changing or rush delivery schedules in addition to our flexibility and responsiveness to meeting new technology demands.

We have a sales and customer service staff of approximately 42 people, and we provide services 24 hours per day. This staff serves as a single point of problem resolution and supports not only our customers but also the television stations and cable systems to which we deliver content.

Competition

The manipulation, duplication and distribution of rich media assets and DVD rentals are highly competitive service oriented businesses. Certain competitors (both independent companies and divisions of large companies) provide all or most of the services provided by us, while others specialize in one or several of these services. Substantially all of our competitors have a presence in the Los Angeles area, which is currently the largest market for our services. Due to the current and anticipated future demand for video and distribution services in the Los Angeles area, we believe that both existing and new competitors may expand or establish video service facilities in this area.

Employees

The Company had approximately 380 full-time employees as of June 30, 2016. The Company's employees are not represented by any collective bargaining organization, and the Company has never experienced a work stoppage. The Company believes that its relations with its employees are good.

ITEM 1A. RISK FACTORS

You should carefully consider each of the following risk factors and all of the other information set forth in this Form 10-K. The risk factors have been separated into two groups: (1) risks relating to our business, and (2) risks relating to our common stock. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors *affecting our company in each of these categories of risks. Past financial performance may not be a reliable indicator of future performance, and historical trends should not be used to anticipate results or trends in future periods.*

If any of the following risks and uncertainties develops into actual events, these events could have a material adverse effect on our business, financial condition or results of operations. In such case, the trading price of our common stock could decline.

Risks Relating to Point.360's Business

We have a history of losses, and we may incur losses in the future and the need to raise additional operating capital.

Point.360 had losses in each of the last five fiscal years due, in part, to increased price competition, the cost of being a publicly traded company, a number of non-recurring charges and, in Fiscal 2016, costs associated with the Company's absorption of the Modern VideoFilm assets and business. There is no assurance as to future profitability on a quarterly or annual basis. We believe additional working capital will be necessary to meet the Company's operating goals in the fiscal year ending June 30, 2017. There can be no assurance that the Company will be able to raise such working capital on terms satisfactory to the Company.

Point.360 previously breached its credit agreements, and we may do so in the future.

Due to net losses, Point.360 breached covenants of its credit facilities in fiscal 2014, 2015 and 2016. As of June 30, 2016, the Company did not meet the fixed charge ratio covenant under its mortgage obligation. If we incur losses in the future, there is a risk that defaults will continue under financial covenants contained in our credit agreements and/or we will not be able to pay off revolving or term loans when due. If default conditions exist in the future, all amounts that may be outstanding under the agreements may be declared due and payable which could materially and adversely affect our business.

We may be unable to compete effectively in a highly competitive marketplace.

The post-production industry is a highly competitive, service-oriented business. In general, we do not have long-term or exclusive service agreements with our customers. Business is acquired on a purchase order basis and is based primarily on customer satisfaction with reliability, timeliness, quality and price.

We compete with a variety of post-production firms, some of which have a national presence and, to a lesser extent, the in-house post-production operations of our major motion picture studio customers. Some of these firms, and all of the studios, have greater financial marketing resources and have achieved a higher level of brand recognition than we have. In the future, we may not be able to compete effectively against these competitors merely on the basis of reliability, timeliness, quality and price or otherwise.

We may also face competition from companies in related markets that could offer similar or superior services to those offered by us. We believe that an increasingly competitive environment as evidenced by recent price pressure and some related loss of work and the possibility that customers may utilize in-house capabilities to a greater extent could lead to a loss of market share or additional price reductions, which could have a material adverse effect on our financial condition, results of operations and prospects.

We would be adversely affected by the loss of key customers.

Although we have an active client list of approximately 1,100 customers, our five largest customers and and/or their affiliates accounted for approximately 69%, 69% and 63% of our revenues in the fiscal years ended June 30, 2014, 2015 and 2016, respectively. Twentieth Century Fox (and affiliates) accounted for 25%, 23% and 17% in the fiscal years ended June 30, 2014, 2015 and 2016, respectively. Sales to Disney were 22%, 24% and 23% of sales in the fiscal years ended June 30, 2014, 2015 and 2016, respectively. Sales to Fremantle Media were 15%, 14% and 6% in the fiscal years ended June 30, 2014, 2015 and 2016, respectively. If one or more of these companies were to stop using our services, or use their influence to adversely affect pricing, our business could be adversely affected. Because we derive substantially all of our revenue from clients in the entertainment industry, our financial condition, results of operations and prospects could also be adversely affected by an adverse change in conditions which impact that industry.

Our expansion strategy may fail.

In July 2015, we acquired the assets of Modern VideoFilm, Inc. which resulted in an increased number of employees, added facilities and increased revenues (see Note 12 of Notes to Consolidated Financial Statements elsewhere in this Form 10-K). Such transactions involve numerous risks, including possible adverse effects on our operating results or the market price of our common stock. Some of the potential risks involved with acquisitions are the following:

- difficulty in realizing anticipated financial or strategic benefits of such acquisition;
- diversion of capital and potential dilution of stockholder ownership;
- the risks related to increased indebtedness, as well as the risk such financing will not be available on satisfactory terms or at all;
- diversion of management's attention and other resources from current operations, including potential strain on financial and managerial controls and reporting systems and procedures;
- management of employee relations across facilities;
- difficulties in the assimilation of different corporate cultures and practices, as well as in the assimilation and retention of geographically dispersed personnel and operations;
- difficulties and unanticipated expenses related to the integration of departments, systems (including accounting systems), technologies, books and records, procedures and controls (including internal accounting controls, procedures and policies), as well as in maintaining uniform standards;
- assumption of known and unknown liabilities, some of which may be difficult or impossible to quantify;
- inability to realize cost savings, sales increases or other benefits that we anticipate from such acquisitions, either as to amount or in the expected time frame;
- non-cash impairment charges or other accounting charges relating to the acquired assets; and
- maintaining strong relationships with our and our acquired companies' customers after the acquisitions.

If our integration efforts are not successful, we may not be able to maintain the levels of revenues, earnings or operating efficiency that we and the acquired companies achieved or might achieve separately.

Our growth strategy involves both internal development and expansion through acquisitions. We currently have no other agreements or commitments to acquire any company or business. Even though Point.360 completed a number of acquisitions in the past in addition to that mentioned above, we cannot be sure additional acceptable acquisitions will be available or that we will be able to reach mutually agreeable terms to purchase acquisition targets, or that we will be able to profitably manage additional businesses or successfully integrate such additional businesses without substantial costs, delays or other problems.

Acquisitions may involve a number of special risks including: adverse effects on our reported operating results (including the amortization of acquired intangible assets), diversion of management's attention and unanticipated problems or legal liabilities. In addition, we may require additional funding to finance future acquisitions. We cannot be sure that we will be able to secure acquisition financing on acceptable terms or at all. We may also use working capital or equity, or raise financing through equity offerings or the incurrence of debt, in connection with the funding of any acquisition. Some or all of these risks could negatively affect our financial condition, results of operations and prospects or could result in dilution to our shareholders. In addition, to the extent that consolidation becomes more prevalent in the industry, the prices for attractive acquisition candidates could increase substantially. We may not be able to effect any such transactions. Additionally, if we are able to complete such transactions they may prove to be unprofitable.

The geographic expansion of our customers may result in increased demand for services in certain regions where we currently do not have post-production facilities. To meet this demand, we may subcontract. However, we have not entered into any formal negotiations or definitive agreements for this purpose. Furthermore, we cannot assure you that we will be able to effect such transactions or that any such transactions will prove to be profitable.

If we acquire any entities, we may have to finance a large portion of the anticipated purchase price and/or refinance then existing credit agreements. The cost of any new financing may be higher than our then-existing credit facilities. Future earnings and cash flow may be negatively impacted if any acquired entity does not generate sufficient earnings and cash flow to offset the increased costs.

We are operating in a changing environment that may adversely affect our business.

In recent years, we experienced industry consolidation, changing technologies and increased regulation, all of which resulted in new and increased responsibilities for management personnel and placed, and continues to place, increased demands on our management, operational and financial systems and resources. To accommodate these circumstances, compete effectively, and manage future growth, we will be required to continue to implement and improve our operational, financial and management information systems, and to expand, train, motivate and manage our work force. We cannot be sure that our personnel, systems, procedures and controls will be adequate to support our future operations. Any failure to do so could have a material adverse effect on our financial condition, results of operations and prospects.

We may be unable to adapt our business to changing technological requirements.

Although we intend to utilize the most efficient and cost-effective technologies available for telecine, high definition formatting, editing, coloration and delivery of audio and video content as they develop, we cannot be sure that we will be able to adapt to such standards in a timely fashion or at all. We believe our future growth will depend in part on our ability to add to these services and to add customers in a timely and cost-effective manner. We cannot be sure we will be successful in offering such services to existing customers or in obtaining new customers for these services. We intend to rely on third-party vendors for the development of these technologies, and there is no assurance that such vendors will be able to develop such technologies in a manner that meets our needs and the needs of our customers.

The loss of key personnel would adversely affect our business.

We are dependent on the efforts and abilities of certain senior management, particularly those of Haig S. Bagerdjian, Chairman, President and Chief Executive Officer. The loss or interruption of the services of key members of management could have a material adverse effect on our financial condition, results of operations and prospects if a suitable replacement is not promptly obtained. Mr. Bagerdjian beneficially owns approximately 54% of Point.360's outstanding stock. Although we have severance agreements with Mr. Bagerdjian and certain key executives, we cannot be sure that either Mr. Bagerdjian or other executives will remain with Point.360. In addition, our success depends to a significant degree upon the continuing contributions of, and on our ability to attract and retain, qualified management, sales, operations, marketing, and technical personnel. The competition for qualified personnel is intense, and the loss of any such persons, as well as the failure to recruit additional key personnel in a timely manner, could have a material adverse effect on our financial condition, results of operations and prospects. There is no assurance that we will be able to continue to attract and retain qualified management and other personnel for the development of our business.

We may be unable to meet the demands of our customers.

Our business is dependent on our ability to meet the current and future demands of our customers, which demands include reliability, timeliness, quality and price. Any failure to do so, whether or not caused by factors within our control, could result in losses to such clients. Although we disclaim any liability for such losses, there is no assurance that claims would not be asserted and dissatisfied customers may refuse to place further orders with the Company in the event of a significant occurrence of lost elements, either of which could have a material adverse effect on our financial condition, results of operations and prospects. Although we maintain insurance against business interruption, such insurance may not be adequate to protect us from significant loss in these circumstances and there is no assurance that a major catastrophe (such as an earthquake or other natural disaster) would not result in a prolonged interruption of our business. In addition, our ability to deliver services within the time periods requested by customers depends on a number of factors, some of which are outside of our control, including equipment failure, work stoppages by package delivery vendors or interruption in services by telephone, internet or satellite service providers.

Our quarterly operating results have fluctuated significantly in the past and may fluctuate in the future.

Our operating results have varied in the past, and may vary in the future, depending on factors such as sales volume fluctuations due to seasonal buying patterns, the timing of new product and service introductions, the timing of revenue recognition upon the completion of longer term projects, increased competition, timing of acquisitions, the ability of our customers to finance projects, general economic factors and other factors. In past years, we impaired certain assets. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful and should not be relied upon as an indication of future performance. Our operating results have historically been significantly influenced by the volume of business from the motion picture industry, which is an industry that is subject to seasonal and cyclical downturns, and, occasionally, work stoppages by actors, writers and others. In any period, our revenues are subject to variation based on changes in the volume and mix of services performed. It is possible that in a future quarter our operating results will be below the expectations of equity research analysts and investors. In such event, the price of our common stock would likely be materially adversely affected.

Risks Relating to the Company's Common Stock

A trading market that will provide adequate liquidity for our common stock may not develop. In addition, the market price of our shares may fluctuate widely.

Our common stock has been publicly traded on the OTCQX Market since December 2014. Due to the Company's failure to maintain a stock price of $1.00 on occasion before then, the Company was periodically notified by Nasdaq that its stock would be delisted if the closing bid price of the stock failed to reach $1.00 per share for 10 consecutive trading days. Even though the price gained compliance in each instance before December 2014, the Company transferred to the OTCQX Market in that month, and there is no assurance that an active trading market will be sustained in the future. We cannot predict the prices at which our common stock may trade. The market price of our common stock may fluctuate widely, depending upon many factors, some of which may be beyond our control, including:

- our business profile and market capitalization may not fit the investment objectives of our shareholders and, as a result, our shareholders may sell our shares;
- a shift in our investor base;
- our quarterly or annual financial results, or those of other companies in our industry;
- actual or anticipated fluctuations in our operating results due to the seasonality of our business and other factors related to our business;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us or our competitors of significant acquisitions or dispositions;
- our ability to meet earnings estimates of shareholders;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations, and;
- general economic conditions.

Stock markets in general have experienced volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the trading price of our common stock.

Investors may be unable to accurately value our common stock.

Investors often value companies based on the stock prices and results of operations of other comparable companies. Currently, no public post-production company exists that is directly comparable to our size, scale and service offerings. As such, investors may find it difficult to accurately value our common stock, which may cause our common stock price to trade above or below our true value.

Your percentage ownership in the Company may be diluted in the future.

Your percentage ownership in the Company may be diluted in the future because of equity awards that have been, or may be, granted to our directors, officers and employees. In July 2015, we purchased the assets of Modern VideoFilm, Inc. for the issuance of 2,000,000 shares of common stock and warrants to purchase another 800,000 shares at $0.75 per share. We have adopted the 2007 Equity Incentive Plan and the 2010 Incentive Plan, which provide for the grant of equity based awards, including restricted stock, restricted stock units, stock options, stock appreciation rights and other equity-based awards to our directors, officers and other employees, advisors and consultants.

