ALANCO TECHNOLOGIES INC
Form 10-K
October 09, 2012

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

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2012

Commission file number 0-9347

ALANCO TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

Arizona	86-0220694
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

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

Registrant's Telephone Number: (480) 607-1010

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act

COMMON STOCK
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
___ Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
____ Yes X No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
X Yes ___ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X Yes ___ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company X

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
___ Yes X No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $2,478,600.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:
As of September 26, 2012, there were 5,010,300 shares of common stock outstanding.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” ”should,” “plan,” “could,” “target,” “potential,” “is likely,” “will,” “ex expressions, as they relate to the Company are intended to identify forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements are based on the expectations of management when made and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors, among others, that could affect the outcome of the Company's forward-looking statements: general economic and market conditions; the inability to attract, hire and retain key personnel; failure of a future acquired business to further the Company's strategies; the difficulty of integrating an acquired business; unforeseen litigation; unfavorable result of potential litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders; the ability to maintain satisfactory relationships with current and future suppliers; federal and/or state regulatory and legislative action; the ability to implement or adjust to new technologies and the ability to secure and maintain key contracts and relationships. New risk factors emerge from time to time and it is not possible to accurately predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Annual Report or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Alanco Technologies, Inc. (Stock Symbol: ALAN) was incorporated in 1969 under the laws of the State of Arizona. Unless otherwise noted, the "Company" or “Alanco” refers to Alanco Technologies, Inc. and its wholly owned subsidiaries. As discussed below and in the notes to the Company’s consolidated financial statements included in Item 8 to this Form 10-K, at the beginning of the current fiscal year, Alanco was effectively a holding company without operating subsidiaries. During the fiscal year ended June 30, 2012, the Company formed Alanco Energy Services, Inc., which was in the process of constructing a water disposal facility near Grand Junction, CO to receive produced water generated as a byproduct from oil and gas well operations. The new facility started to receive produced water in August 2012.

In previous SEC filings, Alanco reported three business segments: Data Storage, Wireless Asset Management and RFID Technology. During the fiscal years ended June 30, 2010 and 2009, the Company announced plans to divest all three business segments. In compliance with the divestiture plan, the Data Storage segment was sold in March 2010 and the RFID Technology segment was sold in August 2010. The sale of the Wireless Asset Management segment was approved by shareholders at the Company’s annual meeting on May 10, 2011, with the transaction closing approximately one week later. As a result, as of June 30, 2011 all segment operations had been sold and the segment’s operating results for the fiscal year ended June 30, 2011 were reported as Discontinued Operations.

RECENT BUSINESS DEVELOPMENTS

Alanco Energy Services - In April 2012, Alanco Energy Services, Inc. ("AES"), a subsidiary of the Company, executed an agreement with TC Operating, LLC ("TCO") of Grand Junction, CO to transfer a land lease for 20 acres near Grand Junction, CO and all related assets to AES with the intent for AES to construct facilities for the treatment and disposal of large quantities of produced water generated by oil and natural gas producers in Western Colorado. The site was chosen due to its unique ability to meet stringent government requirements for disposal of the high saline water produced as a by-product of oil and gas production, and termed "produced water". The agreements included the transfer of all related tangible and intangible assets as well as Federal, State and County permits (issued or in process) required to construct the facilities. Subsequent to the TCO agreement, AES renegotiated an amended lease that became effective on May 1, 2012. The terms of the amended lease requires minimum monthly lease payments plus additional rent based upon quantities of produced water received at the site. In addition, under the TCO agreement, TCO can earn additional payments based upon a percentage of the net cumulative EBITDA (net of all related AES capital investments) over a period of approximately 10 years (contingent purchase price obligation), the initial term of the lease. Under certain circumstances, the acreage covered by the lease may be expanded by up to 50 acres to allow for additional expansion at the site. (See notes 5 and 11 in the notes to consolidated financial statements under Item 8 to this Form 10-K for additional discussion on the transfer of the land lease and the contingent purchase price obligation incurred.)

