

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

DYNTEK, INC. AND SUBSIDIARY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
DynTek, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of DynTek, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended June 30, 2015, 2014 and 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2015 and 2014, and the consolidated results of its operations and its cash flows for the years ended June 30, 2015, 2014 and 2013, in accordance with accounting principles generally accepted in the United States of America.

Haskell & White LLP

HASKELL & WHITE LLP

September 24, 2015
Irvine, California

DYNTEK, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	June 30, 2015	June 30, 2014
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,636	$ 2,584
Accounts receivable, net	51,467	42,407
Work in process	6,809	2,940
Prepaid expenses and other current assets	1,250	404
Deferred income taxes, net	2,589	1,373
TOTAL CURRENT ASSETS	64,751	49,708
PROPERTY AND EQUIPMENT, net	469	272
DEFERRED FINANCING COSTS, net	151	106
DEFERRED INCOME TAXES, net	2,880	2,837
OTHER NON CURRENT ASSETS	5,476	8,466
TOTAL ASSETS	$ 73,726	$ 61,389
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit	$ 16,000	$ 11,500
Accounts payable	27,440	18,699
Accrued expenses	3,575	3,376
Deferred revenue	1,519	1,398
Current portion of notes payable (net of discounts of $65 and $0 as of June 30, 2015 and June 30, 2014, respectively)	7,996	6,130
TOTAL CURRENT LIABILITIES	56,529	41,103
NOTES PAYABLE—(net of discounts of $0 and $153 as of June 30, 2015 and June 30, 2014, respectively)	-	7,560
OTHER NON CURRENT LIABILITIES	72	2,655
TOTAL LIABILITIES	56,601	51,318
COMMITMENTS AND CONTINGENCIES (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $.0001 par value, 600,000 shares authorized; 0 and 0 shares issued and outstanding , respectively	-	-
Class A common stock, $.0001 par value, 5,400,000 shares authorized; 2,180,052 and 2,135,934 shares issued and outstanding as of June 30, 2015 and June 30, 2014, respectively	-	-
Additional paid-in capital	173,082	172,486
Accumulated deficit	(155,957)	(162,415)
TOTAL STOCKHOLDERS' EQUITY	17,125	10,071
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 73,726	$ 61,389

See notes to consolidated financial statements

DYNTEK, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share data)

	Years Ended June 30,		
	2015	**2014**	**2013**
REVENUES			
Product revenues	$ 124,925	$ 113,058	$ 96,596
Service revenues	34,348	32,899	33,751
TOTAL REVENUES	159,274	145,957	130,347
COST OF REVENUES			
Cost of products	106,145	95,068	81,790
Cost of services	28,452	25,863	26,727
TOTAL COST OF REVENUES	134,596	120,931	108,517
GROSS PROFIT	24,678	25,026	21,830
OPERATING EXPENSES:			
Selling	15,761	15,498	13,246
General and administrative	4,404	4,801	4,517
Depreciation and amortization	140	99	96
TOTAL OPERATING EXPENSES	20,306	20,398	17,859
INCOME FROM OPERATIONS	4,372	4,627	3,970
OTHER INCOME (EXPENSE)			
Interest expense	(1,205)	(1,005)	(896)
Other income (expense), net	-	-	6
TOTAL OTHER EXPENSE	(1,205)	(1,005)	(890)
INCOME BEFORE INCOME TAXES	3,167	3,622	3,080
INCOME TAX (BENEFIT) PROVISION	(3,290)	1,844	(297)
NET INCOME	$ 6,457	$ 1,778	$ 3,377
NET INCOME PER SHARE—BASIC	$ 2.97	$ 0.84	$ 1.61
NET INCOME PER SHARE—DILUTED	$ 2.84	$ 0.79	$ 1.60
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC	2,171,799	2,128,851	2,092,368
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED	2,270,625	2,248,771	2,115,339

See notes to consolidated financial statements

DYNTEK, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)

	Class A Common Stock		Additional		Total
	Shares	Par Value	Paid-in Capital	Accumulated Deficit	Stockholders' Equity
Balances—June 30, 2012	**2,033**	**$ -**	**$ 171,213**	**$ (167,570)**	**$ 3,643**
Shares issued under 2005 Stock Plan	61	-	-	-	-
Stock based compensation	-	-	448	-	448
Net income	-	-	-	3,377	3,377
Balances—June 30, 2013	**2,094**	**-**	**171,661**	**(164,193)**	**7,468**
Shares issued under 2005 Stock Plan	42	-	-	-	-
Stock based compensation	-	-	825	-	825
Net income	-	-	-	1,778	1,778
Balances—June 30, 2014	**2,136**	**-**	**172,486**	**(162,415)**	**10,071**
Shares issued under 2005 Stock Plan	35	-	-	-	-
Stock based compensation	-	-	546	-	546
Stock option exercise	9	-	49	-	49
Net income	-	-	-	6,457	6,457
Balances- June 30, 2015	**2,180**	**$ -**	**$ 173,082**	**$ (155,957)**	**$ 17,125**

