ALANCO TECHNOLOGIES INC
Form 10-K
September 30, 2016
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, 2016
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 Incorporation or organization)	(I.R.S. Employer 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 X 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 X 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. X 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).
X Yes ___ 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 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: $687,700.

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 20, 2016, there were 4,982,400 shares of common stock outstanding.
1

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 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. The Company has three full time employees.

RECENT BUSINESS DEVELOPMENTS

Alanco Energy Services, Inc. – During the fiscal year ended June 30, 2016, Alanco's Board of Directors approved a formal plan to sell the undeveloped site known as Indian Mesa, consisting of land and associated permits. Accordingly, the land and associated permit costs are being presented as "Assets Held for Sale" in the attached balance sheet as of June 30, 2016 and the sale of these assets is expected to occur within one year.

Alanco Behavioral Health, Inc. – In August 2016, the Company announced that it is launching a behavioral health subsidiary and has named David C. Johnson, a seasoned executive in the behavioral health market, as President. This subsidiary will focus on its acquisition plans with the objective of creating a market leader in behavioral health treatment services.

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."

2

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

We may not be able to finalize our business plans. The Company has implemented a plan to divest its 160 acre owned and undeveloped land and associated permits located in Whitewater, Colorado and known as Indian Mesa. As a result, the cost of the land and associated permits has been reclassified as Assets Held for Sale at June 30, 2016.

We may not be able to implement our business plans in the behavioral health market. The Company announced on August 22, 2016 that it is launching Alanco Behavioral Health, Inc., a wholly-owned subsidiary. The business plan includes the acquisition of behavioral health businesses which requires capital that the Company may not be able to raise or may not be able to raise at terms acceptable to us.

There is no assurance that we will close on the sale of Indian Mesa. The Company has implemented a plan to divest of the Indian Mesa land but there is no assurance that the sale will close or alternatively, that we will have the capital to fund the development of the Indian Mesa land.

The loss of key personnel would have a negative impact on our business and future development objectives. Our strategy and performance is reliant on key personnel who understand the business in which we are invested and the market which the Company is expanding into. 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 a material adverse effect on the business, operating results and financial condition of our 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.

Worsening general economic conditions may negatively affect our ability to execute business plans. Previous deterioration in general economic conditions resulted in a challenging lending environment which may affect the Company's ability to sell its AES Indian Mesa site and to fund its acquisition plans in the behavioral health market.

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 2016 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 2017 operating plan contemplates the sale of the AES Indian Mesa site and the expansion of the Company into the behavioral health market. In order to execute acquisition plans, 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.

The note receivable from American Citizenship Center, LLC may not be collectible. 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. The U.S. Government appealed the lawsuit to the Supreme Court, who was not able to reach a decision. The case has been remanded back to the District Court. There is no assurance that there will be a positive outcome which could negatively impact the Company's ability to collect on the note, which has been fully reserved as of June 30, 2016.

3

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

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 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 be impacted by oil and gas market fluctuations. The Company's Deer Creek water disposal site services the oil and gas industry by accepting produced water deliveries. Produced water is generated from oil and gas drilling operations which can be negatively impacted by oil and gas pricing fluctuations.

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 of 2015. During the fiscal year 2016, the Company did not experience the same problems and 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 current plans to sell 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 plans to sell 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, 2016 the facility was occupied on a month to month basis with monthly payments of $1,800 (including rental tax). Effective August 1, 2016, the month to month payment increased to $1,900 (including rental tax).

The Company's AES subsidiary leases approximately 24 acres near Grand Junction, CO where it operates its Deer Creek water disposal site. The ten year land lease, effective May 1, 2012 requires minimum monthly lease payments of $100 per acre plus additional rent based upon quantities of produced water received (approximately $0.25 per barrel) at the site. The lease has two additional ten year option periods that may be activated by AES at which time the lease payments increase to $150 and $200 per acre for the second and third ten year option periods, respectively. 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.

