

ALANCO TECHNOLOGIES INC
Form 10-K
September 30, 2015

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

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

For the fiscal year ended June 30, 2015
Commission file number 0-9347

ALANCO TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

Arizona 86-0220694
(State or other jurisdiction of (I.R.S. Employer
Incorporation or organization) Identification No.)

7950 E. Acoma Dr., Suite 111, Scottsdale, AZ 85260
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number: (480) 607-1010

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act

COMMON STOCK
(Title of Class)

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

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

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 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 (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
 Yes No

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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 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 Yes ___ No

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 (Do not check if a smaller reporting company)

Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

___ Yes X No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: \$1,065,900.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

As of September 18, 2015, there were 4,982,400 shares of common stock outstanding.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “could,” “target,” “potential,” “is likely,” “will,” “expect,” and other similar expressions, as they relate to the Company are intended to identify forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements are based on the expectations of management when made and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors, among others, that could affect the outcome of the Company's forward-looking statements: general economic and market conditions; the inability to profitably run current operations sufficient to cover overhead; the inability to attract, hire and retain key personnel; the difficulty of integrating an acquired business; unforeseen litigation; unfavorable result of potential litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with current and future suppliers; federal and/or state regulatory and legislative action; the ability to implement or adjust to new technologies and the ability to secure and maintain key contracts and relationships. New risk factors emerge from time to time and it is not possible to accurately predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Annual Report or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Alanco Technologies, Inc. (Stock Symbol: ALAN) was incorporated in 1969 under the laws of the State of Arizona. Unless otherwise noted, the “Company” or “Alanco” refers to Alanco Technologies, Inc. and its wholly owned subsidiaries. During the fiscal year ended June 30, 2012, the Company formed Alanco Energy Services, Inc. (“AES”) which acquired assets and completed construction of a water treatment and disposal facility, discussed below, which began receiving produced water in August 2012. All operating revenue for fiscal years ended June 30, 2015 and 2014 were generated by AES’s water treatment and disposal operations. The Company has five employees of which four are full time.

RECENT BUSINESS DEVELOPMENTS

Alanco Energy Services, Inc. - In April 2012, AES, a subsidiary of the Company, executed an agreement with TC Operating, LLC (“TCO”) of Grand Junction, CO to transfer a land lease for approximately 24 acres near Grand Junction, CO (“Deer Creek site”) and all related assets to AES. AES has developed the Deer Creek site with approximately eight acres of evaporation ponds for the treatment and disposal of large quantities of produced water generated by oil and gas producers in Western Colorado. The Deer Creek site generally operates with three employees, of which two are full time. There are other facilities which accept produced water deliveries, however, the Company believes that the Deer Creek site has a significant freight advantage for some producers in the region due to

the facility's favorable location. Based on demand in the area, AES has been able to develop its customer base since the start of operations and continues to seek new customer relationships. The Deer Creek facility is subject to compliance with environmental laws under which it has established an Asset Retirement Obligation of \$429,700 at June 30, 2015.

AES also purchased a 160 acre site near Grand Junction, CO ("Indian Mesa site") from Deer Creek Disposal, LLC ("DCD"), for additional expansion of the disposal facility and potential land fill site. As consideration for the land purchase, AES paid \$500,000 at the April 13, 2012 closing and assumed a non-interest bearing, secured, \$200,000 note which was paid on its November 15, 2012 due date. AES has also agreed to contingent quarterly earn-out payments to DCD up to a maximum total of \$800,000, generally determined as 10% of quarterly revenues in excess of operating expenses, not to exceed \$200,000 for any calendar quarter (contingent land payment). See notes 5 and 8 in the notes to consolidated financial statements under Item 8 to this Form 10-K for additional discussion on the transfer of the land lease and the contingent purchase price obligation incurred. In December 2013, in response to an AES request to amend its County Use Permit ("CUP"), the Mesa County Board of Commissioners unanimously approved a new CUP for AES to construct and operate evaporation ponds and/or landfill for disposal of solid oil and gas (O&G) waste, such as drill cuttings, tank bottoms, sock filters, etc. The approval also allows for solid and produced water disposal of Naturally-Occurring Radioactive Materials (NORM) and Technically Enhanced Naturally-Occurring Radioactive Materials (TENORM). In June 2014 AES received final construction approval from the Colorado Department of Public Health and Environment (CDPHE) for twelve produced water disposal ponds, which if developed as planned, would be located on the north 80 acres of the Indian Mesa site.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 1A. RISK FACTORS

An investment in Alanco involves a high degree of risk. In addition to the other information included in this Form 10-K, you should carefully consider the following risk factors in determining whether or not to purchase shares of Alanco Class A Common Stock. These matters should be considered in conjunction with the other information included or incorporated by reference in this filing. This Form 10-K contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places and include statements regarding the intent, belief or current expectations of our management, directors or officers primarily with respect to our future operating performance. Prospective purchasers of our securities are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The information set out below, identifies important factors that could cause such differences. See “Safe Harbor Statements Under the Private Securities Litigation Reform Act of 1995.”