AES has also entered into a definitive agreement ("Agreement") with Deer Creek Disposal, LLC ("DCD") to acquire a 160 acre site near Grand Junction, CO, for additional expansion to the proposed water disposal facility. As consideration for the land purchase, AES paid $500,000 at the April 13, 2012 closing and assumed a non-interest bearing, secured, $200,000 note due November 15, 2012. AES has also agreed to potential additional quarterly earn-out payments to DCD up to a maximum total of $800,000, generally determined as 10% of quarterly revenues in excess of operating expenses (contingent land payment).

Related to the treatment and disposal facilities, AES has also entered into a management agreement with TCO to manage the project for a monthly management fee of $10,000 initially and $20,000 after final permits for the Deer Creek operation are attained. In an amendment to the TCO agreement, TCO agreed to provide certain administrative duties for AES and the management fee was increased to $23,000 per month. In addition, the Company agreed to pay TCO at closing up to $85,000 and issue 40,000 shares of Common Stock of Alanco Technologies, Inc. as reimbursement for past expenses in acquiring permits and for past management services and a covenant not to compete.

Symbius Financial, Inc. – Effective April 25, 2012, Alanco purchased 300,000 shares of Series A Convertible Preferred Stock (“Preferred Shares”) issued by Symbius Financial, Inc. (“Symbius”) the developer and provider of PayEarly loan products. PayEarly is a payroll loan product offered primarily through payroll provider partners using PayEarly’s unique software, seamlessly incorporated within the payroll provider’s payroll software platforms to process the loans directly to the employee.

The Series A Convertible Preferred Shares acquired were convertible into 300,000 shares of Symbius Common Stock, or an approximate 24% ownership. Under terms of the transaction, Alanco paid $150,000 for the Series A Convertible Preferred Shares at closing and agreed to provide a secured credit line ($100,000 available at Closing) in the form of a term loan that, upon Symbius achieving certain financial objectives, could reach a maximum of $250,000. The term loan was secured by all of the assets of Symbius, bears interest at 7 ½% and was repayable over a period of up to 17 months with payments commencing January 1, 2013. In addition, Alanco obtained options, exercisable for 12 months from date of close, from major Symbius founders to acquire up to 250,000 Symbius common shares currently outstanding at $1.50 per share and Symbius warrants, effective for a period of 24 months from date of close, whereby Alanco can acquire up to 250,000 newly issued shares of common stock at a price of $1.50 per share. Finally, the parties agreed that Alanco would have the right to acquire, from shareholders, through December 31, 2012 any remaining outstanding Symbius common shares in consideration of Alanco Common Stock at a ratio of 1.5 shares of Alanco for each share of Symbius and at a ratio of 2 shares of Alanco for each share of Symbius from January 1, 2013 to December 31, 2013.

As a result of a change in Symbius’s business model, effective July 30, 2012, with the approval of Alanco, Symbius repaid the $100,000 balance due under the term loan, plus interest of $2,847, and repurchased, for $250,000, the 300,000 shares of Series A Convertible Preferred Shares and all Symbius warrants held by the Company. The transaction resulted in a gain, net of related legal expense, of approximately $85,000 and terminated the Company's investment in Symbius.

NASDAQ Delisting Notice

The Company announced on May 20, 2011 that it had received notice from the Staff of The NASDAQ Stock Market LLC (the “Staff”) that following Alanco’s May 16, 2011 sale of its subsidiary, StarTrak Systems, LLC (“StarTrak”), to ORBCOMM Inc. (NASDAQ: ORBC), the Staff had concluded that the Company is no longer eligible for continued listing on The NASDAQ Stock Market. The Staff made its determination based on the discretionary authority afforded to NASDAQ under Listing Rule 5101. In reaching its conclusion, the Staff noted that the Company “no

longer has any operating business" following the sale of StarTrak. Therefore, notwithstanding the fact that Alanco meets all quantitative requirements for continued listing, the Staff advised Alanco that it would be subject to delisting unless it requested a hearing before a NASDAQ Listing Qualifications Panel (the "Panel"). Accordingly, the Company requested a hearing, scheduled by NASDAQ for June 30, 2011, before the Panel. In accordance with NASDAQ rules, Alanco's common stock would remain listed on NASDAQ pending the issuance of a decision by the Panel following the hearing. However, there was no assurance that the Panel would grant Alanco's request for continued listing following the hearing.