Our shareholder rights agreement and ability to issue preferred stock may discourage, delay or prevent a change in control of the Company that would benefit our shareholders.

Our Board of Directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions thereof, including voting rights, without any further vote or action by the Company's shareholders. Although we have no current plans to issue any other shares of preferred stock, the rights of the holders of common stock would be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. Issuance of preferred stock could have the effect of discouraging, delaying, or preventing a change in control of the Company that would be beneficial to our shareholders.

Under the rights agreement, each shareholder has also received one preferred share purchase right for each share of our common stock owned by the shareholder. The rights are attached to the common stock and will trade separately and be exercisable only in the event that a person or group acquires or announces the intent to acquire 20% or more of our common stock. Each right will entitle shareholders to buy one one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $10. If we are acquired in a merger or other business combination transaction after a person has acquired 20% or more of our outstanding common stock, each right will entitle its holder to purchase, at the right's then-current exercise price, a number of the acquiring company's common shares having a market value of twice such price. In addition, if a person or group acquires 20% or more of our outstanding common stock, each right will entitle its holder (other than such person or members of such group) to purchase, at the right's then-current exercise price, a number of Point.360 common shares having a market value of twice such price. Before a person or group acquires beneficial ownership of 20% or more of our common stock, the rights are redeemable for $.0001 per right at the option of the Board of Directors.

Although our shareholder rights agreement is intended to encourage anyone seeking to acquire the Company to negotiate with the Board prior to attempting a takeover, the rights agreement may have the effect of discouraging, delaying or preventing a change in control of the Company that would be beneficial to our shareholders.

We do not expect to pay dividends.

We do not believe that we will have the financial strength to pay dividends in the foreseeable future. If we do not pay dividends, the price of our common stock must appreciate for you to receive a gain on your investment in the Company. This appreciation may not occur.

Our controlling shareholder may cause the Company to be operated in a manner that is not in the best interests of other shareholders.

Our Chairman, President and Chief Executive Officer, Haig S. Bagerdjian, beneficially owns approximately 54% of our common stock. By virtue of his stock ownership, Mr. Bagerdjian may be able to significantly beneficially influence the outcome of matters required to be submitted to a vote of shareholders, including (1) the election of the Board of Directors, (2) amendments to our Articles of Incorporation and (3) approval of mergers and other significant corporate transactions. The foregoing may have the effect of discouraging, delaying or preventing certain types of transactions involving an actual or potential change of control of the Company, including transactions in which the holders of common stock might otherwise receive a premium for their shares over current market prices.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable

ITEM 2. PROPERTIES

As of June 30, 2016, the Company owned or leased six facilities which all have production capabilities and/or sales activities. The terms of leases for leased facilities expire at various dates from 2016 to 2021. The following table sets forth the location and approximate square footage of the Company's properties:

	Square Footage
Burbank, CA (owned)	32,000
Burbank, CA (leased)	38,000
Los Angeles, CA (leased)	64,600
Westminster, CA (leased)	1,300
Costa Mesa, CA (leased)	1,200
La Mirada, CA (leased)	1,600

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company may become a party to legal actions and complaints arising in the ordinary course of business, although it is not currently involved in any such material legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's Common Stock was traded on the NASDAQ Capital Markets until December 2014, and the OTCQX market thereafter under the symbol PTSX. The following table sets forth the high and low closing price per share for the Common Stock for each quarter of the fiscal years ended June 30, 2015 and 2016.

	Common Stock Low	Common Stock High
Year Ended June 30, 2015		
First Quarter	$0.36	$0.90
Second Quarter	$0.22	$0.53
Third Quarter	$0.26	$0.48
Fourth Quarter	$0.12	$0.39

	Common Stock Low	Common Stock High
Year Ended June 30, 2016		
First Quarter	$0.24	$1.15
Second Quarter	$0.76	$1.25
Third Quarter	$0.64	$1.00
Fourth Quarter	$0.40	$0.80

On August 31, 2016, the closing sale price of the Common Stock as reported on the OTCQX Market was $0.60 per share. On that date, there were approximately 1,000 holders of record of the Common Stock.

Dividends

The Company has paid no dividends on its Common Stock. The Company's ability to pay dividends depends upon limitations under applicable law and covenants under its bank agreements. The Company currently does not intend to pay any dividends on its Common Stock in the foreseeable future (see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources").

Stock Repurchases and Unregistered Stock Issuances

During the year ended June 30, 2016 the Company did not repurchase any of its securities, or issue any securities that were not registered under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The following data, insofar as they relate to the fiscal years ended June 30, 2012 to 2016 have been derived from the Company's annual financial statements. This information should be read in conjunction with the Financial Statements and Notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein. All amounts are shown in thousands, except per share data.

	Year Ended June 30,				
Statement of Operations Data	**2012**	**2013**	**2014**	**2015**	**2016**
Revenues	$ 34,960	$ 30,937	$ 25,733	$ 21,581	$ 37,570
Cost of services sold	(22,064)	(20,419)	(17,347)	(14,206)	(29,244)
Gross profit	12,896	10,518	8,386	7,375	8,326
Selling, general and administrative expense	(12,074)	(11,982)	(11,336)	(10,329)	(17,235)
Operating income (loss)	822	(1,464)	(2,950)	(2,954)	(8,909)
Interest expense, net	(814)	(394)	(285)	(256)	(544)
Other income	440	647	588	324	4,986
(Provision for) benefit from income tax	-	(23)	(3)	-	2,709
Net income (loss)	$ 448	$ (1,234)	$ (2,650)	$ (2,886)	$ (1,758)
Income (loss) per share	$ 0.04	$ (0.12)	$ (0.25)	$ (0.27)	$ (0.14)
Weighted average common share outstanding	10,513	10,513	10,533	10,537	12,535

	Year Ended June 30,				
Other Data	**2012**	**2013**	**2014**	**2015**	**2016**
Capital expenditures…………….	$ 3,271	$ 476	$ 380	$ 416	$ 1,306
Selected Balance Sheet Data					
Cash and cash equivalents………..	$ 1,219	$ 1,696	$ 2,346	$ 22	$ 49
Working capital ………………….	4,261	3,420	(1,723)	(3,676)	(3,311)
Property and equipment, net……...	17,475	15,993	10,173	9,226	13,924
Total assets……………….………	25,971	23,652	17,049	13,380	20,542
Shareholders' equity………………	10,231	9,219	6,861	4,238	4,430

In presenting the financial data above in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported. See “Critical Accounting Policies” included elsewhere herein for a detailed discussion of the accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, certain statements in this annual report are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995, which involve certain risks and uncertainties, which could cause actual results to differ materially from those discussed herein, including but not limited to competition, customer and industry concentration, depending on technological developments, risks related to expansion, dependence on key personnel, fluctuating results, seasonality and control by management. See the relevant portions of the Company's documents filed with the Securities and Exchange Commission and Risk Factors in Item 1A of this Form 10-K, for a further discussion of these and other risks and uncertainties applicable to the Company's business.

Overview

Point.360 is one of the largest providers of video and film asset management services to owners, producers and distributors of entertainment content. We provide the post production services necessary to edit, master, reformat and archive our clients’ film and video content, including television programming, feature films and movie trailers using electronic and physical means. Clients include major motion picture studios and independent producers. The Company also rents and sells DVDs and video games directly to consumers through its Movie>Q retail stores.

We operate in a highly competitive environment in which customers desire a broad range of services at a reasonable price. There are many competitors offering some or all of the services provided by us. Additionally, some of our customers are large studios, which also have in-house capabilities that may influence the amount of work outsourced to companies like Point.360. We attract and retain customers by maintaining a high service level at reasonable prices.

The market for our services is primarily dependent on our customers’ desire and ability to monetize their entertainment content. The major studios derive revenues from re-releases and/or syndication of motion pictures and television content. While the size of this market is not quantifiable, we believe studios will continue to repurpose library content to augment uncertain revenues from new releases. Uncertain economic conditions can negatively impact the ability and willingness of independent producers to create new content.

The demand for entertainment content should continue to expand through web-based applications. We believe long and short form content will be sought by users of personal computers, hand-held devices and home entertainment technology. Additionally, changing formats from standard definition, to high definition, to Blu-Ray and perhaps to 3D will continue to give us the opportunity to provide new services with respect to library content.

To meet these needs, we must be prepared to invest in technology and equipment, and attract the talent needed to serve our client needs. Labor, facility and depreciation expenses constitute a majority of our costs. Our goals include maximizing facility and labor usage, and maintaining sufficient cash flow for capital expenditures and acquisitions of complementary businesses to enhance our service offerings.

We have an opportunity to expand our business by establishing closer relationships with our customers through excellent service at a competitive price and adding to our service offering. Our success is also dependent on attracting and maintaining employees capable of maintaining such relationships. Also, growth can be achieved by acquiring similar businesses that can increase revenues by adding new customers, or expanding current services to existing customers. For example, in July 2015, we completed the purchase of assets formerly owned by Modern VideoFilm, Inc. ("MVF"). As the result of the transaction, the Company added post-production service capabilities and expanded its client base comprising major studios, broadcast networks, cable outlets, streaming media companies, independent producers and others.

Our business generally involves the immediate servicing needs of our customers. Most orders are fulfilled within several days, with occasional larger orders spanning weeks or months. At any particular time, we have little firm backlog.

We believe that our interconnected facilities provide the ability to better service customers than single-location competitors. We will look to expand both our service offering and geographical presence through acquisition of other businesses or opening additional facilities.

	Twelve Months Ended June 30,					
	2014		2015		2016	
	Amount	Percent of Revenues	Amount	Percent of Revenues	Amount	Percent of Revenues
Revenues……………………………………….	$ 25,733	100.0	$ 21,581	100.0	$ 37,570	100.0
Costs of services sold……………...………..….	(17,347)	(67.4)	(14,206)	(65.8)	(29,244)	(77.8)
Gross profit…………………………………….	8,386	32.6	7,375	34.2	8,326	22.2
Selling, general and administrative expense…...	(11,336)	(44.1)	(10,329)	(47.9)	(17,235)	(45.9)
Operating income (loss)………………………..	(2,950)	(11.5)	(2,954)	(13.7)	(8,909)	(23.7)
Interest expenses, net………………………….	(285)	(1.1)	(256)	(1.2)	(544)	(1.4)
Other income…………………………………..	588	2.3	324	1.5	4,986	13.3
Income taxes…………………………………...	(3)	-	-	-	2,709	7.2
Net income (loss)……………….………....…	$ (2,650)	(10.3)	$ (2,886)	(13.4)	$ (1,758)	(4.7)

Twelve Months Ended June 30, 2016 Compared to Twelve Months Ended June 30, 2015

Revenues. Revenues were $37.6 million for the twelve months ended June 30, 2016, compared to $21.6 million for the twelve months ended June 30, 2015. All of the $16.0 million sales increase was due to the addition of MVF as of July 8, 2015. There is a risk that negative sales fluctuations may occur for these customers the future. Larger project-based orders can also affect revenues depending on the size of the order and the length of time needed to perform the required services. Additionally, sales to continuing MVF customers may be negatively impacted due to employee turnover and customer reaction to facility changes and other transition activities resulting from the acquisition transaction. We continue to have excellent relations with our major customers.

Cost of Services. Costs of services consist principally of wages and benefits, facility costs and depreciation of physical assets. During the twelve months ended June 30, 2016, total costs of services increased $15.0 million ($16.1 million due to the addition of MVF), and were 78% of sales compared to 66% in the prior year. $10.8 million of the increase was associated with wages and benefits. In the current period, depreciation costs increased $0.5 million due to the addition of MVF assets.

Gross Profit. In the twelve months ended June 30, 2016, gross margin was 22% of sales, compared to 34% for the same period last year. The decrease in gross profit percentage is due to the factors cited above. From time to time, we will increase or decrease staff capabilities to satisfy potential customer service demand. We expect gross margins to fluctuate in the future as the sales mix changes.

Selling, General and Administrative Expense. SG&A expense was $17.2 million (46% of sales) in the twelve months ended June 30, 2016 as compared to $10.3 million (48% of sales) in the same period last year. SG&A for the twelve month period ended June 30, 2016 includes approximately $0.3 million of legal, accounting and other expenses related to the MVF purchase transaction.

Operating Loss. Operating loss was $8.9 million in the twelve months ended June 30, 2016 period compared to a $3.0 million loss in the same period last year.

Interest Expense. Net interest expense was $0.5 million in the twelve months ended June 30, 2016 compared to $0.3 million in the prior year period. The increase was due to additional borrowings under the revolving line of credit and Term Loan Agreement.

Other Income. Other income in both periods includes sublease income. Other income in the current period is $5.0 million, which includes $4.1 million representing the difference between (x) the aggregate fair values assigned to the tangible and intangible MVF assets acquired (less liabilities assumed), and (y) the fair value of the common shares and the warrants given as consideration for the purchase.

Income Taxes. During the twelve months ended June 30, 2016, the Company recorded a deferred income tax benefit in the amount of $2.7 million related to the MVF assets acquired.

Net Loss. Net loss in the twelve months ended June 30, 2016 was $1.8 million, compared to a $2.9 million loss in the prior year period.