We may not be able to finalize our business plans. We have completed the initial acquisition of assets and developed the Deer Creek site for AES’s water treatment and disposal business. The 160 acre Indian Mesa site is still in the permitting stage with 80 acres approved for produced water treatment and disposal and the other 80 acres in the final permitting stage for a solid waste disposal facility. There is no assurance that the remaining 80 acres of the Indian Mesa permitting process will be successfully completed or that we have the capital to fund the Indian Mesa development.

The loss of key personnel would have a negative impact on our business and future development objectives. Our strategy is reliant on key personnel who understand the business in which we are invested. We have certain incentives to retain key personnel, but have no assurance that such personnel will remain with the Company on a long-term basis. The loss of the services of those key personnel could have an adverse effect on the business, operating results and financial condition of our company.

Worsening general economic conditions may negatively affect our ability to complete development. Previous deterioration in general economic conditions resulted in a challenging lending environment which may affect the Company’s ability to further develop its AES Indian Mesa site.

Acts of domestic terrorism and war impacted general economic conditions and our ability to operate profitably. As a result of past terrorist acts and resulting military actions, there has been a disruption in general economic activity. There may be other consequences resulting from past acts of terrorism, and any others which may occur in the future, including civil disturbance, war, riot, epidemics, public demonstration, explosion, freight embargoes, governmental action, governmental delay, restraint or inaction, quarantine restrictions, unavailability of capital, equipment, and personnel, which we may not be able to anticipate. These terrorist acts and acts of war may continue to impact the economy, and in turn, may reduce the demand for the Company’s products and services, which would harm the Company’s ability to make a profit.

The Company may not have sufficient capital to meet the liquidity needs to develop assets or otherwise pursue its business plan; and there is no assurance that additional capital can be obtained through the sale of stock or additional financing. The Company incurred significant losses during fiscal year 2015 and has experienced significant losses in prior years. Management cannot assure that future operations will be profitable or that additional debt and/or equity capital will be raised. The fiscal 2016 operating plan contemplates development of the AES Indian Mesa site. In order to develop the Indian Mesa site, the Company will need additional financing which may be in the form of public or private debt or equity financing, or both. If we need to seek additional financing to meet working capital

requirements, there can be no assurance that additional financing will be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our business, operating results, financial condition and ability to continue operations may be materially adversely affected.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

A significant portion of our current assets are represented by the note receivable from American Citizenship Center, LLC. The Company has a note receivable from American Citizenship Center, LLC (“ACC”). ACC, a related party, is a company that provides self-help immigration services for undocumented youth under policies developed by the Department of Homeland Security. ACC’s business plan had anticipated immigration reform would be enacted, which has not occurred. President Obama issued an “Executive Action” in November 2014; however, several states have filed a lawsuit to stop the new program. While the U.S. Government has appealed the lawsuit, there is no assurance that there will be a positive outcome which could negatively impact the Company’s ability to collect on the note.

If we raise additional funds through the sale of stock, our existing Alanco shareholders will experience dilution and may be subject to newly issued senior securities. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then current shareholders of the Company will be reduced, and such equity securities may have rights, preferences or privileges senior to those of the holders of Class A Common Stock.

The loss of key corporate executives may have a negative effect on our Company. Our performance is substantially dependent on the services and performance of our executive officers and key employees. The loss of the services of any of our executive officers or key employees could have a material adverse effect on our business, operating results and financial condition due to their extensive specific knowledge and comprehensive operating plans for the Company. Irrespective of any business operations, our future success will depend on our ability to attract, integrate, motivate and retain qualified technical, sales, operations and managerial personnel.

The market for the Company’s Alanco Energy Services, Inc. produced water disposal services may not be large enough to support the additional capacity created by the development of the Deer Creek water disposal site. Capital costs for the Deer Creek water disposal site require certain volumes, at certain prices per barrel, of produced water to be deposited for the Deer Creek operation to be successful. If the volume of produced water received is less than projected, or the price obtained per barrel is less than anticipated, or if operating costs are more than projected, the Deer Creek operation could have an adverse effect on the business, operating results and financial condition of our Company.