NASDAQ Appeal Ruling

On July 25, 2011, the Company announced that it had received a ruling from The NASDAQ Stock Market that the Company's appeal to the NASDAQ Listing Qualifications Panel (the "Panel") had been denied and that trading in the Company's stock would be suspended on The NASDAQ Stock Market at the open of business on Tuesday, July 26, 2011. The Company's common stock is currently traded on the OTC Bulletin Board (OTCBB), and on the OTCQB™ Market, with quotes available on www.OTCBB.com and www.OTCMarkets.com, respectively.

The NASDAQ trading suspension is based upon NASDAQ Listing Rule 5101, which grants "broad discretionary authority to deny continued listing of the Company's stock in order to maintain the public's confidence in The NASDAQ Stock Market." The NASDAQ staff determined that upon the Company's sale of its StarTrak Systems subsidiary, on May 16, 2011, Alanco had become a non-operating entity under NASDAQ policy.

Definitive Merger Agreement with YuuZoo Corporation

Alanco announced on June 29, 2011 that it executed a definitive agreement to merge with YuuZoo Corporation (www.yuuzoo.com), a global provider of mobile targeted social networks, targeted advertising and mobile payment systems. The agreement was terminated on September 20, 2011 due to market conditions and our inability to complete due diligence.

ITEM 1A. RISK FACTORS

An investment in Alanco involves a high degree of risk. In addition to the other information included in this Form 10-K, you should carefully consider the following risk factors in determining whether or not to purchase shares of Alanco Class A Common Stock. These matters should be considered in conjunction with the other information included or incorporated by reference in this filing. This Form 10-K contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places and include statements regarding the intent, belief or current expectations of our management, directors or officers primarily with respect to our future operating performance. Prospective purchasers of our securities are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The information set out below, identifies important factors that could cause such differences. See "Safe Harbor Statements Under the Private Securities Litigation Reform Act of 1995."

We may not be able to finalize a business combination. We have completed some asset acquisitions and investments and continue our investigation of various possible additional business combinations. However, there is no assurance that we will be able to arrange or consummate additional successful business combinations.

The loss of key personnel would have a negative impact on our business and business combination objectives. Our strategy is reliant on key personnel who understand businesses in which we invested and the merger and acquisition process. We have certain incentives to retain key personnel, but have no assurance that such personnel will remain with the Company on a long-term basis. The loss of the services of those key personnel could have an adverse effect on the business, operating results and financial condition of our company.

Worsening general economic conditions may negatively affect our ability to complete an acceptable business combination and declining stock prices may negatively affect the value of our marketable securities. Previous deterioration in general economic conditions resulted in reduced stock valuations and a decline in merger and

acquisition activities.

Acts of domestic terrorism and war have impacted general economic conditions and may impact our ability to complete a business combination or our ability to operate profitably. As a result of terrorist acts and resulting military actions, there has been a disruption in general economic activity. There may be other consequences resulting from past acts of terrorism, and any others which may occur in the future, including civil disturbance, war, riot, epidemics, public demonstration, explosion, freight embargoes, governmental action, governmental delay, restraint or inaction, quarantine restrictions, unavailability of capital, equipment, personnel, which we may not be able to anticipate. These terrorist acts and acts of war may continue to impact the economy, and in turn, impact our ability to consummate a business combination and may reduce the demand for the products and services produced by the resultant business, which would harm our ability to make a profit.

The Company may not have sufficient capital to meet the liquidity needs to consummate additional business combinations with acceptable candidates or otherwise pursue its business plan; and there is no assurance that additional capital can be obtained through the sale of stock or additional financing. Although management cannot assure that future operations will be profitable or that additional debt and/or equity capital will be raised, we believe that, based on our fiscal 2013 operating plan, cash flow and additional funding sources will be adequate to meet our anticipated future requirements for working capital expenditures and scheduled lease payments for the next twelve months. We will need to materially reduce expenses, or raise additional funds through public or private debt or equity financing, or both, if the revenue and cash flow elements of our 2012 operating plan are not met. If we need to seek additional financing to meet working capital requirements, there can be no assurance that additional financing will be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our business, operating results, financial condition and ability to continue operations will be materially adversely affected.

