ALANCO TECHNOLOGIES INC
Form 10-K
September 29, 2014

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, 2014
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: $1,425,100.

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, 2014, there were 4,962,500 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,” “ex 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 attract, hire and retain key personnel; failure of a future acquired business to further the Company's strategies; 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 lenders; 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. In previous SEC filings, Alanco reported three business segments: Data Storage, Wireless Asset Management and RFID Technology. During the fiscal year ended June 30, 2010, the Company sold its Data Storage business segment and in fiscal year ended June 30, 2011 sold the remaining RFID Technology and Wireless Asset Management business segments. During the fiscal year ended June 30, 2014, the Company recorded the final adjustment on the sale of its Wireless Asset Management assets. During 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, 2014 and 2013 were generated by AES’s water treatment and disposal operations.

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 with the intent for AES to construct facilities 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 the high saline water produced as a by-product of oil and gas production, and termed "produced water". The agreements included the transfer of all related tangible and intangible assets as well as Federal, State and County permits (issued or in process) required to construct and operate the facilities. Subsequent to the TCO agreement, AES renegotiated an amended lease that became effective on May 1, 2012. The terms of the amended lease requires minimum monthly lease payments plus additional rent based upon quantities of produced water received at the site. 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. 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.

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 9 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.

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. However, the 160 acre Indian Mesa site is still in the permitting stage and cannot be developed until the requested permits for both produced water treatment and disposal and land fill/farming are acted upon. There is no assurance that 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 businesses in which we 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 and declining stock prices may negatively affect the value of our marketable securities. Previous deterioration in general economic conditions resulted in reduced stock valuations and a decline in merger and acquisition activities.

Acts of domestic terrorism and war impacted general economic conditions and our ability to operate profitably. As a result of 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. Although management cannot assure that future operations will be profitable or that additional debt and/or equity capital will be raised, we believe that, based on our fiscal 2015 operating plan, cash flow and additional funding sources will be adequate to meet our anticipated future requirements for working capital expenditures and scheduled lease payments for the next twelve months. We will need to materially reduce expenses, or raise additional funds through public or private debt or equity financing, or both, if the revenue and cash flow elements of our 2015 operating plan are not met. 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 will be materially adversely affected.

A significant portion of our current assets are invested in ORBCOMM Inc. (NASDAQ: ORBC) Common Stock. Because the consideration we received from ORBCOMM for substantially all of the assets of our subsidiary, StarTrak Systems, LLC, consists of ORBCOMM Common Stock, such stock remains one of our primary assets. We anticipate selling the remaining shares over a period of time to maximize our return. As long as the ORBCOMM Common Stock constitutes a substantial portion of our assets, fluctuations in the market price of such stock may significantly affect our value.

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. Most recent news on immigration was a commitment by President Obama that he would act on immigration via "Executive Action"; however, there is no assurance this will occur 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.

In March 2014, the Company announced the passing of Robert Kauffman, President and CEO of the Company. In reaction to Mr. Kauffman's death, the Board of Directors elected John Carlson as President and CEO and Danielle Haney as Chief Financial Officer of the Company. Mr. Carlson, as Chief Financial Officer and Executive Vice President, had worked with Mr. Kauffman for the past 16 years. Mr. Carlson was elected to the Board of Directors in 1999. Ms. Haney had worked in senior financial positions with the Company since 2001. The Board of Director's believes the new management team is experienced and qualified to meet the challenges of their new positions, however, the loss of key corporate executives could have a significant effect on our Company.

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.

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.

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.

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. the value of our marketable securities;
5. changes in our financial estimates by securities analysts;
6. broad market fluctuations;
7. recovery from natural disasters; and
8. 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, 2014 the facility was leased under a one year lease requiring a monthly payment of approximately $1,600 (including rental tax). Effective August 1, 2014, the lease expired and the Company continued occupancy under a month to month basis with continuing monthly payments of $1,700 (including rental tax). Alanco also leased office equipment with a monthly payment of approximately $200 under a lease that expired in July 2013.

In April 2012, the Company formed Alanco Energy Services, Inc. ("AES"), a new wholly-owned subsidiary, and through 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) with the intent for AES to construct facilities 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 the 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 (issued or in process) 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.

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AES has also entered into a definitive agreement with Deer Creek Disposal, LLC ("DCD") to acquire a 160 acre parcel of land approximately three miles from the Deer Creek site to provide additional expansion to the proposed water disposal facility. As consideration for the land purchase, AES paid $500,000 at the April 13, 2012 closing and assumed a noninterest bearing, secured, $200,000 note that was paid within terms on November 15, 2012. AES has also 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, 2014 and 2013 of $660,200 and $641,400, respectively.

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 has recorded an accrued liability of $128,300 for the judgment and had posted a bond with the court. The Company believes the net judgment amount fails 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 has filed its Notice of Appeal and intends to vigorously pursue an appeal of the judgment.

The Company may from time to time be involved in litigation arising from the normal course of business. As of June 30, 2014, 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 ISSUERS 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.

	Fiscal 2014		Fiscal 2013	
Quarter Ended	High	Low	High	Low

September 30	$0.69	$0.41	$ .70	$ 0.55
December 31	$0.58	$0.43	$.79	$0.55
March 31	$0.47	$0.39	$.74	$0.53
June 30	$0.65	$0.36	$ .67	$0.44

As of June 30, 2014 and 2013 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 30,000 shares of its Class A Common Stock during fiscal year ended June 30, 2014. All shares were issued for services.

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Alanco has paid no Common Stock cash dividends and has no current plans to do so. During the fiscal years ended June 30, 2014 and 2013 the Company repurchased 56,800 and 21,000 common shares for $26,100 and $11,000 respectively, or an average of $.46 and $.52 per share, respectively. The repurchased shares were retired prior to each year end.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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 2014 and 2013, 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, providing Piceance Basin producers with significant transportation cost savings compared to alternative water disposal sites. In November 2013, the facility received approval from the Mesa County Board of Commissioners allowing 24 hours a day, seven days per week operations for one year and the Company is currently reapplying for an extension. The facility had previously been restricted to daylight hours Monday through Saturday.

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, 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.

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 ACC projected revenues, related assumptions and cash flows when evaluating the collectability of the note receivable.

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 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, 2014 were $649,000 as compared to revenues for the year ended June 30, 2013 of $390,600, an increase of $258,400, or 66.2%. Revenues are comprised of produced water delivery fees and sales of reclaimed oil. Revenues for fiscal 2014 were concentrated approximately 87.9% with four customers versus revenues for fiscal 2013 which were concentrated approximately 96.6% to two customers. The significant customers represented $77,700, or 79.5% of the accounts receivable balance at June 30, 2014, while the significant customers for fiscal 2013 did not have any accounts receivable balances outstanding at June 30, 2013. The change in concentrations is representative of the Company's 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, 2014 and 2013 were $447,700 and $402,000, respectively, an increase of $45,700 or 11.4%. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs and other operating costs. The increase is due to higher depreciation in the current year plus additional pond maintenance costs. Fixed costs such as depreciation, amortization, accretion and lease costs represent approximately 50% and 47% of the cost of revenues for the fiscal years 2014 and 2013, respectively. Gross profit for the year ended June 30, 2014 was $201,300 with a gross margin of 31% and for the year ended June 30, 2013 was a gross (loss) of ($11,400). The improvement is primarily due to increased revenues and gross profit is anticipated to improve as revenue increases.

Selling, General and Administrative Expenses
Selling, general and administrative expenses for the fiscal year ended June 30, 2014 (consisting of corporate expenses, AES selling, general and administrative expense, amortization of stock-based compensation and impairment charges) was $1,278,500, a decrease of $254,800, or 16.6%, compared to $1,533,300 reported for the fiscal year ended June 30, 2013. During fiscal 2014, the allocation of corporate service cost to AES was increased. 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, 2014, corporate expense plus AES selling, general and administrative expense was $1,118,000 as compared to $1,294,700 for fiscal year ended June 30, 2013, a decrease of $176,700, or 13.6%. The combined decrease is primarily due to a reduction in corporate salaries reflecting a change in staff levels and a decrease in fees paid for professional services, offset by increases in legal expense. Amortization of stock-based compensation for the fiscal year 2014 is zero as compared to $238,600 for fiscal year 2013. There were no new stock options grants during the fiscal year ended June 30, 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.

Operating Loss

Operating Loss for the year ended June 30, 2014 was ($1,077,200), a decrease of $467,500, or 30.3%, compared to an Operating Loss of ($1,544,700) reported for the prior year. The decreased operating loss resulted from an increase in revenues and a corresponding increase in gross profit as well as a decrease in selling, general and administrative expenses in fiscal 2014 versus fiscal 2013.

Other Income and Expense

Net interest income for the year ended June 30, 2014 was $37,500, an improvement of $14,600 when compared to interest income of $22,900 for the year ended June 30, 2013. The increase in interest income related to the increase in the outstanding amount of the ACC note 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. In addition, the Company recorded a gain of $913,800 on the sale of 349,192 shares of ORBCOMM Common Stock at an average selling price of $6.08 as compared to the prior fiscal year which has a gain of $751,500 on the sale of 747,873 shares of its ORBCOMM Common Stock at an average selling price of $3.91 per share plus a gain of $86,800 on the sale of its Symbius investment. Finally, the Company had $102,000 of other expense during the year ended June 30, 2014 as compared to other income of $500 reported in the comparable period of the prior year. Other expense in fiscal 2014 was primarily the result of an accrual recorded for a legal matter for which the Company is pursuing an appeal offset by other income from the amendment fee negotiated on the ACC note during the current year.

Net Loss

Net Loss for the year ended June 30, 2014 was ($106,200), a decrease of $576,800, or 84.5%, when compared to the net loss of ($683,000) for the previous year ended June 30, 2013. The decrease in net loss was primarily due to the improved revenue and gross profit and reduced selling, general and administrative expenses during the current year.

Comprehensive Income

Comprehensive Income for the year ended June 30, 2014 represents the unrealized change in market value of the Company’s Marketable Securities held at June 30, 2014 compared to June 30, 2013. Comprehensive income for the year ended June 30, 2014 consisted of the net value of three items: 1) the reclassification adjustment for realized gains included in Net Income of $913,800; 2) an Unrealized Loss on Marketable Securities, net of tax, of ($65,600) resulting from a decrease in the market value of the shares held at June 30, 2014 compared to the market value at June 30, 2013, and; 3) the net unrealized gain on marketable securities sold during the period of $550,700. At June 30, 2014 the Company valued 85,000 shares of ORBCOMM, Inc. Common Stock at $6.59 per share for a total value of $560,100.

Liquidity and Capital Resources

The Company’s current assets exceeded its current liabilities by $2,066,400 at June 30, 2014, representing a current ratio of 7.3 to 1. At June 30, 2013 the Company's current assets exceeded current liabilities by $2,526,500 and reflected a current ratio of 10.3 to 1. The decrease in current ratio at June 30, 2014 versus June 30, 2013 resulted primarily from the sale of marketable securities, proceeds of which were primarily used to invest in Land, Property and Equipment, pay ORBCOMM pursuant to the StarTrak sale, and fund operating losses.

Net cash used in operating activities for the fiscal year ended June 30, 2014 was ($769,700) compared with net cash used in operating activities for the prior fiscal year of ($1,588,200). The decrease of $818,500 resulted primarily from a $308,900 decrease in net loss before non-cash income and expenses and $622,300 changes in accounts payable and accrued expenses, offset by $77,600 change in accounts receivable and $86,000 change in prepaid expenses. Overall, the decrease in cash used in operations reflects an increase in sales as AES increased its customer base in its second year of operations.

Consolidated receivables at June 30, 2014 were $106,000 compared to receivables at June 30, 2013 of $42,400. The receivables at June 30, 2014 relate to $96,800 of trade receivables for AES plus $9,200 of receivables from ACC. The receivable at June 30, 2013 relate to $9,600 of trade receivables for AES plus $32,800 of receivables from ACC.

Net cash provided by investing activities during the current year was $1,315,000, a decrease of $924,300 compared to net cash provided by investing activities in the prior year of $2,239,300. The decrease was due primarily to a reduction in proceeds from the sale of marketable securities of $803,800 and an increase in expenditures for payments pursuant to the StarTrak sale of $643,800, offset by a reduction in expenditures of approximately $792,200 for the purchase of land, property and equipment.

Net cash used in financing activities during the fiscal year ended June 30, 2014 amounted to ($26,100), a decrease of $212,900 compared to net cash used in financing activities of ($239,000) for the fiscal year ended June 30, 2013. The decrease is primarily due to a reduction in net repayment of borrowings offset by a small increase in the purchase of treasury shares.

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. At June 30, 2013, the Company held approximately 348,011 shares of ORBCOMM Common Stock valued at approximately $1.6 million. We anticipate selling the remaining stock over a period of time to maximize our return. As long as the ORBCOMM Common Stock constitutes a substantial portion of our assets, fluctuations in the market price of such stock may significantly affect our value. See Note 4 – Marketable Securities to the consolidated financial statements for additional discussion on the ORBCOMM investment.

The Company has made a significant investment through June 30, 2014 in Alanco Energy Services, Inc. investing approximately $1.5 million in land and $2.9 million in evaporation ponds and equipment for the Deer Creek water disposal site. The Company plans on continuing its sale of ORBCOMM stock discussed above to fund the additional investments.

The Company has a note receivable from American Citizenship Center, LLC ("ACC"), a related party, established to provide ACC working capital. As of June 30, 2014, the note has an outstanding balance of $409,000. The note is secured by all assets of ACC and bears interest at the rate of 9% 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 are August 31, 2016 and the value of said warrants is considered immaterial at both June 30, 2014 and 2013 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.

Although management cannot assure that it will achieve projections, or that additional debt and/or equity will not be required, we believe our cash balances at year end, projected cash flows from operations, and working capital will provide adequate capital resources to maintain operations as they currently exist for the next year. If additional working capital is required during fiscal 2015 due to an acquisition or merger and not obtained through additional long-term debt, equity capital or operations, it could adversely affect future operations. 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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