See notes to consolidated financial statements

DYNTEK, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended June 30,		
	2015	**2014**	**2013**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 6,457	$ 1,778	$ 3,377
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Depreciation and amortization	140	99	96
Non-cash interest	513	695	539
Stock based compensation	546	825	448
Deferred income taxes	(1,258)	596	(262)
Changes in operating assets and liabilities:			
Accounts receivable, net	(9,060)	(10,556)	1,724
Work in process	(3,869)	(99)	1,738
Prepaid expenses and other current assets	(849)	123	1,173
Other non current assets	2,990	(6,166)	(2,213)
Accounts payable	8,646	3,564	(5,910)
Accrued expenses	129	861	(276)
Deferred revenue	51	(1,047)	(913)
Other non current liabilites	(2,445)	1,097	(48)
Total adjustments	(4,466)	(10,008)	(3,904)
NET CASH PROVIDED BY (USED IN) OPERATIONS	1,991	(8,230)	(527)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(337)	(106)	(221)
NET CASH USED IN INVESTING ACTIVITIES	(337)	(106)	(221)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayment of) proceeds from prior line of credit	(11,500)	3,500	(1,700)
Borrowings under new line of credit, net	16,000	-	-
(Repayment of) proceeds from notes payable	(6,129)	5,000	(1,383)
Deferred financing costs paid	(22)	(31)	-
Proceeds from stock option exercise	49	-	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(1,602)	8,469	(3,083)
NET INCREASE (DECREASE) IN CASH	52	133	(3,831)
CASH AT BEGINNING OF YEAR	2,584	2,451	6,282
CASH AT END OF YEAR	$ 2,636	$ 2,584	$ 2,451

See notes to consolidated financial statements

DYNTEK, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(in thousands)

	Years Ended June 30,		
	2015	**2014**	**2013**
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 665	$ 305	$ 357
Cash paid for income taxes	$ 1,079	$ 66	$ 169
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:			
Conversion of accrued interest into notes payable	$ 349	$ 472	$ 380

See notes to consolidated financial statements

NOTE 1. THE COMPANY AND ITS SIGNIFICANT ACCOUNTING POLICIES

The Company— DynTek, Inc. (the "Company") was incorporated in Delaware on May 27, 1989 as Universal Self Care, Inc. The Company changed its name to Tadeo Holdings, Inc. in 1998, to TekInsight, Inc. in 1999, and to DynTek, Inc. in December 2001.

The Company is a value-added reseller of hardware and software products and also provides professional information technology ("IT") services to mid-market commercial businesses, state and local government agencies, and educational institutions.

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and its sole wholly-owned subsidiary, DynTek Services, Inc. All significant inter-company transactions have been eliminated.

Financial Statement Preparation—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company's consolidated financial statements and the accompanying notes. Critical accounting policies for the Company include revenue recognition, income taxes, and stock based compensation. Actual results with respect to estimates could differ from the outcome of one or more confirming events in future periods. The difference between actual results and management's estimates could be material.

Segment Reporting—The Company operated in a single segment, Information Technology Solutions, during all periods presented.

Revenue Recognition—The Company recognizes revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the Company's fee is fixed or determinable, and (iv) collectability is probable. Revenue transactions are supported by written contracts, or other written evidence of a sale transaction, which indicate the selling price, shipping terms, payment terms, and refund policy (if any). Revenue arrangements do not include a general right of return.

Product Revenues

Product revenues consist of hardware and software sales, all on a resale basis. All product warranties and upgrades or enhancements to any product are provided exclusively by the manufacturer. The Company does not sell any internally developed software.

For product sales, in a substantial majority of transactions, the Company recognizes revenue based on gross billed amounts to customers as it (i) acts as principal; (ii) takes title to the products; and (iii) has the risks and rewards of ownership, including the risk of loss for collection, delivery or returns. In certain circumstances, when the Company acts as an agent and collects a fee for the transaction, revenue is recognized on a net basis. For the years ended June 30, 2015, 2014 and 2013, revenues recognized on a net basis totaled approximately $1,531, $780, and $1,214, respectively.

The Company also sells third party service contracts associated with hardware and software products. It acts as a principal in these sales transactions, and recognizes revenue on a gross basis.

Service Revenues

Service revenues consist of professional IT services based on hours of time spent at defined hourly billing rates. Delivery of these services is recognized as the work is completed and the customer has indicated their acceptance of services. For certain engagements, the Company enters fixed bid contracts, and recognizes revenue as phases of the project are completed and accepted by the customer. The Company recognizes deferred revenues when customers remit payment to the Company, or the Company has the contractual right to bill its customers, prior to satisfaction of all revenue recognition requirements.

Multiple Element Arrangements

Periodically, the Company has multiple element arrangements whereby it is obligated to deliver to its customers multiple products and/or services. These multiple elements may occur at the same time, or within close proximity of one another. The allocation of revenue among the elements is based on the Company's best estimate of the stand-alone sales price, vendor specific objective evidence, or third party evidence when an item is not sold separately. The Company accounts for each element as a separate unit of accounting and recognizes revenue related to the delivered product or services only if, and immediately upon, the above revenue recognition criteria being met.

Advertising Costs—Costs related to advertising and promotion are recorded as selling expenses as incurred. Advertising expenses amounted to $33, $18, and $8, for the years ended June 30, 2015, 2014, and 2013, respectively.

Shipping and Handling Costs—The Company accounts for shipping and handling costs as a component of Cost of Products. These costs are primarily the direct freight costs related to the "drop shipment" of products to the Company's customers. Shipping and handling costs amounted to $309, $247, and $273, in fiscal years 2015, 2014 and 2013, respectively.

Concentration of Risk—The State of New York and its agencies in the aggregate accounted for 47% of the Company's revenues during the fiscal year 2015, 51% during fiscal year 2014, and 42% during fiscal year 2013. At June 30, 2015, one customer accounted for approximately 15% of the gross accounts receivable balance, and at June 30, 2014, two customers accounted for approximately 35% of the gross accounts receivable balance.