The Company’s Alanco Energy Services, Inc. Deer Creek water disposal site may experience increased pond maintenance costs. During the fiscal year 2015 the Deer Creek water disposal site experienced anaerobic bacterial conditions which significantly increased operating costs during the third and fourth quarters. The Company believes the current pond maintenance protocol is effective but there is no assurance that successful maintenance will continue.

Changing technology related to the disposal of produced water may result in the development of more cost effective methods than the evaporation method used at the Deer Creek facility. We do not believe a more cost effective method will be available in the near future, however, if improved methods are developed, the volume of produced water received at the Deer Creek facility and/or the price obtained per barrel may be less than anticipated and could have an adverse effect on the business, operating results and financial condition of our Company.

Non-compliance with current laws regulating the Deer Creek facility may have a negative impact. The Deer Creek facility is subject to regulations by multiple authorities in the State of Colorado. If AES were out of compliance with the regulations, there may be a negative impact on the Company.

Regulations in the oil and gas industry may negatively impact our Deer Creek facility and plans for Indian Mesa. The Company’s Deer Creek facility and future plans for the Indian Mesa site could be negatively impacted by future regulations enacted by the State of Colorado and/or the Environmental Protection Agency. While the Company would anticipate that future regulations would improve market demand for the services provided at the Deer Creek facility and those planned for Indian Mesa, there is no assurance that would be the case. In addition, there is no assurance that

future regulations would not negatively impact the Company's development plans for Indian Mesa.

The Company does not anticipate payment of dividends on Common Stock. We do not anticipate that we will pay cash dividends on our Class A Common Stock in the foreseeable future. The payment of dividends by us will depend on our earnings, financial condition, and such other factors, as our Board of Directors may consider relevant. We currently plan to retain earnings, if any, to provide for the development of our business.

Our articles of incorporation and Arizona law may have the effect of making it more expensive or more difficult for a third party to acquire, or to acquire control of us. Our articles of incorporation make it possible for our Board of Directors to issue preferred stock with voting or other rights that could impede the success of any attempt to change control of us. Arizona law prohibits a publicly held Arizona corporation from engaging in certain business combinations with certain persons, who acquire our securities with the intent of engaging in a business combination, unless the proposed transaction is approved in a prescribed manner. This provision has the effect of discouraging transactions not approved by our Board of Directors as required by the statute which may discourage third parties from attempting to acquire us or to acquire control of us even if the attempt would result in a premium over market price for the shares of common stock held by our stockholders.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Certain provisions in our Alanco shareholder rights plan may discourage a takeover attempt. We have implemented a shareholder rights plan which could make an unsolicited takeover of our company more difficult. As a result, shareholders holding a controlling block of shares may be deprived of the opportunity to sell their shares to potential acquirers at a premium over prevailing market prices. This potential inability to obtain a premium could reduce the market price of our common stock.

The market price of Alanco Class A Common Stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

1. actual or anticipated fluctuations in our operating results;
2. the loss of key management or technical personnel;
3. the outcome of any current or future litigation;
4. changes in our financial estimates by securities analysts;
5. broad market fluctuations;
6. recovery from natural disasters; and
7. economic conditions in the United States or abroad.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's corporate office is located at 7950 E. Acoma Drive, Suite 111, Scottsdale, Arizona 85260, in an approximately 1,500 square foot facility. At June 30, 2015 the facility was occupied on a month to month basis with monthly payments of \$1,700 (including rental tax). Effective August 1, 2015, the month to month payment increased to \$1,800 (including rental tax).

In April 2012, AES executed an agreement with TC Operating, LLC ("TCO") of Grand Junction, CO to transfer a land lease for approximately 24 acres near Grand Junction, CO (known as the Deer Creek site). AES has developed eight acres of ponds for the treatment and disposal of large quantities of produced water generated by oil and natural gas producers in Western Colorado. The site was chosen due to its unique ability to meet stringent government requirements for disposal of high saline water produced as a by-product of oil and gas production, and termed "produced water". The agreement included the transfer of all related tangible and intangible assets as well as Federal, State and County permits required to construct the facilities. The ten year land lease, effective May 1, 2012 has two additional ten year option periods that may be activated by AES. The initial terms of the lease requires minimum monthly lease payments of \$100 per acre (increasing to \$150 and \$200 per acre for the second and third ten year option periods, respectively) plus additional rent based upon quantities of produced water received (approximately \$.25 per barrel) at the site. Under certain circumstances, the acreage covered by the lease may be expanded by up to 50 acres to allow for additional expansion at the site.