Twelve Months Ended June 30, 2015 Compared to Twelve Months Ended June 30, 2014

Revenues. Revenues were $21.6 million for the twelve months ended June 30, 2015, compared to $25.7 million for the twelve months ended June 30, 2014. Sales declined $0.9 million due to our decision to terminate our computer graphics business in October 2013 due to uncertain revenues and the need to retain costly talent. The remaining $3.2 million shortfall is principally due to three customers reducing their outsourced requirements when compared to the prior year period. Year-to-year sales to other customers were comparable. Our three largest customers accounted for approximately 61% of sales in the fiscal 2015 period. There is a risk that negative sales fluctuations may occur for these customers in the future. Larger project-based orders can also affect revenues depending on the size of the order and the length of time needed to perform the required services. We continue to have excellent relations with our major customers.

Cost of Services. Costs of services consist principally of wages and benefits, facility costs and depreciation of physical assets. During the twelve months ended June 30, 2015, total costs of services declined $3.1 million, and were 66% of sales compared to 67% in the prior year. $1.7 million of the decrease was associated with wages and benefits. In the current period, depreciation costs decreased $0.4 million.

Gross Profit. In the twelve months ended June 30, 2015, gross margin was 34% of sales, compared to 33% for the same period last year. The increase in gross profit percentage is due to the factors cited above. From time to time, we will increase or decrease staff capabilities to satisfy potential customer service demand. We expect gross margins to fluctuate in the future as the sales mix changes.

Selling, General and Administrative Expense. SG&A expense was $10.3 million (48% of sales) in the twelve months ended June 30, 2015 as compared to $11.3 million (44% of sales) in the same period last year.

Operating Loss. Operating loss was $3.0 million in the twelve months ended June 30, 2015 period compared to a $3.0 million loss in the same period last year.

Interest Expense. Net interest expense was $0.3 million in the twelve months ended June 30, 2015 compared to $0.3 million in the prior year.

Other Income. Other income in both periods includes sublease income. The prior year period included $0.3 million associated with a lawsuit settlement.

Net Loss. Net loss in the twelve months ended June 30, 2015 was $2.9 million, compared to a $2.7 million loss in the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

In August and September of 2012 (subsequently modified on December 18, 2013, September 5, 2014, and January 27, 2015), the Company entered into revolving credit, equipment financing and two mortgage agreements with a bank, as follows:

Revolving Credit Facility. The revolving credit facility previously provided up to $2 million of credit. The revolving credit agreement was canceled by the bank in December 2014 due to the Company's failure to meet minimum financial covenant requirements described below.

Equipment Financing Facility. The equipment financing facility previously provided up to $1.25 million of financing for the cost of new and already-owned or leased equipment. All amounts due under the facility (approximately $0.2 million) were paid off in February 2015.

Hollywood Way and Vine Street Mortgages. The Company entered into two real estate term loan agreements with respect to its Hollywood Way and Vine Street locations for $5.5 million and $3.1 million, respectively. The Vine mortgage was paid off upon sale of the building in June 2014. The remaining Hollywood Way mortgage provides for interest at LIBOR plus 3% (3.48% as of June 30, 2016). Repayment is based on monthly payments with a 25-year amortization, with all principal due in 10 years. The real estate loan is secured by a first trust deed on the property. As of June 30, 2016, the Company owed approximately $4.7 million under the mortgage.

Amounts due under the mortgage are secured by the related real estate. Until January 27, 2015, while amounts were outstanding under the credit arrangements described above, the Company was subject to minimum tangible net worth (TNW), EBITDA, and fixed charge ratio financial covenants. See below for changes in the covenant requirements occurring on that date.

As of September 30, 2014 the Company did not meet the TNW, the minimum quarterly EBITDA, and the minimum quarterly and TTM fixed charge ratio covenants. Availability under the revolving credit facility was canceled in December 2014. On January 27, 2015, the bank waived the Company's breach of financial covenants as of September 30, 2014. Concurrently, the bank eliminated the previously mentioned financial covenant requirements effective with the quarter ended December 31, 2014 and imposed a new covenant requiring that, effective June 30, 2015, the Company shall maintain a ratio of EBITDA (as defined) to the sum of interest expense and the current portion of long term debt of not less than 1.0 to 1, to be measured semi-annually. Interest expense was measured on June 30, 2015 on a calendar year to date basis. Commencing on December 31, 2015 and thereafter, EBITDA and interest expense will be measured at the end of each calendar half-year on the basis of the preceding twelve months. On June 30, 2016, the Company did not meet the new fixed charge ratio covenant.

In February 2015, the Company entered into a two-year $2 million credit agreement which, as amended in March 2016, provided for $4 million of borrowings based on 80% of acceptable accounts receivable as defined. The loan and security agreement as amended provided for interest at prime rate plus 1.0% (4.50% as of June 30, 2016). In addition, the Company will pay a monthly "collateral management" fee of 0.45% of the outstanding daily loan balance (an equivalent annual fee of 5.4%), and an annual commitment fee of $5,000. Amounts outstanding under the agreement were secured by all of the Company's personal property. As of June 30, 2016, the Company owed $0.4 million under the credit agreement. In July 2016, the line of credit terminated and replaced by a similar facility.

In July 2016, the Company entered into a three-year $4 million credit agreement based on 80% of acceptable accounts receivable as defined. The amended and restated loan and security agreement provides for interest at prime rate plus 1.0% (4.50% as of June 30, 2016). In addition, the Company will pay a monthly "collateral management" fee of 0.42% of the outstanding daily loan balance (an equivalent annual fee of 5.0%), and annual commitment fee of $20,000. Amounts outstanding under the agreement are secured by all of the Company's personal property subject to certain prior liens.

Due to the Company's ongoing failure to meet financial covenants, the balance owed for the mortgage debt has been classified as a current liability in the consolidated balance sheet as of June 30, 2016.

In connection with the purchase of the assets of Modern VideoFilm, Inc. on July 8, 2015, the Company entered into a Term Loan Agreement (the "Loan Agreement") with the Lenders. The Loan Agreement is comprised of a five-year term loan facility in the amount of $6,000,000, $1,000,000 of which was funded on the July 8, 2015 closing date. As of June 30, 2016, the Company had borrowed the $6,000,000 under the Loan Agreement.

We must pay monthly interest in arrears on the unpaid principal balance of the Term Loan at a rate per annum equal to three-month LIBOR plus 6.00% (6.65% as of June 30, 2016). At the Company's election, interest may be paid as "payment in kind" by adding such accrued interest to the unpaid principal balance of the Term Loan. The outstanding principal balance and all accrued and unpaid interest on the Term Loan are due and payable on July 8, 2020. We may voluntarily prepay the outstanding Term Loan from time to time in whole or in part without penalty or premium.

Amounts Borrowed. As of June 30, 2016, the Company had outstanding borrowings of $0.4 million under the revolving credit facility, $0.2 million of equipment financing, $4.7 million of mortgage debt, and $6.0 million under the Term Loan.

Monthly and annual principal and interest payments due under the capital leases, mortgage and Term Loan balances outstanding as of June 30, 2016 are approximately $69,000 and $0.8 million, respectively, assuming no change in interest rates.

The following table summarizes the June 30, 2016 amounts outstanding under our line of credit, capital lease obligations, term loan, and mortgage loans:

Line of credit ………………………………..	$	425,000
Current portion of notes payable, capital leases and mortgages…………………		4,819,000
Long-term portion of notes payable, capital leases and mortgages…………………		6,079,000
Total…………………………………………	$	11,323,000

The Company's cash balance increased from $22,000 on July 1, 2015 to $49,000 on June 30, 2016, due to the following:

Balance July 1, 2015 …………………………..	$	22,000
Decrease in accounts receivable……..………..		1,556,000
Decrease in inventory…………………………		108,000
Proceeds from line of credit………………….		302,000
Capital expenditures for property and equipment		(1,306,000)
Changes in other assets and liabilities …..…..		1,125,000
Net loss…..…….……………………………..		(1,758,000)
Balance June 30, 2016……….…….....	$	49,000

Cash generated by operating activities is directly dependent upon sales levels and gross margins achieved. We generally receive payments from customers in 30-90 days after services are performed. The larger payroll and facilities components of our cost structure must be paid currently. Payment terms of other liabilities vary by vendor and type. Fluctuations in sales levels will generally affect cash flow negatively or positively in early periods of growth or contraction, respectively, because of operating cash receipt/payment timing. Other investing and financing cash flows also affect cash availability.

In fiscal 2015 and 2016, the underlying drivers of operating cash flows (sales, receivable collections, the timing of vendor payments, facility costs and employment levels) have been consistent. Sales outstanding in accounts receivable have decreased from approximately 52 days to 49 days within the last 12 months. We do not expect days sales outstanding to materially fluctuate in the future.

The following table summarizes contractual obligations as of June 30, 2016 due in the future:

	Payment due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**Years 2 and 3**	**Years 4 and 5**	**Thereafter**
Term Debt Principal Obligations	$ 10,717,000	$ 4,717,000	$ -	$ 6,000,000	$ -
Term Debt Interest Obligations (1)	2,147,000	551,000	798,000	798,000	-
Capital Lease Obligations	181,000	102,000	79,000	-	-
Capital Lease Interest Obligations	11,000	8,000	3,000	-	-
Operating Lease Obligations	9,869,000	3,109,000	3,946,000	2,814,000	-
Line of Credit Obligations	425,000	425,000	-	-	-
Total	$ 23,350,000	$ 8,912,000	$ 4,826,000	$ 9,612,000	$ -

(1) Interest on variable rate debt has been computed using the rate on the latest balance sheet date.

During the past year, the Company had sufficient cash flow to meet operating, capital expenditure and debt service needs and its other obligations. When preparing estimates of future cash flows, we consider historical performance, technological changes, market factors, industry trends and other criteria. Cash flows from operations were ($60,000), ($1,627,000) and ($4,639,000), for years ended June 30, 2014, 2015 and 2016, respectively. Cash flows from operations will vary from period to period, depending on cash receipts and payment timing with respect to current assets and current liabilities. We believe additional working capital will be needed to meet the Company's operating goals in the fiscal year ending June 30, 2017. While there can be no assurance that the Company will be able to raise such working capital in a timely fashion and on terms satisfactory to the Company, the Company is pursuing a sale/leaseback of its owned real estate to generate sufficient cash flows during the fiscal year ending June 30, 2017. In our opinion, such a transaction will provide needed funds, unless its bank elects to declare all obligations due and payable as a result of a covenant default condition.

We occasionally consider the acquisition of businesses which complement our current operations and possible real estate transactions. Consummation of any acquisition, real estate or other expansion transaction by the Company may be subject to the Company securing additional financing, perhaps at a cost higher than our existing line of credit and term loans. In the current economic climate, additional financing may not be available. Future earnings and cash flow may be negatively impacted to the extent that any acquired entities do not generate sufficient earnings and cash flow to offset the increased financing costs.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates and judgments, including those related to allowance for doubtful accounts, valuation of long-lived assets, and accounting for income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Critical accounting policies are those that are important to the portrayal of the Company's financial condition and results, and which require management to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. We have made critical estimates in the following areas:

Revenues. We perform a multitude of services for our clients, including film-to-tape transfer, video and audio editing, standards conversions, duplication, distribution, etc. A customer orders one or more of these services with respect to an element (movie, television show, etc.). The sum total of services performed on a particular element (a "package") becomes the deliverable (i.e., the customer will pay for the services ordered in total when the entire job is completed). Occasionally, a major studio will request that package services be performed on multiple elements. Each element creates a separate revenue stream which is recognized only when all requested services have been performed on that element. At the end of an accounting period, revenue is accrued for un-invoiced but shipped work.

Certain jobs specify that many discrete tasks must be performed which require up to four months to complete. In such cases, we use the proportional performance method for recognizing revenue. Under the proportional performance method, revenue is recognized based on the value of each stand-alone service completed.

In some instances, a client will request that we store (or "vault") an element for a period ranging from a day to indefinitely. The Company attempts to bill customers a nominal amount for storage, but some customers, especially major movie studios, will not pay for this service. In the latter instance, storage is an accommodation to foster additional business with respect to the related element. It is impossible to estimate (i) the length of time we may house the element, or (ii) the amount of additional services we may be called upon to perform on an element. We do not treat vaulting as a separate deliverable in those instances in which the customer does not pay.

The Company records all revenues when all of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery has occurred or the services have been rendered; (iii) the Company's price to the customer is fixed or determinable; and (iv) collectability is reasonably assured. Additionally, in instances where package services are performed on multiple elements or where the proportional performance method is applied, revenue is recognized based on the value of each stand-alone service completed.

Allowance for doubtful accounts. We are required to make judgments, based on historical experience and future expectations, as to the collectability of accounts receivable. The allowances for doubtful accounts and sales returns represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. The Company records these allowances as a charge to selling, general and administrative expenses based on estimates related to the following factors: (i) customer specific allowance; (ii) amounts based upon an aging schedule and (iii) an estimated amount, based on the Company's historical experience, for issues not yet identified.

Valuation of long-lived assets. Long-lived assets, consisting primarily of property, plant and equipment, comprise a significant portion of the Company's total assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to its fair value in a current transaction between willing parties, other than in a forced liquidation sale.

Factors we consider important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy of our overall business;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization relative to net book value.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on comparing the carrying amount of the asset to its fair value in a current transaction between willing parties or, in the absence of such measurement, on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Any amount of impairment so determined would be written off as a charge to the statement of operations, together with an equal reduction of the related asset. Net long-lived assets amounted to approximately $14.2 million as of June 30, 2016.

Accounting for income taxes. As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statements of operations.