Sales of products manufactured by two manufacturers accounted for approximately 56% of product and 44% of total revenues during fiscal 2015, 63% of product and 49% of total revenues during fiscal year 2014, and 59% of product and 44% of total revenues during fiscal year 2013. Typically, vendor agreements provide for the Company to be recognized, on a non-exclusive basis, as an authorized reseller of specified products at specified locations. The agreements generally are terminable on 30 to 90 days notice or immediately upon the occurrence of certain events, and are subject to periodic renewal. Substitute products are readily available.

The Company maintains its cash balances at two financial institutions. Balances are insured by the Federal Deposit Insurance Corporation for up to $250. The Company's cash balances exceed such insured limits. The Company reduces its exposure to credit risk by maintaining its cash at high quality financial institutions.

The Company establishes reserves for uncollectible accounts receivable based on its best estimate of the amount of probable credit losses. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Information with respect to the Company's allowance for doubtful accounts is presented in Note 2.

Income Taxes—The Company accounts for income taxes using the asset and liability method whereby deferred tax assets and liabilities are determined based on temporary differences between the bases used for financial reporting and income tax reporting purposes. Deferred income taxes are provided based on the enacted tax rates in effect at the time such temporary differences are expected to reverse. A valuation allowance is provided for deferred tax assets if it is more likely than not that the Company will not realize those tax assets through future operations.

The Company accounts for uncertain tax positions using the provisions of Accounting Standards Codification ("ASC") 740, *Income Taxes*, which contains a two step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not, that the position will be sustained on audit by the taxing authorities. The second step is to measure the tax benefit as the largest amount, which is more that 50% likely of being realized upon ultimate settlement. The Company considers many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustment. Interest and penalties related to unrecognized tax benefits are recognized as income tax expense.

Work in Process—Work in process consists primarily of unbilled services that have been provided to the Company's customers, vendor deposits, and software licenses and hardware products for which all revenue recognition criteria have not yet been met. These items are recorded at the lower of cost or market.

Property and Equipment—Property and equipment is stated at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the term of their respective leases or service lives of the improvements, whichever is shorter.

Fair Value of Financial Instruments—The carrying amounts reported on the consolidated balance sheets for cash, trade receivables, work in process, prepaid items, accounts payable and accrued expenses approximate fair value based on the short-term maturity of these instruments. The carrying amounts of notes payable approximate fair value because the effective yields of such instruments, which include the effect of contractual interest rates taken together with discounts resulting from the concurrent issuances of common stock purchase warrants, are consistent with current market rates of interest.

Stock Based Compensation—Stock based compensation expense includes compensation expense for all stock based compensation awards based on the grant date fair value estimated in accordance with the provisions of ASC 718, *Stock-Based Compensation*. The weighted average fair values of employee stock options granted during fiscal 2015, 2014 and 2013 were $4.06, $3.32, and $5.95 per share, respectively, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2015	2014	2013
Risk-free interest rate	1.61%	1.31%	0.67%
Volatility	74.60%	59.24%	233.6%
Forfeiture rate	5.00%	3.00%	5.00%
Expected life in years	5	5	5
Dividend yield	0.00%	0.00%	0.00%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has not paid dividends to date and does not expect to pay dividends in the foreseeable future due to its substantial accumulated deficit. Accordingly, expected dividend yields are currently zero. Expected volatility and forfeiture rates are principally based on the Company's historical experience.

The Company recorded approximately $546, $825, and $448, in stock based compensation expense as a general and administrative expense for the years ended June 30, 2015, 2014 and 2013, respectively; of which $216, $250, and $190 relates to stock based compensation expense for employee stock options, respectively.

Comprehensive Income —Comprehensive income is comprised of net income and all changes to stockholders' equity, except for changes that relate to investments made by stockholders, changes in paid-in capital and distributions. There are no elements of comprehensive income for the years ended June 30, 2015, 2014 or 2013, and the Company has no elements of accumulated other comprehensive income as of June 30, 2015 or 2014.

Net Income Per Share—The computation of net income per share excludes the effect of potentially dilutive securities that would be issuable upon the exercise of stock options and common stock purchase warrants, because their effect would be anti-dilutive. Basic and diluted weighted average shares for the periods presented are as follows:

	For the Year Ended June 30,		
	2015	2014	2013
Weighted average shares- basic.	2,171,799	2,128,851	2,092,368
Dilutive options and warrants	98,826	119,920	22,971
Weighted average shares- diluted	2,270,625	2,248,771	2,115,339

Recent Accounting Pronouncements—In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") *2014-09, Revenue from Contracts with Customers*, which when effective will supersede existing revenue recognition requirements and will eliminate most industry-specific guidance from generally accepted accounting principles. The core principle of the new guidance is to require an entity to recognize as revenue the amount that reflects the consideration to which it expects to be entitled in exchange for goods or services as it transfers control to its customers. The new guidance requires additional disclosures including those that are qualitative and quantitative disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity can apply the new guidance retrospectively to each prior reporting period presented (i.e., the full retrospective method) or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. In August 2015, the FASB issued a standards update for a delay of the effective date of this new revenue recognition standard. The guidance now becomes effective for the Company in fiscal year 2020. Management is currently evaluating the appropriate transition method and any further impact of this guidance on its consolidated financial statements and related disclosures