In April 2012, AES also acquired from Deer Creek Disposal, LLC ("DCD") a 160 acre parcel of land approximately three miles from the Deer Creek site to provide additional expansion to the proposed water disposal facility. AES agreed to potential additional quarterly contingent land payments to DCD up to a maximum total of \$800,000, generally determined as 10% of quarterly revenues in excess of operating expenses up to a maximum of \$200,000 per quarter (contingent land payment) with a net present value at June 30, 2015 and 2014 of \$653,900 and \$660,200, respectively. In addition, under the TCO agreement, TCO can earn additional payments based upon a percentage of the net cumulative EBITDA (net of all related AES capital investments) over a period of approximately 10 years

(contingent purchase price obligation), starting January 1, 2014.

In May 2015, AES signed a one year lease for an approximately 700 square foot office space located at 138 S. Park Square, Suite 201, Fruita, Colorado 81521 with monthly rental payments of \$700 (including rental tax).

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ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant and counterclaimant in litigation involving its subsidiary, TSI Dissolution Corp. (formerly known as Alanco/TSI Prism, Inc.) (“TSI”) and the purchaser of TSI’s assets, Black Creek Integrated Systems Corp. Black Creek filed a complaint in the Maricopa County Superior Court against TSI and the Company, being Civil Case No. CV2011-014175, claiming various offsets from the purchase price, primarily concerning inventory adjustments, and TSI counterclaimed for monies due from Black Creek under the purchase agreement. Following a trial during fiscal 2014, the court awarded a net judgment in favor of Black Creek in the amount of \$16,800, plus attorney’s fees and accrued interest, resulting in a total judgment in the amount of \$128,300. At June 30, 2014, the Company recorded an accrued liability of \$128,300 for the judgment and had posted a bond with the court in conjunction with the Company’s appeal of the judgment. In May 2015, the State of Arizona Division One Court of Appeals vacated the trial court’s damages award and remanded to the trial court to direct the parties to follow dispute guidelines defined in the asset purchase agreement. In addition, the appellate court’s decision vacated the trial court’s attorney’s fee award and stated that TSI is entitled to an award of fees on appeal. At June 30, 2015, the Company reversed the accrual of \$128,300 for the prior judgment. The Company is currently following the court’s direction and working under the dispute guidelines defined in the asset purchase agreement. The Company believes that the lower court’s judgment failed to address, among other matters, inventory reserves established for the specific items of inventory which were the subject of Black Creek’s concerns, which if properly addressed would result in a net judgment in favor of the Company, with an attendant award of attorney’s fees in favor of the Company.

The Company may from time to time be involved in litigation arising from the normal course of business. As of June 30, 2015, other than the litigation discussed above, there was no such litigation pending deemed material by the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

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

Alanco's common stock is traded on the OTC bulletin board market under the stock symbol “ALAN”.

The following table sets forth high and low closing prices for each fiscal quarter for the last two fiscal years. The prices are as quoted on the over the counter market.

Quarter Ended	Fiscal 2015		Fiscal 2014	
	High	Low	High	Low
September 30	\$0.52	\$0.40	\$0.69	\$0.41
December 31	\$0.52	\$0.33	\$0.58	\$0.43
March 31	\$0.35	\$0.29	\$0.47	\$0.39

June 30 \$0.33 \$0.28 \$0.65 \$0.36

As of June 30, 2015 and 2014 Alanco had approximately 2,300 holders of its Class A Common Stock, including an estimate of street name holders.

The Company issued a total of 75,000 shares of its Class A Common Stock during fiscal year ended June 30, 2015. All shares were issued for services.

Alanco has paid no Common Stock cash dividends and has no current plans to do so. During the fiscal years ended June 30, 2015 and 2014 the Company repurchased 55,100 and 56,800 common shares for \$20,800 and \$26,100 respectively, or an average of \$.38 and \$.46 per share, respectively. The repurchased shares were retired prior to each year end.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

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

During fiscal year ended June 30, 2012, the Company formed AES as a wholly-owned subsidiary and constructed the Deer Creek water treatment and disposal facility located near Grand Junction, CO. The facility started to receive produced water in August 2012. During fiscal 2015 and 2014, the Company continued the permitting process for the 160 acre site known as Indian Mesa for water treatment and disposal and a landfill/land farm operation.