At June 30, 2016, the Company has no uncertain tax positions. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The deferred tax assets are fully reserved at June 30, 2016.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk. The Company had borrowings of $11.3 million on June 30, 2016 under note payable, Term Loan and mortgage agreements. Our line of credit, equipment financing, Term Loan and mortgage loan are subject to variable interest rates. The weighted average interest rate paid during fiscal 2016 was 4.8%. For variable rate debt outstanding at June 30, 2016, a .25% increase in interest rates will increase annual interest expense by approximately $28,000. Amounts outstanding or that may become outstanding under the credit facilities provide for interest primarily at the LIBOR plus 3.0 – 6.0% (3.45% to 6.65% as of June 30, 2016. The Company's market risk exposure with respect to financial instruments is to changes in LIBOR or the prime rate.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Schedules other than those listed above have been omitted since they are either not required, are not applicable or the required information is shown in the financial statements or the related notes.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Point.360

We have audited the accompanying consolidated balance sheets of Point.360 (collectively, the "Company") as of June 30, 2015 and 2016, and the related consolidated statements of operations, shareholders' equity, and cash flows for the three years then ended. Our audits also included the financial statement schedule of the Company listed in Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2015 and 2016, and the results of its operations and its cash flows for the three years then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ SingerLewak LLP
Los Angeles, California
September 16, 2016

Point.360
Consolidated Balance Sheets
(in thousands)

	As of June 30,	
Assets	**2015**	**2016**
Current assets:		
Cash and cash equivalents	$ 22	$ 49
Accounts receivable, net of allowances for doubtful accounts of $249 and $293, respectively	3,067	4,729
Inventories, net	135	127
Prepaid expenses and other current assets	315	498
Total current assets	3,539	5,403
Property and equipment, net	9,226	13,924
Other assets, net	615	1,215
Total assets	$ 13,380	$ 20,542
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of notes payable	$ 5,062	$ 5,142
Current portion of capital lease obligations	55	102
Accounts payable	714	838
Accrued wages and benefits	972	2,057
Other accrued expenses	26	188
Current portion of deferred gain on sale of real estate	178	178
Current portion of deferred lease incentive	209	209
Total current liabilities	7,216	8,714
Capital lease obligations, less current portion	88	79
Deferred gain on sale of real estate, less current portion	846	668
Deferred lease incentive, less current portion	992	783
Notes payable, less current portion	-	5,868
Total long-term liabilities	1,926	7,398
Total liabilities	9,142	16,112
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock – no par value; 5,000,000 shares authorized; none issued and outstanding	-	-
Common stock – no par value; 50,000,000 shares authorized; 10,536,906 and 12,630,506 shares issued and outstanding on June 30, 2015 and June 30, 2016, respectively	21,715	22,924
Additional paid-in capital	11,175	11,916
Accumulated deficit	(28,652)	(30,410)
Total shareholders' equity	4,238	4,430
Total liabilities and shareholders' equity	$ 13,380	$ 20,542

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

Point.360
Consolidated Statements of Operations
(in thousands, except per share amounts)

	Year Ended June 30, 2014	2015	2016
Revenues	$ 25,733	$ 21,581	$ 37,570
Cost of services sold	(17,347)	(14,206)	(29,244)
Gross profit	8,386	7,375	8,326
Selling, general and administrative expense	(11,336)	(10,329)	(17,235)
Operating loss	(2,950)	(2,954)	(8,909)
Interest expense	(285)	(256)	(544)
Gain on bargain purchase	-	-	4,099
Other income	588	324	887
Loss before income taxes	(2,647)	(2,886)	(4,467)
(Provision for) benefit from income tax	(3)	-	2,709
Net loss	$ (2,650)	$ (2,886)	$ (1,758)
Basic and diluted loss per share	$ (0.25)	$ (0.27)	$ (0.14)
Weighted average number of shares (Basic)	10,533	10,537	12,535
Weighted average number of shares (Diluted)	10,533	10,537	12,535

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

Point.360
Consolidated Statements of Shareholders' Equity
(in thousands)

	Common Stock				
	Shares	Dollars	Paid-in Capital	Accumulated Deficit	Shareholders' Equity
Balance on June 30, 2013	10,513	$ 21,695	$ 10,641	$ (23,117)	$ 9,219
Stock option exercises	24	20	-	-	20
Share based compensation expense	-	-	272	-	272
Net loss	-	-	-	(2,650)	(2,650)
Balance on June 30, 2014	10,537	$ 21,715	$ 10,913	$ (25,767)	$ 6,861
Share based compensation expense	-	-	263	-	263
Net loss	-	-	-	(2,886)	(2,886)
Balance as of June 30, 2015	10,537	$ 21,715	$ 11,176	$ (28,653)	$ 4,238
Share issuance for assets	2,000	1,155	262	-	1,417
Warrant issuance for Term Loan	-	-	165	-	165
Stock option exercises	94	54	-	-	54
Share based compensation expense	-	-	313	-	313
Net loss	-	-	-	(1,758)	(1,758)
Balance as of June 30, 2016	12,631	$ 22,924	$ 11,916	$ (30,410)	$ 4,430

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

Point.360
Consolidated Statements of Cash Flows
(in thousands)

	Year Ended June 30,		
	2014	**2015**	**2016**
Cash flows from operating activities:			
Net loss	$ (2,650)	$ (2,886)	$ (1,758)
Adjustments to reconcile net loss to net cash used in operating activities:			
Gain on sale of equipment or real estate	18	-	-
Gain on bargain purchase	-	-	(4,099)
Income tax benefit - deferred	-	-	(2,714)
Depreciation and amortization	1,841	1,363	2,176
Amortization of deferred gain on sale of real estate	(178)	(179)	(179)
Amortization of deferred lease credit	(208)	(209)	(208)
Provision for (recovery of) doubtful accounts	(99)	21	(145)
Share based compensation expense	272	263	313
Issuance of common stock	20	-	54
Changes in operating assets and liabilities (net of acquisitions):			
Decrease in accounts receivable	1,377	343	1,556
Decrease in inventories	85	95	108
(Increase) decrease in prepaid expenses and other current assets	22	(85)	(174)
(Increase) decrease in other assets	48	23	(170)
(Decrease) increase in accounts payable	(269)	(319)	124
(Decrease) increase in accrued wages and benefits	(298)	(48)	315
(Decrease) in other accrued expenses and other long term liabilities	(21)	(9)	162
Net cash and cash equivalents used in operating activities	(40)	(1,627)	(4,639)
Cash flows from investing activities:			
Capital expenditures	(380)	(416)	(1,306)
Proceeds from sale of equipment or real estate	4,457	-	-
Net cash and cash equivalents (used in) provided by investing activities	4,077	(416)	(1,306)
Cash flows from financing activities:			
Borrowings from revolving credit agreement	-	124	302
Borrowings of notes payable	-	-	6,000
Net repayment on notes payable	(3,214)	(221)	(221)
Net repayment on capital lease obligations	(173)	(184)	(109)
Net cash and cash equivalents provided by (used in) financing activities	(3,387)	(281)	5,972
Net increase (decrease) in cash and cash equivalents	650	(2,324)	27
Cash and cash equivalents at beginning of year	1,696	2,346	22
Cash and cash equivalents at end of year	$ 2,346	$ 22	$ 49

Selected cash payments and non-cash activities were as follows (in thousands):

	Year Ended June 30,		
	2014	**2015**	**2016**
Cash payments for income taxes (net of refunds)	$ 5	$ -	$ 5
Cash payments for interest	$ 284	$ 252	$ 502
Assets acquired through capital lease	$ 116	$ 170	$ 119
Purchase of assets for common stock and warrants	$ -	$ -	$ 1,417
Non-cash deferred interest expense	$ -	$ -	$ 165

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

Point.360
Notes to Consolidated Financial Statements

1. THE COMPANY

Point.360 and subsidiaries (the "Company," "we" or "our") provides high definition and standard definition digital mastering, data conversion, video and film asset management, distribution and other services to owners, producers and distributors of entertainment and advertising content. The Company provides the services necessary to edit, master, reformat, convert, archive and ultimately distribute its clients' film and video content, including television programming feature films and movie trailers. The Company's interconnected facilities provide service coverage to all major U.S. media centers. Clients include major motion picture studios and independent producers. The Company also rents and sells DVDs directly to consumers through its Movie>Q retail stores.

In July 2015, the Company completed the purchase of assets formerly owned by Modern VideoFilm, Inc. by issuing shares of its common stock and warrants to purchase shares of the Company's common stock. As a result of the transaction, the Company added post-production service capabilities and expanded its client base comprising major studios, broadcast networks, cable outlets, streaming media companies, independent producers and others.

The Company operates in two business segments from three post production and three Movie>Q locations. Each post production location is electronically tied to the others and serves the same customer base. Depending on the location size, the production equipment consists of tape duplication, editing, encoding, standards conversion, and other machinery. Each location employs personnel with the skills required to efficiently run the equipment and handle customer requirements. While all locations are not exactly the same, an order received at one location may be fulfilled at one or more "sister" facilities to use resources in the most efficient manner.

Typically, a feature film or television show or related material will be submitted to a facility by a motion picture studio, independent producer, advertising agency, or corporation for processing and distribution. A common sales force markets the Company's capabilities for all facilities. Once an order is received, the local customer service representative determines the most cost-effective way to perform the services considering geographical logistics and facility capabilities.

In fiscal 2010, the Company purchased assets and intellectual property for a research and development project to address the viability of the DVD rental business being abandoned by the closure of Movie Gallery/Hollywood Video and Blockbuster stores. The DVD rental market consists principally of online services (Netflix), vending machines (Redbox) and other video stores.

As of June 30, 2016, the Company had opened three Movie>Q stores in Southern California. The stores employ an automated inventory management ("AIM") system in a 1,200-1,600 square foot facility. By saving space and personnel costs which caused the big box stores to be uncompetitive with lower priced online and vending machine rental alternatives, Movie>Q can offer up to 10,000 unit selections to a customer at competitive rental rates. Movie>Q provides online reservations, an in-store destination experience, first run movie titles and a large unit selection (as opposed to 400-700 for a Redbox vending machine). Movie>Q provides the Company with a content distribution capability complimentary to the Company's post production business.

The accompanying Consolidated Financial Statements include the accounts and transactions of the Company, including those of the Company's subsidiaries. The statements have been prepared in accordance with accounting principles generally accepted in the United States of America and by the Securities and Exchange Commission's rules and regulations for reporting financial statements and footnotes. All intercompany balances and transactions have been eliminated in the Consolidated Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents.

Cash equivalents represent highly liquid short-term investments with original maturities of less than three months when purchased.

Revenues.

We perform a multitude of services for our clients, including film-to-tape transfer, video and audio editing, standards conversions, adding special effects, duplication, distribution, etc. A customer orders one or more of these services with respect to an element (movie, television show, etc.). The sum total of services performed on a particular element (a "package") becomes the deliverable (i.e., the customer will pay for the services ordered in total when the entire job is completed). Occasionally, a major studio will request that package services be performed on multiple elements. Each element creates a separate revenue stream which is recognized only when all requested services have been performed on that element. At the end of an accounting period, revenue is accrued for un-invoiced but shipped work.

Certain jobs specify that many discrete tasks must be performed which require up to four months to complete. In such cases, we use the proportional performance method for recognizing revenue. Under the proportional performance method, revenue is recognized based on the value of services already completed on each specific element.

In some instances, a client will request that we store (or "vault") an element for a period ranging from a day to indefinitely. The Company attempts to bill customers a nominal amount for storage, but some customers, especially major movie studios, will not pay for this service. In the latter instance, storage is an accommodation to foster additional business with respect to the related element. It is impossible to estimate (i) the length of time we may house the element, or (ii) the amount of additional services we may be called upon to perform on an element. We do not treat vaulting as a separate deliverable in those instances in which the customer does not pay.

The Company records all revenues when all of the following criteria are met: (i) there is persuasive evidence that an arrangement exists; (ii) delivery has occurred or the services have been rendered; (iii) the Company's price to the customer is fixed or determinable; and (iv) collectability is reasonably assured. Additionally, in instances where package services are performed on multiple elements or where the proportional performance method is applied, revenue is recognized based on the value of each stand-alone service completed.

Allowance for doubtful accounts.

We are required to make judgments, based on historical experience and future expectations, as to the collectability of accounts receivable. The allowances for doubtful accounts represent allowances for customer trade accounts receivable that are estimated to be partially or entirely uncollectible. These allowances are used to reduce gross trade receivables to their net realizable value. The Company records these allowances as a charge to selling, general and administrative expenses based on estimates related to the following factors: (i) customer specific allowance; (ii) amounts based upon an aging schedule and (iii) an estimated amount, based on the Company's historical experience, for issues not yet identified.

Accounting for income taxes.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the consolidated statements of operations.

At June 30, 2016, the Company has no uncertain tax positions. Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The deferred tax assets are fully reserved at June 30, 2015 and June 30, 2016.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, and accounts receivable. The Company maintains its cash and cash equivalents with high credit quality financial institutions; at times, such balances with any one financial institution may exceed FDIC insured limits, which was the case as of June 30, 2016.

Credit risk with respect to trade receivables is concentrated due to the large number of orders with major entertainment studios in any particular reporting period. Our five largest studio customers represented 61% and 52% of accounts receivable at June 30, 2015 and 2016, respectively. Twentieth Century Fox (and affiliates) accounted for 17% and 5% of accounts receivable as of June 30, 2015 and 2016, respectively. Disney accounted for 27% and 27% of accounts receivable as of June 30, 2015 and 2016, respectively. Fremantle Media accounted for 12% and 4% of accounts receivable as of June 30, 2015 and 2016, respectively. The Company reviews credit evaluations of its customers but does not require collateral or other security to support customer receivables.