The Company owns a 160 acre undeveloped parcel of land approximately three miles from the Deer Creek site and known as Indian Mesa. The land carries a contingent liability which is payable 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 an estimated net present value at June 30, 2016 and 2015 of $672,700 and $653,900, respectively. During the fiscal year 2016, Alanco's Board of Directors approved a formal plan to sell Indian Mesa, consisting of land and associated permits. Accordingly, the land and associated permit costs are being presented as "Assets Held for Sale" in the attached balance sheet as of June 30, 2016.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant and counterclaimant in litigation involving a former subsidiary known as Alanco/TSI Prism, Inc. ("TSI") and the purchaser of TSI's assets, Black Creek Integrated Systems Corp. ("Black Creek"). 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 fees award and awarded TSI approximately $21,900 of its fees on appeal. At June 30, 2015, the Company reversed the accrual of $128,300 for the prior judgment. Under the court's direction, the Company followed the dispute guidelines defined in the asset purchase agreement which resulted in an award to Black Creek of approximately $13,000. The Company has previously stipulated that it owed Black Creek approximately $9,600 for shared expenses incurred from 2010 - 2011. The court is currently reviewing Black Creek's recent attorney's fees application and the Company's answer to said application. If the court were to grant a fee award to Black Creek, the range could be any amount from zero to the amount applied for, approximately $160,000. The Company vehemently disagrees with Black Creek's attorney's fees claim and believes that its legal defenses in its answer to Black Creek's attorney's fees application will preclude any award and accordingly the Company has not recorded a liability.

The Company may from time to time be involved in litigation arising from the normal course of business. As of June 30, 2016, other than the litigation discussed above, there was no such litigation pending deemed material by the Company.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

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 QB 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.

	Fiscal 2016		Fiscal 2015	
Quarter Ended	High	Low	High	Low
September 30	$0.29	$0.17	$0.52	$0.40
December 31	$0.25	$0.13	$0.52	$0.33
March 31	$0.25	$0.15	$0.35	$0.29
June 30	$0.27	$0.16	$0.33	$0.28

As of June 30, 2016 and 2015 Alanco had approximately 2,300 holders of its Class A Common Stock, including an estimate of street name holders.

The Company did not issue any shares of its Class A Common Stock during fiscal year ended June 30, 2016.

Alanco has paid no Common Stock cash dividends and has no current plans to do so. During the fiscal year ended June 30, 2015 the Company repurchased 55,100 common shares for $20,800, or an average of $0.38 per share. The repurchased shares were retired prior to the fiscal 2015 year-end. No shares were repurchased during the fiscal year ended June 30, 2016.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

Alanco Technologies, Inc. ("Alanco") has two oil and gas assets in Western Colorado owned by Alanco Energy Services, Inc. ("AES"), a wholly owned subsidiary of the Company. The first is the Deer Creek water treatment and disposal facility located in Whitewater, CO. The second is an undeveloped 160 acre owned site, known as Indian Mesa, which is permitted for evaporation ponds and in the permitting process for waste disposal, including NORM and TENORM. Indian Mesa is located three miles from the Deer Creek site.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Deer Creek facility

In fiscal 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 ("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 produced water generated by oil and gas producers in Western Colorado. The Deer Creek site generally operates with one full time employee. There are other facilities in Western Colorado and Eastern Utah 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. AES has been able to develop its customer base since the start of operations, however, demand has decreased in conjunction with decreased oil and gas prices. The Deer Creek facility is subject to compliance with environmental laws under which it has established an Asset Retirement Obligation of $434,000 at June 30, 2016.

The Deer Creek disposal facility became operational in August 2012 with annual evaporative capacity of approximately 300,000 barrels, excluding any enhanced evaporation methods. The facility provides 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. Water deliveries have been negatively impacted by the falling market prices of oil and gas which significantly reduced drilling activities and fracking in the region and resulted in the closing of many of the producing oil and gas wells in the area. The Company is continuing to analyze options to monetize current and future operations of Deer Creek.

Indian Mesa

The permitting process for Indian Mesa, located approximately three 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 CUP approval also allows for solid and produced water disposal of Naturally-Occurring Radioactive Materials (NORM) and Technically Enhanced Naturally-Occurring Radioactive Materials (TENORM) which is in the permitting process with the State of Colorado. In June 2014 AES received final construction approval from the Colorado Department of Public Health and Environment (CDPHE) for twelve produced water disposal ponds.

The capacity of Indian Mesa is dependent on its type of development. 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. During fiscal year 2016, Alanco's Board of Directors approved a formal plan to sell Indian Mesa, consisting of land and associated permits. Accordingly, the land and associated permit costs are being presented as "Assets Held for Sale" in the attached balance sheet as of June 30, 2016.