Current Status of Deer Creek facility

The Deer Creek produced water disposal facility, located near Grand Junction, CO, became operational in August 2012 with annual evaporative capacity of approximately 300,000 barrels without using enhanced evaporation methods, providing some Piceance Basin producers with significant transportation cost savings compared to alternative water disposal sites. In November 2014, the facility received approval from the Mesa County Board of Commissioners allowing 24 hours a day, seven days per week operations for two years with an administrative review conducted by the Planning Division after one year. During fiscal year 2015, the facility experienced anaerobic bacterial conditions in its evaporation ponds and as a result, restricted water intake during the fourth quarter while it was treating the ponds. The pond conditions have significantly improved and the Company is currently following a bioremediation maintenance program to maintain pond health. The Company anticipates increased water revenues during the second quarter of fiscal 2016 which will be achieved by allowing increased water deliveries as well as an increase to the average revenue per barrel for water deliveries.

Current Status of Indian Mesa facility

The permitting process for the Indian Mesa facility, located approximately 4 miles North West of the Deer Creek site, has been in process for a number of years with an initial County Use Permit issued in 2010 covering, among other things, evaporation ponds and land farming. In December 2013, in response to an AES request to amend its County Use Permit ("CUP"), the Mesa County Board of Commissioners unanimously approved a new CUP for AES to construct and operate on its 160 acre Indian Mesa site evaporation ponds and/or landfill for disposal of solid oil and gas (O&G) waste, such as drill cuttings, tank bottoms, sock filters, etc. The approval also allows for solid and produced water disposal of Naturally-Occurring Radioactive Materials (NORM) and Technically Enhanced Naturally-Occurring Radioactive Materials (TENORM). In June 2014 AES received final construction approval from the Colorado Department of Public Health and Environment (CDPHE) for twelve produced water disposal ponds, which if developed as planned, would be located on the north 80 acres of the Indian Mesa site.

The capacity of Indian Mesa is dependent on its type of development, which the Company is still planning. If 80 acres is developed as 12 ponds as discussed above, the annual capacity at Indian Mesa for produced water, not considering enhanced evaporation, would be approximately 1 million barrels. If the remaining 80 acres were developed into landfills, the capacity would be approximately 3 million cubic yards. If the entire 160 acres were developed into landfill, the solid waste capacity would increase to approximately 8 million cubic yards. Complete build-out of its Indian Mesa facility, including both landfill and evaporative ponds, would result in a unique Western Colorado "one stop shop" for all O&G waste products, including NORM and TENORM contaminated waste streams.

Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses our consolidated financial statements that 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

assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, we evaluate our estimates and assumptions concerning classification and valuation of investments, the estimated fair value of stock-based compensation, realization of deferred tax assets, collectability of accounts and note receivable, estimated useful lives and carrying value of fixed assets, the recorded values of accruals and contingencies including the estimated fair values of the Company's asset retirement obligation and the contingent land and purchase price liabilities, and the Company's ability to continue as a going concern. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The result of these estimates and judgments form the basis for making conclusions about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

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The SEC suggests that all registrants discuss their most “critical accounting policies” in Management’s Discussion and Analysis. A critical accounting policy is one which is both important to the portrayal of the Company’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the critical accounting policies as those accounting policies that affect its more significant judgments and estimates in the preparation of its consolidated financial statements. The Company’s Audit Committee has reviewed and approved the critical accounting policies identified. These policies include, but are not limited to, revenue recognition, the classification and valuation of marketable securities, realization of accounts and note receivable, estimated useful lives and carrying value of fixed assets, stock-based compensation, the recorded values of accruals and fair values of assets and liabilities including the Company’s contingent liabilities.

Revenue Recognition

The Company uses four factors to determine the appropriate timing of revenue recognition. Three of these factors are generally factual considerations that are not subject to material estimates (evidence of an arrangement exists, the service has been performed and the fee is determinable). The fourth factor includes judgment regarding the collectability of the sales price. The Company’s written arrangement with customers establishes payment terms and the Company only enters into arrangements when it has reasonable assurance that it will receive payment from the customer. The assessment of a customer’s credit-worthiness is reliant on management’s judgment on factors such as credit references and market reputation. If any sales are made that become uncollectible, the Company establishes a reserve for the uncollectible amount. Any sales tax for which the Company is responsible is recorded as a reduction of the associated revenue.

