

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

ALANCO TECHNOLOGIES INC  
Form 10-Q  
May 17, 2010

ALANCO TECHNOLOGIES, INC.  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2010  
-----

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-9347  
-----

ALANCO TECHNOLOGIES, INC.  
-----

(Exact name of registrant as specified in its charter)

Arizona  
-----

(State or other jurisdiction of incorporation or organization)

86-0220694  
-----

(I.R.S. Employer Identification No.)

15575 N. 83rd Way, Suite 3, Scottsdale, Arizona 85260  
(Address of principal executive offices) (Zip Code)

(480) 607-1010  
-----

(Registrant's telephone number)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements in the past 90 days.    X    Yes    \_\_\_    No

-----  
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer    \_\_\_    Accelerated filer    \_\_\_

Non-accelerated file    \_\_\_    Smaller reporting company    X

-----  
(Do not check if a smaller reporting company)

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

\_\_\_\_\_ Yes                      X                      No

-----

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

As of May 11, 2010 there were 36,224,100 shares, net of treasury shares,

-----  
of common stock outstanding.  
-----

1

### ALANCO TECHNOLOGIES, INC. INDEX

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of March 31, 2010 (Unaudited) and June 30, 2009	4
Condensed Consolidated Statements of Operations (Unaudited) For the three months ended March 31, 2010 and 2009	5
Condensed Consolidated Statements of Operations (Unaudited) For the nine months ended March 31, 2010 and 2009	6
Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited) For the nine months ended March 31, 2010	7
Condensed Consolidated Statements of Cash Flows (Unaudited) For the nine months ended March 31, 2010 and 2009	8
Notes to Condensed Consolidated Financial Statements (Unaudited)	10
Note A - Basis of Presentation and Recent Accounting Pronouncements	
Note B - Stock-Based Compensation	
Note C - Inventories	
Note D - Assets Held For Sale	
Note E - Deferred Revenue	
Note F - Loss per Share	
Note G - Equity	
Note H - Related Party Transactions	
Note I - Line of Credit and Term Loan	
Note J - Litigation	
Note K - Subsequent Events	
Note L - Liquidity	
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28
Item 4T. Controls and Procedures	28

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

### PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	29
Item 2.	Unregistered Sale of Equity Securities and Use of Proceeds	30
Item 4.	Submission of Matters to a Vote of Security Holders	30
Item 6.	Exhibits	31

2

#### ALANCO TECHNOLOGIES, INC.

Forward-Looking Statements: Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "could," "target," "potential," "is likely," "will," "expect" and similar expressions, as they relate to the Company are intended to identify forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements are based on the expectations of management when made and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors, among others, that could affect the outcome of the Company's forward-looking statements: general economic and market conditions; reduced demand for information technology equipment; competitive pricing and difficulty managing product costs; development of new technologies which make the Company's products obsolete; rapid industry changes; failure by the Company's suppliers to meet quality or delivery requirements; the inability to attract, hire and retain key personnel; failure of an acquired business to further the Company's strategies; the difficulty of integrating an acquired business; undetected problems in the Company's products; the failure of the Company's intellectual property to be adequately protected; unforeseen litigation; unfavorable result of current pending litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders and to remain in compliance with financial loan covenants and other requirements under current banking agreements; the ability to maintain satisfactory relationships with suppliers; federal and/or state regulatory and legislative actions; customer preferences and spending patterns; the ability to implement or adjust to new technologies and the ability to secure and maintain key contracts and relationships. New risk factors emerge from time to time and it is not possible to accurately predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Quarterly Report or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

3

ALANCO TECHNOLOGIES, INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2010 AND JUNE 30, 2009

	March 31, 2010	June 30, 2009
	-----	-----
ASSETS		
	(unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 214,100	\$ 413,500
Accounts receivable, net	3,061,500	2,303,000
Inventories, net	1,024,700	1,354,800
Assets held for sale	6,593,200	7,574,100
Prepaid expenses and other current assets	501,500	631,100
	-----	-----
Total current assets	11,395,000	12,276,500
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	246,300	320,900
	-----	-----
OTHER ASSETS		
Goodwill, net	12,575,400	12,575,400
Other intangible assets, net	877,900	1,201,100
Other assets	223,500	344,900
	-----	-----
Total other assets	13,676,800	14,121,400
	-----	-----
TOTAL ASSETS	\$ 25,318,100	\$ 26,718,800
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 2,790,000	\$ 2,539,300
Dividends payable	29,600	106,500
Notes payable, current	2,631,600	1,716,500
Capital leases, current	17,300	15,100
Customer advances	120,400	192,900
Liabilities related to assets held for sale	1,721,200	2,248,400
Deferred revenue, current	329,800	248,300
	-----	-----
Total current liabilities	7,639,900	7,067,000
	-----	-----
LONG TERM LIABILITIES		
Notes payable, long term	4,200,000	3,394,700
Capital leases, long term	9,900	23,200
Deferred revenue, long term	290,600	256,000
	-----	-----
TOTAL LIABILITIES	12,140,400	10,740,900
	-----	-----
Preferred Stock - Series B, 108,400 and 100,700 shares issued and outstanding, respectively	1,071,600	994,500
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred - Series D - 500,000 shares authorized, 134,200 and 285,500 shares outstanding, respectively	1,333,800	2,847,700
Preferred - Series E Convertible - 750,000 shares authorized, 235,000 and 15,000 shares		

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

outstanding, respectively	977,300	67,500
Common Stock - 35,511,300 and 32,447,600 shares outstanding, net of 16,000 shares of Treasury Stock outstanding at both March 31, 2010 and June 30, 2009	106,875,300	105,570,200
Accumulated deficit	(97,080,300)	(93,502,000)
	-----	-----
Total shareholders' equity	12,106,100	14,983,400
	-----	-----
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 25,318,100	\$ 26,718,800
	=====	=====

See accompanying notes to the condensed consolidated financial statements

4

### ALANCO TECHNOLOGIES, INC.

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

	2010	2009
	-----	-----
NET SALES	\$ 3,825,800	\$ 3,758,000
Cost of goods sold	2,188,400	2,784,100
	-----	-----
GROSS PROFIT	1,637,400	973,900
Selling, general and administrative expense	1,437,400	1,182,000
Corporate expense	227,100	309,100
Amortization of stock-based compensation	72,500	113,100
Depreciation and amortization	133,000	129,400
	-----	-----
OPERATING LOSS	(232,600)	(759,700)
OTHER INCOME & (EXPENSES)		
Interest expense, net	(277,400)	(190,600)
Other income (expense), net	(800)	(500)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(510,800)	(950,800)
LOSS FROM DISCONTINUED OPERATIONS	(510,000)	(56,900)
	-----	-----
NET LOSS	(1,020,800)	(1,007,700)
Preferred stock dividends	(43,600)	(127,200)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (1,064,400)	\$ (1,134,900)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Continuing operations	\$ (0.01)	\$ (0.03)
	=====	=====
- Discontinued operations	\$ (0.01)	\$ (0.00)
	=====	=====
- Preferred stock dividends	\$ (0.00)	\$ (0.00)
	=====	=====
- Net loss per share attributable to common shareholders	\$ (0.03)	\$ (0.04)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
- Basic and diluted	34,654,400	31,932,200

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

=====

See accompanying notes to the condensed consolidated financial statements

5

ALANCO TECHNOLOGIES, INC.

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

	2010	2009
	-----	-----
NET SALES	\$ 10,430,000	\$ 10,460,300
Cost of goods sold	5,935,500	7,739,500
	-----	-----
GROSS PROFIT	4,494,500	2,720,800
Selling, general and administrative expense	4,122,400	3,843,800
Corporate expense	657,700	616,100
Amortization of stock-based compensation	311,400	339,400
Depreciation and amortization	403,100	365,800
	-----	-----
OPERATING LOSS	(1,000,100)	(2,444,300)
OTHER INCOME & (EXPENSES)		
Interest expense, net	(657,300)	(702,700)
Other income (expense), net	(2,700)	(185,300)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(1,660,100)	(3,332,300)
LOSS FROM DISCONTINUED OPERATIONS	(1,616,400)	(157,800)
	-----	-----
NET LOSS	(3,276,500)	(3,490,100)
Preferred stock dividends	(301,800)	(347,300)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (3,578,300)	\$ (3,837,400)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Continuing operations	\$ (0.05)	\$ (0.11)
	=====	=====
- Discontinued operations	\$ (0.05)	\$ (0.00)
	=====	=====
- Preferred stock dividends	\$ (0.01)	\$ (0.01)
	=====	=====
- Net loss per share attributable to common shareholders	\$ (0.11)	\$ (0.12)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING		
- Basic and diluted	33,720,200	31,669,000
	=====	=====

See accompanying notes to the condensed consolidated financial statements

6

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

# Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

FOR THE NINE MONTHS ENDED MARCH 31, 2010 (unaudited)