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 and detachable warrants, 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 Black Creek contingent liability and 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.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

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, realization of accounts and note receivable, estimated useful lives and carrying value of fixed assets, classification of assets as held for sale, 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.

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 on 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 considers the ACC note holder's projected revenues, related assumptions and cash flows which are largely influenced by political activities surrounding immigration reform. Based on the uncertainty in the timing of immigration reform, the Company has fully reserved the amount of the Note Receivable as of June 30, 2016.

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 on the carrying value or useful life.

Classification of Assets as Held for Sale

The Company reclassifies assets as held for sale based on meeting the criteria for the classification including approval of a formal plan to sell assets by the Company's Board of Directors.

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.

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 land payment 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 land payment were calculated based on projected income, cash flows and capital expenditures for the Deer Creek and Indian Mesa facilities under current plans.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

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 asset retirement obligation and contingent land payment discussed above use Level 3 inputs.

Results of Operations

Net Revenues

Revenues for the year ended June 30, 2016 were $192,900 as compared to revenues for the year ended June 30, 2015 of $785,700, a decrease of $592,800, or 75.4%. Revenues are comprised of produced water delivery fees and sales of reclaimed oil (net of associated taxes). Revenues for fiscal 2016 were concentrated approximately 71.6% with three customers versus revenues for fiscal 2015 which were concentrated approximately 85.1% to four customers. The significant customers represented $3,800, or 97.4% of the accounts receivable balance at June 30, 2016, while the significant customers for fiscal 2015 represented $14,900, or 32.5% of the accounts receivable balance outstanding at June 30, 2015. Revenues were negatively impacted by the falling market prices of oil and gas which significantly reduced drilling activities and fracking in the region and resulted in the temporary closing of many of the producing oil and gas wells in the area.

Cost of Revenues

Cost of revenues for the years ended June 30, 2016 and 2015 were $606,100 and $925,700, respectively, a decrease of $319,600 or 34.5%. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs, pond maintenance and other operating costs. The decrease is primarily due to lower pond maintenance costs in the current year including pond treatments to manage anaerobic bacterial conditions plus associated rental equipment and related fuel costs. In addition, other variable costs decreased due to lower revenues and include labor costs and fees tied to water volumes. Fixed costs such as depreciation, amortization, accretion and lease costs represent approximately 40% and 19% of the cost of revenues for the fiscal years 2016 and 2015, respectively. Fixed costs for the fiscal year 2015 included the reversal of the contingent earn-out and the recovery of the associated amortization. Without that adjustment, fixed costs for fiscal year 2015 would have been approximately 24% of the cost of revenues. Gross profit for the year ended June 30, 2016 was a gross (loss) of ($413,200) and for the year ended June 30, 2015 was a gross (loss) of ($140,000). The increased gross loss in the current year is due to the decreased revenues.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (consisting of corporate expenses, AES selling, general and administrative expense and stock-based compensation) for the fiscal year ended June 30, 2016 was $1,207,700, an increase of $173,900, or 16.8%, compared to $1,033,800 reported for the fiscal year ended June 30, 2015. Corporate expenses for the fiscal year 2016 were $559,000 and represented an increase of $332,500, or 146.8%, compared to corporate expenses of $226,500 reported for the fiscal year 2015. Approximately $266,400 of the increase is due to the reserve recorded by the Company for its note receivable from ACC, a related party. Without this expense, corporate expenses for the current fiscal year would have reflected an increase of approximately $66,100, or 29.2%, as compared to the prior year. The increased costs primarily relate to professional services including board fees and investment banking fees. AES expense of $620,900 for fiscal year 2016 compared to $734,000 for the fiscal year 2015 reflects a decrease of $113,100, or 15.4%, is primarily related to a decrease in management fees for operations of the Deer Creek Water Disposal facility. Stock-based compensation during fiscal 2016 was $27,800 compared to $73,300 for fiscal year 2015. Stock-based compensation expense in both periods relates to stock options issued to the Company's officers and directors during the quarter ended December 31, 2014 which have been fully amortized. No new stock options have been issued.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Operating Loss
Operating Loss for the year ended June 30, 2016 was ($1,620,900), an increase of $447,100, or 38.1%, compared to an Operating Loss of ($1,173,800) reported for the prior year. The increased operating loss resulted from an increased gross loss plus an increase in selling, general and administrative expenses in fiscal 2016 versus fiscal 2015.