The five largest studio customers accounted for 69%, 68% and 63% of net revenues for the years ended June 30, 2014, 2015 and 2016, respectively. Twentieth Century Fox (and affiliates) accounted for 25%, 23% and 17% of revenues in the years ended June 30, 2014, 2015 and 2016, respectively. Fremantle Media accounted for 15%, 14% and 6% of sales in the years ended June 30, 2014, 2015 and 2016, respectively, while sales to Disney were 22%, 24% and 23% of sales in the years ended June 30, 2014, 2015 and 2016, respectively.

Inventories

Inventories comprise raw materials, principally tape stock, and DVD's, and are stated at the lower of cost or market. Cost is determined using the average cost method. The rental library for the Movie>Q stores consists of DVD's available for rental by customers. Because of the DVD's relatively short useful lives, we view these assets to be current assets. We utilize the accelerated method of depreciation because it approximates the demand for the product. A nominal residual value is established. Movie>Q depreciation expense totaled $144,000, $141,000 and $126,000 for the years ended June 30, 2014, 2015 and 2016, respectively.

Property and Equipment

Property and equipment are stated at cost. Expenditures for additions and major improvements are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the estimated useful lives of the improvements or the remaining lease term.

Operating Leases

Operating leases are accounted for in accordance with FASB Accounting Standard Codification Topic 840, "*Accounting for Leases*." Rent expense under operating leases is recognized on a straight-line basis over the lease term. The difference between the rent expense and the rent payment is recorded as an increase or decrease in deferred rent liability. The Company accounts for tenant allowances in lease agreements as a deferred lease incentive. The deferred lease incentive is then amortized on a straight-line basis over the lease term as a reduction of rent expense. For operating leases that include rent free periods or escalation clauses over the term of the lease, the Company recognizes rent expense on a straight-line basis and the difference between expense and amounts paid is recorded as deferred rent in current and long-term liabilities.

Advertising Costs

Advertising costs are not significant to the Company's operations and are expensed as incurred.

Fair Value Measurement

The Company follows a framework for consistently measuring fair value under generally accepted accounting principles, and the disclosures of fair value measurements. The framework provides a fair value hierarchy to classify the source of the information.

The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value and include the following:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Cash and cash equivalents, the only Level 1 input applicable to the Company (there are no Level 2 or 3 inputs), is stated on the Consolidated Balance Sheets at fair value.

As of June 30, 2015 and 2016, the carrying value of accounts receivable, accounts payable, accrued expenses and other liabilities approximates fair value due to the short-term nature of such instruments. The carrying value of notes payable, capital lease obligations, and other long-term liabilities approximates fair value as the related interest rates approximate rates currently available to the Company.

Impairment of long lived assets

Factors we consider important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of our use of the acquired assets or the strategy of our overall business;
- Significant negative industry or economic trends;
- Significant decline in our stock price for a sustained period; and
- Our market capitalization relative to net book value.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure any impairment based on comparing the carrying amount of the asset to its fair value in a current transaction between willing parties or, in the absence of such measurement, on a projected discounted cash flow method using a discount rate determined by our management to be commensurate with the risk inherent in our current business model. Any amount of impairment so determined would be written off as a charge to the statement of operations, together with an equal reduction of the related asset. Net long-lived assets amounted to approximately $14.2 million as of June 30, 2016.

As of June 30, 2016, we compared the book value of our building ($7.7 million at June 30, 2016) to market comparables provided by a real estate appraisal, and equipment ($6.2 million at June 30, 2016) to an appraisal performed in conjunction with the 2015 purchase of the assets of Modern VideoFilm, Inc. which indicated no impairment. We then considered operating cash flows for the three years then ended together with a forecast for the fiscal year ended June 30, 2017. As indicated in the Consolidated Statements of Cash Flows, the Company reported the following "Net cash and cash equivalents used in operating activities" for the last three fiscal years:

Year ended June 30, 2014	$ (40,000)
Year ended June 30, 2015	$ (1,627,000)
Year ended June 30, 2016	$ (4,639,000)

We also considered the Company's closing stock price which ranged from $0.12 to $1.35 per share over the three fiscal years ended June 30, 2016 ($0.68 as of June 30, 2016). While the stock price could be an indicator of impairment, we believe that it is not an appropriate measurement of value for Point.360 since market fluctuations (both increases and decreases) are often short term in nature, and the stock is thinly traded, can fluctuate widely on very low volume, and there is no significant institutional ownership. We believe the equipment and real estate appraisals are the more relevant indicators.

We have also considered the evolution of our production work from physical to file-based formats. This trend is expected to continue, and we have taken and will continue to take, steps to consolidate facilities and realign capabilities which have enhanced operating cash flow. While this evolution will create uncertainties which may result in a material future impairment, we do not believe such impairment exists, and that further impairment testing is not required, for the year ended June 30, 2016.

Valuation of long-lived assets.

Long-lived assets, consisting primarily of property and equipment, comprise a significant portion of the Company's total assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. Recoverability of assets is measured by comparing the carrying amount of an asset to its fair value in a current transaction between willing parties, other than in a forced liquidation sale.

In fiscal 2010, the Company acquired assets and technology from Kiosk Concepts, LLC and DVDs on the Run, Inc. for use in developing the Movie>Q proof of concept. The assets included (i) vending machine type kiosks and related machinery, and (ii) an automated DVD management system. The Movie>Q R&D project evaluated the capabilities and potential economics of both models. In 2010, the Company opened three Movie>Q stores incorporating the automated inventory management (AIM) system while further investigating potential uses of the kiosk assets. On March 31, 2011, the Company determined that the AIM system would be used exclusively for Movie>Q, and that the kiosk assets of the Movie>Q business segment were impaired for accounting purposes.

For purposes of impairment testing under ASC 360, we considered potential cash flows from the kiosk assets. Since the decision was made to use the AIM system, and because the kiosk assets were easily separable from both the AIM assets and the chosen Movie>Q business model, separate kiosk cash flow evaluation was deemed appropriate. The kiosks are specialty retail machines that could conceivably be employed by the Company or another entity to compete with the Redbox-type business, but the kiosks were significantly larger than the Redbox version, required software development to become functional, and would require potentially large expenditures to ship them to a buyer. Because of these factors and our inability to attract a buyer, we deemed the potential cash flow from the kiosks to be negligible to zero, and that the salvage value is zero.

Due to the specialized nature of the assets, management's decision not to use the kiosk assets in Movie>Q, no perceived alternative use for the assets, and no indicated market value for the assets, management determined that the kiosk assets were fully impaired and recorded an impairment loss of $684,000 in the year ended June 30, 2011.

There were no impairment charges during the fiscal years ended June 30, 2014, 2015, and 2016.

Earnings (Loss) Per Share

The Company has historically followed Accounting Standards Codification No. 260, "Earnings per Share" ("ASC 260"), and related interpretations for reporting earnings per share. ASC 260 requires dual presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the reported period. Diluted EPS reflects the potential dilution that could occur if a company had a stock option plan and stock options were exercised using the treasury stock method.

A reconciliation of the denominator of the basic EPS computation to the denominator of the diluted EPS computation is as follows (in thousands):

	Year Ended June 30,		
	2014	**2015**	**2016**
Weighted average number of common shares outstanding used in computation of basic EPS	10,533	10,537	12,535
Dilutive number of outstanding stock options	-	-	-
Weighted average number of common and potential common shares outstanding used in computation of Diluted EPS	10,533	10,537	12,535
Number of dilutive options excluded in the computation of diluted EPS due to net loss	71	4	464

The weighted average number of common shares outstanding was the same amount for both basic and diluted income or loss per share in the 2014 and 2015 periods presented. The effect of potentially dilutive securities for the 2014, 2015 and 2016 periods was excluded from the computation of diluted earnings per share because the Company reported a net loss, and the effect of inclusion would be anti-dilutive (i.e., including such securities would result in a lower loss per share). The number of anti-dilutive shares were 0, 30,000 and 1,114,000 as of June 30, 2014, 2015 and 2016, respectively.

New Accounting Updates Recently Adopted

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. The standard is effective in the annual reporting periods beginning after December 15, 2016. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company has early adopted ASU 2015-17 effective June 30, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of our net current deferred tax assets to the net non-current deferred tax assets in our Consolidated Balance Sheet as of June 30, 2016. Prior periods were not retrospectively adjusted.

Recent Accounting Standards or Updates Not Yet Effective

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes the lease accounting requirements in Topic 840. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. The guidance also requires qualitative and specific quantitative disclosures to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities, including significant judgments and changes in judgments. This accounting guidance is effective for the Company in annual financial reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of this accounting guidance may have on its consolidated financial statements.

3. PROPERTY AND EQUIPMENT

In March 2006, the Company entered into a sale and leaseback transaction with respect to its Media Center real estate. The real estate was sold for approximately $14.0 million resulting in a $1.3 million after tax gain. In accordance with the Accounting Standards Codification (ASC) 840-40, the gain will be amortized over the initial 15-year lease term as reduced rent. Net proceeds at the closing of the sale were used to pay off the mortgage and other outstanding debt. A $250,000 security deposit related to the lease has been recorded as a deposit in “other assets, net” in the Consolidated Balance Sheets as of June 30, 2015 and 2016.

The lease is treated as an operating lease for financial reporting purposes. After the initial lease term, the Company has four five-year options to extend the lease. Minimum annual rent payments for the initial five years of the lease were $1,111,000, increasing annually thereafter based on the Consumer Price Index change from year to year.

In June 2011, the Company entered into a lease amendment with respect to the Company's Media Center facility. The amendment provided that the landlord would reimburse the Company up to $2 million for the leasehold improvements to be made by the Company to the premises. The leasehold improvements would be recorded as a fixed asset and amortized over the remaining term of the lease (until March 2021). Pursuant to the lease amendment, the Company's monthly lease costs increased by approximately $27,000 on April 1, 2012. The Company incurred $2.1 million of costs for construction, of which $2.0 million was reimbursed by the landlord. A deferred lease incentive has been recorded for the total amount reimbursed by the landlord in accordance with ASC 840-20. The lease incentive is being amortized over the remaining lease term as an offset to rent.

Property and equipment consist of the following as of June 30, 2016:

	June 30,	
	2015	**2016**
Land	$ 2,405,000	$ 2,405,000
Buildings	6,012,000	6,471,000
Machinery and equipment	38,308,000	43,634,000
Leasehold improvements	8,761,000	9,071,000
Computer equipment	8,005,000	8,273,000
Equipment under capital lease	1,102,000	1,221,000
Office equipment, vehicles	507,000	813,000
CIP	104,000	2,000
Subtotal	65,204,000	71,890,000
Less accumulated depreciation and amortization	(55,978,000)	(57,966,000)
Property and equipment, net	$ 9,226,000	$ 13,924,000

Depreciation is expensed over the estimated lives of buildings (39 years), machinery and equipment (7 years), computer equipment (7 years) and leasehold improvements (2 to 10 years depending on the remaining term of the respective leases or estimated useful life of the improvement). Depreciation expense totaled $1,841,000, $1,363,000 and $2,175,000 for the years ended June 30, 2014, 2015 and 2016, respectively. Property under capital leases pertains to machinery and equipment, with a cost of $1,102,000 (with a net book value of $160,000) and $1,221,000 (with a net book value of $137,000) as of June 30, 2015 and 2016, respectively.

4. 401(K) PLAN

The Company has a 401(K) plan, which covers substantially all employees. Each participant is permitted to make voluntary contributions not to exceed the lesser of 20% of his or her respective compensation or the applicable statutory limitation, and is immediately 100% vested. The Company matches one-fourth of the first 4% contributed by the employee. Contributions to the plan related to employees of the Company were $68,000, $55,000, and $120,000 in the years ended June 30, 2014, 2015 and 2016, respectively.

5. LONG TERM DEBT, NOTES PAYABLE, AND CAPITAL LEASE OBLIGATIONS

In August and September of 2012 (subsequently modified on December 18, 2013, September 5, 2014, and January 27, 2015), the Company entered into revolving credit, equipment financing and two mortgage agreements with a bank, as follows:

Revolving Credit Facility. The revolving credit facility previously provided up to $2 million of credit. The revolving credit agreement was canceled by the bank in December 2014 due to the Company's failure to meet minimum financial covenant requirements described below.

Equipment Financing Facility. The equipment financing facility previously provided up to $1.25 million of financing for the cost of new and already-owned or leased equipment. All amounts due under the facility (approximately $0.2 million) were paid off in February 2015.

Hollywood Way and Vine Street Mortgages. The Company entered into two real estate term loan agreements with respect to its Hollywood Way and Vine Street locations for $5.5 million and $3.1 million, respectively. The Vine mortgage was paid off upon sale of the building in June 2014. The remaining Hollywood Way mortgage provides for interest at LIBOR plus 3% (3.45% as of June 30, 2016). Repayment is based on monthly payments with a 25-year amortization, with all principal due in 10 years. The real estate loan is secured by a first trust deed on the property. As of June 30, 2016, the Company owed approximately $4.7 million under the mortgage.

Amounts due under the mortgage are secured by the related real estate. Until January 27, 2015, while amounts were outstanding under the credit arrangements described above, the Company was subject to minimum tangible net worth (TNW), EBITDA, and fixed charge ratio financial covenants. See below for changes in the covenant requirements occurring on that date.