	COMMON STOCK		SERIES D PREFERRED STOCK		SERIES E PREFERRED S	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	A
Balances, June 30, 2009	32,447,600	\$105,570,200	285,500	\$2,847,700	15,000	\$ 6
Shares issued for services	30,000	14,800	-	-	-	
Shares issued for payment on notes and interest	2,542,800	816,000	-	-	-	
Value of stock based compensation	-	341,800	-	-	-	
Private offering, net of expenses	200,000	52,200	-	(1,300)	220,000	90
Series D Preferred dividends, paid as indicated	290,900	105,300	17,800	178,500	-	
Series D Preferred Stock converted to debt	-	-	(169,100)	(1,691,100)	-	
Series B Preferred dividends, paid in kind	-	-	-	-	-	
Series D Preferred dividends, paid or accrued	-	-	-	-	-	
Series E preferred dividends, paid or accrued	-	-	-	-	-	
NASDAQ listing fees and other	-	(25,000)	-	-	-	
Net loss	-	-	-	-	-	
<b>Balances, March 31, 2010</b>	<b>35,511,300</b>	<b>\$106,875,300</b>	<b>134,200</b>	<b>\$1,333,800</b>	<b>235,000</b>	<b>\$ 97</b>

See accompanying notes to the consolidated financial statements

7

## ALANCO TECHNOLOGIES, INC.

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

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$ (3,276,500)	\$ (3,490,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	478,200	442,400
Stock-based compensation	341,800	360,800
Stock issued for services	14,800	23,600
Treasury share adjustment related to TSIN acquisition	-	187,500
Loss on sale of data storage assets	48,700	-
Impairment charge	325,000	-
Notes payable/receivable write-off associated with TSIN settlement, net	-	(284,500)
Interest converted to equity	62,500	-
Fees and interest paid with debt	108,100	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(758,500)	321,600
Inventories, net	370,500	1,698,400
Costs in excess of billings and estimated		

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

earnings on uncompleted contracts	56,600	(373,200)
Prepaid expenses and other current assets	186,200	(738,100)
Accounts payable and accrued expenses	(445,100)	(424,800)
Deferred revenue	(13,700)	101,900
Billings and estimated earnings in excess of costs on uncompleted contracts	(146,900)	(112,600)
Customer advances	677,500	10,200
Other assets	143,600	278,400
	-----	-----
Net cash used in operations	(1,827,200)	(1,998,500)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(15,200)	(220,500)
Cash received for sale of net data storage assets	61,500	-
Patent renewal and other	-	(12,700)
	-----	-----
Net cash provided (used) in investing activities	\$ 46,300	\$ (233,200)
	-----	-----

See accompanying notes to the condensed consolidated financial statements

8

ALANCO TECHNOLOGIES, INC.

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

	2010	2009
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) advances on line of credit	162,700	1,250,000
Repayment on borrowings	(305,500)	(1,627,600)
Proceeds from debt	812,700	500,000
Repayment of capital lease	(11,100)	(8,300)
Proceeds from sale of equity instruments	965,500	2,049,200
Cash dividends paid	(17,800)	(125,000)
Other	(25,000)	(44,300)
	-----	-----
Net cash provided by financing activities	1,581,500	1,994,000
	-----	-----
NET DECREASE IN CASH	(199,400)	(237,700)
CASH AND CASH EQUIVALENTS, beginning of period	413,500	726,900
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 214,100	\$ 489,200
	=====	=====
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Net cash paid during the period for interest	\$ 323,300	\$ 261,100
	=====	=====
Non-Cash Activities:		
Value of shares issued for services	\$ 14,800	\$ 65,800
	=====	=====
Treasury stock adjustment related to TSIN		

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

acquisition	\$ -	\$ 187,500
	=====	=====
Write-off of contingent notes payable - TSIN settlement	\$ -	\$ 314,100
	=====	=====
Write-off of notes receivable-TSIN settlement	\$ -	\$ 29,600
	=====	=====
Shares issued in acquisition	\$ -	\$ 72,900
	=====	=====
Fixed assets purchased with a capital lease	\$ -	\$ 50,000
	=====	=====
Value of stock & warrants issued for line of credit amendment	\$ -	\$ 62,400
	=====	=====
Value of stock issued for payment of notes	\$ 748,700	\$ -
	=====	=====
Value of stock issued for payment of interest	\$ 67,300	\$ -
	=====	=====
Dividends payable	\$ 29,600	\$ 103,600
	=====	=====
Series B preferred stock dividend, paid in kind	\$ 77,000	\$ 69,600
	=====	=====
Series D preferred stock dividend, paid in kind	\$ 178,500	\$ -
	=====	=====
Series D preferred stock dividend, paid in common	\$ 105,300	\$ 49,100
	=====	=====
Series D preferred stock converted to line of credit	\$ 1,691,100	\$ -
	=====	=====
Net data storage assets sold	\$ 110,200	\$ -
	=====	=====

See accompanying notes to the condensed consolidated financial statements

9

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A - Basis of Presentation and Recent Accounting Pronouncements

Alanco Technologies, Inc., an Arizona corporation ("Alanco" or "Company"), has in recent years reported three business segments: Data Storage, Wireless Asset Management and RFID Technology. During fiscal year ended June 30, 2009, the Company implemented a plan to divest the operations of the Company's Data Storage segment and reinvest the proceeds into the Company's Wireless Asset Management and RFID Technology segments. The Company expanded its divestiture plan during the quarter ended September 30, 2009 to include the RFID Technology segment. During the current quarter ended March 31, 2010, the Company sold assets of its Data Storage segment. Accordingly, the "Assets Held for Sale" and "Liabilities Related to Assets Held for Sale" presented in the attached balance sheets as of March 31, 2010 consist of the RFID Technology segment and as of June 30, 2009 consist of both the Data Storage and the RFID Technology segment assets and liabilities.

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

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

These interim condensed consolidated financial statements should be read in conjunction with the Company's June 30, 2009 Annual Report filed on Form 10-K. Interim results are not necessarily indicative of results for a full year. Certain reclassifications may have been made to conform prior period financials to the presentation in the current reporting period. The reclassifications had no effect on net loss.

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

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

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

- o Expected term is determined under the simplified method using an average of the contractual term and vesting period of the award as appropriate statistical data required to properly estimate the expected term was not available;
- o Expected volatility of award grants made under the Company's plans is measured using the historical daily changes in the market price of the Company's common stock over the expected term of the award;
- o Risk-free interest rate is to approximate the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,

10

ALANCO TECHNOLOGIES, INC.

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

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

Long-lived assets, goodwill and intangible assets - The Company reviews carrying values at least annually or whenever events or circumstances indicate the carrying values may not be recoverable through projected discounted cash flows.

The Company will complete a formal evaluation of goodwill and other

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

intangible asset values as of June 30, 2010, the Company's fiscal year end. Although the Company is continuing to seek buyers for its RFID Technology segment, the Company recognizes that as of the filing of this Form 10-Q it has not received an acceptable offer, and that fact, coupled with the reduction in state governments revenue reducing their ability to fund projects, and the federal government action of putting on hold the significant DRO contract previously announced by the RFID Technology segment, it appears that a significant impairment charge may be required at year end. The Company cannot currently estimate an appropriate value of that potential impairment charge and therefore has not recorded an amount as of March 31, 2010. If no acceptable offer is received, or economic conditions do not improve, by June 30, 2010, the Company will reassess the goodwill value and may report an impairment charge of part, or all, of the \$5,076,700 goodwill value reported at March 31, 2010 for the RFID Technology segment.

Fair value of financial instruments - The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, and notes payable approximate fair value given their short-term nature or with regards to long-term notes payable based on borrowing rates currently available to the Company for loans with similar terms and maturities.

### Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended March 31, 2010, that are of significance, or potential significance, to us.

In October 2008, the EITF issued guidance which addresses the accounting when entities enter into revenue arrangements with multiple payment streams for a single deliverable or a single unit of accounting. The EITF could not reach agreement on the transition of this guidance. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

In October 2009, the FASB issued guidance on revenue recognition for multiple-deliverable revenue arrangements. The guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 and addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

In October 2009, the FASB issued guidance on certain revenue arrangements that include software elements which changes the accounting model for revenue arrangements that include both tangible products and software elements. The guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance is effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

In January 2010, the FASB issued guidance on the accounting for distributions to shareholders with components of stock and cash. The guidance is

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

effective for fiscal years ending after December 15, 2009. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

11

### ALANCO TECHNOLOGIES, INC.

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

In January 2010, the FASB issued guidance on improving disclosures about fair value measurements. The guidance is effective for fiscal years ending after December 15, 2009 and December 15, 2010. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

In February 2010, the FASB issued guidance stating that SEC filers need not disclose the date through which subsequent events have been evaluated. The guidance is effective upon issuance and the Company has adopted this guidance.

#### Note B - Stock-Based Compensation

The Company has several employee stock option and officer and director stock option plans that have been approved by the shareholders of the Company. The plans require that options be granted at a price not less than market on date of grant and are more fully discussed in our Form 10-K for the year ended June 30, 2009.

The Company uses the Black-Scholes option pricing model to estimate fair value of stock-based awards.