Classification and Valuation of Marketable Securities

The Company classifies its investments in marketable securities at the time of acquisition and reviews such classifications at each balance sheet date. Marketable securities are classified as held to maturity, trading, or available for sale depending on the Company’s ability and plans for sale. Marketable securities are valued based on their classification. The Company’s current marketable securities on hand are classified as available for sale and are measured at fair value on a recurring basis by using quoted market prices. The cost of the securities sold is based on average cost of the security.

Realization of Accounts and Note Receivable

The Company uses the allowance method for potentially uncollectible trade accounts and note receivable. An allowance for doubtful accounts is established based a review of outstanding account balances. The Company reviews payment history and credit worthiness in the determination of its allowance for doubtful accounts. In addition, the Company has reviewed the note holder’s projected revenues, related assumptions and cash flows when evaluating the collectability of the note receivable.

Estimated Useful Lives and Carrying Value of Fixed Assets

The Company values fixed assets based on cost and depreciates fixed assets based on estimated useful lives using the straight-line method, generally over a 3 to 20 year period. Expenditures for ordinary maintenance and repairs are expensed as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated and a gain or loss is recorded in the statement of operations. The Company analyzes the carrying value of fixed assets by reviewing income projections and undiscounted cash flows which include assumptions based on current market conditions for anticipated revenues and expenses. These assumptions are reasonably likely to change in the future based on changing markets, which may have a material effect.

Stock-Based Compensation

The Company has stock-based compensation plans and the associated compensation cost is amortized on a straight-line basis over the vesting period. The Company estimates the fair value of stock-based compensation using the Black-Scholes valuation model using the following inputs: the plain-vanilla method for expected term based on the contractual term and vesting period of the award, the expected volatility of daily changes in the market price of the Company's common stock, the assumed risk-free interest rate and an assumption of future forfeitures based on historical cancellations and management's analysis of potential forfeitures.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Recorded Values of Accruals

The Company makes accruals for liabilities based on reasonable estimates for known or anticipated obligations. Estimates may be based on known inputs, experience with similar situations, or anticipated outcomes. Estimates for the Company's asset retirement obligation and contingent payments are determined at discrete points in time based upon unobservable inputs in which little or no market activity exists that is significant to the fair value of the liability, therefore requiring the Company to develop its own assumptions. Estimates for the asset retirement obligation were developed by a consultant knowledgeable about the State of Colorado regulatory requirements and use vendor estimates for the various activities required for the closure of the Deer Creek facility. Estimates for the contingent payments were calculated based on projected income, cash flows and capital expenditures for the Deer Creek and Indian Mesa facilities under current plans.

Fair Values of Assets and Liabilities

The Company estimates fair values for assets and liabilities at certain points in time based on information known at that time using the Accounting Standards Codification ("ASC") and recognizes transfers as they occur. The ASC uses a three level hierarchy: Level 1 – unadjusted quoted prices for identical assets or liabilities traded in active markets, Level 2 – observable inputs, other than quoted prices included with Level 1, and Level 3 – unobservable inputs in which little or no market activity exists that are significant to the fair value. The fair value of the Company's Marketable Securities is based on Level 1 inputs using ORBCOMM's quoted prices. The asset retirement obligation and contingent payments discussed above use Level 3 inputs.

Results of Operations

Net Revenues

Revenues for the year ended June 30, 2015 were \$785,700 as compared to revenues for the year ended June 30, 2014 of \$638,500, an increase of \$147,200, or 23.1%. Revenues are comprised of produced water delivery fees and sales of reclaimed oil (net of associated taxes). Revenues for fiscal 2015 were concentrated approximately 85.1% with four customers versus revenues for fiscal 2014 which were concentrated approximately 87.9% to four customers. The significant customers represented \$14,900, or 32.5% of the accounts receivable balance at June 30, 2015, while the significant customers for fiscal 2014 represented \$77,700, or 79.5% of the accounts receivable balance outstanding at June 30, 2014. While the concentration percentages are similar over the last two fiscal years, the Company has continued development of relationships with customers in the region, which the Company anticipates to continue to improve. Revenues can be impacted by weather conditions, the prices of oil and gas which may impact drilling activities in the region, and alternative uses of produced water, such as for fracking fluid that some current and potential customers are utilizing.

