CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016

DYNTEK, INC. AND SUBSIDIARY

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300 SPECTRUM CENTER DRIVE
SUITE 300 • IRVINE, CA 92618
949.450.6200 FAX 949.450.6201
www.hwcpa.com

HASKELL & WHITE LLP

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858.249.7444 FAX 858.249.7445
www.hwcpa.com

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, 2016 and 2015, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended June 30, 2016, 2015 and 2014, 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2016 and 2015, and the consolidated results of its operations and its cash flows for the years ended June 30, 2016, 2015 and 2014, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company's 2015 and 2014 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Haskell & White LLP

HASKELL & WHITE LLP

Irvine, California
September 22, 2016

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

	June 30, 2016	June 30, 2015 (restated)
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,841	$ 2,636
Accounts receivable, net	62,394	51,467
Work in process, net	7,376	6,809
Prepaid expenses and other current assets	1,655	1,482
Deferred income taxes	1,550	1,422
TOTAL CURRENT ASSETS	75,816	63,816
PROPERTY AND EQUIPMENT, net	387	469
DEFERRED FINANCING COSTS, net	181	151
DEFERRED INCOME TAXES	5,306	6,834
OTHER NON CURRENT ASSETS	9,260	5,476
TOTAL ASSETS	$ 90,950	$ 76,746
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Revolving line of credit	$ 23,600	$ 16,000
Accounts payable	37,709	27,442
Accrued expenses	4,661	3,575
Deferred revenue	1,291	1,519
Current portion of notes payable (net of discounts of $65 as of June 30, 2015)	-	7,996
TOTAL CURRENT LIABILITIES	67,261	56,532
OTHER NON CURRENT LIABILITIES	96	72
TOTAL LIABILITIES	67,357	56,604
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; 2,221,056 and 2,180,052 shares issued and outstanding as of June 30, 2016 and June 30, 2015, respectively	-	-
Additional paid-in capital	173,616	173,082
Accumulated deficit	(150,023)	(152,940)
TOTAL STOCKHOLDERS' EQUITY	23,593	20,142
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 90,950	$ 76,746

See notes to consolidated financial statements and independent auditors' report

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

	Years Ended June 30,		
	2016	**2015 (restated)**	**2014 (restated)**
REVENUES			
Product revenues	$ 143,255	$ 115,612	$ 106,415
Service revenues	33,677	34,348	32,899
TOTAL REVENUES	176,932	149,960	139,314
COST OF REVENUES			
Cost of products	121,041	96,830	88,425
Cost of services	27,187	28,452	25,863
TOTAL COST OF REVENUES	148,228	125,282	114,288
GROSS PROFIT	28,704	24,678	25,026
OPERATING EXPENSES:			
Selling	17,845	15,761	15,498
General and administrative	5,034	4,404	4,801
Depreciation and amortization	180	140	99
TOTAL OPERATING EXPENSES	23,059	20,306	20,398
INCOME FROM OPERATIONS	5,645	4,373	4,627
OTHER INCOME (EXPENSE)			
Interest expense	(1,186)	(1,205)	(1,005)
TOTAL OTHER EXPENSE	(1,186)	(1,205)	(1,005)
INCOME BEFORE INCOME TAXES	4,459	3,167	3,622
INCOME TAX PROVISION (BENEFIT)	1,544	(2,108)	1,821
NET INCOME	$ 2,915	$ 5,275	$ 1,801
NET INCOME PER SHARE—BASIC	$ 1.31	$ 2.43	$ 0.85
NET INCOME PER SHARE—DILUTED	$ 1.27	$ 2.32	$ 0.80
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC	2,219,155	2,171,799	2,128,851
WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED	2,296,567	2,270,625	2,248,771