As of September 30, 2014 the Company did not meet the TNW, the minimum quarterly EBITDA, and the minimum quarterly and TTM fixed charge ratio covenants. Availability under the revolving credit facility was canceled in December 2014. On January 27, 2015, the bank waived the Company's breach of financial covenants as of September 30, 2014. Concurrently, the bank eliminated the previously mentioned financial covenant requirements effective with the quarter ended December 31, 2014 and imposed a new covenant requiring that, effective June 30, 2015, the Company shall maintain a ratio of EBITDA (as defined) to the sum of interest expense and the current portion of long term debt of not less than 1.0 to 1, to be measured semi-annually. Interest expense was measured on June 30, 2015 on a calendar year to date basis. Commencing on December 31, 2015 and thereafter, EBITDA and interest expense will be measured at the end of each calendar half-year on the basis of the preceding twelve months. On June 30, 2016, the Company did not meet the new fixed charge ratio covenant.

In February 2015, the Company entered into a two-year $2 million credit agreement which, as amended in March 2016, provided for $4 million of borrowings based on 80% of acceptable accounts receivable as defined. The loan and security agreement as amended provided for interest at prime rate plus 1.0% (4.50% as of June 30, 2016). In addition, the Company will pay a monthly "collateral management" fee of 0.45% of the outstanding daily loan balance (an equivalent annual fee of 5.4%), and an annual commitment fee of $5,000. Amounts outstanding under the agreement were secured by all of the Company's personal property. As of June 30, 2016, the Company owed $0.4 million under the credit agreement. In July 2016, the line of credit terminated and replaced by a similar facility.

In July 2016, the Company entered into a three-year $4 million credit agreement based on 80% of acceptable accounts receivable as defined. The amended and restated loan and security agreement provides for interest at prime rate plus 1.0% (4.50% as of June 30, 2016). In addition, the Company will pay a monthly "collateral management" fee of 0.42% of the outstanding daily loan balance (an equivalent annual fee of 5.0%), and annual commitment fee of $20,000. Amounts outstanding under the agreement are secured by all of the Company's personal property subject to certain prior liens. As of August 15, 2016, the Company owed $1.7 million under the credit agreement.

Due to the Company's failure to meet financial covenants, the balance owed for the mortgage debt has been classified as a current liability in the consolidated balance sheet as of June 30, 2016.

In connection with the purchase of the assets of Modern VideoFilm, Inc. on July 8, 2015, the Company entered into a Term Loan Agreement (the "Loan Agreement") with the Lenders. The Loan Agreement is comprised of a five-year term loan facility in the amount of $6,000,000, $1,000,000 of which was funded on the July 8, 2015 closing date. As of June 30, 2016, the Company had borrowed the $6,000,000 under the Loan Agreement.

We must pay monthly interest in arrears on the unpaid principal balance of the Term Loan at a rate per annum equal to three-month LIBOR plus 6.00% (6.65% as of June 30, 2016). At the Company's election, interest may be paid as "payment in kind" by adding such accrued interest to the unpaid principal balance of the Term Loan. The outstanding principal balance and all accrued and unpaid interest on the Term Loan are due and payable on July 8, 2020. We may voluntarily prepay outstanding Term Loan from time to time in whole or in part without penalty or premium.

Annual maturities for debt under term note and capital lease obligations as of June 30, 2016 are as follows:

2017	$ 5,244,000
2018	60,000
2019	19,000
2020	-
2021	6,000,000
Thereafter	-
	$ 11,323,000

6. INCOME TAXES

The Company reviewed its ASC 740-10 tax documentation for the periods through June 30, 2016 to ascertain if any changes should be made with respect to tax positions previously taken. In addition, the Company reviewed its income tax reporting through June 30, 2016. Based on the Company's review of its tax positions as of June 30, 2015 and 2016, no new uncertain tax positions have been determined; nor has new information become available that would change management's judgment with respect to tax positions previously taken.

As of June 30, 2016, the Company's net deferred tax assets were nil. No tax benefit was recorded during the year ended June 30, 2016 because future realizability of such benefit was not considered to be more likely than not. At June 30, 2015 and 2016, the Company had gross deferred tax assets of $11.5 million and $13.2 million, respectively, and corresponding valuation allowances of $11.5 million and $13.2 million, respectively.

The Accounting Standards Codification prescribes a recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

The Company files income tax returns in the U.S. federal jurisdiction, and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal state or local income tax examinations by tax authorities for years before 2008. The Company has analyzed its filing positions in all of the federal and state jurisdictions where it is required to file income tax returns.

The Company's provision for, or benefit from, income taxes has been determined as if the Company filed income tax returns on a stand-alone basis.

The Company's provision for (benefit from) income taxes for the years ended June 30, 2014, 2014 and 2015 consists of the following (in thousands):

	Year Ended June 30,		
	2013	**2015**	**2016**
Current tax expense:			
Federal	$ -	$ -	$ -
State	3	-	5
Total current	3	-	5
Deferred tax (benefit) expense:			
Federal	(873)	(826)	(1,383)
State	(204)	(267)	(394)
Valuation allowance	1,077	1,093	1,777
Total deferred	-	-	-
Total provision for income taxes	$ 3	$ -	$ 5

The composition of the deferred tax assets (liabilities) at June 30, 2014, 2015 and 2016 are listed below:

	2014	**2015**	**2016**
Accrued liabilities	$ 208,000	$ 68,000	$ 27,000
Allowance for doubtful accounts	97,000	106,000	(184,000)
Other	7,000	5,000	(131,000)
Total current deferred tax assets	312,000	179,000	(288,000)
Property and equipment	979,000	1,349,000	(537,000)
Goodwill and other intangibles	573,000	477,000	275,000
Net operating loss carry forward	7,929,000	9,104,000	13,734,000
Other	575,000	352,000	54,000
Valuation allowance	(10,368,000)	(11,461,000)	(13,238,000)
Total non-current deferred tax liabilities	(312,000)	(179,000)	288,000
Net deferred tax liability	$ -	$ -	$ -

At the end of each fiscal year, the Company updates its reconciliation of book and tax differences based on the tax return of the previous fiscal year filed with the Internal Revenue Service in the third quarter of the current fiscal year. Any resulting adjustments are reflected in the table above in the fiscal year in which the adjustments were determined.

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. Statutory income taxes rates to income before taxes as a result of the following differences:

	Year Ended June 30,		
	2014	2015	2016
Federal tax computed at statutory rate.............	34%	34%	34%
State taxes, net of federal benefit and net operating loss limitation……………………..	7%	4%	6%
Permanent difference	0%	0%	0%
Excess tax benefit for goodwill………………	0%	0%	0%
Valuation allowance	(41%)	(38%)	(40%)
Other (meals and entertainment)	0%	0%	0%
Tax provision...	0%	0%	0%

7. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office and production facilities, vehicles and data processing equipment in California under various operating leases. Approximate minimum rental payments under these non-cancelable operating leases as of June 30, 2016 are as follows for the indicated fiscal years ended June 30:

2017..	$ 3,095,000
2018..	2,333,000
2019..	1,608,000
2020..	1,608,000
2021..	1,206,000
Thereafter...	-
Total minimum payments required	$ 9,850,000

*Minimum payments have not been reduced by minimum sublease rentals for $1,422,000 due in the future under noncancelable subleases.

The following schedule shows the composition of total rental expense for all operating leases except those with terms of a month or less that were not renewed:

	Year Ended June 30,		
	2014	2015	2016
Rent Expense:	$ 1,666,000	$ 1,533,000	$ 3,018,000
Less: Sublease rentals	(299,000)	(299,000)	(299,000)
	$ 1,367,000	$ 1,234,000	$ 2,719,000

As of June 30, 2016, the Company leased five of its six facilities under operating leases. The operating leases expire on dates ranging from 2016 to 2021. The lease on the Company's Media Center location contains an option to extend the primary term in five-year increments for up to 20 years at the then fair rental value. The Company subleases approximately 16,000 square feet of space at its Media Center facility to an outside party (under terms and conditions similar to the Company's primary lease) at a rental rate of $25,000 monthly, which expires in 2021. Sublease income is included in other income in the consolidated statements of operations.

The Company's vehicle and data processing equipment operating leases expire by 2017. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Severance Agreements

On September 30, 2003 Point.360 entered into severance agreements with its Chief Executive Officer and Chief Financial Officer which continue in effect through December 31, 2016, and are renewed automatically on an annual basis thereafter unless notice is received terminating the agreement by September 30 of the preceding year. The severance agreements contain a "Golden Parachute" provision.

Contingencies

From time to time, the Company may become a party to other legal actions and complaints arising in the ordinary course of business, although it is not currently involved in any such material legal proceedings.

8. STOCK OPTION PLAN, STOCK-BASED COMPENSATION

In May 2007, the Board of Directors approved the 2007 Equity Incentive Plan (the "2007 Plan"). The 2007 Plan provides for the award of options to purchase up to 2,000,000 shares of common stock, appreciation rights and restricted stock awards.

In November 2010, the shareholders approved the 2010 Incentive Plan (the "2010 Plan"). The 2010 Plan provides for the award of options to purchase up to 4,000,000 shares of common stock, appreciation rights and restricted stock and performance awards.

Under the 2007 and 2010 Plans, the stock option price per share for options granted is determined by the Board of Directors and is based on the market price of the Company's common stock on the date of grant, and each option is exercisable within the period and in the increments as determined by the Board, except that no option can be exercised later than ten years from the grant date. The stock options generally vest in one to five years.

The Company measures and recognizes compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. We also estimate the fair value of the award that is ultimately expected to vest to be recognized as expense over the requisite service periods in our Consolidated Statements of Operations.

We estimate the fair value of share-based payment awards to employees and directors on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's Consolidated Statements of Operations. Share-based compensation expense recognized in the Consolidated Statements of Operations for the years ended June 30, 2014, 2015 and 2016 included compensation expense for the share-based payment awards based on the grant date fair value. For stock-based awards issued to employees and directors, share-based compensation is attributed to expense using the straight-line single option method. As stock-based compensation expense recognized in the Consolidated Statements of Operations for the periods reported in this Form 10-K is based on awards expected to vest, forfeitures are also estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. For the periods being reported in this Form 10-K, expected forfeitures are immaterial. The Company will re-assess the impact of forfeitures if actual forfeitures increase in future quarters. Share-based compensation expense related to employee or director stock options recognized for the years ended June 30, 2014, 2015 and 2016 were $272,000, $263,000 and $313,000, respectively.

The Company's determination of fair value of share-based payment awards to employees and directors on the date of grant uses the Black-Scholes model, which is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include, but are not limited to, the expected stock price volatility over the expected term of the awards, and actual and projected employee stock options exercise behaviors. The Company estimates expected volatility using historical data. The expected term is estimated using the "safe harbor" provisions provided by the SEC.

During the fiscal years ended June 30, 2014, 2015 and 2016, the Company granted awards of stock options as follows:

	2014	2015	2016
Stock option awards	610,600	644,900	739,000
Weighted average Exercise price	$0.50	$0.45	$0.88

As of June 30, 2016, there were options outstanding to acquire 2,961,576 shares at an average exercise price of $0.72 per share. The estimated fair value of all awards granted during the years ended June 30, 2014, 2015 and 2016 were $240,000, $275,000 and $595,000, respectively. The fair value of each option was estimated on the date of grant using the Black-Scholes option–pricing model with the following weighted average assumptions:

	2014	**2015**	**2016**
Risk-free interest rate	1.53%	1.53%	1.23%
Expected term (years)	5.0	5.0	5.0
Volatility	108%	159%	145%
Expected annual dividends	-	-	-

The following table summarizes the status of the 2007 and 2010 Plans as of June 30, 2016:

	2007 Plan	**2010 Plan**	**Total**
Options originally available	2,000,000	4,000,000	6,000,000
Stock options outstanding	1,922,075	1,039,275	2,961,350
Options available for grant	22,160	2,887,150	2,909,310

Transactions involving stock options are summarized as follows:

	Number of Shares	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**
Balance at June 30, 2013	2,413,525	$ 0.95	$ 0.53
Granted	610,600	$ 0.50	$ 0.40
Exercised	(23,740)	$ 0.85	$ 0.52
Cancelled	(343,037)	$ 0.95	$ 0.44
Balance at June 30, 2014	2,657,348	$ 0.83	$ 0.52
Granted	644,900	$ 0.45	$ 0.43
Exercised	-	-	-
Cancelled	(367,188)	$ 1.69	$ 0.56
Balance at June 30, 2015	2,935,060	$ 0.70	$ 0.49
Granted	739,000	$ 0.88	$ 0.80
Exercised	(93,600)	$ 0.59	$ 0.42
Cancelled	(619,110)	$ 0.68	$ 0.50
Balance of June 30, 2016	2,961,350	$ 0.72	$ 0.57

As of June 30, 2016, the total compensation costs related to non-vested awards yet to be expensed was approximately $0.8 million, and this amount is expected to be fully amortized over the next four years.