The substantial portion of our assets are invested in ORBCOMM Inc. (NASDAQ: ORBC) Common Stock. Because the consideration we received from ORBCOMM for substantially all of the assets of our subsidiary, StarTrak Systems, LLC, consists of ORBCOMM Common Stock, such stock remains one of our primary assets. Our agreement with ORBCOMM prevents us from liquidating the ORBCOMM stock at a rate in excess of 279,600 shares per month. Also, we anticipate selling such stock over a period of time to maximize our return. As long as the ORBCOMM Common Stock constitutes a substantial portion of our assets, fluctuations in the market price of such stock may significantly affect our value.

If we raise additional funds through the sale of stock, our existing Alanco shareholders will experience dilution and may be subject to newly issued senior securities. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then current shareholders of the Company will be reduced, and such equity securities may have rights, preferences or privileges senior to those of the holders of Class A Common Stock.

The loss of key corporate executives would have a negative effect on our Company. Our performance is substantially dependent on the services and performance of our executive officers and key employees. The loss of the services of any of our executive officers or key employees could have a material adverse effect on our business, operating results and financial condition due to their extensive specific knowledge and comprehensive operating plans for the Company. Irrespective of any acquired business operations, our future success will depend on our ability to attract, integrate, motivate and retain qualified technical, sales, operations and managerial personnel.

The market for the Company’s Alanco Energy Services, Inc. produced water disposal services may not be large enough to support the additional capacity created by the development of the Deer Creek water disposal site. Capital costs for the Deer Creek water disposal site require certain volumes, at certain prices per barrel, of produced water to be deposited for the Deer Creek operation to be successful. If the volume of produced water received is less than projected, or the price obtained per barrel is less than anticipated, or if operating costs are more than projected, the Deer Creek operation could have an adverse effect on the business, operating results and financial condition of our company.

The Company does not anticipate payment of dividends on Common Stock. We do not anticipate that we will pay cash dividends on our Class A Common Stock in the foreseeable future. The payment of dividends by us will depend on our earnings, financial condition, and such other factors, as our Board of Directors may consider relevant. We currently plan to retain earnings, if any, to provide for the development of our business.

Our articles of incorporation and Arizona law may have the effect of making it more expensive or more difficult for a third party to acquire, or to acquire control of, us. Our articles of incorporation make it possible for our Board of

Directors to issue preferred stock with voting or other rights that could impede the success of any attempt to change control of us. Arizona law prohibits a publicly held Arizona corporation from engaging in certain business combinations with certain persons, who acquire our securities with the intent of engaging in a business combination, unless the proposed transaction is approved in a prescribed manner. This provision has the effect of discouraging transactions not approved by our Board of Directors as required by the statute which may discourage third parties from attempting to acquire us or to acquire control of us even if the attempt would result in a premium over market price for the shares of common stock held by our stockholders.

Certain provisions in our Alanco shareholder rights plan may discourage a takeover attempt. We have implemented a shareholder rights plan which could make an unsolicited takeover of our company more difficult. As a result, shareholders holding a controlling block of shares may be deprived of the opportunity to sell their shares to potential acquirers at a premium over prevailing market prices. This potential inability to obtain a premium could reduce the market price of our common stock.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

The market price of Alanco Class A Common Stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

1. actual or anticipated fluctuations in our operating results;
2. the loss of key management or technical personnel;
3. the outcome of any current or future litigation;
4. the value of our restricted marketable securities;
5. changes in our financial estimates by securities analysts;
6. broad market fluctuations;
7. recovery from natural disasters; and
8. economic conditions in the United States or abroad.

Additional Risks if Business Combinations are Consummated

A business combination may be highly dilutive to our existing stockholders. As a result of a business combination transaction, we may issue a substantial number of shares of our common stock and we may experience a change in control, resulting in substantial dilution to our existing shareholders.