Assumptions for awards of options granted during the nine months ended March 31, 2010 were:

	Awards granted nine months ended March 31, 2010 -----
Dividend yield	0%
Expected volatility	62%
Weighted-average volatility	62%
Risk-free interest rate	4%
Expected life of options (in years)	3.75
Weighted average grant-date fair value	\$0.15

The following table summarizes the Company's stock option activity during the first nine months of fiscal 2010:

	Weighted Average Exercise Price Shares	Weighted Average Remaining Contractual Term (1)	Aggregate Intrinsic Value (2)
	Per Share	(1)	(2)
	-----	-----	-----
Outstanding July 1, 2009	6,044,700	\$0.94	3.41
Granted	1,415,000 (3)	\$0.50	4.36
Exercised	--	\$0.00	--
Forfeited or expired	(379,850)	\$0.98	--
	-----	-----	-----
Outstanding March 31, 2010	7,079,850	\$0.85	3.04
	=====	=====	=====
Exercisable March 31, 2010	5,939,500	\$0.89	2.95
	-----	-----	-----

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

=====

- (1) Remaining contractual term presented in years.
- (2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of the Company's common stock as of March 31, 2010, for those awards that have an exercise price below the closing price as of March 31, 2010 of \$0.23.
- (3) Options granted during the nine months ended March 31, 2010 totaling 1,415,000 shares had an aggregate fair value of \$205,200, or \$.15 per option share granted.

12

### ALANCO TECHNOLOGIES, INC.

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

##### Note C - Inventories

Inventories are recorded at the lower of cost or market. The composition of inventories as of March 31, 2010 and June 30, 2009 are summarized as follows:

	March 31, 2010	June 30, 2009
	-----	-----
	(unaudited)	
Raw materials and purchased parts	\$ 1,439,700	\$ 1,954,800
Work-in-process	--	--
	-----	-----
	1,439,700	1,954,800
Less reserves for obsolescence	(415,000)	(600,000)
	-----	-----
	\$ 1,024,700	\$ 1,354,800
	=====	=====

##### Note D - Assets Held For Sale

During fiscal year ended June 30, 2009, the Company implemented a plan to divest the operations of its Data Storage segment and reinvest the proceeds into the Company's Wireless Asset Management and RFID Technology segments. The Company expanded its divestiture plan during the quarter ended September 30, 2009 to include the RFID Technology segment. The Company entered into agreements with investment bankers to represent the Company in the sale of those assets and liabilities. During the quarter ended March 31, 2010, the Company executed an agreement to sell substantially all of the assets and liabilities of its Data Storage segment. Accordingly, the "Assets Held for Sale" and "Liabilities Related to Assets Held for Sale" presented in the attached balance sheets as of March 31, 2010 consist primarily of the RFID Technology segment and as of June 30, 2009 consist of both the Data Storage and the RFID Technology segment assets and liabilities. The reclassification of those segment assets and liabilities to "Assets Held for Sale" and "Liabilities Related to Assets Held for Sale" does not affect the reported net loss for the periods presented.

During the quarter ended March 31, 2010, the Company recorded a loss on the sale of approximately (\$48,700) reducing "Assets Held for Sale" values to reflect the Company's latest assessment of sales value of the Data Storage segment assets. The loss on sale was in addition to the \$325,000 impairment charge recorded during the quarter ended December 31, 2009. The loss on sale increased the Loss from Discontinued Operations for the quarter ended March 31, 2010. The Company is continuing to operate the RFID Technology segment and

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

believes the net asset value recorded for the business segment is appropriate. However, at March 31, 2010, a firm acceptable offer has not yet been received for the RFID Technology segment assets and liabilities.

The operating results for Assets Held for Sale (Data Storage segment and RFID Technology segment) for the nine months and three months ended March 31, 2010 and 2009 were as follows:

13

### ALANCO TECHNOLOGIES, INC.

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

##### Operating Results -Assets Held for Sale

	Nine Months Ended March 31,		Three Months Ended March 31	
	2010	2009	2010	2009
<b>Sales</b>				
Data Storage	\$ 974,100	\$ 1,777,200	\$ 144,600	\$ 454,500
RFID Technology	674,000	4,209,700	110,300	851,700
<b>Total Sales</b>	<b>\$ 1,648,100</b>	<b>\$ 5,986,900</b>	<b>\$ 254,900</b>	<b>\$ 1,306,200</b>
<b>Gross Profit</b>				
Data Storage	\$ 321,000	\$ 533,800	\$ 36,700	\$ 135,800
RFID Technology	86,500	1,272,600	(27,700)	428,200
<b>Total Gross Profit</b>	<b>\$ 407,500</b>	<b>\$ 1,806,400</b>	<b>\$ 9,000</b>	<b>\$ 564,000</b>
<b>Gross Margin</b>				
Data Storage	33.0%	30.0%	25.4%	29.9%
RFID Technology	12.8%	30.2%	-25.1%	50.3%
<b>Total Gross Margin</b>	24.7%	30.2%	3.5%	43.2%
<b>Selling, General and Adm. Expense</b>				
Data Storage	\$ 410,400	\$ 783,800	\$ 98,800	\$ 228,300
Data Storage impairment charge	325,000	-	-	-
RFID Technology	1,239,800	1,180,300	371,500	392,600
<b>Total SG&amp;A Expense</b>	<b>\$ 1,975,200</b>	<b>\$ 1,964,100</b>	<b>\$ 470,300</b>	<b>\$ 620,900</b>
<b>Income (Loss) from discontinued operations</b>				
Data Storage	\$ (414,400)	\$ (250,000)	\$ (62,100)	\$ (92,500)
Loss on Sale				
- Data Storage segment	(48,700)	-	(48,700)	-
RFID Technology	(1,153,300)	92,200	(399,200)	35,600
<b>Total discontinued operations</b>	<b>\$ (1,616,400)</b>	<b>\$ (157,800)</b>	<b>\$ (510,000)</b>	<b>\$ (56,900)</b>
<b>Capital Expenditures</b>				
Data Storage	\$ -	\$ 1,000	\$ -	\$ -
RFID Technology	5,600	83,000	-	40,500

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Total Capital Expenditures	\$ 5,600	\$ 84,000	\$ -	\$ 40,500
Depreciation and Amortization				
Data Storage	\$ 18,200	\$ 15,000	\$ 4,600	\$ 4,900
RFID Technology	57,100	61,600	14,800	22,100
Total Depreciation and Amortization	\$ 75,300	\$ 76,600	\$ 19,400	\$ 27,000

14

ALANCO TECHNOLOGIES, INC.

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

Assets Held for Sale at March 31, 2010 and June 30, 2009 consisted of the following:

Net Assets Held for Sales Table

	March 31, 2010	June 30, 2009
Assets held for sale		
Inventory, net		
Data Storage	\$ 50,000	\$ 527,200
RFID Technology	992,600	980,000
Total Inventory, net	\$ 1,042,600	\$ 1,507,200
Costs and estimated earnings in excess of billings		
RFID Technology	\$ 115,800	\$ 172,500
Total costs and estimated earnings in excess of billings	\$ 115,800	\$ 172,500
Prepaid expenses and other assets		
Data Storage	\$ -	\$ 67,100
RFID Technology	299,800	326,300
Total prepaid expenses and other assets	\$ 299,800	\$ 393,400
Property, plant and equipment, net		
Data Storage	\$ -	\$ 49,900
RFID Technology	58,300	94,800
Total property, plant and equipment, net	\$ 58,300	\$ 144,700
Goodwill		
Data Storage	\$ -	\$ 279,600
RFID Technology	5,076,700	5,076,700
Total goodwill	\$ 5,076,700	\$ 5,356,300
Total assets held for sale	\$ 6,593,200	\$ 7,574,100

Liabilities related to assets held for sale  
 Billings in excess of costs and estimated earnings

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

RFID Technology	\$ 98,700	\$ 245,500
	-----	-----
Total billings in excess of costs and estimated earnings	\$ 98,700	\$ 245,500
	=====	=====
Deferred warranty revenue and customer advances		
Data Storage	\$ -	\$ 231,200
RFID Technology	811,400	805,500
	-----	-----
Total deferred warranty revenue and customer advances	\$ 811,400	\$ 1,036,700
	=====	=====
Accounts payable and accrued expenses		
Data Storage	\$ -	\$ 199,900
RFID Technology	811,100	766,300
	-----	-----
Total accounts payable and accrued expenses	\$ 811,100	\$ 966,200
	=====	=====
Total liabilities related to assets held for sale	\$ 1,721,200	\$ 2,248,400
	=====	=====

The Company believes that cash and accounts receivable balances of entities held for sale will not be included in the anticipated sales and accordingly has included those balances in consolidated cash and accounts receivable balances presented.

15

ALANCO TECHNOLOGIES, INC.

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

If Discontinued Operations had been included in the continuing consolidated operating results for the three-months ended March 31, 2010, sales would have been \$4,080,700 compared to \$5,064,200 for the same period of the prior year, a decrease of \$983,500 or 19.4%. Gross profit would have increased to \$1,646,400, an increase of \$108,500 or 7.1%, when compared to the comparable quarter of the prior fiscal year. Selling, General and Administrative expenses would have increased \$34,500 to \$2,389,000 compared to \$2,354,500 in the quarter ended March 31, 2009. The operating loss would have been (\$742,600) compared to an operating loss of (\$816,600) for the same quarter of the prior year, a decrease of \$74,000 or 9.1%. The improved operating results were due primarily to improved margins (40.3% vs. 30.4%).