In July 2013, the FASB issued an accounting standards update that provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward exists. Under the update, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, is to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward. This accounting standard update becomes effective for the Company for fiscal year 2016. Management does not expect this update to significantly impact the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from that debt liability, consistent with the presentation of a debt discount. This presentation is consistent with the guidance in Concepts Statement 6, which states that debt issuance costs are similar to a debt discount and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. This guidance is effective for the Company's fiscal year 2017 and should be applied retrospectively. Management does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-15, which provides guidance for the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The guidance allows entities to present debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratable over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. This guidance is effective for the Company's fiscal year 2017. Management does not expect the adoption of this guidance to have a material impact on the Company's consolidated financial statements

NOTE 2. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

Accounts Receivable:

	June 30,	
	2015	2014
Accounts receivable	$ 51,951	$42,804
Less: allowance for doubtful accounts	(484)	(397)
	$ 51,467	$42,407

As of June 30, 2015, the Company performed an analysis of the allowance for doubtful accounts based on periodic reviews of its receivables, taking into consideration historical write-offs and future payment expectations. During the year

ended June 30, 2015, the Company wrote off $74 of accounts deemed uncollectible, and the reserve was increased by $161 based on management's periodic review. During the year ended June 30, 2014, the Company wrote off and adjusted $372 for accounts deemed uncollectible, and the reserve was increased by $249 based on periodic review.

Prepaid Expenses and Other Current Assets:

	June 30, 2015	June 30, 2014
Income taxes receivable	$ 816	$ 152
Other	434	252
	$ 1,250	$ 404

Property and Equipment:

	June 30, 2015	June 30, 2014
Furniture and fixtures	$ 233	$ 121
Computer equipment	527	441
Leasehold improvements	214	128
	974	690
Less: accumulated depreciation	(505)	(418)
	$ 469	$ 272

Depreciation expense for the years ended June 30, 2015, 2014 and 2013 amounted to approximately $140, $99, and $96, respectively. During the year ended June 30, 2015, the Company wrote off approximately $53 in fully depreciated assets which were no longer in service.

Other Non Current Assets:

	June 30, 2015	June 30, 2014
Long- term accounts receivable, net	$ 5,308	$ 8,356
Other	168	110
	$ 5,476	$ 8,466

Long-term accounts receivable do not bear interest, are not collateralized, and at June 30, 2015, are due between September 2016 and January 2018. At June 30, 2015, imputed interest of $60 was recorded against the long-term accounts receivable.

Accrued Expenses:

	June 30,	
	2015	2014
Compensation and benefits	$3,311	$3,118
Sales and use tax	159	66
Other	105	192
	$3,575	$3,376

Other Non Current Liabilities:

	June 30,	
	2015	2014
Deferred revenue	$ -	$ 69
Unrecognized tax benefits	-	2,449
Other	72	137
	$ 72	$2,655

NOTE 3. REVOLVING LINE OF CREDIT

On December 15, 2011, the Company entered into a $15,000 revolving line of credit facility, (the "2011 Facility") with a bank. The line had a term of three years, with an initial limit of $15,000. Through October 31, 2013, the borrowing base was $25,000, after which the base reverted back to the original $15,000. Borrowings were based on 85% of eligible accounts receivable, as defined, and were collateralized by substantially all the assets of the Company. Borrowings accrued interest at the rate of LIBOR plus 2.5% (an effective rate of 3.75% at June 30, 2014). The line also had an unused commitment fee of 0.25%. Fees were payable monthly in arrears. At June 30, 2014, the amount outstanding under the 2011 Facility was $11,500. Interest expense on this line of credit was $310 and $357 for the years ended June 30, 2014 and 2013, respectively. Borrowings under the 2011 Facility were subject to compliance with operational, financial and collateral reporting requirements, including financial covenants. At June 30, 2014, the Company was in compliance with all requirements and covenants. All amounts due totaling $11,500 under the 2011 Facility were paid in full and the 2011 Facility was terminated concurrent with the July 1, 2014 funding of the new line of credit agreement with a new bank as described below.

On June 30, 2014, the Company entered into a $20,000 revolving line of credit agreement (the "2014 Facility") with a new bank. The 2014 Facility has a term of three years and borrowings accrue interest at the higher of the Wall Street Journal Prime Rate plus 0.75%, or 4.0% (an effective rate of 4.0% at June 30, 2015). Interest is payable monthly in arrears. An unused commitment fee of 0.25% is calculated quarterly and payable quarterly in arrears. Borrowings are based on 85% of eligible accounts receivable, plus 40% of eligible long-term accounts receivable, as defined. Borrowings under this 2014 Facility are subject to compliance with operational, financial and collateral reporting requirements, including a financial covenant. The 2014 Facility is collateralized by substantially all the assets of the Company. On July 1, 2014, the 2014 Facility closed and funded, and the Company borrowed $16,740 to repay in full the 2011 Facility and $5,133 principal and interest due on the Subordinated Promissory Note (Note 4).

At June 30, 2015, the outstanding balance of the 2014 Facility was $16,000 and $4,000 was available. The Company is in compliance with all requirements and covenants at June 30, 2015. Interest expense on the 2014 Facility for the year ended June 30, 2015 was $692.

NOTE 4. NOTES PAYABLE

The following is a summary of the Company's debt balances and activity for the year ended June 30, 2015:

	June 30, 2014 Net Book Value	Repayments	Discount Amortization	Interest Accrued	June 30, 2015 Net Book Value
Senior Secured Notes, net	$ 8,557	$ (996)	$ 86	$ 349	$ 7,996
Subordinated Promissory Note	5,133	(5,133)	-	-	-
	$ 13,690	$ (6,129)	$ 86	$ 349	$ 7,996

The following is a summary of the Company's debt balances and activity for the year ended June 30, 2014:

	June 30, 2013 Net Book Value	Borrowing	Discount Amortization	Interest Accrued	June 30, 2014 Net Book Value
Senior Secured Notes, net	$ 8,130	$ -	$ 88	$ 339	$ 8,557
Subordinated Promissory Note	-	5,000	-	133	5,133
	$ 8,130	$ 5,000	$ 88	$ 472	$ 13,690

Amortization of discounts on the Senior Secured Notes is classified as interest expense in the consolidated statements of income.