The weighted average exercise prices for options granted and exercisable and the weighted average remaining contractual life for options outstanding as of June 30, 2014, 2015 and 2016 were as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Intrinsic Value
As of June 30, 2014				
Employees – Outstanding	2,514,848	$0.82	2.93	$ -
Employees – Expected to Vest	2,263,363	$0.82	2.93	$ -
Employees – Exercisable	1,068,411	$0.97	1.86	$ -
Non-Employees – Outstanding	142,500	$0.96	2.47	$ -
Non-Employees – Vested	123,750	$0.99	2.28	$ -
Non-Employees – Exercisable	123,750	$0.99	2.28	$ -
As of June 30, 2015				
Employees – Outstanding	2,785,060	$0.70	2.76	$ -
Employees – Expected to Vest	2,506,534	$0.70	2.76	$ -
Employees – Exercisable	1,303,266	$0.81	1.72	$ -
Non-Employees-Outstanding	150,000	$0.80	2.36	$ 1,200
Non-Employees-Vested	142,500	$0.81	2.30	$ 1,200
Non-Employees-Exercisable	142,500	$0.81	2.30	$ 1,200
As of June 30, 2016				
Employees – Outstanding	2,818,850	$0.72	2.88	$ 207,312
Employees – Expected to Vest	2,536,965	$0.72	2.88	$ 186,581
Employees – Exercisable	1,184,975	$0.74	1.86	$ 65,786
Non-Employees – Outstanding	142,500	$0.75	2.53	$ 14,100
Non-Employees – Vested	142,500	$0.75	2.53	$ 14,100
Non-Employees – Exercisable	142,500	$0.75	2.53	$ 14,100

The aggregate intrinsic value in the table above is the sum of the amounts by which the quoted market price of our common stock exceeded the exercise price of the options at June 30, 2016, for those options for which the quoted market price was in excess of the exercise price.

Additional information with respect to outstanding options as of June 30, 2016 is as follows:

Options Outstanding			**Options Exercisable**		
Options Exercise Price Range	**Number of Shares**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Number of Shares**	**Weighted Average Remaining Contractual Life**
$1.07	22,500	0.42 years	$1.07	22,500	0.42 years
$1.04	30,000	4.37 years	$1.04	30,000	4.37 years
$1.00	65,000	4.19 years	$1.00	-	4.19 years
$0.95	227,825	0.71 years	$0.95	227,825	0.71 years
$0.88	631,250	4.67 years	$0.88	-	4.67 years
$0.81	808,325	1.61 years	$0.81	606,600	1.61 years
$0.80	22,500	1.36 years	$0.80	22,500	1.36 years
$0.74	22,500	2.35 years	$0.74	22,500	2.35 years
$0.64	15,000	2.37 years	$0.64	15,000	2.37 years
$0.57	5,000	3.19 years	$0.57	5,000	3.19 years
$0.50	476,400	2.60 years	$0.50	193,725	2.60 years
$0.48	605,050	3.62 years	$0.48	151,825	3.62 years
$0.23	30,000	3.35 years	$0.23	30,000	3.35 years

In addition, the Company issued 10,000 shares of restricted stock from the 2007 Plan during fiscal year ended June 30, 2010 with a weighted average fair value of $0.58 per share.

We use the detailed method provided in ASC 718 for calculating the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statements of Cash Flows of the tax effects of employee share-based compensation awards that are outstanding upon adoption of ASC 718.

9. STOCK RIGHTS PLAN

In July 2007, the Company implemented a stock rights program. Pursuant to the program, stockholders of record on August 7, 2007, received a dividend of one right to purchase for $10 one one-hundredth of a share of a newly created Series A Junior Participating Preferred Stock. The rights are attached to the Company's Common Stock and will also become attached to shares issued subsequent to August 7, 2007. The rights will not be traded separately and will not become exercisable until the occurrence of a triggering event, defined as an accumulation by a single person or group of 20% or more of the Company's Common Stock. The rights will expire on August 6, 2017 and are redeemable at $0.0001 per right.

After a triggering event, the rights will detach from the Common Stock. If the Company is then merged into, or is acquired by, another corporation, the Company has the opportunity to either (i) redeem the rights or (ii) permit the rights holder to receive in the merger stock of the Company or the acquiring company equal to two times the exercise price of the right (i.e., $20). In the latter instance, the rights attached to the acquirer's stock become null and void. The effect of the rights program is to make a potential acquisition of the Company more expensive for the acquirer if, in the opinion of the Company's Board of Directors, the offer is inadequate.

No triggering events occurred in the year ended June 30, 2016.

10. STOCK REPURCHASE PLAN

In February 2008, the Company's Board of Directors authorized a stock purchase plan. The board authorized the open market purchase at such times and prices determined at the discretion of management. In fiscal 2009, the Company purchased 404,710 shares for $558,000. In fiscal years ended 2014, 2015 and 2016, the Company did not purchase shares.

11. SEGMENT INFORMATION

In its operation of the business, management reviews certain financial information, including segmented internal profit and loss statements prepared on a basis consistent with U.S. generally accepted accounting principles. Our two segments are Point.360 and Movie>Q. The two segments discussed in this analysis are presented in the way we internally managed and monitored performance for 2014, 2015 and 2016. Allocations for internal resources were made for the fiscal years ended June 30, 2014, 2015, and 2016. The Movie>Q segment tracks certain assets separately, and all others are recorded in the Point.360 segment for internal reporting presentations. Cash was not segregated between the two segments but retained in the Point.360 segment.

The types of services provided by each segment are summarized below:

Point.360 – The Point.360 segment provides high definition and standard definition digital mastering, data conversion, video and film asset management, distribution and other services to owners, producers and distributors of entertainment and advertising content. Point.360 provides the services necessary to edit, master, reformat, convert, archive and ultimately distribute its clients' film and video content, including television programming feature films and movie trailers. The segment's interconnected facilities provide service coverage to all major U.S. media centers. Clients include major motion picture studios and independent producers.

Movie>Q – The Movie>Q segment rents and sells DVDs directly to consumers though its retail stores. The stores employ an automated inventory management ("AIM") system in a 1,200-1,600 square foot facility. By saving space and personnel costs which caused the big box stores to be uncompetitive with lower priced online and vending machine rental alternatives, Movie>Q can offer up to 10,000 unit selections to a customer at competitive rental rates. Movie>Q provides online reservations, an in-store destination experience, first run movie and game titles and a large unit selection.

Segment revenues, operating loss and total assets were as follows (in thousands):

Revenue	**Year Ended June 30,**		
	2014	**2015**	**2016**
Point.360	$ 25,281	$ 21,225	$ 37,315
Movie>Q	452	356	255
Consolidated revenue	$ 25,733	$ 21,581	$ 37,570

Operating loss	**Year Ended June 30,**		
	2014	**2015**	**2016**
Point.360	$ (2,296)	$ (2,531)	$ (8,326)
Movie>Q	(654)	(424)	(601)
Operating income (loss)	$ (2,950)	$ (2,955)	$ (8,927)

Total Assets	**As of June 30,**		
	2014	**2015**	**2016**
Point.360	$ 16,204	$ 12,601	$ 20,225
Movie>Q	845	779	622
Consolidated assets	$ 17,049	$ 13,380	$ 20,847

12. ACQUISITION OF ASSETS OF MODERN VIDEOFILM, INC.

On July 8, 2015, Point.360 entered into a Sale Agreement Pursuant to Article 9 of the Uniform Commercial Code (the "Sale Agreement") in a foreclosure sale pursuant to which Point.360 acquired certain assets of Modern VideoFilm, Inc. ("MVF") including, but not limited to, MVF's equipment, inventory, and accounts receivable, in a private sale conducted under applicable provisions of the New York Uniform Commercial Code, and assumed no debts, obligations or liabilities except for agreeing to pay a portion of the rent for each facility of MVF to its landlord on a per diem basis based on the number of days post-closing, if any, that we occupy such facility to complete the relocation of certain acquired assets, and paid time off owed to former MVF employees employed by the Company in connection with the closing to the extent (i) accrued and unused as of the closing, and (ii) such employees have not requested such paid time off to be paid by MVF.

As consideration for the assets described in the preceding paragraph, we issued 2,000,000 shares of our common stock, and five-year warrants to purchase an aggregate of 800,000 shares of our common stock at an exercise price of $0.75 per share. We also issued to Medley Capital Corporation and Medley Opportunity Fund II LP (the "Lenders") warrants to purchase an aggregate of 500,000 shares of our common stock under the same terms as in the previous sentence in consideration for the Term Loan Agreement described below.

In connection with the Acquisition, on July 8, 2015, the Company entered into a Term Loan Agreement (the "Loan Agreement") with the Lenders. The Loan Agreement is comprised of a five-year term loan facility in the amount of $6.0 million, $1.0 million of which was funded on the July 8, 2015 closing date. Under the Loan Agreement, we may request one or more additional advances in an aggregate amount not to exceed the remaining $5.0 million, until the third anniversary of the closing date. The fair value assigned to the common stock issued as consideration for the purchase of assets and the Term Loan was $1,417,000. The fair value of the consideration for the Term Loan was recorded as a reduction in the total amount of the Term Loan, and will be amortized over the five-year life of the Term Loan.

The consolidated balance sheet reflects the allocation by Point.360 management of the MVF purchase price to identifiable tangible and intangible assets and liabilities acquired, and a credit to retained earnings for $6.8 million representing the difference between (x) the aggregate fair values assigned to the tangible and intangible assets acquired (less liabilities assumed), and (y) the fair value of the common shares and warrants given as consideration for the purchase (see table below). The excess of the net asset value purchased over the purchase price was recorded as other income in the fiscal year ended June 30, 2016.

Under the acquisition method of accounting, the total estimated purchase price was allocated to MVF's tangible and intangible assets and liabilities based on their estimated fair values at the date of the purchase date. The following table summarizes the allocation of the purchase price for MVF:

Current assets	$	3,173,000
Property and equipment		5,359,000
Other assets		118,000
Acquired intangibles:		
Trade names		150,000
Customer relationships		200,000
Total fair value of assets acquired		9,000,000
Total liabilities assumed		(770,000)
Net assets acquired		8,230,000
Common stock consideration		(1,417,000)
Gain before deferred income tax benefit		6,813,000
Income tax benefit - deferred		(2,714,000)
Gain on bargain purchase	$	4,099,000

ASC 805 requires that when fair value of the net assets acquired exceeds the purchase price, resulting in a bargain purchase of assets, the acquirer must reassess the reasonableness of the values assigned to all of the net assets acquired, liabilities assumed and consideration transferred. The Company performed such assessment and concluded that the values assigned for the acquisition were reasonable. The gain on bargain purchase was primarily attributable to the fact that this was a foreclosure sale.

The transaction was completed on July 8, 2015, near the July 1, 2015 beginning of the fiscal year ended June 30, 2016. The following summary unaudited pro forma condensed consolidated financial information reflects the asset purchase as if it had occurred on July 1, 2014, the beginning of the fiscal year ended June 30, 2015, for purposes of the statements of operations. This summary unaudited pro forma information is not necessarily representative of what the Company's results of operations would have been had this acquisition in fact occurred on July 1, 2014 and is not intended to project the Company's results of operations for any future period.

Pro forma unaudited condensed consolidated financial information for the years ended June 30, 2015 and June 30, 2016:

	Fiscal Year Ended (unaudited)	
	June 30, 2015	**June 30, 2016**
Revenue	$ 65,150,000	$ 37,570,000
Net loss	$ (6,447,000)	$ (1,758,000)
Net Loss per share	$ (0.51)	$ (0.14)

Disclosure of unaudited pro forma operating results of the Company and operations related to the acquired assets prior to the fiscal year ended June 30, 2015 is impracticable because it would require assumptions about management's intent in a prior period that cannot be independently substantiated, and would require significant estimates of how those assets would have been used in a combined setting.

Point.360

Schedule II- Valuation and Qualifying Accounts

Allowance for Doubtful Accounts	**Balance at Beginning of Year**	**Charged to Costs and Expenses**	**Other**	**Deductions/ Write-Offs**	**Balance at End of Year**
Year ended June 30, 2014……………………..	$ 327,000	$ 26,000	$ --	$ (125,000)	$ 228,000
Year ended June 30, 2015……………………	$ 228,000	$ 21,000	$ --	$ --	$ 249,000
Year ended June 30, 2016....................................	$ 249,000	$ 38,000	$ 12,000	$ (6,000)	$ 293,000

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2016.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting, as of June 30, 2016, based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management concluded that, as of June 30, 2016, the Company's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

The Chief Executive Officer and President and the Chief Financial Officer conducted an evaluation of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f), to determine whether any changes in internal control over financial reporting occurred during the year ended June 30, 2016 that have materially affected or which are reasonably likely to materially affect internal control over financial reporting. Based on the evaluation, no such change occurred during such period.

Internal control over financial reporting refers to a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our board of directors; and
- Provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

On July 3, 2003 and May 30, 2007, the Company adopted a Code of Ethics (the "Code") applicable to the Company's Chief Executive Officer, Chief Financial Officer and all other employees. Among other provisions, the Code sets forth standards for honest and ethical conduct, full and fair disclosure in public filings and shareholder communications, compliance with laws, rules and regulations, reporting of code violations and accountability for adherence to the Code. The text of the Code has been posted on the Company's website (www.point360.com). A copy of the Code can be obtained free-of-charge upon written request to:

Corporate Secretary
Point.360
2701 Media Center Drive
Los Angeles, CA 90065

If the Company makes any amendment to, or grant any waivers of, a provision of the Code that applies to our principal executive officer or principal financial officer and that requires disclosure under applicable SEC rules, we intend to disclose such amendment or waiver and the reasons for the amendment or waiver on our website.

Other information called for by Item 10 of Form 10-K will be set forth in the Company's Proxy Statement to be filed by October 28, 2016.