If Discontinued Operations had been included in the continuing consolidated operating results for the nine-months ended March 31, 2010, sales would have been \$12,078,100 compared to \$16,447,200 for the same period of the prior year, a decrease of \$4,369,100 or 26.6%. The change in sales is primarily due to decreases in both the Data Storage segment and the RFID Technology segment. Gross profit would have increased to \$4,902,000, an increase of \$374,900 or 8.3%, when compared to the comparable quarter of the prior fiscal year. Gross margins for the nine months ended March 31, 2010 improved to 40.6% from 27.5% for the same period of the prior year. Selling, General and Administrative expenses would have increased \$389,300 or 5.5% to \$7,518,500 from \$7,129,200 in the nine-months ended March 31, 2009. The operating loss would have been (\$2,616,500) compared to an operating loss of (\$2,602,100) for the same period of the prior year, an increase of \$14,400.

Effective February 28, 2010, the Company sold its Data Storage operation to an entity controlled by an investment banking group located in Los Angeles, California. The net book value of assets sold, net of liabilities assumed by buyer, amounted to \$110,200. The Company retained the accounts

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

receivables at February 28, 2010 and the agreement requires the buyer to collect accounts receivable balances and transmit proceeds collected to the Company in a timely manner. The sale, net of costs, resulted in a loss on sale of approximately (\$48,700).

The reclassification of the Data Storage and RFID Technology segments to Discontinued Operations does not affect the reported net loss for the periods presented as both segments' results are reflected in Income (Loss) From Discontinued Operations.

### Note E - Deferred Revenue

Deferred revenues at March 31, 2010 and June 30, 2009 consist of the following:

	March 31, 2010	June 30, 2009	
	-----	-----	
	(unaudited)		
Deferred revenue	\$ 620,400	\$ 504,300	
Less - current portion	(329,800)	(248,300)	
	-----	-----	
Deferred revenue - long term	\$ 290,600	\$ 256,000	
	=====	=====	

### Note F - Loss Per Share

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

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options, warrants, and convertible debt that are freely exercisable into common stock at less than the prevailing market price. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share. As of March 31, 2010, there were zero potentially dilutive securities included in the weighted average shares of common stock outstanding as inclusion of outstanding stock options, warrants, and stock issuable upon conversion of debt or preferred stock would be anti-dilutive.

16

ALANCO TECHNOLOGIES, INC.

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

### Note G - Equity

During the nine months ended March 31, 2010, the Company issued a total of 3,063,700 shares of Class A Common Stock. Included were 30,000 shares issued for services valued at \$14,800, 290,900 Common shares issued in payment of certain Series D Preferred Dividend obligations, 1,000,000 Common shares, valued at \$410,000, issued to Tenix Holding, Inc. for payment of a note and related interest, 542,800 Common shares, valued at \$166,500, issued to ComVest Capital, LLC in partial payment of notes payable and interest, and 1,200,000 Common shares (discussed below) issued to Seaside in connection with a stock purchase agreement discussed below. The Company also issued 17,800 shares, valued at \$178,500, of Class D Preferred Stock as payment in-kind of certain Series D Preferred Dividend obligations.

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

ComVest Capital LLC, pursuant to a December 30, 2009 term loan amendment discussed in the equity footnote above and in Note I - Line of Credit and Term Loan, elected during the nine months ended March 31, 2010 to convert a portion of its note into 542,800 shares of the Company's Class A Common Stock, valued at \$166,500. The average value per share of the conversion payments was approximately \$0.31 per share.

On January 18, 2010, the Company entered into a Common Stock Purchase Agreement (the "Stock Purchase Agreement") with Seaside 88, LP, a Florida limited partnership ("Seaside"), relating to the sale of up to 2,000,000 shares of the Company's common stock. The Stock Purchase Agreement requires the Company to issue and sell, and Seaside to purchase, up to 200,000 shares of Common Stock once every two (2) weeks, subject to the satisfaction of customary closing conditions, beginning on January 19, 2010 (the "Initial Closing") and ending on or about the date that is eighteen (18) weeks subsequent to the Initial Closing. The purchase price of the Common Stock at each closing is an amount equal to the lower of (i) the volume weighted average of actual trading prices of the Common Stock on the NASDAQ Capital Market (the "VWAP") for the ten consecutive trading days immediately prior to a Closing Date multiplied by 0.86 and (ii) the VWAP for the trading day immediately prior to a Closing Date multiplied by 0.88. The Stock Purchase Agreement provides that the Company may terminate the agreement at any time, so long as all other obligations of the Company to Seaside, if any, have been retired or satisfied in full, upon ten days' prior written notice to Seaside. Expenses related to the transactions amount to \$25,000 for the first closing and \$2,500 for each additional closing.

The Offering is made pursuant to the Company's shelf registration statement on Form S-3 (File No. 333-163288), which was declared effective by the Securities and Exchange Commission on December 30, 2009. The Company, pursuant to Rule 424(b) under the Securities Act of 1933, has filed with the Securities and Exchange Commission a prospectus supplement relating to the Offering.

During the quarter ended March 31, 2010, the Company sold 1.2 million Class A Common shares under the Seaside Agreement for a gross amount of \$298,600, or approximately \$.25 per share. Expense related to the transaction amount to approximately \$30,000. The amounts to be raised in subsequent closings are not estimable as of the date of this Form 10-Q.

In a separate transaction during the quarter ended March 31, 2010 with Seaside, Seaside loaned the Company \$350,000 pursuant to the Company's promissory note in said amount, payable on or before May 1, 2010 (the "Promissory Note"). If not sooner paid, the net proceeds of the sale of the Shares to Seaside will be applied to reduce the outstanding balance of the Promissory Note. The note has been paid in full.

The Company also completed a private offering to accredited investors during the nine months ended March 31, 2010, with the issuance of 220,000 shares of Series E Convertible Preferred Stock with a stated value of \$4.50 per share, receiving \$909,800, net of expenses. 6.8%, or 15,000, of the 220,000 Series E Preferred Shares were sold to a director and officer of the Company.

17

ALANCO TECHNOLOGIES, INC.

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

On October 6, 2009, the Company's board of directors modified certain warrants, scheduled to expire on November 16, 2009, to purchase 300,000 shares of the Company's Class A Common Stock (issued in a previous preferred stock offering) by reducing the exercise price from \$1.25 to \$.50 per share. Warrants

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

to purchase 90,000 Class A Common Shares, or 30%, were held by officers and directors of the Company. Prior to expiration, the Company extended the expiration date of the warrants to November 16, 2010.

During the nine months ended March 31, 2010, the Company declared and paid dividends-in-kind on the Company's Series B preferred shares through the issuance of 7,700 shares of Series B Preferred Stock valued at \$77,100. The Company's Preferred Stocks are more fully discussed in Form 10-K for the year ended June 30, 2009.

The value of employee stock-based compensation recognized for the nine months ended March 31, 2010 amounted to \$341,800, compared to \$360,800 recognized in the comparable nine-month period of the prior fiscal year. See Note A - Basis of Presentation and Recent Accounting Pronouncements for additional discussion of the Company's policies related to employee stock-based compensation.

On January 29, 2010, the Company received a letter from NASDAQ indicating that the Company was out of compliance with NASDAQ rules pertaining to voting rates relative to the issuance of 205,000 shares of Series E Preferred Stock that has a heavier voting rate than the Company's outstanding Class A Common Stock, in violation of NASDAQ's voting rights rule and policy set forth in Listing Rule 5640 and IM-5640 ("the Rule"). The Series E Preferred Stock issued allowed the investors to vote the number of votes equal to the number of Class A Common Shares into which the Series E Preferred Stock is convertible. Under the Rule the holder of Series E Preferred Stock would be limited to the lesser of (i) the number of shares of Class A Common Stock into which the Preferred Stock is convertible, or (ii) that number which is equal to the purchase price per share of Series E Convertible Preferred Stock paid by the shareholder to the Company divided by the closing consolidated bid price of the Class A Common Stock on the trading day immediately previous to the issuance of the shares of Series E Convertible Preferred Stock. The maximum voting effect, assuming the maximum votes by the Preferred E stockholders, would be less than 1% of the outstanding voting rights. The Company submitted a plan to regain compliance with the NASDAQ Rule which NASDAQ has accepted.

The Company has obtained amendments to the Series E Convertible Preferred Stock purchase agreements modifying the voting rights to comply with the Rule and has amended the designation of the Series E Preferred Stock to comply with the Rule.

During the quarter ended March 31, 2010, the Company completed an agreement with the Series D Preferred Stock shareholders to amend the Powers, Preferences, Rights and Limitations reducing dividends from 15% per annum to 5% and to provide a conversion feature into shares of the Company's Class A Common Stock at a rate of \$0.50 per share.

### Note H - Related Party Transactions

The Company has a line of credit agreement ("Agreement"), more fully discussed in the Company's Form 10-K for the year ended June 30, 2009, with a private trust controlled by Mr. Donald Anderson, a greater than five percent shareholder of the Company and member of the Company's Board of Directors. Mr. Anderson was also the holder of a \$500,000 unsecured note issued by StarTrak Systems LLC (a wholly owned subsidiary of the Company) and had disclosed beneficial ownership of approximately \$1.69 million in Series D Preferred Stock owned by the trust and several related corporations. During the quarter ended December 31, 2009, the Company amended the Agreement increasing the credit line to \$5.7 million and converting the \$1.69 million of Series D Preferred Stock, the \$500,000 note and approximately \$96,200 of accrued interest and fees into the line of credit balance. The transaction resulted in a \$5,537,300 balance due under the Agreement, leaving \$162,700 available which the company

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

had drawn as of December 31, 2009.