See notes to consolidated financial statements and independent auditors' report

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, 2013	**2,094**	**$ -**	**$ 171,661**	**$ (164,193)**	**$ 7,468**
Restatement of income tax matters (Note 1)				4,177	4,177
Balances—June 30, 2013 (restated)	**2,094**		**171,661**	**(160,016)**	**11,645**
Shares issued under 2005 Stock Plan	42	-	-	-	-
Stock based compensation	-	-	825	-	825
Net income (restated)	-	-	-	1,801	1,801
Balances—June 30, 2014 (restated)	**2,136**	**-**	**172,486**	**(158,215)**	**14,271**
Shares issued under 2005 Stock Plan	35	-	-	-	-
Stock based compensation	-	-	546	-	546
Stock option exercise	9	-	49	-	49
Net income (restated)	-	-	-	5,275	5,275
Balances- June 30, 2015 (restated)	**2,180**	**-**	**173,082**	**(152,940)**	**20,142**
Shares issued under 2005 Stock Plan	36	-	-	-	-
Stock based compensation	-	-	736	-	736
Stock option exercise	5	-	20	-	20
Cash dividends declared and paid	-	-	(222)	-	(222)
Net income	-	-	-	2,915	2,915
Balances- June 30, 2016	**2,221**	**$ -**	**$ 173,616**	**$ (150,023)**	**$ 23,593**

See notes to consolidated financial statements and independent auditors' report

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

	Years Ended June 30, 2016	2015 (restated)	2014 (restated)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,915	$ 5,275	$ 1,801
Adjustments to reconcile net income to net cash provided by (used in) operations:			
Depreciation and amortization	180	140	99
Non-cash interest	188	513	695
Provision for bad debt	613	161	250
Provision for work in process losses	81	-	98
Stock based compensation	736	546	825
Deferred income taxes	1,399	155	573
Changes in operating assets and liabilities:			
Accounts receivable, net	(11,540)	(9,221)	(10,806)
Work in process, net	(648)	(3,869)	(197)
Prepaid expenses and other current assets	(172)	(1,080)	123
Other non current assets	(3,747)	2,990	(6,166)
Accounts payable	10,268	8,646	3,564
Accrued expenses	1,110	129	861
Deferred revenue	(228)	51	(1,047)
Other non current liabilites	-	(2,445)	1,097
Total adjustments	(1,759)	(3,284)	(10,031)
NET CASH PROVIDED BY (USED IN) OPERATIONS	1,156	1,991	(8,230)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(97)	(337)	(106)
NET CASH USED IN INVESTING ACTIVITIES	(97)	(337)	(106)
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayment of) proceeds from prior line of credit	-	(11,500)	3,500
Borrowings under new line of credit, net	7,600	16,000	-
(Repayment of) proceeds from notes payable	(8,141)	(6,129)	5,000
Deferred financing costs paid	(111)	(22)	(31)
Proceeds from stock option exercises	20	49	-
Payment of dividends	(222)	-	-
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(854)	(1,602)	8,469
NET INCREASE IN CASH	205	52	133
CASH AT BEGINNING OF YEAR	2,636	2,584	2,451
CASH AT END OF YEAR	$ 2,841	$ 2,636	$ 2,584

See notes to consolidated financial statements and independent auditors' report

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

	Years Ended June 30,		
	2016	2015 (restated)	2014 (restated)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 980	$ 665	$ 305
Cash paid for income taxes	$ 183	$ 1,079	$ 66
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:			
Conversion of accrued interest into notes payable	$ 79	$ 349	$ 472

See notes to consolidated financial statements and independent auditors' report

(Dollars in thousands, except per share amounts)

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.