Senior Secured Notes Payable to Related Party and Others

Reference is made to Note 3, Revolving Line of Credit, in that the notes described below as the "Senior Notes" are subordinate to the 2014 Facility (Note 3).

On March 8, 2006, the Company entered into a Note Purchase Agreement (the "Note Purchase Agreement") with SACC Partners, L.P. and Lloyd I. Miller, III (who is the majority shareholder) (the "Senior Lenders"), pursuant to which the Company issued Senior Secured Notes (the "Senior Notes") in principal amounts of $1,400 and $5,300 respectively, with warrants to purchase up to 4.09% and 15.81% respectively, of the Company's outstanding common stock on a fully diluted basis at the time of exercise. The Senior Notes initially bore interest at the rate 8% per annum if paid in cash, or 11% per annum if paid in kind, at the Company's discretion, and are collateralized by substantially all the Company's assets. Effective January 1, 2009, the Senior Notes were amended ("Fifth Amendment") to accrue interest at 4% per annum regardless of whether paid in cash or in kind. On November 23, 2009, the ownership of the $1,400 Senior Secured Note was transferred to Marli Bryant Miller, a related party.

In accordance with the Sixth Amendment of the Senior Notes dated March 11, 2011 ("Sixth Amendment"), the principal amount of the Senior Notes was to be payable in equal monthly installments on the last day of each month beginning on March 31, 2013, with the balance to be paid in full on March 1, 2014. Interest was payable quarterly in arrears , unless the Company chose to make its payments in kind, in which case such interest is added to the principal amount of the Senior

Notes. Concurrent with the Sixth Amendment, the Company prepaid, without penalty, $2,000 of principal on the Senior Notes.

Concurrent with the closing of the 2011 Facility on December 15, 2011 (Note 3), to establish the subordination of the Senior Notes to the bank, the Senior Notes were amended and restated for the then outstanding balance of each note, including paid in kind interest to that date. Accordingly, the Senior Note to Lloyd I. Miller, III is in the amount of $6,166 and the Senior Note to Marli Bryant Miller is in the amount of $1,653. The principal amount of the Senior Notes is payable in equal monthly installments on the last day of each month beginning on March 31, 2015, with the balance to be paid in full on March 31, 2016. The interest rate on the Senior Notes remains at 4% per annum, compounding quarterly, regardless of whether paid in cash or in kind. During the year ended June 30, 2015, the Company made scheduled payments of $996 on the Senior Notes.

The Company may prepay the Senior Notes at 105% of the aggregate unpaid principal and interest at any time prior to their maturity, subject to certain restrictions. The Senior Notes are also subject to mandatory prepayment at 105% of the aggregate unpaid principal and interest in the event of a change in control, as defined. The Company is also required to prepay the Senior Notes upon the occurrence of a substantial asset sale in an amount equal to 50% of the gross proceeds received in such asset sale plus a penalty equal to 2% of the prepayment amount. Pursuant to the terms of the Note Purchase Agreement, substantial asset sales are defined as any single asset sale resulting in gross proceeds of $100 or any series of assets sales occurring during a twelve month period resulting in gross cumulative proceeds of $100 or more. Change in control events described in the Note Purchase Agreement requires approval by the Board of Directors prior to being submitted to a vote of the Company's stockholders.

The Company has elected to pay contractual interest on the Senior Notes in kind and recorded an aggregate interest charge of $349, $339, and $326 for the years ended June 30, 2015, 2014, and 2013, respectively, of which, $275, $268, and $258, respectively, is related to the interest on the note payable to Lloyd I. Miller, III for these period ends.

As of June 30, 2015, future minimum cash payments, including interest expected to accrue in the future, on the Senior Notes are as follows:

Year Ending June 30,	
2016	$ 8,276
Total minimum cash payments	8,276
Less interest not yet accrued	(215)
Total principal	$ 8,061

Senior Warrants

On March 8, 2006, in connection with entering into the Note Purchase Agreement with the Senior Lenders, the Company also issued to the Senior Lenders warrants (the "Senior Warrants") to purchase up to 19.9% of the Company's outstanding common stock on a fully diluted basis at the time of exercise. The Senior Warrants had an exercise price of $0.001 per share and an expiration date of December 31, 2016.

The Company allocated $2,982 of the proceeds to the Senior Notes and $3,718 of the proceeds to the Senior Warrants. The aggregate fair value of the Senior Warrants was calculated using the Black-Scholes option pricing model based on all outstanding shares of the Company's common stock, outstanding options, Senior Warrants and shares of stock issuable under the conversion and debt settlement agreements of March 2006. This initially amounted to 13,859 shares issuable upon exercise of the Senior Warrants to the holders of the Senior Notes at the commitment date of this financing transaction. The difference between the carrying amount of the Senior Notes and their contractual redemption amount is being accreted as interest expense to March 2016.