Cost of Revenues

Cost of revenues for the years ended June 30, 2015 and 2014 were \$925,700 and \$437,200, respectively, an increase of \$488,500 or 111.7%. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs, pond maintenance and other operating costs. The increase is primarily due to higher pond maintenance costs including pond treatments to manage anaerobic bacterial conditions plus associated rental equipment and related fuel costs. In addition, other variable costs increased due to higher revenues and include labor costs and fees tied to water volumes. Fixed costs such as depreciation, amortization, accretion and lease costs represent approximately 19% and 50% of the cost of revenues for the fiscal years 2015 and 2014, respectively. Fixed costs for the current year decreased due to the reversal of the contingent earn-out and the recovery of the associated amortization. Gross profit for the year ended June 30, 2015 was a gross (loss) of (\$140,000) with a gross margin of (18%) and for the year ended June 30, 2014 was a gross profit of \$201,300 with a gross margin of 31%. The gross loss in the current year is primarily due to the increased pond maintenance costs mentioned above. Without these extra costs of approximately \$418,000, the Company would have had a gross profit of approximately \$278,000, or 35%, which would reflect an

improvement of \$76,700, or 4% improvement in gross margin over the fiscal year 2014.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fiscal year ended June 30, 2015 (consisting of corporate expenses, AES selling, general and administrative expense and stock-based compensation) was \$1,033,800, a decrease of \$244,700, or 19.1%, compared to \$1,278,500 (consisting of corporate expenses, AES selling, general and administrative expense and impairment charges) reported for the fiscal year ended June 30, 2014. During fiscal 2015, the allocation of corporate service cost to AES was decreased. As a result, total corporate expenses plus AES selling, general and administrative expense are being compared in this discussion. For fiscal year ended June 30, 2015, corporate expense plus AES selling, general and administrative expense was \$960,500 as compared to \$1,118,000 for fiscal year ended June 30, 2014, a decrease of \$157,500, or 14.1%. The combined decrease is primarily due to a reduction in corporate salaries and benefits reflecting a change in staff levels and a decrease in travel expenses, offset by an increase in professional services. Stock-based compensation for the fiscal year 2015 is \$73,300 as compared to zero for fiscal year 2014. During the fiscal year ended June 30, 2014, the Company recorded an impairment charge of \$160,500 related to an injection well located on the Deer Creek property. During the fourth quarter of fiscal 2014, the Company met with State of Colorado officials regarding the injection well permit and due to the length of time the process was taking and the uncertainty of a positive outcome, decided to record the impairment charge.

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Operating Loss

Operating Loss for the year ended June 30, 2015 was (\$1,173,800), an increase of \$96,600, or 9%, compared to an Operating Loss of (\$1,077,200) reported for the prior year. The increased operating loss resulted from an increase in revenues offset by an increase in cost of revenues, resulting in a gross loss, offset by a decrease in selling, general and administrative expenses in fiscal 2015 versus fiscal 2014.

Other Income and Expense

Interest income for the year ended June 30, 2015 was \$41,500, an improvement of \$4,000 when compared to interest income of \$37,500 for the year ended June 30, 2014. The increase in interest income related to the increase in the outstanding amount of the note receivable and the increase in the interest rate effective during the current fiscal year.

During fiscal year 2014, the Company recorded a gain of \$121,700 on the settlement of the fuel sensor escrow and working capital adjustment related to the sales of its StarTrak subsidiary in fiscal 2011 to ORBCOMM. During the fiscal year 2015, the Company recorded a gain of \$103,200 on the sale of 85,000 shares of ORBCOMM Common Stock at an average selling price of \$6.38 as compared to the prior fiscal year which had a gain of \$913,800 on the sale of 349,192 shares of ORBCOMM Common Stock at an average selling price of \$6.08 per share. Finally, the Company had other income during the year ended June 30, 2015 of \$128,500 of which \$128,300 reflects the reversal of the previously accrued amount related to the TSI lawsuit which was reversed in the appellate court. During the year ended June 30, 2014, the Company had \$102,000 of other expense. Of this amount, \$128,300 was the accrual for the TSI case, offset by other income from the amendment fee negotiated on the note receivable during fiscal 2014.

Net Loss

Net Loss for the year ended June 30, 2015 was (\$900,600), an increase of \$794,400, or 748%, when compared to the net loss of (\$106,200) for the previous year ended June 30, 2014. The increase in net loss was primarily due to the decrease in gross profit plus the decrease in the gain on sale of investments as compared to the prior year.

Comprehensive Loss

Comprehensive Loss for the year ended June 30, 2015 represents the unrealized change in market value of the Company's Marketable Securities held compared to the same period of the prior fiscal year. Comprehensive loss for the year ended June 30, 2015 consisted of the net value of two items: 1) the six months ending market value reclassification adjustment for gain included in Net Loss of (\$103,200) and 2) the net unrealized loss on marketable securities sold during the period of (\$18,000). As of December 31, 2014 the Company had sold all shares of ORBCOMM, Inc. Common Stock.