Some of the combined company's executive officers or shareholders may collectively beneficially own a majority of the outstanding common stock of the combined company following a business combination, and would then be able to control or exercise significant influence over the outcome of matters to be voted on by the combined company's stockholders. Immediately following a business combination, a limited number of persons or entities may collectively beneficially own a significant block of the outstanding common stock of the combined company. Accordingly, such persons or entities may be able to control or exercise significant influence with respect to the election of directors, offers to acquire the combined company and other matters submitted to a vote of the combined company's stockholders.

The combined company may be unable to attract and retain, or have access to, qualified personnel in the markets the combined company would serve, which could adversely affect its results of operations by impairing its ability to grow and provide competitive services. The combined company’s ability to provide its customers with competitive services and grow partially depends on its ability to attract and retain highly motivated people with the skills to serve its customers in a cost effective way. If the combined company is unable to hire or otherwise obtain cost-effective access to skilled personnel in its markets, its operations may suffer. In addition, the combined company will be subject to the risk of management and employee disruption associated with the business combination transaction, including the risk that key technical, marketing and management personnel might not remain employed by the combined company through the consummation of the business combination transaction.

The market price for the combined company's common stock may be highly volatile after the business combination transaction, which could impair the value of the combined company's common stock and result in litigation against the combined company. The price of the combined company's common stock could further decline due to the impact of any of the following factors:

- failure to meet its sales goals or operating budget;
- decline in demand for its common stock;
- revenues and operating results failing to meet expectations of securities analysts or investors in any quarter;
- downward revisions in operating performance estimates or changes in general market conditions;
- technological innovations by competitors or in competing technologies;
- investor perception of its industry or prospects; or
- general economic trends.

Market fluctuations are often unrelated to operating performance and therefore are beyond our control. In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. The combined company may become the target of similar litigation, which could result in substantial costs and divert management's attention and resources.

Resales by the business combinations candidate’s stockholders of shares issued to them in any business combination transaction or by stockholders who purchase securities in new financings may depress the market price of the combined company's common stock. While the combined company may not be required to register for public resale the shares of common stock issued in a business combination transaction, such shares will become salable under Rule 144 under the Securities Act of 1933. Future resales of these shares of common stock, or the perception that such sales could occur, could adversely affect the market price of the combined company's common stock. We cannot assure you as to when, and how many of, those shares will be resold and the effect those sales may have on the market price of the combined company's common stock.

The costs and effects of litigation, investigations or similar matters could adversely affect the combined company's financial position and results of operations. The combined company may be involved from time to time in a variety of litigation, investigations or similar matters arising out of its business. The combined company's insurance may not cover all claims that may be asserted against it, and any claims asserted against them, regardless of merit or eventual outcome, may harm the combined company's reputation. If the ultimate judgments or settlements in any litigation or investigation significantly exceed insurance coverage, they could adversely affect the combined company's financial position and results of operations. In addition, the combined company may be unable to obtain appropriate types or levels of insurance in the future.

Additional Risks Because a Business Combination May Result in a Corporation Becoming Public Through a “Reverse Merger” Process.

Because a business combination candidate may become public by means of a "reverse merger," the combined company may not be able to attract the attention of major brokerage firms. Additional risks may exist since the business combination candidate may become public through a "reverse merger" with us. Securities analysts of major brokerage firms may not provide coverage of such a combined company. We cannot assure you that brokerage firms will want to conduct any secondary offerings on behalf of such a combined company in the future.

The business combination transaction may involve a reverse merger of a non-public company into us and the management of such non-public company may become the management of the combined company. As a result, there is no history of compliance with United States securities laws and accounting rules by the management of the combined company. The combined company management may have no experience in managing and operating a United States public company. Any failure to comply or adequately comply with federal securities laws, rules or regulations could subject us to fines or regulatory actions, which may materially adversely affect the combined company’s business, results of operations and financial condition.