The number of shares issuable upon exercise of the Senior Warrants was subject to increase each time the Company issued additional shares of common stock or common stock equivalents. The incremental number of shares under any increase was equal to the amount needed to cause the Senior Warrants to be exercisable for 19.9% of all outstanding common stock on a fully diluted basis. On January 10, 2008, in connection with the issuance of a junior secured convertible promissory note, the Warrant Amendment Agreements fixed the number of Senior Warrants at 19.9% of the Company's outstanding common stock on that date, subject to certain adjustments as defined within the Warrant Amendment Agreements. As a result, there have been no increases to the number of shares since January 10, 2008. All the Senior Warrants were exercised in fiscal year 2012, and there are no Senior Warrants outstanding.

The amortization of the debt discount in connection with the Senior Warrants is included as a component of interest expense in the accompanying consolidated statements of income for all periods presented. The unamortized discount is approximately $65 and $153 as of June 30, 2015 and 2014, respectively.

Related Party Promissory Note Dated March 22, 2010

On March 22, 2010, the Company borrowed $3,000 in cash from a related party to support working capital needs. The note, as amended, bore interest at 5.5% per annum, and was to mature in March 2015. The Company had the option to pay the 5.5% per annum interest in cash, or on a paid in kind basis. The Company elected to pay contractual interest in kind, and therefore accumulated interest on this promissory note was added to the principal amount. In December 2011, concurrent with the closing of the revolving line of credit with the bank (Note 3), the Company made a $2,000 cash prepayment on this note. The Company had the option to repay this note in full in March 2013, and exercised the option with a one time cash payment of $1,383. There is no balance outstanding on this note at June 30, 2015 or 2014. For the year ended June 30, 2013, the Company recorded interest charges of $54.

Subordinated Promissory Note

In December 2013, the Company borrowed $5,000 in cash from a related party in a unique and separate transaction permitted by the bank under the 2011 Facility to support incremental short-term working capital. This note was subordinated to the 2011 Facility, bore interest at 5.0% per annum, and was to mature in December 2014. The Company had the option to pay the 5.0% per annum interest in cash, or on a paid in kind basis. The Company elected to pay contractual interest in kind, and therefore accumulated interest on this promissory note was added to the principal amount. On July 1, 2014, concurrent with the closing of the 2014 Facility (Note 3), the Company repaid in full $5,133 and the Subordinated Promissory Note was terminated. For the year ended June 30, 2014, the Company recorded interest charges of $133 for the Subordinated Promissory Note.

NOTE 5. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company is obligated under non-cancelable leases for its corporate headquarters and its Southwest region in California through April 2018, and for several separate direct sales offices and other facilities under lease terms expiring at various times through September 2020. Total rent expense for the fiscal years ended June 30, 2015, 2014, and 2013 amounted to $801, $607, and $522, respectively. At June 30, 2015, future minimum rental payments under non-cancelable operating leases are as follows:

Year Ending June 30,	
2016	$ 651
2017	601
2018	561
2019	336
2020	160
Thereafter	9
	$ 2,318

Legal Proceedings

From time to time the Company is involved in various legal proceedings and disputes that arise in the normal course of business. These matters have included intellectual property disputes, contract disputes, employment disputes and other matters.

In October 2008, the Company filed a claim against Sensible Security Solutions, Inc. an Ontario, Canada company, ("SSS") and Paul Saucier, ("Saucier") et al. related to the sale of the Company's former subsidiary DynTek Canada, Inc. to SSS in May 2008. The complaint was amended in September 2009 to add DynTek Canada, Inc. as a defendant. The claim is primarily for breach of contract, fraud, concealment, false promise, conversion et al relating to the Company's May 2008 Share Purchase Agreement ("SPA") with the defendants which contained provisions for the collection and payment of certain Canadian accounts receivable and other payments due to the Company.

In April 2010, SSS and DynTek Canada, Inc. filed cross-complaints against the Company asserting, based on the SPA as well as a 2006 Asset Purchase Agreement, claims of breach of contract, fraud, conversion and accounting. Both the complaint and cross-complaints seek damages in excess of $1,000, as well as punitive damages, costs and attorney fees. On August 29, 2011, the Orange County Superior Court granted the Company's motion for terminating sanctions against Saucier and struck his pleadings. Default was entered as to all defendants on October 12, 2011 and in March 2012 the Company was awarded a judgment against SSS and Saucier in the amount of $3,600, which amount includes $2,000 in punitive damages. The Company has filed this judgment in the Canadian courts where SSS and Saucier reside, and continues to pursue collection. As of June 30, 2015, no amounts have been included in the accompanying consolidated financial statements for this matter.

Employment Agreements

The Company has entered into employment agreements with two officers of the Company. Upon a change in control, the executives would be paid up to a total of $540 in cash or an unrestricted stock grant at the executive's discretion. Upon termination without cause, the executives will receive up to $540, payable in equal payments over one year, in accordance with the Company's regular practice.

NOTE 6. STOCKHOLDERS' EQUITY

As of June 30, 2015, the Company had authorized capital consisting of the following:

- 600,000 shares of Preferred stock, $.0001 par value, with no shares issued and outstanding, and;
- 5,400,000 shares of Class A Common stock, $.0001 par value, with 2,180,052 shares issued and outstanding.

Equity Transactions Completed During the Year Ended June 30, 2013

In October 2012, the Company issued 6,084 shares of restricted common stock, valued at $37, to a key employee. On June 30, 2013, the Company granted 31,732 shares of restricted stock to certain employees and non-employee directors under the 2005 Plan (Note 7), all of which have been earned as of June 30, 2013. 26,000 of the shares granted to employees were valued at $181 and issuable immediately, with the remaining 5,732 granted to non-employee directors valued at $40 and issuable as of July 1, 2013. As of June 30, 2013, the 31,732 shares had not yet been issued by the Company's transfer agent and accordingly were classified as subscribed stock at June 30, 2013. Total stock based compensation of $448 for the year ended June 30, 2013 includes the $258 value of restricted stock issued to employees and directors as well as $190 for stock options issued to employees.