Liquidity and Capital Resources

The Company's current assets exceeded its current liabilities by \$670,600 at June 30, 2015, representing a current ratio of 2.7 to 1. At June 30, 2014 the Company's current assets exceeded current liabilities by \$2,066,400 and reflected a current ratio of 7.3 to 1. The decrease in current ratio at June 30, 2015 versus June 30, 2014 resulted primarily from the sale of marketable securities, proceeds of which were primarily used to fund operating losses.

Net cash used in operating activities for the fiscal year ended June 30, 2015 was (\$667,500) compared with net cash used in operating activities for the prior fiscal year of (\$769,700). The decrease of \$102,200 resulted primarily from a \$810,600 decrease in the gain on marketable securities offset by the increase in net loss of \$794,400.

Consolidated receivables at June 30, 2015 were \$50,100 compared to receivables at June 30, 2014 of \$106,000. The receivables at June 30, 2015 relate to \$45,900 of trade receivables for AES plus \$4,200 of receivables from American Citizenship Center, LLC ("ACC"), a related party. The receivable at June 30, 2014 relate to \$96,800 of trade

receivables for AES plus \$9,200 of receivables from ACC.

Net cash provided by investing activities during the current year was \$261,600, a decrease of \$1,053,400 compared to net cash provided by investing activities in the prior year of \$1,315,000. The decrease was due primarily to a reduction in proceeds from the sale of marketable securities of \$1,581,900 plus an increase in capital expenditures of \$230,500, offset by a decrease in expenditures for payments pursuant to the StarTrak sale of \$643,800.

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Net cash used in financing activities during the fiscal year ended June 30, 2015 amounted to (\$20,800), a decrease of \$5,300 compared to net cash used in financing activities of (\$26,100) for the fiscal year ended June 30, 2014. The decrease is primarily due to a reduction in the purchase of treasury shares.

At June 30, 2015, the Company had zero remaining shares of ORBCOMM Inc. At June 30, 2014, the Company reported Marketable Securities that consisted of 85,000 shares of ORBCOMM Inc. (NASDAQ: ORBC) Common Stock, valued at approximately \$560,100, or \$6.59 per share. The shares were received as part of the Company's asset sale of its StarTrak Systems, LLC subsidiary in May 2011. At June 30, 2014, these available for sale securities were valued using a Level 1 fair value measurement based on unadjusted quoted prices for identical assets in active markets which is more fully described in Note 1 – Nature of Operations and Significant Accounting Policies to the consolidated financial statements.

The Company has made a significant investment through June 30, 2015 in Alanco Energy Services, Inc. investing approximately \$1.6 million in land and \$2.7 million in evaporation ponds and equipment for the Deer Creek water disposal site.

The Company has a note receivable from ACC, which was established to provide ACC working capital. As of June 30, 2015, the note has an outstanding balance of \$322,800. The note is secured by all assets of ACC and bears interest at the rate of 9.5% per annum. Under the agreement and amendments thereto, the Company was issued a total of 300,000 warrants to purchase membership units of ACC at an exercise price of \$1.00 per unit. The expiration date of the warrants is August 31, 2016 and the value of said warrants is considered immaterial at both June 30, 2015 and 2014 due to the startup nature of ACC and the premium exercise price compared to the most recent membership unit sales, therefore, no value has been recorded for these warrants.

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern and realization of assets and satisfaction of liabilities and commitments in the normal course of business. As discussed in Note 15 to the accompanying consolidated financial statements, the Company's fiscal 2016 operating plan contemplates development of the AES Indian Mesa site. In order to develop the Indian Mesa site, the Company will need additional financing which may be in the form of public or private debt or equity financing, or both. Management cannot assure that it will secure additional financing in order to achieve projections. If adequate funds are not available or are not available on acceptable terms, the Company's business, operating results, financial condition and ability to continue operations may be materially adversely affected. Management has historically been successful in obtaining financing and has demonstrated the ability to implement a number of cost-cutting initiatives to reduce working capital needs or the Company may seek to sell assets. Accordingly, the accompanying consolidated financial statements have been prepared assuming the Company will continue to operate and do not include any adjustment that might be necessary if the Company is unable to continue as a going concern. As a result, the Company's independent registered public accounting firm has included an explanatory paragraph in their audit opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2015 discussing the substantial doubt of the Company's ability to continue as a going concern.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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