As discussed in the equity footnote above, during the nine months ended March 31, 2010, the Company issued a total of 290,900 shares of Class A Common Stock, valued at \$105,300 and 17,800 shares of Series D Preferred Stock, valued at \$178,500, in payment of Series D Preferred Stock dividends. Included were 22,000 shares of Class A Common Stock, or approximately 8%, valued at \$10,600, issued to officers and directors of the Company. Officers

18

ALANCO TECHNOLOGIES, INC.

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

and Directors of the Company were issued 14,200, or approximately 88%, of the 16,100 Series D Preferred shares issued as stock dividends. The Company also completed a private offering to accredited investors during the nine-months ended March 31, 2010, with the issuance of 220,000 shares of Series E Convertible Preferred Stock with a stated value of \$4.50 per share, receiving \$909,800, net of expenses. 6.8%, or 15,000, of the 220,000 Series E Preferred Shares were sold to a director and officer of the Company.

On October 6, 2009, the Company's board of directors modified certain warrants, scheduled to expire on November 16, 2009, to purchase 300,000 shares of the Company's Class A Common Stock (issued in a previous preferred stock offering) by reducing the exercise price from \$1.25 to \$.50 per share. Warrants to purchase 90,000 Class A Common Shares, or 30%, were held by officers and directors of the Company. Prior to expiration, the Company extended the expiration date of the warrants to November 16, 2010.

On March 31, 2010, the Company issued a \$100,000 note payable to an officer and director for an additional \$100,000 of working capital provided to the Company. The note is unsecured, bears interest at a rate of 12% and is payable within thirty (30) days following written demand for such payment by the Holder.

Note I - Line of Credit and Term Loan

During the quarter ended December 31, 2009, the Company modified its line of credit agreement with a private trust, initially entered into in June 2002, (the "Agreement") increasing the credit line from \$3.25 million to \$5.7 million. The Agreement amendment converted \$1,691,100 of Series D Preferred Stock held by the Lender or related entities, \$96,200 of accrued interest and fees due the trust and a \$500,000 term loan (issued by the Company's wholly owned subsidiary, StarTrak Systems LLC and held by the trust) into the line of credit balance, resulting in an available balance under the line of \$162,700. Under the Agreement, the Company must maintain a minimum balance due of at least \$2.5 million through the January 1, 2011 maturity date. Interest is accrued at the prime rate plus 3% for any balance up to \$2 million and 12% on balances in excess of \$2 million. At March 31, 2010, the Company had drawn the maximum balance under the Agreement.

In November of 2009, the Company issued a \$200,000 note payable to a private investor for additional working capital. The note is unsecured, bears interest at a rate of 10% and was paid subsequent to March 31, 2010.

The Company had amended its term loan agreement with ComVest Capital LLC in September 2009, reducing the principal payments required under the loan agreement for the months of September and October 2009 from \$100,000 to \$25,000 per month and for the months of November 2009 to January 2010 from \$100,000 to \$50,000. Under the amended agreement, ComVest has the right to convert any

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

outstanding principal amount and/or accrued interest thereon into Class A Common Stock at a price of \$.65 per share. In addition, ComVest has an option to (i) convert up to \$100,000 of principal and interest due into Class A Common Stock at the conversion rate of \$.3474 per share any time through October 31, 2009, (ii) convert an additional \$100,000 at the conversion price of \$.378 per share during the period November 1, 2009 to December 31, 2009 and (iii) convert an additional \$100,000 of principal and interest due into Class A Common Stock at a conversion price equal to ninety (90%) percent of the weighted average closing price for the Common Stock on the NASDAQ capital market for the five (5) trading days immediately before January 1, 2010, anytime between January 1, 2010 and February 28, 2010. The note shall bear interest at the rate of ten and one-half (10.5%) percent per annum, however, that during the continuance of any Event of Default, the interest rate hereunder shall increase to fifteen and one-half (15.5%) percent per annum.

On December 30, 2009, the Company again amended its term loan agreement with ComVest Capital LLC, modifying the principal payments required. Payments were restructured by eliminating a \$50,000 payment due in January 2010 and stipulating the repayment of the remaining balance at \$100,000 per month for the months February through May 2010, with the final installment due on June 1, 2010. The amendment reduced the conversion price of up to \$100,000 of principal and interest balance convertible anytime between January 1, 2010 and February 28, 2010 from ninety (90%) percent to eighty (80%) of the weighted average closing price for the Common Stock on the NASDAQ capital market for the five (5) trading days immediately before January 1, 2010.

19

ALANCO TECHNOLOGIES, INC.

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

On September 16, 2009, the Company amended a note issued to Tenix Holding Inc. with a remaining principal balance of \$360,000. The amended note converted the remaining \$360,000 principal balance plus all accrued interest into 1,000,000 shares of Class A Common Stock of the Company with a value of \$410,000. The agreement further provides for the possible issuance of additional shares (not to exceed 150,000 shares) in the event the weighted average closing price for the shares of Alanco's Class A Common Stock for the period from October 1, 2009 through November 30, 2009 ("Measuring Period") is less than \$.45 per share. The weighted average closing price for the period October 1, 2009 to November 30, 2009 was in excess of \$.45 and therefore, no additional shares will be issued under the amended agreement.

### Note J - Litigation

The Company may, from time to time, be involved in litigation arising from the normal course of business. As of March 31, 2010, there was no such litigation pending deemed material by the Company.

### Note K - Subsequent Events

Subsequent to March 31, 2010, the Company announced a major strategic investment by ORBCOMM, Inc., a global satellite data Communications Company focused on two-way Machine-to-Machine (M2M) communications and leading provider of space-based Automatic Identification System (AIS) services. ORBCOMM purchased 500,000 shares of Alanco Series E Convertible Preferred Stock for a total investment of \$2,250,000 (\$4.50 per preferred share convertible into twelve Class A Common Shares), and entered into a Product/Software Development Cooperation Agreement for Alanco's StarTrak Systems subsidiary to develop, manufacture and market new products featuring dual-mode cellular and ORBCOMM satellite communications capabilities, to operate over the ORBCOMM communication

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

networks.

Subsequent to March 31, 2010, the Company paid Series E Preferred Stock dividends of \$12,900 in cash and issued 72,700 shares of Class A Common Stock, valued at \$16,700 as payment for Series D Preferred Stock dividends that had been accrued at March 31, 2010. 6.4% of the Series E dividend was paid to an officer and director of the Company and 17,300, or 23.8%, of the shares were issued to officers and directors of the Company.

In compliance with the terms of the Seaside Stock Purchase Agreement discussed in Note G - Equity above, the Company issued subsequent to March 31, 2010, 600,000 Class A Common shares, valued at \$156,300.

### Note L - Liquidity

During the nine months ended March 31, 2010, the Company reported a Net Loss of approximately \$3.3 million. During fiscal year ended June 30, 2009 the Company reported Net Loss of approximately \$5.5 million.

Although the Company raised additional capital during the current period, the significant losses raise doubt about the ability of the Company to continue as a going concern. During fiscal 2010, the Company expects to meet its working capital and other cash requirements with its current cash reserves, cash generated from operations, its borrowing capacity under its credit facility, and other financing as required. While the Company believes that it will succeed in attracting additional capital and generate capital from operations, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations. As a result, the Company's independent registered public accounting firm issued a going concern opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2009. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

20

ALANCO TECHNOLOGIES, INC.

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

Forward-Looking Statements: Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "could," "target," "potential," "is likely," "will," "expect" and similar expressions, as they relate to the Company are intended to identify forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements are based on the expectations of management when made and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors, among others, that could affect the outcome of the Company's forward-looking statements: general economic and market conditions; reduced demand for information technology equipment; competitive pricing and difficulty managing product costs; development of new technologies which make

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

the Company's products obsolete; rapid industry changes; failure by the Company's suppliers to meet quality or delivery requirements; the inability to attract, hire and retain key personnel; failure of an acquired business to further the Company's strategies; the difficulty of integrating an acquired business; undetected problems in the Company's products; the failure of the Company's intellectual property to be adequately protected; unforeseen litigation; unfavorable result of current pending litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders and to remain in compliance with financial loan covenants and other requirements under current banking agreements; the ability to maintain satisfactory relationships with suppliers; federal and/or state regulatory and legislative actions; customer preferences and spending patterns; the ability to implement or adjust to new technologies and the ability to secure and maintain key contracts and relationships. New risk factors emerge from time to time and it is not possible to accurately predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Quarterly Report or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

21

ALANCO TECHNOLOGIES, INC.

### Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the United States Securities and Exchange Commission. The preparation of our financial statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, estimates are revalued, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These areas include allowances for doubtful accounts, inventory valuations, carrying value of goodwill and intangible assets, estimated profit and estimated percent complete on uncompleted contracts in process, stock-based compensation, income and expense recognition, income taxes, ongoing litigation, and commitments and contingencies. Our estimates are based upon historical experience, observance of trends in particular areas, information and/or valuations available from outside sources and on various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts may materially differ from these estimates under different assumptions and conditions.

Accounting policies are considered critical when they are significant and involve difficult, subjective or complex judgments or estimates. We considered the following to be critical accounting policies:

Principles of consolidation - The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Revenue recognition - The Company recognizes revenue, net of anticipated returns, at the time products are shipped to customers, or at the time services are provided. Revenue from material long-term contracts that extend over a reporting period in all business segments are recognized on the percentage-of-completion method for individual contracts, commencing when significant costs are incurred and adequate estimates are verified for substantial portions of the contract to where experience is sufficient to estimate final results with reasonable accuracy. Revenues are recognized in the ratio that costs incurred bear to total estimated costs. Changes in job performance, estimated profitability and final contract settlements would result in revisions to cost and income, and are recognized in the period in which the revisions were determined. Contract costs include all direct materials, subcontracts, labor costs and those direct and indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. At the time a loss on a contract is known, the entire amount of the estimated ultimate loss is accrued.

Long-lived assets, goodwill and intangible assets - The Company reviews carrying values at least annually or whenever events or circumstances indicate the carrying values may not be recoverable through projected cash flows.

Fair value of financial instruments - The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, and notes payable approximate fair value given their short-term nature or with regards to long-term notes payable based on borrowing rates currently available to the Company for loans with similar terms and maturities.

### Results of Operations

(A) Three months ended March 31, 2010 versus three months ended March 31, 2009

#### Net Sales

Net sales from continuing operations for the third fiscal quarter ended March 31, 2010 were \$3,825,800, an increase of \$67,800, or 1.8%, compared to net sales of \$3,758,000 reported for the comparable quarter of the prior year. The slight increase resulted from increased hardware shipments during the current quarter compared to the quarter ended March 31, 2009. Although revenues are affected by general economic conditions and may fluctuate on a quarter to quarter comparison, management believes that both hardware sales and monitoring revenues will continue to increase throughout fiscal year 2010 through new product introductions and increased market penetration.

22

ALANCO TECHNOLOGIES, INC.

#### Gross Profit

Gross profit from continuing operations for the quarter ended March 31, 2010 amounted to \$1,637,400, an increase of \$663,500, or 68.1% compared to \$973,900 in gross profit reported for the comparable quarter of the prior year. The gross profit increase was due to improved margins in both hardware sales and monitoring services. Gross margin increased to 42.8% compared to 25.9% reported in the same period of the prior year. The increase in both gross profit and gross margin was due primarily to reduced warranty costs related to an early version of ReeferTrak product that negatively effected margins in the quarter ended March 31, 2009 and the completion of low margin hardware shipments in the prior year required to convert several major customers from analog to digital products. Gross margin can be impacted in all business segments by economic

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

conditions and specific market pressures. As a result, the changes in gross margins reported for the current quarter are not considered to be trends. Management does expect current fiscal year gross margins will continue to improve compared to the same periods in the prior year, although the gross margin improvement may not be as significant as was reported for the third quarter ended March 31, 2010.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the quarter ended March 31, 2010 were \$1,437,400, a \$255,400, or 21.6%, increase when compared to the \$1,182,000 reported for the comparable period of the prior year. The increase resulted primarily from increases in engineering, customer service and sales expense.

Corporate expenses reported for the current quarter of \$227,100 represents a decrease of \$82,000 compared to \$309,100 reported for the quarter ended March 31, 2009. Corporate expenses for the three months ended March 31, 2010 decreased primarily due to a reduction in payroll expense as a result of reduced staffing and reduced legal expense.

Amortization of stock-based compensation reported for the quarter ended March 31, 2010 decreased to \$72,500, a decrease of \$40,600, or 35.9%, from \$113,100 reported in the comparable quarter of the prior year. The reduction relates primarily to the Company's election to accelerate vesting of certain officer, director and employee stock options in prior periods.

Depreciation and amortization expense for the quarter increased slightly to \$133,000 from \$129,400 in the same quarter of the prior period.

### Operating Loss

Operating Loss for the quarter ended March 31, 2010 was (\$232,600) compared to an Operating Loss of (\$759,700) reported for the same quarter of the prior year, an improvement of \$527,100, or 69.4%. The improved operating results are due to a significant improvement in gross margins.

### Other Income and Expense

Net interest expense for the quarter increased to \$277,400, an increase of \$86,800, or 45.5%, compared to net interest expense of \$190,600 for the same quarter in the prior year. The increase was due to increased borrowing compared to the comparable quarter ended March 31, 2009.

### Loss From Continuing Operations

Loss from continuing operations for the quarter decreased \$440,000, or 46.3% to (\$510,800) from (\$ 950,800) in the quarter ended March 31, 2009. The improvement is primarily due to improved gross profit as a result of improved sales and gross margins.

### Discontinued Operations

The Company reported a loss from Discontinued Operations for the quarter ended March 31, 2010 of (\$510,000), an increase of (\$453,100) compared to a loss from Discontinued Operations of (\$56,900) reported for the comparable quarter of the prior year. The significant increase in loss from discontinued operations resulted primarily from the approximately \$48,700 loss the Company recorded on the sale of the Data Storage segment and a reduction in sales and related gross profits in the RFID segment operations due to delays in the previously announced project to provide RFID inmate tracking systems for nineteen U.S. Immigration Detention Facilities. This project is currently on hold.

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

(Loss) Earnings before Interest, Taxes, Dividends, Depreciation & Amortization (EBITDA)

The Company believes that earnings (loss) before net interest expense, income taxes, depreciation and amortization (EBITDA) is an important measure used by management to measure performance. EBITDA may also be used by certain investors to compare and analyze our operating results between accounting periods. However, EBITDA should not be considered in isolation or as a substitute for net income, cash flows or other financial statement data prepared in accordance with US GAAP or as a measure of our performance or liquidity. EBITDA from Continuing Operations for Alanco's 2010 fiscal year third quarter was a loss of (\$100,400) an improvement of \$597,700 when compared to an EBITDA loss of (\$698,100) for the same quarter of the prior fiscal year. EBITDA before Stock-based compensation and Corporate Expense for the current quarter was \$199,200, an improvement of \$407,800, when compared to a loss of (\$208,600) for the comparable quarter of the prior year. A reconciliation of the EBITDA calculations is presented below:

### EBITDA RECONCILIATION to NET LOSS FROM CONTINUING OPERATIONS (Unaudited)

	3 months ended March 31, 2010	3 months ended March 31, 2009
	-----	-----
EBITDA before Stock-based compensation and Corporate Expense	\$ 199,200	\$ (208,600)
Corporate Expense	(227,100)	(309,100)
Stock-based compensation	(72,500)	(180,400)
	-----	-----
EBITDA	(100,400)	(698,100)
Net interest expense	(277,400)	(190,600)
Depreciation and amortization	(133,000)	(62,100)
	-----	-----
NET LOSS FROM CONTINUING OPERATIONS	\$ (510,800)	\$ (950,800)
	=====	=====

#### Dividends

Dividend expense for the three months ended March 31, 2010 was \$43,600, a decrease of \$83,600, or 65.7%, compared to the \$127,200 in preferred stock dividends recorded in the comparable period of the prior fiscal year. The decrease resulted primarily due to the transfer of approximately \$1.7 million of Series D Preferred Stock to Notes Payable during the quarter ended December 31, 2009.

#### Net Loss Attributable to Common Shareholders

Net Loss Attributable to Common Shareholders for the quarter ended March 31, 2010 amounted to (\$1,064,400), or (\$.03) per share, a \$70,500 reduction when compared to a loss of (\$1,134,900), or (\$.04) per share, in the comparable quarter of the prior year. The Company anticipates improved future operating results, however, actual results may be affected by unfavorable economic conditions and reduced capital spending budgets. If the economic conditions in the United States deteriorate or if a wider global economic slowdown occurs, Alanco may experience a material adverse impact on its operating results and business conditions.

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

The Company will complete a formal evaluation of goodwill and other intangible asset values as of June 30, 2010, the Company's fiscal year end. Although the Company is continuing to seek buyers for its RFID Technology segment, the Company recognizes that as of the filing of this Form 10-Q it has not received an acceptable offer, and that fact, coupled with the reduction in state governments revenue reducing their ability to fund projects, and the federal government action of putting on hold the significant DRO contract previously announced by the RFID Technology segment, it appears that a significant impairment charge may be required at year end. The Company cannot currently estimate an appropriate value of that potential impairment charge and therefore has not recorded an amount as of March 31, 2010. If no acceptable offer is received, or economic conditions do not improve, by June 30, 2010, the Company will reassess the goodwill value and may report an impairment charge of part, or all, of the \$5,076,700 goodwill value reported at March 31, 2010 for the RFID Technology segment.