Equity Transactions Completed During the Year Ended June 30, 2014

In March 2014, the Company issued 10,000 shares of restricted common stock, valued at $150, to a key employee. On June 30, 2014, the Company granted 35,418 shares of restricted stock to certain employees and non-employee directors under the 2005 Plan (Note 7), all of which have been earned as of June 30, 2014. 32,084 of the shares granted to employees were valued at $385 and issuable immediately, with the remaining 3,334 granted to non-employee directors valued at $40 and issuable as of July 1, 2014. As of June 30, 2014, 35,418 of the shares had not yet been issued by the Company's transfer agent and accordingly were classified as subscribed stock at June 30, 2014. Total stock based compensation of $825 for the year ended June 30, 2014 includes the $575 value of restricted stock issued to employees and directors, as well as $250 for stock options issued to employees.

Equity Transactions Completed During the Year Ended June 30, 2015

On June 30, 2015, the Company granted 36,504 shares of restricted stock to certain employees and non-employee directors under the 2005 Plan (Note 7), all of which have been earned as of June 30, 2015. 32,084 of the shares granted to employees were valued at $290 and issuable immediately, with the remaining 4,420 granted to non-employee directors valued at $40 and issuable as of July 1, 2015. As of June 30, 2015, 36,504 of the shares had not yet been issued by the Company's transfer agent and accordingly were classified as subscribed stock at June 30, 2015. Total stock based compensation of $546 for the year ended June 30, 2015 includes the $330 value of restricted stock issued to employees and directors, as well as $216 for stock options issued to employees. In June 2015, 8,700 common stock options were exercised for cash (Note 7).

NOTE 7. STOCK BASED COMPENSATION

The Company, since its inception, has granted both qualified ("ISO") and non-qualified ("NSO") stock options to various employees and non-employees at the discretion of the Board of Directors. Substantially all options granted to date have exercise prices equal to the fair value of the underlying stock at the date of grant and contractual terms of up to ten years.

The Company has two stock option plans to grant options to purchase common stock to employees and certain directors of the Company and certain other individuals. The plans authorize the Company to issue or grant qualified and non-qualified options to purchase up to 679,586 shares of its common stock. As of June 30, 2015, there were approximately 20,000 shares available for grant.

In May 2005, the Company's Board of Directors authorized the adoption of the 2005 Stock Incentive Plan (the "2005 Plan"). The 2005 Plan, as amended, provides for the grant of up to an aggregate 348,462 ISOs to employees and NSOs to

officers, directors, key employees or other individuals at the discretion of the compensation committee of the Board of Directors. At June 30, 2015, the 2005 Plan is expired.

On June 15, 2006, the Company's Board of Directors approved the 2006 Nonqualified Stock Option Plan (the "2006 Plan"), which, as amended, provides for the grant of nonqualified stock options to purchase up to an aggregate of 322,000 shares of the Company's common stock to members of the Board of Directors, employees and consultants. The 2006 Plan is administered by a committee of two or more members of the Board of Directors.

The terms of the awards are subject to the provisions in an option agreement, consistent with the terms of the 2005 and 2006 Plans. The exercise price of a stock option shall not be less than the fair value of the Company's common stock on the date of grant. No stock option shall be exercisable later than ten (10) years after the date it is granted.

A summary of the status of the Company's stock option activity for the years ended June 30, 2015, 2014 and 2013 is as follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at June 30, 2012	168,132	$ 4.99	7.97	-
Exercisable at June 30, 2012	96,032	5.57	7.14	-
Granted	59,000	6.00	9.29	-
Exercised	-	-	-	-
Forfeited or expired	(72)	(309.72)	-	-
Outstanding at June 30, 2013	227,060	5.16	7.57	-
Exercisable at June 30, 2013	124,170	5.05	6.56	-
Granted	50,000	6.52	-	-
Exercised	-	-	-	-
Forfeited or expired	(12,063)	(8.54)	-	-
Outstanding at June 30, 2014	264,997	5.26	7.00	-
Exercisable at June 30, 2014	169,887	4.84	6.12	-
Granted	60,000	6.63	-	-
Exercised	(8,700)	5.66	-	-
Forfeited or expired	(10,523)	(5.82)	-	-
Outstanding at June 30, 2015	305,774	$ 5.43	6.69	$1,138
Exercisable at June 30, 2015	203,204	$ 4.89	5.59	$ 876

The weighted-average fair value of options granted to employees during fiscal 2015, 2014, and 2013 was $4.06, $3.32, and $5.95, respectively. The weighted-average remaining contractual term of options outstanding gives effect to employee terminations which, under the provisions of the plans reduces the remaining life of such options to a period of 30 days following the respective dates of such terminations.

At June 30, 2015, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $276, which is expected to be recognized over 2.05 years.

The Company did not modify any stock options granted to employees or non-employees under any of its share-based payment arrangements. In addition, the Company did not capitalize the cost associated with stock based compensation awards. During the year ended June 30, 2015, 8,700 stock options were exercised for cash proceeds of $49. The weighted average share price on the date of exercise was $9.05 and the intrinsic value of the options exercised was $29. There were no options exercised during the years ended June 30, 2014 or 2013.