At June 30, 2012, Alanco was in the process of constructing a water disposal facility, expected to be operational by the quarter ending September 30, 2012, for the treatment and disposal of large quantities of produced water generated by oil and natural gas producers in Western Colorado. Certain factors relative to that operation, some of which may be beyond our control, may negatively effect the Company’s operating results. These factors include, but are not limited to:

1. Inability to obtain final permits required to operate the water disposal facility;

2. Inability to obtain qualified personnel to operate the facility;
3. Failure to attract and retain the required level of customers;
4. Revenues and operating results failing to meet expectations of securities analysts or investors in any quarter;
5. Downward revisions in operating performance estimates or changes in general market conditions;
6. Technological innovations by competitors or in competing technologies that provide for alternative treatment of produced water;
7. Changes in governmental regulations governing the operation resulting in increased cost or reduced capacity.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Alanco moved its corporate offices on July 8, 2011 to 7950 E. Acoma Drive, Suite 111, Scottsdale, Arizona 85260, into an approximately 1,500 square foot facility. The new facility is under a thirteen month lease of $1,471 per month (including rental tax) that expired on July 31, 2012. Alanco is currently operating under a month to month lease.

In April 2012, the Company formed Alanco Energy Services, Inc. ("AES"), a new wholly owned subsidiary, and through AES executed an agreement with TC Operating, LLC ("TCO") of Grand Junction, CO to transfer a land lease for 20 acres near Grand Junction, CO (known as the Deer Creek site) with the intent for AES to construct facilities for the treatment and disposal of large quantities of produced water generated by oil and natural gas producers in Western Colorado. The site was chosen due to its unique ability to meet stringent government requirements for disposal of the high saline water produced as a by-product of oil and gas production, and termed "produced water". The agreement included the transfer of all related tangible and intangible assets as well as Federal, State and County permits (issued or in process) required to construct the facilities.

The ten year land lease, effective May 1, 2012 has two additional ten year option periods that may be activated by AES. The initial terms of the lease requires minimum monthly lease payments of $100 per acre (increasing to $150 and $200 per acre for the second and third ten year option periods, respectively) plus additional rent based upon quantities of produced water received (approximately $.25 per barrel) at the site. Under certain circumstances, the acreage covered by the lease may be expanded by up to 50 acres to allow for additional expansion at the site.

AES has also entered into a definitive agreement ("Agreement") with Deer Creek Disposal, LLC ("DCD") to acquire a 160 acre parcel of land approximately three miles from the Deer Creek site to provide additional expansion to the proposed water disposal facility. As consideration for the land purchase, AES paid $500,000 at the April 13, 2012 closing and assumed a noninterest bearing, secured, $200,000 note due November 15, 2012. AES has also agreed to potential additional quarterly contingent land payments to DCD up to a maximum total of $800,000, generally determined as 10% of quarterly revenues in excess of operating expenses (contingent land payment) with a net present value at June 30, 2012 of $625,000.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings - The Company's subsidiary, StarTrak Systems, LLC was made a defendant concerning certain patent infringement claims. Innovative Global Systems LLC v. StarTrak Systems, LLC, et al. Case No.: 6:10-CV-00327, is a patent infringement action venued in the United States District Court for the Eastern District of Texas. During the negotiation process to resolve the claims, the StarTrak operations were sold to ORBCOMM, Inc. ("ORBCOMM") in a transaction structured as an asset purchase and documented in an Asset Purchase Agreement ("APA") whereby ORBCOMM acquired substantially all of StarTrak's assets and liabilities. StarTrak and ORBCOMM have resolved the action by StarTrak agreeing to pay approximately $100,000, with a like amount to be paid by ORBCOMM, thus avoiding substantially greater expenses than would likely be incurred in defending the action. Payment of StarTrak's portion of the costs to resolve the claims has been allowed for in the Patent Litigation Escrow established at the time of the ORBCOMM transaction.