Restatement—The Company has restated its consolidated financial statements for the years ended June 30, 2015 and 2014 in addition to the retained earnings balance as of June 30, 2013, to correct the historical income tax accounting of non-cash interest and income tax deductions associated with paid-in-kind interest on the Senior Notes (Note 4) and the common stock warrants issued with those notes in 2006. The June 30, 2013 retained earnings increase of $4,177 represents the cumulative income tax benefit in fiscal years 2006 to 2013, with a corresponding increase in non-current deferred tax assets. The impact of this restatement for the years ended June 30, 2015 and 2014 is as follows:

	Year Ended June 30,	
	2015	**2014**
Increase (decrease) in income tax provision	$ 1,182	$ (23)
Increase (decrease) in net income	$ (1,182)	$ 23
Increase in deferred income taxes	$ 2,787	$ 23
Increase in income tax receivable	$ 232	$ -

The adjustments to correct the identified errors have no impact on the Company's cash flows, liquidity, debt covenants or executive incentive plans.

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.

Certain reclassifications have been made to the 2015 and 2014 consolidated statements of cash flows and the statement of operations to conform to the current year presentation.

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 evidence of a sale transaction, primarily purchase orders and purchase authorization letters, 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 on a gross basis as it (i) acts as principal in the transaction because it is the primary obligor in the arrangement; (ii) it assumes inventory risk if the product is lost in transit or is returned by the customer; (iii) it has supplier discretion and sets the price of the product charged to the customer, (iv) it assumes the credit risk for the amounts billed and (v) it works closely with the customer to determine their hardware and software specifications. Freight billed to customers is included in revenue and the related freight costs are in cost of goods sold. Revenues are reported net of any sales based taxes assessed by governmental authorities that are imposed on and concurrent with sales transactions.

The Company also sells certain products for which it acts as agent. Products in this category include third party manufactured services and third party maintenance on hardware. These sales do not meet the criteria for gross revenue recognition, and thus are recognized on a net basis at the time of sale. The cost paid to the vendor or third party provider is recorded as a reduction to revenue, resulting in net sales being equal to the gross profit on the transaction. For the years ended June 30, 2016, 2015 and 2014, revenues recognized on a net basis totaled approximately $1,689, $3,175, and $1,952, respectively.

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 into 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. Amounts are immaterial for all periods presented.

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 $196, $240, and $193, in fiscal years 2016, 2015 and 2014, respectively.

Concentration of Risk—The State of New York and its agencies in the aggregate accounted for 52% of the Company's revenues during the fiscal year 2016, 52% during fiscal year 2015, and 53% during fiscal year 2014. At June 30, 2016, one customer accounted for approximately 26% of the gross accounts receivable balance, and at June 30, 2015, one customer accounted for approximately 15% of the gross accounts receivable balance.

Sales of products manufactured by two manufacturers accounted for approximately 73% of product revenue and 59% of total revenues during fiscal 2016, 61% of product and 47% of total revenues during fiscal year 2015, and 67% of product and 51% of total revenues during fiscal year 2014. 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 one commercial bank. 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. Management considers many factors when evaluating and estimating the Company's 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, and as of June 30, 2016 and 2015, related allowances totaled $81 and $12, respectively.

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 amount of the revolving line of credit approximates fair value as it carries a market interest rate. 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.

(Dollars in thousands, except per share amounts)

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 2016, 2015 and 2014 were $4.03, $4.06, and $3.32 per share, respectively, using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2016	2015	2014
Risk-free interest rate	1.53%	1.61%	1.31%
Volatility	49.72%	74.60%	59.24%
Forfeiture rate	5.00%	5.00%	3.00%
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. Historically, the Company has not paid dividends on any regular basis.. For all stock option grants in the periods presented above, no dividends were paid preceding the grant date, therefore the dividend yields are zero. Expected volatility and forfeiture rates are principally based on the Company's historical experience.

The Company recorded approximately $736, $546, and $825, in stock based compensation expense as a general and administrative expense for the years ended June 30, 2016, 2015 and 2014, respectively; of which $216, $216, and $250 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, 2016, 2015 or 2014, and the Company has no elements of accumulated other comprehensive income as of June 30, 2016 or 2015.

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, 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,		
	2016	2015	2014
Weighted average shares- basic.	2,219,155	2,171,799	2,128,851
Dilutive options	77,412	98,826	119,920
Weighted average shares- diluted	2,296,567	2,270,625	2,248,771

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.