During fiscal 2015, the Company granted 36,504 shares of restricted stock to certain employees and non-employee directors under the 2005 Plan, all of which have been earned as of June 30, 2015. The total expense associated with these awards was $330 and was recorded as a general and administrative expense for the year ended June 30, 2015.

During fiscal 2014, the Company granted 45,418 shares of restricted stock to certain employees and non-employee directors under the 2005 Plan, all of which have been earned as of June 30, 2014. The total expense associated with these awards was $575 and was recorded as a general and administrative expense for the year ended June 30, 2014.

During fiscal 2013, the Company granted 31,732 shares of restricted stock to certain employees and non-employee directors under the 2005 Plan, all of which have been earned as of June 30, 2013. The total expense associated with these awards was $258 and was recorded as a general and administrative expense for the year ended June 30, 2013.

NOTE 8. DEFINED CONTRIBUTION PLAN

The Company maintains a defined contribution 401(k) plan that covers substantially all employees. Contributions to the plan may be made by the Company (which are discretionary) or by plan participants through elective salary reductions. During the years ended June 30, 2015 and 2014, the Company accrued $275 and $279, respectively, in discretionary employer matching contributions to the plan, and paid $281, $283, and $207 during the years ended June 30, 2015, 2014 and 2013, respectively.

NOTE 9. INCOME TAXES

The Company recognizes deferred tax assets and liabilities for the expected impact of differences between the financial statements and tax basis of assets and liabilities and for the expected future tax benefit to be derived from tax loss and tax credit carry forwards. The Company established a valuation allowance to reflect the likelihood of realization of deferred tax assets. Deferred tax assets and liabilities and the related valuation allowances, as well as liabilities for unrecognized tax benefits, involve a high degree of judgment and such estimates are subject to change in the near term, which could be material to the financial statements.

The income tax (benefit) provision is comprised of the following:

	Year ended June 30,		
	2015	2014	2013
Current:			
Federal	$(2,176)	$ 95	$ 5
State	144	56	-
	(2,032)	151	5
Deferred:			
Federal	(1,428)	1,228	790
State	170	465	(1,092)
	(1,258)	1,693	(302)
	$(3,290)	$ 1,844	$ (297)

A reconciliation of the expected statutory rate of 34% to the Company's actual rate as reported for each of the periods presented is as follows:

	Year ended June 30,		
	2015	2014	2013
Statutory rate	34.0 %	34.0%	34.0%
State income tax rate, net of Federal benefit	9.5	8.1	5.9
Section 382 limitations	51.1	-	-
Unrecognized tax benefits	(166.6)	0.7	67.9
Other	22.5	2.8	(13.6)
Effect of permanent differences	2.3	2.3	2.4
Adjusted rate, before valuation allowance	(47.1)	47.9	96.6
Valuation allowance	(56.8)	3.0	(106.2)
Effective tax rate	(103.9) %	50.9%	(9.6)%

Net deferred tax assets consist of the following:

	June 30,	
	2015	2014
Net operating loss carryforwards	$ 1,194	$ 770
Allowance for doubtful accounts	184	153
Accrued interest expense	1,142	1,693
Depreciation	(173)	(98)
Accrued compensation	856	757
Amortization	1,046	1,308
Stock based compensation	553	591
Other	667	729
	5,469	5,903
Valuation allowance	-	(1,693)
Net deferred tax assets	$ 5,469	$ 4,210

	June 30,	
	2015	2014
Current net deferred tax assets	$ 2,589	$ 1,373
Non current net deferred tax assets	2,880	2,837
	$ 5,469	$ 4,210

As of June 30, 2015, the Company has net operating losses of approximately $2,399 and $9,298 for federal and state purposes, respectively, that may be available to offset future taxable income. If not utilized, these federal and state carry forwards will begin to expire in tax years 2023 and 2014, respectively.

Permanent differences principally relate to non-deductible expenses such as meals and entertainment expenses.

The Company is subject to U.S. federal, state and local taxes in the normal course of business, and its income tax returns are subject to examination by the relevant tax authorities. Tax years 2012-2014 are still open for examination by Federal tax

authorities and tax years 2011-2014 are generally open for examination by state tax authorities. The Company has not fully utilized net operating loss carry forwards which were generated in the tax years 2000-2008, so the statute of limitations for these years remains open for purposes of adjusting the amounts of the losses carried forward from those years.

In March 2015, the Company revised its March 2012 Internal Revenue Code Section 382 study with respect to the change in ownership dates and the treatment of the Senior Notes and Senior Warrants (Note 4). These changes relieved the Company's prior uncertain tax position and restored a net $2,828 of deferred tax assets related to net operating losses as compared to the June 30, 2014 balances. Simultaneously, with the commencement of scheduled cash payments on the Senior Notes in March 2015, $1,518 of net deferred tax assets related to the accrued interest expense on the Senior Notes were restored with the reversal of the associated valuation allowance. As of June 30, 2015 and 2014, the Company has $0 and $2,449, respectively, of unrecognized tax benefits relating to the Section 382 analysis. The unrecognized tax benefits are included in other non current liabilities on the accompanying consolidated balance sheets.

While management believes that the Company has adequately provided for all tax positions, amounts asserted by tax authorities could be greater or less than the recorded positions. Accordingly, the Company's provisions on federal and state tax related matters to be recorded in the future may change as revised estimates are made or the underlying matters are settled or otherwise resolved.

NOTE 10. SUBSEQUENT EVENTS

The Company has performed an evaluation of subsequent events through September 24, 2015, which is the date the consolidated financial statements were available for issuance.