Other Income and Expense
Interest income for the year ended June 30, 2016 was $28,800, a decrease of $12,700, or 30.6%, when compared to interest income of $41,500 for the year ended June 30, 2015. The decrease in interest income related to the decrease in the outstanding amount of the note receivable and lower cash held in interest bearing accounts.

Interest expense for the year ended June 30, 2016 was $2,700 which included interest on the Anderson Family Trust Note Payable as well as amortization of associated loan costs and amortization on the value of detachable warrants. There was no interest expense for the year ended June 30, 2015.

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 current fiscal year which had zero activity related to marketable securities as all shares of ORBCOMM Common Stock had been sold in the quarter ended December 31, 2014. 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, 2016, the Company no other income.

Net Loss
Net Loss for the year ended June 30, 2016 was ($1,594,800), an increase of $694,200, or 77.1%, when compared to the net loss of ($900,600) for the previous year ended June 30, 2015. The increase in net loss was primarily due to the increase in operating loss which included an increase in notes receivable reserves plus the decrease in the gain on sale of investments and other income 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 current 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 and consequently there was no comprehensive loss for the current fiscal year.

Liquidity and Capital Resources

The Company's current assets exceeded its current liabilities by $1,449,500 at June 30, 2016, representing a current ratio of 4.6 to 1. At June 30, 2015 the Company's current assets exceeded current liabilities by $670,600, representing a current ratio of 2.7 to 1. The increase in current ratio at June 30, 2016 versus June 30, 2015 resulted primarily from the reclassification of the Company's AES Indian Mesa land and permits to Assets Held for Sale offset by a decrease in the Company's cash balance and the balance of the note receivable due net of reserve.

Net cash used in operating activities for the fiscal year ended June 30, 2016 was ($867,100) compared with net cash used in operating activities for the prior fiscal year of ($667,500). The increase in cash used of $199,600 resulted primarily from the increase in net loss of $694,200, offset by decreases in the gain of marketable securities, decreases in accretion adjustments, and recording a reserve to note receivable in the current year.

Consolidated receivables at June 30, 2016 were $6,700 compared to receivables at June 30, 2015 of $50,100. The receivables at June 30, 2016 relate to $3,900 of trade receivables for AES plus $2,800 of receivables from American Citizenship Center, LLC ("ACC"), a related party. The receivables at June 30, 2015 relate to $45,900 of trade receivables for AES plus $4,200 of receivables from ACC.

Net cash provided by investing activities during the current year was $17,800, a decrease of $243,800 compared to net cash provided by investing activities in the prior year of $261,600. The decrease was due primarily to a reduction in proceeds from the sale of marketable securities of $542,100 and a reduction in proceeds from note receivable repayments of $87,800, offset by a decrease in capital expenditures of $386,100.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Net cash provided by financing activities during the fiscal year ended June 30, 2016 amounted to $200,000, an increase of $220,800 compared to net cash used in financing activities of ($20,800) for the fiscal year ended June 30, 2015. The increase is primarily due to proceeds provided from the Note Payable to the Anderson Family Trust entered into during the current fiscal year.

The Company has made a significant investment through June 30, 2016 in Alanco Energy Services, Inc. investing approximately $1.7 million in land, recorded as Assets Held for Sale, 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, 2016, the note has an outstanding balance of $295,400, which has been fully reserved. 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 warrants expire on August 31, 2017 and the value of said warrants is considered immaterial at both June 30, 2016 and 2015 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 accounting principles generally accepted in the United States, 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 year 2017 operating plan includes divestiture of the undeveloped AES Indian Mesa land and associated permits, which is currently classified as Assets Held for Sale. Management cannot assure that the sale of Indian Mesa will be finalized which would provide additional cash flow to the Company. The Company is continuing to analyze options to monetize current and future operations of Deer Creek. There is no assurance that the Company will be able to execute options for Deer Creek. The Company announced it is entering the behavioral health market and the business plan includes the acquisition of behavioral health businesses which requires capital. There is no assurance the Company will be able to raise additional financing which may be in the form of public or private debt or equity financing, or both. 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. Accordingly, the accompanying consolidated financial statements have been prepared assuming the Company will continue to operate and do not include any adjustments 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, 2016 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.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements