ALANCO TECHNOLOGIES INC
Form 10-Q
May 15, 2015

ALANCO TECHNOLOGIES, INC.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
_ X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015

____TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____________ to ____________

Commission file number 0-9347

ALANCO TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)
Arizona
(State or other jurisdiction of incorporation or organization)

86-0220694
(I.R.S. Employer Identification No.)

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

(480) 607-1010
(Registrant's telephone number)
____
(Former name, former address and former fiscal year, if changed since last report)

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 in 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 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

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

As of May 7, 2015 there were 4,982,400 shares of common stock outstanding.

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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 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 Quarterly 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 Quarterly Report on Form 10-Q.

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2015 AND JUNE 30, 2014

	March 31, 2015 (unaudited)	June 30, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 960,600	$ 1,215,600
Accounts receivable - trade, net	128,200	96,800
Other receivables - related party	4,500	9,200
Note receivable, current - related party	60,000	300,000
Marketable securities	-	560,100
Prepaid expenses and other current assets	212,600	212,700
Total current assets	1,365,900	2,394,400
LAND, PROPERTY AND EQUIPMENT, NET	4,392,900	4,163,000
OTHER ASSETS		
Note receivable, long-term - related party	285,700	109,000
Trust account - asset retirement obligation	62,700	48,700
Prepaid royalties, long-term	-	50,000
TOTAL ASSETS	$ 6,107,200	$ 6,765,100
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 298,100	$ 278,000

Contingent payments, current	50,000	50,000
Total current liabilities	348,100	328,000
LONG-TERM LIABILITIES		
Contingent payments, long-term	1,141,900	1,138,300
Asset retirement obligation	423,700	423,700
TOTAL LIABILITIES	1,913,700	1,890,000
SHAREHOLDERS' EQUITY		
Preferred Stock - no shares issued or outstanding	-	-
Common Stock		
Class A - 75,000,000 no par shares authorized, 4,982,400 and 4,962,500 shares issued and outstanding at March 31, 2015 and June 30, 2014, respectively	109,145,300	109,106,800
Class B - 25,000,000 no par shares authorized, none issued or outstanding	-	-
Accumulated Other Comprehensive Income	-	121,200
Accumulated Deficit	(104,951,800)	(104,352,900)
Total shareholders' equity	4,193,500	4,875,100
	$ 6,107,200	$ 6,765,100

TOTAL
LIABILITIES AND
SHAREHOLDERS'
EQUITY

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, (unaudited)

		2015		2014
NET REVENUES	$	231,200	$	180,200
Cost of revenues		211,800		137,400
GROSS PROFIT		19,400		42,800
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Corporate expenses		68,300		82,000
Alanco Energy Services		191,600		193,800
Stock-based compensation		13,900		-
		273,800		275,800
OPERATING LOSS		(254,400)		(233,000)
OTHER INCOME				
Interest income		10,400		11,200
Gain on sale of marketable securities		-		288,200
Other income		-		86,700
NET INCOME (LOSS)	$	(244,000)	$	153,100
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED				
Net income (loss) per share attributable to common shareholders	$	(0.05)	$	0.03
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		4,971,900		4,932,500

See accompanying notes to the condensed consolidated financial statements

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ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, (unaudited)

	2015	2014
Net Income (Loss)	$ (244,000)	$ 153,100
Reclassification adjustment for gain included in Net Income (Loss)	-	(288,200)
Net unrealized gain (loss) on marketable securities held at March 31,	-	(41,500)
Net unrealized gain on marketable securities sold during the period	-	125,500
Comprehensive Loss	$ (244,000)	$ (51,100)

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED MARCH 31, (unaudited)

		2015		2014
NET REVENUES	$	674,800	$	264,600
Cost of revenues		590,400		292,900
GROSS PROFIT (LOSS)		84,400		(28,300)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Corporate expenses		175,100		237,500
Alanco Energy Services		585,800		612,500
Stock-based compensation		59,300		-
		820,200		850,000
OPERATING LOSS		(735,800)		(878,300)
OTHER INCOME				
Interest income		33,500		27,300
Gain on sale of marketable securities		103,200		896,900
Other income		200		88,000
NET INCOME (LOSS)	$	(598,900)	$	133,900
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED				
Net loss attributable to common shareholders	$	(0.12)	$	0.03
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		4,987,700		4,938,700

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
FOR THE NINE MONTHS ENDED MARCH 31, (unaudited)

	2015	2014
Net Income (Loss)	$ (598,900)	$ 133,900
Reclassification adjustment for gain included in Net Income (Loss)	(103,200)	(896,900)
Net unrealized loss on marketable securities held at March 31,	-	(19,900)
Net unrealized gain (loss) on marketable securities sold during the period	(18,000)	527,000
Comprehensive Loss	$ (720,100)	$ (255,900)

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 2015 (unaudited)

	COMMON STOCK		TREASURY STOCK		ACCUMULATED OTHER COMPREHENSIVE	ACCUMULATED
	SHARES	AMOUNT	SHARES	AMOUNT	INCOME	DEFICIT
Balances, June 30, 2014	4,962,500	$ 109,106,800	-	$ -	$ 121,200	$ (104,352,900)
Shares issued for services	75,000	31,500	-	-	-	-
Value of stock-based compensation	-	27,800	-	-	-	-
Shares of Alanco common stock repurchased	-	-	55,100	20,800	-	-
Treasury shares retired	(55,100)	(20,800)	(55,100)	(20,800)	-	-
Other comprehensive income adjustment	-	-	-	-	(121,200)	-
Net loss	-	-	-	-	-	(598,900)
Balances, March 31, 2015	4,982,400	$ 109,145,300	-	$ -	$ -	$ (104,951,800)

See accompanying notes to the condensed consolidated financial statements

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ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED MARCH 31, (unaudited)

		2015		2014
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$	(598,900)	$	133,900
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization		141,300		129,200
Accretion of fair value - contingent payments		25,300		25,200
Gain on sale of StarTrak, excluding shares for services valued at $7,800		-		(129,500)
Gain on sale of marketable securities		(103,200)		(896,900)
Stock issued for services		31,500		11,700
Note receivable issued for ACC amendment and accounting fees		-		(34,000)
Stock-based compensation		27,800		-
Changes in operating assets and liabilities:				
Accounts receivable		(31,400)		(43,700)
Other receivables - related party		4,700		27,400
Prepaid expenses and other assets		50,100		27,500
Trust account - asset retirement obligation		(14,000)		(14,000)
Accounts payable and accrued expenses		(8,900)		85,900
Contingent payment liabilities		(21,700)		-
Net cash used in operating activities		(497,400)		(677,300)
CASH FLOWS FROM INVESTING ACTIVITIES				
Issuance of note receivable to ACC		-		(25,000)
		92,300		-

Proceeds from repayment of ACC note				
Purchase of land, property, and equipment		(371,200)		(85,800)
Proceeds from sale of marketable securities		542,100		2,037,100
Payments pursuant to StarTrak sale		-		(643,800)
Net cash provided by investing activities		263,200		1,282,500
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury shares		(20,800)		(26,100)
Net cash used in financing activities		(20,800)		(26,100)
NET INCREASE (DECREASE) IN CASH		(255,000)		579,100
CASH AND CASH EQUIVALENTS, beginning of period		1,215,600		696,400
CASH AND CASH EQUIVALENTS, end of period	$	960,600	$	1,275,500
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION				
Non-cash investing and financing activities:				
Other comprehensive income adjustment	$	121,200	$	389,800
Note receivable issued for ACC amendment and accounting fees	$	29,000	$	-

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Basis of Presentation, Accounting Policies and Recent Accounting Pronouncements

Nature of Operations

Alanco Technologies, Inc. (Stock Symbol: ALAN) was incorporated in 1969 under the laws of the State of Arizona. Unless otherwise noted, the "Company" or "Alanco" refers to Alanco Technologies, Inc. and its wholly-owned subsidiaries. During the fiscal year ended June 30, 2012, the Company formed Alanco Energy Services, Inc. ("AES"), for the purpose of obtaining property to establish a water disposal facility near Grand Junction, CO to receive produced water generated as a byproduct from oil and natural gas production in Western Colorado. The new facility started to receive produced water in August 2012.

Background information on the creation of Alanco Energy Services, Inc.

During fiscal 2012, Alanco Energy Services, Inc. ("AES"), a wholly-owned 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 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 and operate the facilities. Subsequent to the TCO agreement, AES renegotiated an amended lease that became effective on May 1, 2012 and include a minimum monthly lease payment of $100 per acre ($2,400 per month) during the initial ten year term of the lease, plus approximately $.25 per barrel of produced water received at the site.

The design and construction of the Deer Creek water disposal facility required certain changes to the Goodwin Solid Waste facility ("Goodwin") resulting in extra costs to the landlord, who also owned Goodwin. As incentive for the landlord to approve the facility design, AES agreed to limit landlord construction improvement costs related to the leased land to $200,000. Included in the $200,000 limited amount was $100,000 of landlord improvement costs to be paid by AES and reimbursed through a 50% credit against the $.25 per barrel royalty payments due landlord discussed above. AES recorded the $100,000 payment as prepaid royalties which, under the current terms of the agreement, expire on August 31, 2015. Management is pursuing an extension. The remaining prepaid balances at March 31, 2015 and June 30, 2014 were $30,800 and $58,700, respectively.

TCO can also earn additional purchase price 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 deferred payment), approximately the initial term of the lease. 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. See Note H - Contingent Payments for additional discussion of the contingent deferred payment.

During April 2012, AES also entered into a definitive agreement with Deer Creek Disposal, LLC ("DCD") whereby AES acquired a 160 acre site near Grand Junction, CO, for additional expansion to the proposed water treatment and disposal facility. 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 due November 15, 2012, which was repaid upon maturity. AES has also agreed to potential additional 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 up to $200,000 per quarter (contingent land payment). See Note H - Contingent Payments for additional discussion of the contingent land payment. The land, known as Indian Mesa, is currently undeveloped as the Company is in the permitting process.

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Related to the treatment and disposal facilities, in fiscal year 2012 AES entered into a management agreement with TCO to manage the project for a monthly management fee of $10,000 initially and $20,000 after final permits for the Deer Creek operation were obtained in May 2012. The management agreement expired in January 2013 and continued on a month to month basis through March 31, 2015, at which time the Company elected not to renew the month to month arrangement. During the nine months ended March 31, 2015, the Company paid TCO approximately $180,000 under the management agreement. Effective April 1, 2015, the Company entered into an agreement for operations management services for the Deer Creek facility with a separate management company. The agreement is cancellable by either party at any time.

Basis of Presentation

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In our opinion, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of such condensed consolidated financial statements. Such necessary adjustments consist of normal recurring items and the elimination of all significant intercompany balances and transactions.

These interim condensed consolidated financial statements should be read in conjunction with the Company’s June 30, 2014 Annual Report filed on Form 10-K. Interim results are not necessarily indicative of results for a full year.

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

Fair Value of Assets and Liabilities – The estimated fair value for assets and liabilities are determined at discrete points in time based on relevant information. The Accounting Standards Codification (“ASC”) prioritizes inputs used in measuring fair value into a hierarchy of three levels: Level 1 – unadjusted quoted prices for identical assets or liabilities traded in active markets, Level 2 – observable inputs other than quoted prices included within Level 1 such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and Level 3 – unobservable inputs in which little or no market activity exists that are significant to the fair value of the assets or liabilities, therefore requiring an entity to develop its own assumptions that market participants would use in pricing. These estimates involve uncertainties and cannot be determined with precision. The Company’s policy is to recognize transfers into and out of Level 1, 2 and 3 categories as of the date of the event or change in circumstances occurs. The carrying amounts of receivables, prepaid expenses, accounts payable, and accrued liabilities approximate fair value given their short-term nature or their effective interest rates, which represent Level 3 input levels.

The following are the classes of assets and liabilities measured at fair value on a recurring basis at March 31, 2015, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at March 31, 2015
Asset Retirement Obligation	$ -	$ -	$ 423,700	$ 423,700
Contingent Land Payment	-	-	652,500	652,500
Contingent Purchase Price	-	-	539,400	539,400
	$ -	$ -	$ 1,615,600	$ 1,615,600

Fair Value of Asset Retirement Obligation – The Deer Creek asset retirement obligation is the estimated cost to close the Deer Creek facility under terms of the lease, meeting environmental and State of Colorado regulatory requirements. The estimate is determined at discrete points in time based upon significant 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. Management's estimate of the asset retirement obligation is based upon a cost estimate developed by a consultant knowledgeable of government closure requirements and costs incurred at similar water disposal facility operations. The process used was to identify each activity in the closure process, obtaining vendor estimated costs, in current dollars, to perform the closure activity and accumulating the various vendor estimates to determine the asset retirement obligation. A present value discount has not been taken as the estimated closure costs, excluding regulatory changes and inflation adjustments, are anticipated to remain fairly consistent over the operational life of the facility. The lack of an active market to validate the estimated asset retirement obligation results in the fair value of the asset retirement obligation to be a Level 3 fair value measurement. ASC Topic 410-20: Asset Retirement Obligations requires the Company to review the asset retirement obligation on a recurring basis and record changes in the period incurred.

Fair Value of Contingent Payments – The contingent land payment and contingent purchase price liabilities are also 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. In calculating the estimate of fair value for both of the contingent payments, management completed an estimate of the present value of each identified contingent liability based upon projected income, cash flows and capital expenditures for the Deer Creek facility developed under plans currently approved by the Company's board of directors. Different assumptions relative to the expansion or alternative uses of the Deer Creek and Indian Mesa facilities could result in significantly different valuations. The projected payments have been discounted at a rate of 3% per annum to determine net present value. The lack of an active market to validate the estimated contingent land and purchase price liabilities results in the fair value of the contingent land and purchase price liabilities to be a Level 3 fair value measurement. ASC Topic 820: Fair Value Measurement requires the Company to review the contingent land and purchase price liabilities on a recurring basis and record changes in the period incurred.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance regarding revenue from contracts with customers. The guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the most current revenue recognition guidance. The guidance is effective for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period and early adoption is not permitted. The Company is currently assessing the impact on its financial position and results of operations.

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

In January 2015, the FASB issued guidance regarding the elimination of the concept of extraordinary and unusual items from generally accepted accounting principles. The guidance is effective for annual reporting periods beginning after December 15, 2015 including interim periods within that reporting period and early adoption is permitted. The Company has adopted the guidance, which had no material impact on its financial position and results of operations.

In February 2015, the FASB issued guidance regarding consolidation analysis for limited partnerships and variable interest entities. The guidance is effective for annual reporting periods beginning after December 15, 2016 including interim periods within that reporting period and early adoption is permitted. The Company has adopted the guidance, which had no material impact on its financial position and results of operations.

There have been no other recent accounting pronouncements or changes in accounting pronouncements that are of significance, or potential significance, to us.

Note B – Stock-Based Compensation

The Company has stock-based compensation plans and reports stock-based compensation expense for all stock-based compensation awards based on the estimated grant date fair value. The value of the compensation cost is amortized on a straight-line basis over the requisite service periods of the award (generally the option vesting term).

The Company estimates fair value using the Black-Scholes valuation model. Assumptions used to estimate compensation expense are determined as follows:

- Expected term is determined under the simplified method using an average of the contractual term and vesting period of the award as appropriate statistical data required to properly estimate the expected term was not available;

- Expected volatility of award grants made under the Company’s plans is measured using the historical daily changes in the market price of the Company’s common stock over the expected term of the award and contemplation of future activity;

- Risk-free interest rate is the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,

- Forfeitures are based on the history of cancellations of awards granted by the Company and management’s analysis of potential future forfeitures.

The Company has several employee stock option and officer and director stock option plans that have been approved by the shareholders of the Company. The plans require that options be granted at a price not less than market on the date of grant and are more fully discussed in our Form 10-K for the year ended June 30, 2014.

The following table summarizes the Company’s stock option activity during the first nine months of fiscal 2015:

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value (3)	Aggregate Instrinsic Value (2)
Outstanding July 1, 2014	823,400	$0.63	3.35	$ 212,600	$ -
Granted	390,000	$0.50	4.85	69,500	-
Exercised	-	-	-	-	-
Forfeited or expired	(10,200)	$1.50	-	(6,300)	-
Outstanding March 31, 2015	1,203,200	$0.58	3.28	$ 275,800	$ -
Exercisable March 31, 2015	969,200	$0.60	2.96	$ 234,200	$ -

(1) Remaining contractual term presented in years.
(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of the Company's common stock as of March 31, 2015, for those awards that have an exercise price below the closing price as of March 31, 2015 of $.30.
(3) Aggregate Fair Value is calculated using the Black Scholes option pricing model to estimate fair value of stock-based compensation.

During the quarter ended December 31, 2014, the Company's Board of Directors approved the 2014 Stock Incentive Plan ("2014 Plan") which authorized 500,000 shares of the Company's common stock the grant of stock options or stock awards. During the quarter ended December 31, 2014, the Company issued 115,000 stock options under the 2014 Plan and 275,000 stock options under previously approved plans to the Company's officers and directors for a total of 390,000 stock option grants.

As of March 31, 2015, the Company had approximately $41,700 of unamortized Black Scholes value related to outstanding stock options. The unamortized amount is scheduled to be expensed during the next three quarters. There were no new grants during the current quarter.

Note C – Marketable Securities

At June 30, 2014, the Company had $560,100 representing the market value ($6.59 per share) of 85,000 ORBCOMM Common Shares (NASDAQ: ORBC) with an average cost basis of $5.16 per share. At March 31, 2015, the Company had sold all of its Marketable Securities previously held.

The shares held are revalued at the end of each reporting period with per share market value fluctuations reported as Comprehensive Income (Loss) for the period. The Company recorded an unrealized loss on marketable securities sold during the nine months ended March 31, 2015 of ($18,000), plus an adjustment of ($103,200) for unrealized gains previously recorded related to securities sold during the period. The actual gain on securities sold is reported in the Statement of Operations. Since all shares were sold as of December 31, 2014, at March 31, 2015 the Accumulated Other Comprehensive Income is zero and was presented in the Shareholders' Equity section of the Condensed Consolidated Balance Sheet.

The Company sold a total of 85,000 shares of ORBCOMM, Inc. Common Stock during the nine months ended March 31, 2015 for total proceeds of $542,200, and an average selling price of approximately $6.38 per share, resulting in a net gain of $103,200. The cost of the securities sold for purposes of computing the realized gain is based on the average cost of the securities.

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

The following table summarizes the activities related to investment in Marketable Securities for the nine months ended March 31, 2015:

	Net Shares	Cost Basis Per Share	Cost Basis	Market Value Per Share	Market Value Total Value	Accumulated Unrealized Gain	Accumulated Unrealized (Loss)
June 30, 2014	85,000$	5.16$	439,100$	6.59$	560,100$	121,000$	-
Shares sold	(45,000)	5.16	(232,600)				
September 30, 2014	40,000$	5.16$	206,500$	5.75$	230,000$	23,500$	-
Shares sold	(40,000)	5.16	(206,500)				
December 31, 2014 and March 31, 2015	-$	-$	-$	-$	-$	-$	-

Note D – Note Receivable

Note receivable of $345,700 and $409,000 at March 31, 2015 and June 30, 2014, respectively, represents a note due from American Citizenship Center, LLC (“ACC”), a related party. In January 2015, ACC and the Company modified the loan agreement by revising the payment terms to require minimum monthly payments starting in January 2015 to the greater of $5,000 or ten percent (10%) of the gross monthly revenue for such month. Since this January 2015 loan amendment, ACC has made payments totaling approximately $30,900 under the minimum monthly payment terms. Based on the history of the note modifications, the recent modification hereto, and ACC’s history of an ability to make a certain level of payments, the Company has classified $60,000 of the note as current and $285,700 of the note as long-term. ACC is currently in compliance with all terms of the January 2015 amendment. No provision for collectability has been recorded as of March 31, 2015 and June 30, 2014.

Note E – Land, Property and Equipment

Land, Property and Equipment at March 31, 2015 and June 30, 2014 consist of the following:

	June 30, 2014	Additions	March 31, 2015

Office furniture and equipment	$ 51,300	$ -	$ 51,300
Water disposal facility	2,714,600	3,700	2,718,300
Production equipment	232,000	278,200	510,200
	2,997,900	281,900	3,279,800
Less accumulation depreciation	(371,800)	(141,300)	(513,100)
Land and improvements	1,536,900	89,300	1,626,200
Net book value	$ 4,163,000	$ 229,900	$ 4,392,900

Note F – Earnings Per Share

Basic and diluted income (loss) per share of common stock was computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options, warrants, convertible debt, and preferred stock that are freely exercisable into common stock at less than the prevailing market price. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share. For the nine months ended March 31, 2015 and 2014, there were no dilutive securities included in the loss per share calculation as the effect would be antidilutive. Considering all holders' rights, total common stock equivalents issuable under these potentially dilutive securities are approximately 1,203,200 and 1,076,600 at March 31, 2015 and 2014, respectively.

Note G – Equity

During the nine months ended March 31, 2015, the Company issued each of the Company's three independent members of the Board of Directors 25,000 stock grants for a total of 75,000 shares valued at $31,500. The Company recorded $16,500 of expense related to the stock grants during the current fiscal year and had accrued $15,000 at June 30, 2014. The value of stock-based compensation (stock options) recognized for the nine months ended March 31, 2015 was $27,800.

During the nine months ended March 31, 2015, the Company recognized a comprehensive income adjustment in the amount of ($121,200), reported in the Condensed Consolidated Statement of Changes in Shareholders' Equity. This adjustment reduced Accumulated Other Comprehensive Income to $0 as of March 31, 2015, which reflects the sale of the remaining Marketable Securities during the current period.

In December 2011, the Company announced that its board of directors had authorized a stock repurchase program whereby the Company could repurchase up to 2 million shares of its outstanding common stock over the next 12 months. The stock repurchase program was extended, under the same limitation, through December 31, 2013. During the quarter ended March 31, 2014, the board of directors renewed the stock repurchase program, extending it through December 31, 2014 and establishing an aggregate future amount of shares that may be purchased under the program to 2 million shares. During the quarter ended December 31, 2014, the board of directors again renewed the stock purchase program, extending it through December 31, 2015. For the nine months ended March 31, 2015, the Company had repurchases under the program for a total of 55,100 shares at a cost of approximately $20,800, or $0.38 per share.

The Company has authorized 25,000,000 shares of Preferred Stock of which 5,000,000 shares have been allocated to Series A, 500,000 have been allocated to Series B, 400,000 have been allocated to Series C Junior Participating, 500,000 have been allocated to Series D, and 750,000 have been allocated to Series E. At March 31, 2015 and June 30, 2014, no Preferred Stock of any series was issued or outstanding.

Note H - Contingent Payments

Contingent payments at March 31, 2015 and June 30, 2014 relate to AES asset purchase transactions completed in conjunction with the construction of water disposal facilities for the treatment and disposal of produced water generated by oil and natural gas producers in Western Colorado. Details of the contingent payments are as follows:

	March 31, 2015	June 30, 2014

Contingent land payment	$	652,500	$	660,200
Contingent purchase price		539,400		528,100
		1,191,900		1,188,300
Less current portion		(50,000)		(50,000)
Contingent payments, long-term	$	1,141,900	$	1,138,300

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Contingent land payment of $652,500 at March 31, 2015 represents the net present value of $800,000 of estimated contingent land payments due under an agreement whereby Alanco Energy Services, Inc. (“AES”) acquired 160 acres of land known as Indian Mesa. The maximum total of $800,000 of contingent land payments is based upon 10% of quarterly revenues in excess of operating expenses up to $200,000 per quarter for activity at both the Deer Creek and the Indian Mesa locations. The payments were projected considering current operating plans as approved by the Alanco Board of Directors, with the payments discounted at a rate of 3% per annum. Accretion expense is being imputed at 3% per annum, increasing the fair value of the contingent land payment during the nine months ended March 31, 2015 by $14,100. During the nine months ended March 31, 2015, approximately $21,700 was earned and payable under the contingency formula.

Contingent purchase price of $539,400 at March 31, 2015 represents the net present value of projected payments to be made to TC Operating, LLC (“TCO”) pursuant to an Asset Purchase Agreement under which TCO transferred a land lease for approximately 24 acres of land known as Deer Creek and all related tangible and intangible assets. Per the agreement, the contingent payments are determined as 28% of the Cumulative EBITDA in excess of all of AES’s capital investment for the ten (10) year period commencing on January 1, 2014. AES’s Capital investment shall mean the aggregate amount incurred by AES in acquiring the Assets, the Indian Mesa Facility, and or improving either the Deer Creek Facility or the Indian Mesa Facility. Payments of said Contingent Purchase Price shall be payable quarterly. The projected payments consider current operating plans as approved by the Alanco Board of Directors, with payments discounted at a rate of 3% per annum to determine net present value. Accretion expense is being imputed at 3% per annum, increasing the fair value of the contingent purchase price during the nine months ended March 31, 2015 by $11,200.

Note I – Asset Retirement Obligation

The Company has recognized estimated asset retirement obligations (closure cost) of $423,700 to remove leasehold improvements, remediate any pollution issues and return the Deer Creek water disposal property to its natural state at the conclusion of the Company’s lease. The closure process is a requirement of both the Deer Creek lease and the State of Colorado, a permitting authority for such facilities. The closure cost estimate, in current dollars, was completed by an approved independent consultant experienced in estimating closure costs for water disposal operations and the estimated amount was approved by the State of Colorado. A present value discount has not been taken as the estimated closure costs, excluding regulatory changes and inflation adjustments, are anticipated to remain fairly consistent over the operational life of the facility.

The Company reviews the asset retirement obligation quarterly and performs a formal annual assessment of its estimates to determine if an adjustment to the value of the asset retirement obligation is required.

The laws of the State of Colorado require companies to meet environmental and asset retirement obligations by selecting an approved payment method. The Company has elected to meet its obligation by making quarterly payments of approximately $4,700 into a trust that over the expected lease period will build liquid assets to meet the asset retirement obligation. During the nine months ended March 31, 2015, the Company made the required quarterly payments. The balances in the trust account for the asset retirement obligation as of March 31, 2015 and June 30, 2014 were $62,700 and $48,700, respectively.

Note J – Commitments and Contingencies

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 March 31, 2015 and June 30, 2014, the Company recorded an accrued liability of $128,300 for the judgment. 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 filed its appeal in November 2014 and intends to vigorously pursue the appeal of the judgment. As required under the appeal process, the Company posted a bond with the court for $128,300, which is included in prepaid expenses and other current assets at March 31, 2015 and June 30, 2014. Appeals typically take four to six months and the Company estimates a ruling will follow in an additional three to four months.

The Company may from time to time be involved in litigation arising from the normal course of business. As of March 31, 2015, there was no such litigation pending deemed material by the Company.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (continued)

Deer Creek Facility

The Company's Deer Creek Facility experienced higher than planned pond maintenance costs during the current quarter. Pond maintenance refers to treatment of the pond water to insure compliance with the Company's various state and county permits. Ponds at Deer Creek are currently experiencing excessive bacteria growth. Pond chemistry can change due to warmer temperatures and as the summer months approach, changes could lead to unplanned expenditures to balance and maintain the ponds. The Company is working with potential vendors and there is no cost estimate at this time.

Note K – Related Party Transactions

At March 31, 2015 and June 30, 2014 the Company held a note due from American Citizenship Center, LLC ("ACC"), a related party, with balances of $345,700 and $409,000, respectively. Refer to Note D – Note Receivable for further discussion. During the nine months ended March 31, 2015 the Company billed ACC a total of approximately $29,500, which includes amounts for legal services related to note modifications and interest on the note. At March 31, 2015, the Company had unpaid receivables from ACC in the amount of $4,500 which represents one quarter of interest plus legal services on the recent note modification. All required payments have been subsequently paid.

During the nine months ended March 31, 2015, the Company issued each of the Company's three independent members of the Board of Directors 25,000 stock grants for a total of 75,000 shares valued at $31,500. The Company recorded $16,500 of expense related to the stock grants during the current fiscal year and had accrued $15,000 at June 30, 2014.

In November 2014, the Company's Board of Directors approved a change to the independent director compensation. Effective January 1, 2015, the three independent directors will be paid cash compensation of $1,000 each per month.

Note L – Subsequent Events

There are no subsequent events to be reported.

Note M - Liquidity

During the nine months ended March 31, 2015, the Company reported a net loss of ($598,900) and for fiscal year ended June 30, 2014, the Company reported a net loss of ($106,200). As of March 31, 2015, the Company's working capital balance was $1,017,800. For the next year, the Company expects to meet its working capital and other cash requirements with its current cash reserves. However, if for any reason, the Company does require additional working capital to complete its business plan, there can be no assurance that the Company's efforts to acquire the required additional working capital will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations, identify profitable acquisition/merger candidates and/or successfully invest its capital.

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Item 2 - MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements: 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,” “pote “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 Quarterly 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 Quarterly Report on Form 10-Q.

During fiscal year ended June 30, 2012, the Company formed AES, 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 estimated annual evaporative capacity of approximately 400,000 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. The Company reapplied for a two-year extension which was unanimously approved by the Mesa County commissioners in November 2014. 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 User 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.

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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 and Estimates

Management’s discussion and analysis of financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the United States Securities and Exchange Commission. 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 the estimated fair value of stock-based compensation, expense recognition, realization of deferred tax assets, accounts and note receivables, 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.

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 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.

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Realization of Note Receivable
The Company has reviewed ACC's projected revenues, related assumptions and cash flows when evaluating the collectability of the note receivable and determining the need for any reserve. These assumptions are further influenced by current political activities. Based on this evaluation, the note is deemed fully collectible.

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

Results of Operations

Presented below is management's discussion and analysis of financial condition and results of operations for the periods indicated:

(A) Three months ended March 31, 2015 versus three months ended March 31, 2014

Net Revenues
Net revenues reported for the quarter ended March 31, 2015 were $231,200 compared to $180,200 for the quarter ended March 31, 2014, an increase of $51,000, or 28.3%. Revenues are comprised of produced water delivery fees and sales of reclaimed oil. The improvement for the comparative three month period is reflective of the Company's development of customer relationships in the region. Water deliveries are impacted by the prices of oil and gas which drives drilling activities in the region, the restriction on drilling during winter months which negatively impact water deliveries, 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 three months ended March 31, 2015 and 2014 were $211,800 and $137,400, respectively, an increase of $74,400 or 54.1% when comparing the periods. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs and other operating costs. The increase is primarily due to higher variable costs as a result of increased revenues and includes labor costs, fees tied to water volumes, fuel costs, pond maintenance costs, and equipment rental costs. Fixed costs such as depreciation, amortization, accretion and lease costs represent approximately 29% and 41% of the cost of revenues for the three months ended March 31, 2015 and 2014, respectively. The cost of revenues significantly increased in the current quarter due to increased pond maintenance costs and increased fuel usage. The increased cost of revenues had a negative impact on the gross profit and reduced the gross margin to 8.4% for the current quarter as compared to 23.7% for the same quarter of the prior year.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended March 31, 2015 (consisting of corporate expenses, AES selling, general and administrative expense, and amortization of stock-based compensation) was $273,800, a decrease of $2,000, or 0.7%, compared to $275,800 reported for the quarter ended March 31, 2014. Corporate expenses for the current quarter was $68,300 and represented a decrease of $13,700, or 16.7%, compared to corporate expenses of $82,000 reported for the comparable quarter ended March 31, 2014. The decrease resulted primarily from reduced payroll and associated employee benefit costs. AES expense of $191,600 for the quarter ended March 31, 2015 compared to $193,800 for the quarter ended March 31, 2014 reflects a decrease of $2,200 or 1.1% when comparing the two periods. The AES operating expenses relate to the Deer Creek Water Disposal facility and represented general overhead associated with the operation. Stock-based compensation during the current quarter was $13,900 compared to $0 for the quarter ended March 31, 2014. The increase is reflective of the amortization of stock options which were issued to the Company's officers and directors during the quarter ended December 31, 2014.

Operating Loss

Operating loss for the quarter ended March 31, 2015 was ($254,400), an increase of $21,400, or 9.2%, compared to an Operating Loss of ($233,000) reported for the same quarter of the prior year. The increased operating loss resulted from lower gross profit in the quarter ended March 31, 2015 when compared to the quarter ended March 31, 2014 as discussed above.

Other Income

Interest income for the quarter ended March 31, 2015 was $10,400, a decrease of $800, or 7.1%, when compared to interest income of $11,200 for the quarter ended March 31, 2014. The decrease in interest income related primarily to a decrease in the average outstanding balance of the ACC note receivable.

The Company sold its remaining shares of ORBCOMM Common Stock during the quarter ended December 31, 2014. As a result, there were no gains on the sale of marketable securities during the quarter ended March 31, 2015, as compared to the net gains on the sale of marketable securities of $288,200, resulting from the sale of approximately 94,486 shares of its ORBCOMM Common Stock at an average selling price of $7.67 per share.

There was no other income during the quarter ended March 31, 2015 as compared to $86,700 during the quarter ended March 31, 2014, which included other income recorded from the settlement with ORBCOMM on the working capital adjustment and product warranty escrow of $121,700, $25,000 for the loan amendment fee for the ACC note, offset by other expense of $60,000 accrued for estimated legal costs related to the Company's Alanco/TSI PRISM, Inc. subsidiary.

Net Income (Loss)

Net loss for the quarter ended March 31, 2015 amounted to ($244,000), or ($.05) per share, compared to net income of $153,100, or $.03 per share, in the comparable quarter of the prior year for reasons previously discussed.

Comprehensive Income (Loss)

Comprehensive Loss for the current quarter of ($244,000) reflects Net Loss for the quarter without adjustment since the balance of the Company's ORBCOMM Common Stock had been sold during the quarter ended December 31, 2014. Comprehensive loss for the same quarter of the prior year of ($51,100) reflects the $204,200 unrealized gain for the change in market value of the Company's Marketable Securities held during the quarter. Unrealized gain for the quarter ended March 31, 2014 consisted of the net value of three items: 1) the quarter ending market value reclassification adjustment for gain included in Net Income of $288,200; 2) an Unrealized Loss on Marketable Securities of $41,500 resulting from a decrease in the market value of the shares recorded during the quarter pursuant to the ORBCOMM settlement, compared to the recorded cost, and; 3) the net unrealized gain on marketable securities sold during the period of $125,500. At March 31, 2014 the Company value 95,000 shares of ORBCOMM, Inc. Common Stock at $6.85 per share for a total value of $650,800.

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(B) Nine months ended March 31, 2015 versus nine months ended March 31, 2014

Net Revenues

Net revenues reported for the nine months ended March 31, 2015 were $674,800 compared to $264,600 for March 31, 2014, an increase of $410,200, or 155%. Revenues are comprised of produced water delivery fees and sales of reclaimed oil. The significant improvement for the comparative nine months period is reflective of the Company's development of customer relationships in the region. Water deliveries are impacted by the prices of oil and gas which drives drilling activities in the region, the restriction on drilling during winter months which negatively impacts water deliveries, 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 nine months ended March 31, 2015 were $590,400 as compared to $292,900 for the same nine month period of the prior year, an increase of $297,500, or 101.6%, when comparing the two periods. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs and other operating costs. The increase is primarily due to higher variable costs as a result of increased revenues and includes labor costs, fees tied to water volumes, fuel costs, pond maintenance costs, and equipment rental costs. Fixed costs such as depreciation, amortization, accretion and lease costs represent approximately 31% and 55% of the cost of revenues for the nine months ended March 31, 2015 and 2014, respectively. The gross margin for the nine months ended March 31, 2015 and 2014 were 12.5% and (10.7%), respectively. The improvement in gross margin when comparing the periods is primarily due to the increased revenues in the current nine month period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended March 31, 2015 (consisting of corporate expenses, AES selling, general and administrative expense, and amortization of stock-based compensation) was $820,200, a decrease of $29,800, or 3.5%, compared to $850,000 reported for the nine months ended March 31, 2014. Corporate expenses for the nine month period was $175,100 and represented a decrease of $62,400, or 26.3%, compared to corporate expenses of $237,500 reported for the comparable nine months ended March 31, 2014. The decrease resulted primarily from reduced payroll and associated employee benefits costs offset by a related decreased allocation of corporate service cost to AES from $381,250 for the nine months ended March 31, 2014 to $337,500 for the nine months ended March 31, 2015. AES operating expense was $585,800 for the nine months ended March 31, 2015 as compared to $612,500 for the same nine month period of the prior year, a decrease of $26,700, or 4.4%. The primary reason for the decrease is the decreased allocation of corporate service cost to AES as described above. Stock-based compensation during the current quarter was $59,300 versus zero for the quarter ended March 31, 2014. The amount for the current period reflects the expense for stock options and stock grants issued during the current quarter to the Company's officers and directors.

Operating Loss

Operating Loss for the nine months ended March 31, 2015 was ($735,800), a decrease of $142,500, or 16.2%, compared to an Operating Loss of ($878,300) reported for the same period of the prior year. The decreased operating loss resulted primarily from the improvement to gross profit and the decreased selling, general and administrative expenses.

Other Income
Interest income for the nine months ended March 31, 2015 was $33,500, an improvement of $6,200, or 22.7%, when compared to interest income of $27,300 for the same period ended March 31, 2014. The increase in interest income related primarily to an increase in the interest rate on the Company’s cash investments.

During the nine months ended March 31, 2015, the Company recorded a gain of $103,200 on the sale of 85,000 shares of its ORBCOMM Common Stock at an average selling price of $6.38 per share, compared to net gains on sale of marketable securities of $896,900 on the sale of 336,317 shares of its ORBCOMM Common Stock at an average selling price of $6.06 per share during the same period ended March 31, 2014.

During the nine months ended March 31, 2015, the Company recorded other income of $200 as compared to other income of $88,000 during the nine months ended March 31, 2014, a decrease of $87,800. The decrease is primarily due to other income recorded in nine months ended March 31, 2014 of $121,700 for the settlement with ORBCOMM on the working capital adjustment and product warranty escrow, $25,000 for the loan amendment fee for the ACC note, offset by other expense of $60,000 accrued for estimated legal costs related to the Company’s Alanco/TSI PRISM, Inc. subsidiary.

Net Income (Loss)
Net loss for the nine months ended March 31, 2015 amounted to ($598,900), or ($0.12) per share, compared to a net income of $133,900, or $.03 per share, in the comparable period of the prior year for reasons previously discussed.

Comprehensive Income (Loss)
Comprehensive loss for the nine month period ended March 31, 2015 of ($720,100) represents the unrealized change in market value of the Company’s Marketable Securities held compared to the same period of the prior fiscal year. Comprehensive income for the nine months ended March 31, 2015 consisted of the net value of two items: 1) the six months ending market value reclassification adjustment for gain included in Net Income (Loss) of $103,200 and 2) the net unrealized loss on marketable securities sold during the period of $18,000. At December 31, 2014 the Company had sold all shares of ORBCOMM, Inc. Common Stock.

Liquidity and Capital Resources

The Company’s current assets at March 31, 2015 exceeded current liabilities by $1,017,800, resulting in a current ratio of 3.9 to 1. At June 30, 2014, current assets exceeded current liabilities by $2,066,400 reflecting a current ratio of 7.3 to 1. The reduction in net current assets at March 31, 2015 versus June 30, 2014 was due primarily to a net use of cash during the nine months ended March 31, 2015, the sale of Marketable Securities the Company held in ORBCOMM, Inc., and the reclassification of a larger portion of the ACC note to long-term.

Accounts receivable of $128,200 represents the outstanding billings at March 31, 2015 of the AES water disposal operation that initiated operations during August 2012. Other receivables totaling $4,500 represents billings to ACC for interest of $2,800 and legal fees of $1,700 associated with the most recent note restructuring.

Cash used in operations for the nine month period ended March 31, 2015 was ($497,400), a decrease of ($179,900), or 26.6% compared to the ($677,300) reported for the same period of the prior year. The decrease in net cash used in operations for the nine months ended March 31, 2015 was due primarily to a decrease in net loss before non-cash items.

Cash provided by investing activities for the nine month period ended March 31, 2015 was $263,200, a decrease of $1,019,300, or 79.5% compared to the $1,282,500 provided for the same period of the prior year. The decrease was primarily due to lower proceeds from the sale of marketable securities during the period and the increased amount of land, property and equipment purchased during the period.

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Cash used by financing activities for the nine month period ended March 31, 2015 was ($20,800) compared to cash used by financing activities of ($26,100) for the same period of the prior year, a change of ($5,300). The change was primarily due to a reduction in the amount of repurchased treasury shares in the current period as compared to the amount repurchased in the same period of the prior year.

During fiscal 2015, the Company expects to meet its working capital and other cash requirements with its current cash reserves. However, the Company may require additional working capital for future operations. While the Company believes that it will succeed in attracting additional required capital and will generate capital from future operations, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations, identify profitable acquisition/merger candidates and/or successfully invest its capital.

Item 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting company.

Item 4 - CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of March 31, 2015, the Company's disclosure controls and procedures were effective. Management has concluded that the condensed consolidated financial statements in this Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations, comprehensive income (loss) and cash flows for the periods and dates presented.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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 March 31, 2015 and June 30, 2014, the Company recorded an accrued liability of $128,300 for the judgment. 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 filed its appeal in November 2014 and intends to vigorously pursue the appeal of the judgment. As required under the appeal process, the Company posted a bond with the court for $128,300, which is included in prepaid expenses and other current assets at March 31, 2015 and June 30, 2014. Appeals typically take four to six months and the Company estimates a ruling will follow in an additional three to four months.

The Company may from time to time be involved in litigation arising from the normal course of business. As of March 31, 2015, there was no such litigation pending deemed material by the Company.

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Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine months ended March 31, 2015, the Company issued a total of 75,000 shares of common stock valued at $31,500 to the Company's independent directors as compensation.

Item 6. EXHIBITS

31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32	Certification of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

ALANCO TECHNOLOGIES, INC.

(Registrant)
/s/ Danielle Haney
Danielle Haney
Chief Financial Officer
Alanco Technologies, Inc.

May 15, 2015