24

### ALANCO TECHNOLOGIES, INC.

(B) Nine months ended March 31, 2010 versus nine months ended March 31, 2009

#### Net Sales

Net sales from continuing operations for the nine months ended March 31, 2010 were \$10,430,000, a slight decrease of \$30,300, or .3%, compared to net sales of \$10,460,300 reported for the comparable period of the prior year. The decrease resulted from reduced hardware shipments under major contracts during the current year compared to the same period of fiscal year 2009. Although revenues are affected by general economic conditions and may fluctuate on a quarter to quarter comparison, management believes that both hardware sales and monitoring revenues will increase throughout fiscal year 2010 through new product introductions and increased market penetration.

#### Gross Profit

Gross profit from continuing operations for the nine months ended March 31, 2010 amounted to \$4,494,500, an increase of \$1,773,700, or 65.2% compared to \$2,720,800 in gross profit reported for the nine month period ended March 31, 2009. The gross profit increase was due to improved margins in both hardware sales and monitoring services. Gross margin increased to 43.1% compared to 26.0% reported in the same period of the prior year. The increase in gross profit and gross margin was primarily due to reduced warranty costs related to an early version of ReeferTrak product, the completion of shipments required to convert several major customers from analog to digital hardware products and a one time credit to data services cost of sales related to a vendor adjustment. Gross margin can be impacted by economic conditions and specific market pressures. As a result, the changes in gross margins reported for the current quarter are not considered to be trends. Management does expect current fiscal year gross margins will continue to improve compared to the same periods in the prior year, although the gross margin improvement may not be as significant as was reported for the nine month period ended March 31, 2010.

#### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the nine months ended March 31, 2010 were \$4,122,400, a \$278,600, or 7.2%, increase when compared to the \$3,843,800 reported for the comparable period of the prior year. The increase resulted primarily from increases in engineering, customer service and sales expense.

Corporate expenses reported for the nine months ended March 31, 2010 were \$657,700, an increase of \$41,600, or 6.8%, compared to \$616,100 reported

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

for the nine months ended March 31, 2009. Corporate expenses in the prior year were unusually low due to an approximate \$297,000 credit from the recovery of legal fees relative to the TSIN lawsuit that was settled during the quarter ended September 30, 2008. The current period corporate expenses also included credits related to lawsuits. During the quarter ended September 30, 2009, the Arizona Court of Appeals vacated an award of attorney's fees and damages awarded to the Plaintiff in the Arraid Property lawsuit resulting in the reversal of related accruals in the amount of \$126,800. If both quarters were adjusted for the unusual credits, the corporate expenses for the nine months ended March 31, 2010 would reflect a decrease of \$128,600, or 14%, due primarily to staff reductions.

Amortization of stock-based compensation reported for the nine months ended March 31, 2010 decreased to \$311,400, a decrease of \$28,000, or 8.2%. The reduction relates primarily to the Company's election to accelerate vesting of certain officer, director and employee stock options in prior periods.

Depreciation and amortization expense for the nine months ended March 31, 2010 increased to \$403,100, an increase of \$37,300, or 10.2% due to additional production equipment and leasehold improvements at the Company's facilities in Morris Plains, New Jersey.

### Operating Loss

Operating Loss for the nine months ended March 31, 2010 was (\$1,000,100) compared to an Operating Loss of (\$2,444,300) reported for the same period of the prior year, an improvement of \$1,444,200, or a reduction of 59.1%. The improved operating results are due primarily to significant improvement in gross margins offset by increases in corporate expenses.

25

ALANCO TECHNOLOGIES, INC.

### Other Income and Expense

Net interest expense for the nine months ended March 31, 2010 decreased to \$657,300, a decrease of \$45,400, or 6.4%, compared to net interest expense of \$702,700 for the same period in the prior year. The decrease was due to a one-time accelerated amortization of deferred loan costs of approximately \$216,000 recorded in fiscal year 2009 related to the prepayment on the ComVest term loan. Excluding the accelerated amortization, interest expense actually increased by \$170,600 due to additional borrowing during the current period compared to the prior year.

The Company reported a reduction in Other Expense from (\$185,300) in the first nine month of the prior fiscal year to (\$2,700) reported in the current nine month period ended March 31, 2010. Other Expense for the prior year period included an \$187,500 charge related to reduction in estimated value of the Company's 8.9% investment in TSIN as explained below.

The operations of TSI were acquired in May of 2002 by the issuance of 2.4 million (post October 16, 2006 reverse split) shares of the Company's Class A Common Stock and the assumptions of certain specific liabilities. In anticipation of the transaction, the Company had acquired approximately 8.9% of the then outstanding shares of TSIN. TSIN had stated it was its intent to liquidate enough shares of the Alanco stock to pay off all TSIN liabilities and to distribute the remaining Alanco shares to the TSIN stockholders. To reflect the 8.9% investment in TSIN subsequent to the acquisition, the Company estimated that approximately 2.25 million shares would be remaining after payment of all TSIN liabilities and that an 8.9% ownership would receive approximately 200,000 shares upon distribution. Therefore, the Company recorded 200,000 treasury shares valued at market price on the transaction date.

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

On January 30, 2003, a shareholder of TSIN filed suit naming as defendants the Company and its wholly owned subsidiary, ATSI. The complaint set forth various allegations and sought damages arising out of the Company's acquisition of substantially all of the assets of TSIN. Eventually, the lawsuit was transferred to TSIN who became the plaintiff and continued the legal process until September 2007 when the parties to the lawsuit entered into a Settlement Agreement. From 2003 through September 2007, TSIN incurred significant legal expenses associated with the lawsuit, which reduced the number of Alanco shares available to TSIN shareholders upon distribution. To reflect that reduction in investment value of the Company's 8.9% ownership in TSIN, the Company reduced the estimated number of treasury shares to be acquired upon distribution from 200,000 shares to 100,000 shares and recorded a charge to other expenses of \$187,500 during the quarter ended September 30, 2008.

### Loss From Continuing Operations

Loss from continuing operations for the nine months ended March 31, 2010 decreased \$1,672,200, or 50.2% to (\$1,660,100) from (\$3,332,300) in the nine month period ended March 31, 2009. The improvement is primarily due to improved gross profit as a result of improved gross margins.

### Discontinued Operations

The Company reported a loss from Discontinued Operations for the nine months ended March 31, 2010 of (\$1,616,400), a significant increase compared to the reported loss from discontinued operations of (\$157,800) reported for the comparable period of the prior year. The significant increase in loss resulted primarily from a \$325,000 impairment charge and \$48,700 loss on sale that the Company recorded to reflect the anticipated reduced value of the data storage segment and a significant reduction in revenues in the RFID segment operations due to delays in the previously announced project to provide RFID inmate tracking systems for nineteen U.S. Immigration Detention Facilities. This project is currently on hold.

### (Loss) Earnings before Interest, Taxes, Dividends, Depreciation & Amortization (EBITDA)

The Company believes that earnings (loss) before net interest expense, income taxes, depreciation and amortization (EBITDA) is an important measure used by management to measure performance. EBITDA may also be used by certain investors to compare and analyze our operating results between accounting periods. However, EBITDA should not be considered in isolation or as a substitute for net income, cash flows or other financial statement data prepared in accordance with US GAAP or as a measure of our performance or liquidity. EBITDA from Continuing Operations for Alanco's nine months ended March 31, 2010 was a loss of (\$599,700), an improvement of \$1,664,100, or a 73.5% reduction, when compared to an EBITDA loss of (\$2,263,800) for the same period of the prior fiscal year. EBITDA before Stock-based compensation and Corporate Expense for the current nine month period was \$369,400, an improvement of \$1,677,700, when compared to a loss of (\$1,308,300) for the comparable period of the prior year. A reconciliation of the EBITDA calculations is presented below:

26

### ALANCO TECHNOLOGIES, INC.

#### EBITDA RECONCILIATION to NET LOSS FROM CONTINUING OPERATIONS (Unaudited)

	9 months ended March 31, 2010	9 months ended March 31, 2009
	-----	-----
EBITDA before Stock-based compensation and Corporate Expense	\$ 369,400	\$ (1,308,300)

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Corporate Expense	(657,700)	(616,100)
Stock-based compensation	(311,400)	(339,400)
	-----	-----
EBITDA	(599,700)	(2,263,800)
Net interest expense	(657,300)	(702,700)
Depreciation and amortization	(403,100)	(365,800)
	-----	-----
NET LOSS FROM CONTINUING OPERATIONS	\$ (1,660,100)	\$ (3,332,300)
	=====	=====

### Dividends

Dividend expense for the nine months ended March 31, 2010 was \$301,800, a decrease of \$45,500, or 13.1%, over the \$347,300 in preferred stock dividends recorded in the comparable period of the prior fiscal year. The decrease resulted primarily due to the transfer of approximately \$1.7 million of Series D Preferred Stock to Notes Payable during the quarter ended December 31, 2009.

### Net Loss Attributable to Common Shareholders

Net Loss Attributable to Common Shareholders for the nine months ended March 31, 2010 amounted to (\$3,578,300), or (\$0.11) per share, a \$259,100 reduction when compared to a loss of (\$3,837,400), or (\$0.12) per share, in the comparable quarter of the prior year. The Company anticipates improved future operating results, however, actual results may be affected by unfavorable economic conditions and reduced capital spending budgets. If the economic conditions in the United States deteriorate or if a wider global economic slowdown occurs, Alanco may experience a material adverse impact on its operating results and business conditions.