StarTrak was served with a Third-Party Complaint by Great American Lines, Inc. and related parties in a lawsuit against them by certain freight shippers in the US District Court for the District of New Jersey, being Case

No. 3:10-ev-02023-JAP-TJB. The main case against Great American Lines involves allegations concerning a stolen trailer containing freight owned by the plaintiffs resulting in a cargo loss estimated by Great American Lines at $8.8 million. Great American Lines brought its Third-Party Complaint against StarTrak alleging that StarTrak breached its contract with Great American Lines to allow Great American Lines to track its trailer and for indemnity. StarTrak tendered its defense in the lawsuit to its insurance company, and the action was dismissed against StarTrak.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of June 30, 2012, there was no other such litigation pending deemed material by the Company.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES

Alanco's common stock is traded on the OTC bulletin board market under the stock symbol “ALAN”.

The following table sets forth high and low sale prices adjusted for the reverse stock split for each fiscal quarter for the last two fiscal years. Such quotations represent inter-dealer prices without retail mark-ups, markdowns, or commissions, as reported when the Company traded on the NASDAQ Stock Market and, accordingly, may not represent actual transactions.

	Fiscal 2012		Fiscal 2011	
Quarter Ended	High	Low	High	Low
September 30	$2.04	$0.67	$ 2.00	$1.12
December 31	$1.01	$0.62	$2.43	$1.30
March 31	$ .75	$0.63	$1.98	$0.96
June 30	$ .80	$0.57	$ 2.95	$0.97

As of June 30, 2012 and 2011 Alanco had approximately 400 holders of record of its Class A Common Stock. This does not include beneficial owners holding shares in street name.

The Company issued a total of 180,400 shares of its Class A Common Stock during fiscal year ended June 30, 2012. Of those shares, 100,800 shares were issued in connection with the exercise of employee stock options, 39,600 were issued for services and 40,000 were issued in the acquisition of assets related to the Company’s water disposal facility.

Alanco has paid no Common Stock cash dividends and has no current plans to do so. Holders of Series B Convertible Preferred Stock received “paid in kind” dividends during fiscal year ended June 30, 2012 of 3,100 shares valued at $30,500. During the current fiscal year the Company also repurchased 44,200 common shares for $30,300, or an average of $.69 per share. The repurchased shares were retired prior to year end.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company refers to Alanco Technologies, Inc. and its wholly owned subsidiaries. As discussed in the Company's fiscal year 2011 Form 10-K, at June 30, 2011 the Company was effectively a holding company without operating entities. The Company had stated in previous filings that its objective was to complete an appropriate merger (possibly a reverse merger) and remain an operating publicly traded company. At June 30, 2012 the Company formed Alanco Energy Services, Inc., which had begun to execute a new business development plan to acquire the assets necessary to construct facilities for the treatment and disposal of large quantities of produced water generated by oil and natural gas producers in Western Colorado.

In previous SEC filings, Alanco reported three business segments: Data Storage, Wireless Asset Management and RFID Technology. During the fiscal year ended June 30, 2009, the Company announced a plan to divest the operations of the Company's Data Storage segment and reinvest the proceeds into the remaining operating units. The divestiture plan was expanded during the quarter ended September 30, 2009 when the Company announced its plan to sell its RFID Technology segment. Finally, the plan was expanded further when, on February 23, 2011, the Company entered into a definitive agreement, subject to shareholder approval, to sell its Wireless Asset Management segment. In compliance with the divestiture plan, the Data Storage segment was sold in March 2010, the RFID Technology segment was sold in August 2010, and the Wireless Asset Management segment was sold in May 2011. As a result, as of June 30, 2011 all segment operations had been sold and the segment's operating results for the fiscal year ended June 30, 2011 were reported as Discontinued Operations.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Critical Accounting Policies

"Management's Discussion and Analysis of Financial Condition and Results of Operations" discusses our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, we evaluate our estimates and assumptions concerning classification and valuation of investments, valuation of contingent and non-cash consideration received in the sale of the Wireless Asset Management segment, the estimated fair value of stock based compensation, expense recognition, realization of deferred tax assets and notes receivable and the recorded values of accruals and contingencies including the estimated fair values of the Company's asset retirement obligation and the contingent land and purchase price liabilities. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The result of these estimates and judgments form the basis for making conclusions about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions.