(Dollars in thousands, except per share amounts)

Management is currently evaluating the appropriate transition method and any further impact of this guidance on its consolidated financial statements and related disclosures

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 amortize the deferred debt issuance costs ratably 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.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which changes the accounting for leases, requiring lessees to recognize the assets and liabilities that arise from all leases. Lessor accounting, however, has remained largely unchanged, with certain exceptions to allow for better alignment of lessee and lessor accounting as well as key aspects of revenue recognition guidance. The new lease standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with adoption to use certain transition relief. The new standard will be effective for reporting periods beginning after December 15, 2018 with early application permitted. The Company is currently evaluating the impact of the adoption of the updated standard.

NOTE 2. COMPOSITION OF CERTAIN FINANCIAL STATEMENT CAPTIONS

Accounts Receivable:

	June 30, 2016	June 30, 2015
Accounts receivable	$ 63,389	$ 51,951
Less: allowance for doubtful accounts	(995)	(484)
	$ 62,394	$ 51,467

As of June 30, 2016 and 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, 2016, the Company wrote off $102 of accounts deemed uncollectible, and the reserve was increased by $613 based on management's periodic review. During the year ended June 30, 2015, the Company wrote off and adjusted $74 for accounts deemed uncollectible, and the reserve was increased by $161 based on periodic review.

Prepaid Expenses and Other Current Assets:

	June 30, 2016	June 30, 2015 (restated)
Income taxes receivable	$ 1,084	$ 1,048
Other	571	434
	$ 1,655	$ 1,482

(Dollars in thousands, except per share amounts)

Property and Equipment:

	June 30, 2016	June 30, 2015
Furniture and fixtures	$ 295	$ 233
Computer equipment	544	527
Leasehold improvements	233	214
	1,072	974
Less: accumulated depreciation	(685)	(505)
	$ 387	$ 469

Depreciation expense for the years ended June 30, 2016, 2015 and 2014 amounted to approximately $180, $140, and $99, respectively.

Other Non Current Assets:

	June 30, 2016	June 30, 2015
Long-term accounts receivable, net	$ 9,103	$ 5,308
Other	157	168
	$ 9,260	$ 5,476

Long-term accounts receivable do not bear interest, are not collateralized, and at June 30, 2016, are due between July 2017 and October 2018. At June 30, 2016 and June 30, 2015, imputed interest of $104 and $60, respectively, was recorded against the long-term accounts receivable.

Accrued Expenses:

	June 30, 2016	June 30, 2015
Compensation and benefits	$ 4,105	$ 3,311
Sales and use tax	381	159
Other	175	105
	$ 4,661	$ 3,575

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, 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% and the line had an unused commitment fee of 0.25%. Interest expense on this line of credit was $310 for the year ended June 30, 2014. 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.

(Dollars in thousands, except per share amounts)

On June 30, 2014, the Company entered into a $20,000 revolving line of credit agreement (the "2014 Facility") with a new bank. Borrowings under the 2014 Facility accrue interest at the higher of the Wall Street Journal Prime Rate plus 0.75%, or 4.0% (an effective rate of 4.25% at June 30, 2016). 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).

On September 30, 2015, the Company and the bank amended and restated the 2014 Facility to increase the revolving line of credit to $30,000 and to concurrently permit the use of funds to pay in full the then outstanding Senior Notes (Note 4). On September 30, 2015, the Company borrowed $10,000 to repay in full the principal and interest outstanding on the Senior Notes which totaled $7,641. The maturity date of the 2014 Facility was extended to September 30, 2018. All other terms of the 2014 Facility remained unchanged.

At June 30, 2016 and June 30, 2015, the outstanding balance of the 2014 Facility was $23,600 and $16,000, respectively. At June 30, 2016, $6,400 was available. The Company is in compliance with all requirements and covenants at June 30, 2016. Interest expense on the 2014 Facility for the years ended June 30, 2016 and 2015 was $998 and $692, respectively.