The Company will complete a formal evaluation of goodwill and other intangible asset values as of June 30, 2010, the Company's fiscal year end. Although the Company is continuing to seek buyers for its RFID Technology segment, the Company recognizes that as of the filing of this Form 10-Q it has not received an acceptable offer, and that fact, coupled with the reduction in state governments revenue reducing their ability to fund projects, and the federal government action of putting on hold the significant DRO contract previously announced by the RFID Technology segment, it appears that a significant impairment charge may be required at year end. The Company cannot currently estimate an appropriate value of that potential impairment charge and therefore has not recorded an amount as of March 31, 2010. If no acceptable offer is received, or economic conditions do not improve, by June 30, 2010, the Company will reassess the goodwill value and may report an impairment charge of part, or all, of the \$5,076,700 goodwill value reported at March 31, 2010 for the RFID Technology segment.

### Liquidity and Capital Resources

The Company's current assets at March 31, 2010 exceeded current liabilities by \$3,755,100, resulting in a current ratio of 1.49 to 1. The comparable working capital at June 30, 2009 was \$5,209,500, reflecting a current ratio of 1.74 to 1. The reduction in working capital at March 31, 2010 versus June 30, 2009 resulted primarily from reduced inventories, a reduction in net Assets held for sale and an increase in current portion of notes payable.

Consolidated accounts receivable of \$3,061,500 at March 31, 2010 (including both continuing and discontinued operations) reflects an increase compared to the \$2,303,000 reported as consolidated accounts receivable at June 30, 2009. Wireless Asset Management segment's accounts receivable balances, representing \$2,894,700, or 94.6% of the consolidated balance, have increased

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

from \$1,484,600 at June 30, 2009 to \$2,894,700 at March 31, 2010, an increase of \$1,410,100, or 95.0%. The Wireless Asset Management accounts receivable balance at March 31, 2010 reflects 76 days sales in receivables compared to 40 days sales in receivables at June 30, 2009. The increase resulted from an approximate \$850,000 increase (79%) in March 2010 billings compared to billings in June 2009, special payment terms for approximately \$500,000 receivable balance and the delayed payment of a large receivable balance related to international hardware shipments that has subsequently been paid.

27

### ALANCO TECHNOLOGIES, INC.

Inventories at March 31, 2010 amounted to \$1,024,700, a decrease of \$330,100, or 24.4%, when compared to \$1,354,800 at June 30, 2009. The inventory balance at March 31, 2010 reflects only the Wireless Asset Management segment and represents an inventory turnover of 8 at March 31, 2010 compared to 7 as of June 30, 2009.

At March 31, 2010, the Company had fully drawn available funds under a \$5.7 million line of credit agreement. See Note J - Line of Credit and Term Loan for additional discussion of the existing line of credit agreement.

Cash used in operations for the nine-month period ended March 31, 2010 was \$1,827,200, a decrease of \$171,300, or 8.6%, when compared to cash used in operations of \$1,998,500 for the comparable period ended March 31, 2009. The decrease in cash used in operating activities during the nine-month period resulted primarily from a decrease in net cash operating loss and a decrease in inventories, offset by an increase in accounts receivable.

During the nine-months ended March 31, 2010, the Company reported cash provided by investing activities of \$46,300 compared to cash used by investing activities of (\$233,200) reported for the same period in the prior fiscal year. The increase in cash provided by investing activities is the result of a reduction in the purchase of property, plant and equipment, cash received for sale of net Data Storage assets and a reduction in patent renewal costs compared to the prior fiscal year period ended March 31, 2009.

Cash provided by financing activities for the nine-months ended March 31, 2010 amounted to \$1,581,500 compared to \$1,994,000 for the nine-months ended March 31, 2009, a decrease of \$412,500, or 20.7%. The decrease in financing activity resulted primarily from a net decrease in proceeds from the sale of equity instruments.

The Company believes that additional cash resources may be required for working capital to achieve planned operating results for fiscal year 2010 and, if working capital requirements exceed current availability, the Company anticipates raising capital through additional borrowing, the exercise of stock options and warrants and/or the sale of stock in a private placement. The additional capital would supplement the projected cash flows from operations and the line of credit agreement in place at March 31, 2010. If additional working capital is required and the Company is unable to raise the required additional capital, it may materially affect the ability of the Company to achieve its financial plan. The Company has raised a significant amount of capital in the past and believes it has the ability, if needed, to raise the additional capital to fund the planned operating results for fiscal year 2010. While the Company believes that it will succeed in attracting additional capital and generate capital from operations from its StarTrak acquisition, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

### Item 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting company.

### Item 4T - CONTROLS AND PROCEDURES

#### (a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, the Company's disclosure controls and procedures were not effective as of the end of the period covered by this report, because of the material weaknesses identified as of June 30, 2009. Notwithstanding the existence of the material weaknesses identified as of June 30, 2009, management has concluded that the condensed consolidated financial statements in this Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods and dates presented.

28

ALANCO TECHNOLOGIES, INC.

#### (b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

The Company is continuing the process of developing and implementing a remediation plan to address the material weaknesses as described in Item 9(A)T of our June 30, 2009 Form 10-K.

The Company has taken or will be taking the following actions to improve internal control over financial reporting:

- o During the remaining period through the year ending June 30, 2010, we intend to devote resources to properly assess, and remedy if needed, our control environment and entity-level controls.
- o During the remaining period through the year ending June 30, 2010, we will enhance our risk assessment, internal control design and documentation and develop a plan for testing in accordance with applicable standards.
- o The Company plans to continue to enhance the staffing and competency level within the department with training and periodic reviews.
- o The Company has implemented additional review procedures relative to payments to ST Wireless, an India based company that provides software engineering services to StarTrak Systems LLC, to enhance internal controls relative to issues discussed in the Company's Form 10-K filed on September 30, 2009.

In addition, the following are specific remedial actions to be taken for

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

matters related to inventory transactions including significant and non-routine adjustments.

- o The Company requires that all significant or non-routine inventory adjustments be thoroughly researched, analyzed, and documented by qualified warehouse personnel, and to provide for complete review of the resulting transaction by the Warehouse Supervisor prior to recording the transactions. In addition, all major transactions will require the additional review and approval of the Materials Manager.

- o Develop and implement focused monitoring controls and other procedures in the Internal Audit function.

In light of the aforementioned material weakness, management conducted a thorough review of all significant or non-routine adjustments for the nine month period ended March 31, 2010. As a result of this review, management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the condensed consolidated financial statements for the nine month period ended March 31, 2010 fairly present in all material respects the financial condition and results of operations for the Company in conformity with U.S. generally accepted accounting principles.

### PART II. OTHER INFORMATION

#### Item 1. LEGAL PROCEEDINGS

Company may, from time to time, be involved in litigation arising from the normal course of business. As of March 31, 2010, there was no such litigation pending deemed material by the Company.

29

ALANCO TECHNOLOGIES, INC.

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

During the nine months ended March 31, 2010, the Company issued 7,700 Shares of Series B Preferred Stock as in-kind dividend payments, 17,800 shares of Series D Preferred Stock as in-kind dividend payments, and a total of 1,863,700 shares of unregistered Class A Common Stock, including 30,000 shares for services rendered, 1,542,800 shares issued for payment of notes and interest and 290,900 issued in payment of Series D Preferred Stock dividends. Also during the nine months ended March 31, 2010 the Company issued 220,000 shares of Series E Preferred Stock. During the nine months ended March 31, 2010, the Company also issued 1.2 million shares of registered Class A Common Stock.

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

30

ALANCO TECHNOLOGIES, INC.

#### Item 6. EXHIBITS

31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer
32.2	Certification of Chief Financial Officer

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

### SIGNATURE

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

ALANCO TECHNOLOGIES, INC.  
(Registrant)

/s/ John A. Carlson  
-----

John A. Carlson  
Executive Vice President and  
Chief Financial Officer

31

ALANCO TECHNOLOGIES, INC.

### EXHIBIT 31.1

Certification of  
Chairman and Chief Executive Officer  
of Alanco Technologies, Inc.

I, Robert R. Kauffman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alanco Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the period presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

## Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 17, 2010

/s/ Robert R. Kauffman

Robert R. Kauffman  
Chairman and Chief Executive Officer

32

ALANCO TECHNOLOGIES, INC.

EXHIBIT 31.2

Certification of  
Vice President and Chief Financial Officer  
of Alanco Technologies, Inc.

I, John A. Carlson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alanco Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the period presented in this report;

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 17, 2010

/s/ John A. Carlson

\_\_\_\_\_  
John A. Carlson  
Executive Vice President and Chief Financial Officer

33

ALANCO TECHNOLOGIES, INC.

EXHIBIT 32.1

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Alanco Technologies, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert R. Kauffman, Chairman and Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

/s/ Robert R. Kauffman

-----  
Robert R. Kauffman  
Chairman and Chief Executive Officer  
Alanco Technologies, Inc.

Dated: May 17, 2010

ALANCO TECHNOLOGIES, INC.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Alanco Technologies, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Carlson, Executive Vice President and Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented.

/s/ John A. Carlson

-----  
John A. Carlson  
Chief Financial Officer  
Alanco Technologies, Inc.

Dated: May 17, 2010