ITEM 11. EXECUTIVE COMPENSATION

Information called for by Item 11 of Form 10-K will be set forth in the Company's Proxy Statement to be filed by October 28, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information called for by Item 12 of Form 10-K will be set forth in the Company's Proxy Statement to be filed by October 28, 2016.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information called for by Item 13 of Form 10-K will be set forth in the Company's Proxy Statement to be filed by October 28, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information called for by Item 14 of Form 10-K will be set forth in the Company's Proxy Statement to be filed by October 28, 2016.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents Filed as Part of this Report:

(1, 2) Financial Statements and Schedules.

The following financial documents of Point.360 are filed as part of this report under Item 8:

Consolidated Balance Sheets – June 30, 2015 and June 30, 2016
Consolidated Statements of Operations – Fiscal Years Ended December June 30, 2014, 2015 and 2016
Consolidated Statements of Invested and Shareholders' Equity –Fiscal Years Ended June 30, 2014, 2015 and 2016
Consolidated Statements of Cash Flows –Fiscal Years Ended June 30, 2014, 2015 and 2016
Notes to Consolidated Financial Statements
Schedule II – Valuation and Qualifying Accounts

(3) Exhibits:

Exhibit No.	Exhibit Description*
2.1	Agreement and Plan of Merger and Reorganization, dated as of April 16, 2007, among the Registrant, Old Point.360 and DG FastChannel, Inc. (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form 10 filed by the Registrant on May 14, 2007).
2.2	Contribution Agreement, dated as of April 16, 2007, among the Registrant, Old Point.360 and DG FastChannel, Inc. (incorporated by reference to Exhibit 2.2 to the Registration Statement on Form 10 filed by the Registrant on May 14, 2007).
2.3	First Amendment to Agreement and Plan of Merger and Reorganization, dated as of June 22, 2007, among the Registrant, Old Point.360, and DG FastChannel, Inc. (incorporated by reference to Exhibit 2.3 to Amendment No. 1 to the Registration Statement on Form 10 filed by the Registrant on June 22, 2007).
2.4	First Amendment to Contribution Agreement, dated as of June 22, 2007, among the Registrant, Old Point.360, and DG FastChannel, Inc. (incorporated by reference to Exhibit 2.4 to Amendment No. 1 to the Registration Statement on Form 10 filed by the Registrant on June 22, 2007).
2.5	Sale Agreement Pursuant to Article 9 of the Uniform Commercial Code, dated as of July 8, 2015, among Point.360, Haig S. Bagerdjian, Medley Capital Corporation, Medley Opportunity Fund II LP, Congruent Credit Opportunities Fund II, LP and Main Street Equity Interests, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
3.1	Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Form 10-K/T filed by the Registrant on November 13, 2007).
3.2	Certificate of Amendment to the Registrant's Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed by the Registrant on August 22, 2007).
3.3	Amended and restated Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Form 10-Q filed by the Registrant on November 12, 2015).

4.1	Form of the Registrant's Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1, Registration No. 333-144547, filed by the Registrant on July 13, 2007).
4.2	Rights Agreement dated July 25, 2007 between the Registrant and American Stock Transfer & Trust Company (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Registrant on July 26, 2007).
4.3	Certificate of Determination of Series A Junior Participating Preferred Stock of the Registrant dated July 31, 2007 (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Registrant on July 26, 2007).
4.4	Form of Right Certificate (incorporated by reference to Exhibit 4.2 to Amendment No. 1 to the Registration Statement on Form S-1 filed by the Registrant on July 26, 2007) .
4.5	Form of Warrant, dated July 8, 2015, issued to the Lenders under the Sale Agreement Pursuant to Article 9 of the Uniform Commercial Code, dated as of July 8, 2015, among Point.360, Haig S. Bagerdjian, Medley Capital Corporation, Medley Opportunity Fund II LP, Congruent Credit Opportunities Fund II, LP and Main Street Equity Interests, Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
4.6	Warrant, dated July 8, 2015, issued to Medley Capital Corporation under the Term Loan Agreement, dated as of July 8, 2015, among Point.360, Medley Capital Corporation and Medley Opportunity Fund II LP. (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
4.7	Warrant, dated July 8, 2015, issued to Medley Opportunity Fund II LP under the Term Loan Agreement, dated as of July 8, 2015, among Point.360, Medley Capital Corporation and Medley Opportunity Fund II LP. (incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
4.8	Registration Rights Agreement, dated July 8, 2015, Point.360, Medley Capital Corporation, Medley Opportunity Fund II LP, Congruent Credit Opportunities Fund II, LP and Main Street Equity Interests, Inc. (incorporated by reference to Exhibit 4.41 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
10.1	Severance Agreement, dated September 30, 2003 (assumed by the Registrant), between Old Point.360 and Haig S. Bagerdjian (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form 10 filed by the Registrant on May 14, 2007).
10.2	Severance Agreement, dated September 30, 2003 (assumed by the Registrant), between Old Point.360 and Alan R. Steel (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form 10 filed by the Registrant on May 14, 2007).
10.3	2007 Equity Incentive Plan of the Registrant (incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registration Statement on Form 10 filed by the Registrant on June 22, 2007).
10.4	Standard Industrial / Commercial Multi-Tenant Lease-Net (West Los Angeles facility), dated March 17, 2004 (assumed by the Registrant), between Old Point.360 and Martin Shephard, as co-Trustee of the Shephard Family Trust of 1988 (incorporated by reference to Exhibit 10.10 to Amendment No. 1 to the Registration Statement on Form 10 filed by the Registrant on June 22, 2007).

10.5	Lease Termination Agreement dated February 24,2015 for identification purposes only, and effective as of February 28,2015, between the Company and Martin Shephard, as co-Trustee of the Shephard Family Trust of 1988. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Registrant on March 4, 2015).
10.6	Lease Agreement (Media Center) dated March 29, 2006 (assumed by the Registrant), between Old Point.360 and LEAFS Properties, LP (incorporated by reference to Exhibit 10.13 to Amendment No. 1 to the Registration Statement on Form 10 filed by the Registrant on June 22, 2007)
10.7	Asset Purchase Agreement, dated as of March 7, 2007 (assumed by the Registrant), among Old Point.360, Eden FX, Mark Miller, and John Gross (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form 10 filed by the Registrant on May 14, 2007)
10.8	Transfer and Assumption Agreement dated August 8, 2007 between the Registrant and Old Point.360 (incorporated by reference to Exhibit 10.18 to the Form 10-K/T filed by the Registrant on November 13, 2007)
10.9	Sale, Purchase and Escrow Agreement (1133 Hollywood Way, Burbank Facility) dated May 19, 2008 among Point.360, Hollywood Way Office Ventures, LLC and Commonwealth Land Title Insurance Company (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the company on July 7, 2008)
10.10	Amendment No. 1 to 2007 Equity Incentive Plan of Point.360 dated February 10, 2010 (incorporated by reference to Exhibit 10.1 of the Form 10-Q filed by the Company on February 12, 2010)
10.11	Settlement Agreement dated September 21, 2010 between the Company and DG Fastchannel, Inc. (incorporated by reference to Exhibit 10.3 of the form 10-Q filed by the Company on November 12, 2010).
10.12	2010 Incentive Plan of Point.360 (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Company on November 18, 2010).
10.13	Loan and Security Agreement dated January 14, 2011 between the Company and Crestmark Bank (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Company on January 14, 2011).
10.14	Promissory Note dated January 14, 2011 of the Company to Crestmark Bank (incorporated by reference to Exhibit 10.2 to the Form 8-K filed by the Company on January 14, 2011).
10.15	Amended and Restated Promissory Note dated March 7, 2011 of the Company to Crestmark Bank (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on March 8, 2011).
10.16	Amendment No. 1 to Schedule to Loan and Security Agreement dated March 7, 2011 between the Company and Crestmark Bank (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on March 8, 2011).
10.17	Second Amended and Restated Promissory Note dated November 15, 2011 of the Company to Crestmark Bank (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on November 16, 2011).
10.18	Amendment No. 2 to Schedule to Loan and Security Agreement dated November 15, 2011 between the Company and Crestmark Bank (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by the Registrant on November 16, 2011).

10.19	Release and Settlement Agreement dated March 8, 2011 between the Company and Holthouse, Carlin & Van Trigt LLP (incorporated by reference to Exhibit 10.6 of the Form 10-Q filed by the Company on May 13, 2011).
10.20	Third Amendment to Lease dated June 3, 2011 between the Company and LEAFS Properties, L.P. (incorporated by reference to Exhibit 10.1 of the File 8-K filed by the Company on June 9, 2011).
10.21	Loan and Security Agreement dated July 31, 2012 between the Company and Bank of the West (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the Company on August 16, 2012).
10.22	Accounts Receivable Line of Credit dated August 13, 2012 between the Company and Bank of the West (incorporated by reference to Exhibit 10.2 of the Form 8-K filed by the Company on August 16, 2012).
10.23	Master Equipment Financing Agreement dated August 14, 2012 between the Company and Bank of the West (incorporated by reference to Exhibit 10.3 of the Form 8-K filed by the Company on August 16, 2012).
10.24	Term Note (Hollywood Way) dated September 13, 2012 of the Company to Bank of the West (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the Company on September 26, 2012).
10.25	Term Note (Vine) dated September 13, 2012 of the Company to Bank of the West (incorporated by reference to Exhibit 10.2 of the Form 8-K filed by the Company on September 26, 2012).
10.26	Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate dated March 28, 2014 between the Company and Vine Off, LLC (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the Company on June 30, 2014).
10.27	Accounts Receivable Line of Credit dated September 5, 2014 between the Company and Bank of the West (incorporated by reference to Exhibit 10.1 of the Form 8-K filed by the Company on September 8, 2014).
10.28	Modification Agreement dated September 5, 2014 between the Company and Bank of the West (incorporated by reference to Exhibit 10.2 of the Form 8-K filed by the Company on September 8, 2014).

10.29	Loan and Security Agreement dated February 13, 2015 between the Company and Summit Financial Resources, L.P. (incorporated by reference to Exhibit 10.1 to the Form 8-K filed by the Registrant or February 17, 2015).
10.30	Second Amendment to Loan and Security Agreement dated March 28, 2016 between the Company and Summit Financial Resources, L.P. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on March 31, 2016).
10.31	Term Loan Agreement, dated as of July 8, 2015, among Point.360, Medley Capital Corporation and Medley Opportunity Fund II LP. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
10.32	Security Agreement, dated as of July 8, 2015, among Point.360, Medley Capital Corporation and Medley Opportunity Fund II LP. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on July 14, 2015).
10.33	Assignment and Assumption of Financing and Financing Documents agreement among Point.360, Summit Financial Resources, L.P. and Austin Financial Services, Inc. dated July 13, 2016 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Registrant on July 13, 2016).
10.34	Amended and Restated Loan and Security Agreement dated July 13, 2016 between the Company and Austin Financial Services, Inc. (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by the Registrant on July 13, 2016).
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Report on Form 10-K filed by the Registrant in September 2013).
31.1	Certification of Chief Executive Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to 15 U.S.C. § 7241, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following audited financial information from our Annual Report on Form 10-K for the year ended June 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (1) Consolidated Balance Sheets as of June 30, 2015 and June 30, 2016; (2) Consolidated Statements of Operations for the three years ended June 30, 2016; (3) Consolidated Statements of Cash Flows for the three years ended June 30, 2016; and (4) Notes to Consolidated Financial Statements.

---

* Prior to August 21, 2007, Point.360 was named New 360. On August 21, 2007, New 360 changed its name to Point.360. In this Exhibit Index, Point.360 (including New 360 for the period prior to August 21, 2007) is referred to as the "Registrant" or "Company."

References in this Exhibit Index to "Old Point.360" are intended to refer to the Registrant's former parent corporation, named Point.360, which was merged into DG FastChannel, Inc. on August 14, 2007, with DG FastChannel, Inc. continuing in existence as the surviving corporation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: September 16, 2016

Point.360

By: /s/ Haig S. Bagerdjian
Haig S. Bagerdjian
Chairman of the Board of Directors,
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Haig S. Bagerdjian Haig S. Bagerdjian	Chairman of the Board of Directors, President and Chief Executive Officer (Principal Executive Officer)	September 16, 2016
/s/ Alan R. Steel Alan R. Steel	Executive Vice President, Finance and Administration, Chief Financial Officer (Principal Accounting and Financial Officer)	September 16, 2016
/s/ Greggory J. Hutchins Greggory J. Hutchins	Director	September 16, 2016
/s/ Sam P. Bell Sam P. Bell	Director	September 16, 2016
/s/ G. Samuel Oki G. Samuel Oki	Director	September 16, 2016
/s/ J.R. DeLang J.R. DeLang	Director	September 16, 2016

Exhibit 31.1

CERTIFICATION PURSUANT TO
15 U.S.C. § 7241
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Haig S. Bagerdjian, certify that:

1. I have reviewed this Report on Form 10-K of Point.360;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 16, 2016

/s/ Haig S. Bagerdjian
Haig S. Bagerdjian
Chairman of the Board of Directors,
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
15 U.S.C. § 7241
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Alan R. Steel, certify that:

1. I have reviewed this Report on Form 10-K of Point.360;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 16, 2016

/s/ Alan R. Steel
Alan R. Steel
Executive Vice President, Finance and
Administration, and Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of Point.360 (the "Company") on Form 10-K for the year ended June 30, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Haig S. Bagerdjian, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Haig S. Bagerdjian
Haig S. Bagerdjian
Chief Executive Officer
September 16, 2016

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. § 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of Point.360 (the "Company") on Form 10-K for the year ended June 30, 2016, as filed with the Securities and Exchange Commission (the "Report"), I, Alan R. Steel, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Alan R. Steel
Alan R. Steel
Chief Financial Officer
September 16, 2016