NOTE 4. NOTES PAYABLE

The following is a summary of the Company's debt balances and activity for the year ended June 30, 2016:

	June 30, 2015 Net Book Value	Repayments	Discount Amortization	Interest Accrued	June 30, 2016 Net Book Value
Senior Secured Notes, net	$ 7,996	$ (8,141)	$ 66	$ 79	$ -

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

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" were subordinate to the 2014 Facility.

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 of 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 was payable in equal monthly installments on the last day of each month beginning on March 31, 2015, with the balance due on March 31, 2016. The interest rate on the Senior Notes remained 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. During the year ended June 30, 2016, the Company made scheduled payments of $500 on the Senior Notes, and then on September 30, 2015 in conjunction with the expansion and amendment of the 2014 Facility (Note 3), the Company repaid in full, without penalty, the balance on the Senior Notes in the amount of $7,641.

The Company had elected to pay contractual interest on the Senior Notes in kind and recorded an aggregate interest charge of $79, $349, and $339 for the years ended June 30, 2016, 2015, and 2014, respectively, of which, $62, $275, and $268, respectively, is related to the interest on the note payable to Lloyd I. Miller, III for these period ends.

In connection with the early full repayment of the Senior Notes on September 30, 2015, the remaining unamortized balance of $51 of the debt discount was accelerated and expensed. For the years ended June 30, 2016 and 2015, $66 and $87, respectively, of interest expense was recognized in the accompanying consolidated statements of operations related to the Senior Note discount.

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.

(Dollars in thousands, except per share amounts)

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, 2016, 2015, and 2014 amounted to $830, $801, and $607, respectively. At June 30, 2016, future minimum rental payments under non-cancelable operating leases are as follows:

Year Ending June 30,	
2017	$ 682
2018	582
2019	345
2020	161
2021	9
	$ 1,779

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, 2016, 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 $490 in cash or an unrestricted stock grant at the executive's discretion. Upon termination without cause, the executives will receive up to $555, payable in equal payments over one year, in accordance with the Company's regular practice.

NOTE 6. STOCKHOLDERS' EQUITY

As of June 30, 2016, 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 2,221,056 shares issued and outstanding.

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).

Equity Transactions Completed During the Year Ended June 30, 2016

On June 30, 2016, the Company granted 43,334 shares of restricted stock to certain employees and non-employee directors under the 2015 Plan (Note 7), all of which have been earned as of June 30, 2016. 40,000 of the shares granted to employees were valued at $480 and issuable immediately, with the remaining 3,334 granted to non-employee directors valued at $40 and issuable as of July 1, 2016. As of June 30, 2016, 43,334 of the shares had not yet been issued by the Company's transfer agent and accordingly were classified as subscribed stock at June 30, 2016. Total stock based compensation of $736 for the year ended June 30, 2016 includes the $520 value of restricted stock issued to employees and directors, as well as $216 for stock options issued to employees. During the year ended June 30, 2016, 4,500 common stock options were exercised for cash (Note 7).

On May 23, 2016, the Company's Board of Directors declared a special cash dividend of $0.10 per share, payable to holders of record as of June 2, 2016. On June 13, 2016, the total dividend paid was $222 on the outstanding 2,221,056 shares of common stock.

(Dollars in thousands, except per share amounts)

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 one active stock option plan to grant options to purchase common stock to employees and certain directors of the Company and certain other individuals. The plan authorizes the Company to issue or grant qualified and non-qualified options to purchase up to 150,000 shares of its common stock. As of June 30, 2016, there were approximately 34,190 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, provided 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 and 2016, 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, provided 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 was administered by a committee of two or more members of the Board of Directors. At June 30, 2016, the 2006 Plan is expired.

On September 15, 2015, the Company's Board of Directors approved the 2015 Stock Incentive Plan (the "2015 Plan"), which provides for the grant of up to an aggregate 150,000 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.