The SEC suggests that all registrants list their most "critical accounting policies" in Management's Discussion and Analysis. A critical accounting policy is one which is both important to the portrayal of the Company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the critical accounting policies as those accounting policies that affect its more significant judgments and estimates in the preparation of its consolidated financial statements. The Company's Audit Committee has reviewed and approved the critical accounting policies identified. These policies include, but are not limited to, the classification and valuation of marketable securities, realization of notes receivable, stock-based compensation, the recorded values of accruals and fair values of assets and liabilities including the Company's contingent liabilities.

Results of Operations

Net Sales
In compliance with the Company's previously announced divestiture plan and in accordance with accounting principles generally accepted in the United States of America, the Company is not reporting operating revenues for fiscal years ended June 30, 2012 and 2011 because, as of June 30, 2011 all business segments had been sold. At June 30, 2012, the new water treatment facility was under construction and not generating revenues, however, it became operational in August 2012. Consistent with prior year reporting, fiscal year ended June 30, 2011 operating results for the sold business segments are reported as Discontinued Operations.

Operating Expenses
Operating expenses for the year ended June 30, 2012, consisting of corporate expenses, amortization of stock-based compensation and depreciation expense, were $1,048,800, a $332,100, or 24%, decrease when compared to the $1,380,900 reported for the comparable period of the prior year. Corporate expenses reported for the year ended June 30, 2012 of $1,021,200 represents a decrease of $158,600, or 13.4%, when compared to corporate expenses of $1,179,800 reported for the year ended June 30, 2011. The decrease is primarily due to reduction of costs for business insurance, audit fees, consulting and investor relations. Amortization of stock-based compensation for the year ended June 30, 2012 was $24,900, a decrease of $175,200 or 87.6% when compared to $200,100 in the comparable twelve month period of the prior year. The decrease was primarily due to a $187,000 expense in the prior period resulting from the Company's election to re-price certain employee stock options during the quarter ended September 30, 2010 and to expense the entire increase in Black Scholes value of the re-priced options in that period. Depreciation and

amortization expense for the year ended June 30, 2012 was $2,700 compared to $1,000 reported in the comparable period of the prior year.

Operating Loss

Since no revenue was reported for fiscal year ended June 30, 2012 and 2011, the operating losses equal the operating expenses discussed above.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Other Income and Expense

Net interest income for the year ended June 30, 2012 was $14,200, an improvement of $464,300 when compared to net interest expense of $450,100 for the year ended June 30, 2011. The improvement resulted from the May 2011 sale of the Wireless Asset Management segment that allowed the Company to repay debt and terminate its credit agreements. During the year ended June 30, 2012, the Company recorded a net gain on sale of marketable securities of $386,700, resulting from the sale of approximately 993,661 shares of its ORBCOMM Common Stock at an average selling price of $3.30 per share. The Company did not sell any marketable securities during the previous fiscal year. Finally, the Company had $12,700 of other income during the year ended June 30, 2012 as compared to other expense of $8,500 reported in the comparable period of the prior year. Other expense for the prior year was the result of a write down in the value of an investment; there was no such write down in the current period. Other income was primarily the result of the distribution of marketable securities from escrow.

Loss from Continuing Operations

Loss from continuing operations for the year ended June 30, 2012 was ($635,200), an improvement of $1,204,300, or 65.5%, when compared to the loss from continuing operations of ($1,839,500) for the previous year ended June 30, 2011. The improvement was primarily due to the current year gain on the sale of marketable securities of $386,700, a decrease in operating expense of $332,100 and a decrease of net interest expense of $464,300.

Discontinued Operations

The Company reported no activity from discontinued operations for the current year ended June 30, 2012. Total Consolidated Income from Discontinued Operations for the twelve months ended June 30, 2011 was $1,781,700 resulting from a gain on sale of assets held for sale of $1,294,000 and income recognition of $1,372,800 on the dissolution of a subsidiary, offset by a loss from discontinued operations for the year ended June 30, 2011 of ($885,100).

The following table is a summary of the fiscal year 2011 loss from discontinued operations and other financial information by major segment:

DISCONTINUED OPERATIONS	Wireless Asset Management	RFID	Data