The terms of the awards are subject to the provisions in an option agreement, consistent with the terms of the 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, 2016, 2015 and 2014 is as follows:

Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
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)	-	-

(Dollars in thousands, except per share amounts)

Outstanding at June 30, 2015	305,774	5.43	6.69	-
Exercisable at June 30, 2015	203,204	4.89	5.59	-
Granted	95,000	9.10	-	-
Exercised	(4,500)	4.50	-	-
Forfeited or expired	(25,020)	(8.72)	-	-
Outstanding at June 30, 2016	371,254	$ 6.16	6.41	$ 2,196
Exercisable at June 30, 2016	246,383	$ 5.17	5.17	$ 1,709

The weighted-average fair value of options granted to employees during fiscal 2016, 2015, and 2014 was $4.03, $4.06, and $3.32, 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, 2016, total unrecognized estimated compensation cost related to non-vested stock options granted prior to that date was $333, which is expected to be recognized over 1.95 years.

During the year ended June 30, 2016, 4,500 stock options were exercised for cash proceeds of $20. The weighted average share price on the date of exercise was $9.10 and the intrinsic value of the options exercised was $21. For the year ended June 30, 2015, 8,700 stock options were exercised for cash proceeds of $49. There were no options exercised during the year ended June 30, 2014. 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 fiscal 2016, the Company granted 43,334 shares of restricted stock to certain employees and non-employee directors under the 2015 Plan, all of which have been earned as of June 30, 2016. The total expense associated with these awards was $520 and was recorded as a general and administrative expense for the year ended June 30, 2016.

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.

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, 2016 and 2015, the Company accrued $279 and $275, respectively, in discretionary employer matching contributions to the plan, and paid $272, $281, and $283 during the years ended June 30, 2016, 2015 and 2014, 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 establishes 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.

(Dollars in thousands, except per share amounts)

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

	Year ended June 30,		
	2016	2015 (restated)	2014 (restated)
Current:			
Federal	$ 99	$ (2,407)	$ 95
State	46	144	56
	145	(2,263)	151
Deferred:			
Federal	1,652	(300)	1,085
State	(253)	455	585
	1,399	155	1,670
	$ 1,544	$ (2,108)	$ 1,821

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,		
	2016	2015 (restated)	2014 (restated)
Statutory rate	34.0 %	34.0%	34.0%
State income tax rate, net of Federal benefit	5.4	7.0	7.5
Section 382 limitations	-	51.1	-
Unrecognized tax benefits	-	(166.6)	0.7
State income tax rate changes	(9.2)	-	-
Other	3.0	5.6	6.6
Effect of permanent differences	1.4	2.3	1.5
Effective tax rate	34.6 %	(66.6)%	50.3%

(Dollars in thousands, except per share amounts)

Deferred tax assets consist of the following:

	June 30, 2016	June 30, 2015 (restated)
Net operating loss carryforwards	$3,538	$ 5,100
Allowance for doubtful accounts	395	184
Accrued interest expense	-	(25)
Depreciation	(144)	(173)
Accrued compensation	1,131	856
Amortization	843	1,046
Stock based compensation	670	553
Other	423	715
	$ 6,856	$ 8,256

	June 30, 2016	June 30, 2015 (restated)
Current deferred tax assets	$ 1,550	$ 1,422
Non-current deferred tax assets	5,306	6,834
	$ 6,856	$ 8,256

As of June 30, 2016, the Company has net operating losses of approximately $7.9 million and $16.6 million 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 2024 and 2015, 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 2013-2015 are still open for examination by Federal tax authorities and tax years 2011-2015 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 (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. As of June 30, 2016 and 2015, the Company has no unrecognized tax benefits.

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

On September 21, 2016, the Company's Board of Directors declared a cash dividend of $0.15 per share, payable on October 13, 2016 to holders of record as of October 3, 2016. The Company has performed an evaluation of subsequent events through September 22, 2016, which is the date the consolidated financial statements were available for issuance.