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ALANCO TECHNOLOGIES INC  
Form 10-Q  
November 16, 2009

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 September 30, 2009  
-----

\_\_\_\_ 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 filer   | Smaller reporting company | X<br>----- |

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(Do not check if a smaller reporting company)

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 November 6, 2009 there were 33,939,300 shares, net of treasury shares, of common stock outstanding.

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ALANCO TECHNOLOGIES, INC.

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#### 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

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Quarterly Report on Form 10-Q.

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## ALANCO TECHNOLOGIES, INC. CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2009 AND JUNE 30, 2009

|   | September 30, 2009   | June 30, 2009        |
|---|----------------------|----------------------|
|   | (unaudited)          |                      |
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS</b>   |                      |                      |
| Cash and cash equivalents   | \$ 675,400           | \$ 413,500           |
| Accounts receivable, net  | 1,880,500            | 2,303,000            |
| Inventories, net  | 1,207,700            | 1,354,800            |
| Assets held for sale  | 7,430,300            | 7,574,100            |
| Prepaid expenses and other current assets   | 656,900              | 631,100              |
| Total current assets  | 11,850,800           | 12,276,500           |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>   |                      |                      |
|   | 298,300              | 320,900              |
| <b>OTHER ASSETS</b>   |                      |                      |
| Goodwill  | 12,575,400           | 12,575,400           |
| Other intangible assets, net  | 1,093,400            | 1,201,100            |
| Other assets  | 250,900              | 344,900              |
| Total other assets  | 13,919,700           | 14,121,400           |
| <b>TOTAL ASSETS</b>   | <b>\$ 26,068,800</b> | <b>\$ 26,718,800</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                      |                      |
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| Accounts payable and accrued expenses   | \$ 1,904,900         | \$ 2,539,300         |
| Dividends payable   | 115,400              | 106,500              |
| Notes payable, current  | 4,126,200            | 1,716,500            |
| Capital leases  | 15,800               | 15,100               |
| Customer advances   | 325,400              | 192,900              |
| Liabilities related to assets held for sale   | 2,349,300            | 2,248,400            |
| Deferred revenue  | 560,100              | 248,300              |
| Total current liabilities   | 9,397,100            | 7,067,000            |
| <b>LONG-TERM LIABILITIES</b>  |                      |                      |
| Notes payable, long-term  | 500,000              | 3,394,700            |
| Deferred revenue, long-term   | -                    | 256,000              |
| Capital leases, long-term   | 18,900               | 23,200               |
| <b>TOTAL LIABILITIES</b>  | <b>9,916,000</b>     | <b>10,740,900</b>    |
| <b>Preferred Stock - Series B</b>   |                      |                      |
| Convertible - 500,000 shares authorized, 103,200 and 100,700 issued and outstanding, respectively | 1,019,600            | 994,500              |

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## SHAREHOLDERS' EQUITY

### Preferred Stock

#### Preferred Stock - Series D

|  |           |           |
|--|-----------|-----------|
| - 500,000 shares authorized,<br>292,000 and 285,500 shares issued<br>and outstanding, respectively | 2,913,000 | 2,847,700 |
|--|-----------|-----------|

#### Preferred Stock - Series E

|  |         |        |
|--|---------|--------|
| Convertible - 750,000 shares<br>authorized, 150,000 and 15,000<br>shares issued and outstanding,<br>respectively | 608,500 | 67,500 |
|--|---------|--------|

### Common Stock

Class A - 75,000,000 shares  
authorized, 33,888,900 and  
32,447,600 shares, net of 16,000  
and 16,000 treasury shares,  
outstanding at September 30, 2009  
and June 30, 2009, respectively

|             |             |
|-------------|-------------|
| 106,319,600 | 105,570,200 |
|-------------|-------------|

Class B - 25,000,000 shares  
authorized and 0 shares  
outstanding

|                     |              |              |
|---------------------|--------------|--------------|
| Accumulated deficit | (94,707,900) | (93,502,000) |
|---------------------|--------------|--------------|

|                            |            |            |
|----------------------------|------------|------------|
| Total shareholders' equity | 15,133,200 | 14,983,400 |
|----------------------------|------------|------------|

## TOTAL LIABILITIES & SHAREHOLDERS' EQUITY

|    |            |    |            |
|----|------------|----|------------|
| \$ | 26,068,800 | \$ | 26,718,800 |
|----|------------|----|------------|

See accompanying notes to the condensed consolidated financial statements

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## ALANCO TECHNOLOGIES, INC.

### CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, (unaudited)

|  | 2009         | 2008         |
|--|--------------|--------------|
| NET SALES                                    | \$ 2,976,900 | \$ 3,312,700 |
| Cost of goods sold                           | 1,587,700    | 2,508,200    |
| GROSS PROFIT                                 | 1,389,200    | 804,500      |
| OPERATING EXPENSES                           |              |              |
| Selling, general and administrative expenses | 1,311,300    | 1,339,800    |
| Corporate expenses                           | 160,800      | 2,400        |
| Amortization of stock-based compensation     | 168,800      | 113,100      |
| Depreciation and amortization                | 135,600      | 115,700      |
|  | 1,776,500    | 1,571,000    |
| OPERATING LOSS                               | (387,300)    | (766,500)    |
| OTHER INCOME & EXPENSES                      |              |              |
| Interest expense, net                        | (174,500)    | (378,400)    |

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|   |                |                |
|---|----------------|----------------|
| Other income (expense), net   | (800)          | (183,400)      |
| LOSS FROM CONTINUING OPERATIONS   | (562,600)      | (1,328,300)    |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS                                | (502,800)      | 96,600         |
| NET LOSS  | (1,065,400)    | (1,231,700)    |
| Preferred stock dividends   | (140,500)      | (91,000)       |
| NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS                              | \$ (1,205,900) | \$ (1,322,700) |
| NET LOSS PER SHARE - BASIC AND DILUTED                                    |                |                |
| Continuing operations   | \$ (0.02)      | \$ (0.04)      |
| Discontinued operations   | \$ (0.02)      | 0.00           |
| Preferred stock dividends   | \$ (0.00)      | (0.00)         |
| Net loss per share attributable to common shareholders                    | \$ (0.04)      | \$ (0.04)      |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING                                | 32,591,600     | 31,454,100     |
| See accompanying notes to the condensed consolidated financial statements |                |                |

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ALANCO TECHNOLOGIES, INC.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009 (unaudited)

|                                       | COMMON STOCK<br>(NET OF TREASURY STOCK) |               | SERIES D<br>PREFERRED STOCK |             | SERIES E<br>CONVERTIBLE<br>PREFERRED STOCK |            |
|---------------------------------------|---|---------------|-----------------------------|-------------|--|------------|
|                                       | SHARES                                  | AMOUNT        | SHARES                      | AMOUNT      | SHARES                                     | AMOUNT     |
| Balances, June 30, 2009               | 32,447,600                              | \$105,570,200 | 285,500                     | \$2,847,700 | 15,000                                     | \$ 600,000 |
| Shares issued for services            | 50,000                                  | 19,000        | -                           | -           | -  | -          |
| Shares issued for payment of notes    | 1,287,900                               | 510,000       | -                           | -           | -  | -          |
| Value of stock based compensation     | -                                       | 179,200       | -                           | -           | -  | -          |
| Private offering, net of expenses     | -                                       | -             | -                           | -           | 135,000                                    | 540,000    |
| Series B preferred dividends, paid    | -                                       | -             | -                           | -           | -  | -          |
| Series D preferred dividends, paid    | 103,400                                 | 41,200        | 6,500                       | 65,300      | -  | -          |
| Series D preferred dividends, accrued | -                                       | -             | -                           | -           | -  | -          |
| Series E preferred dividends, paid    | -                                       | -             | -                           | -           | -  | -          |
| or accrues                            | -                                       | -             | -                           | -           | -  | -          |
| Net loss                              | -                                       | -             | -                           | -           | -  | -          |
| Balances, September 30, 2009          | 33,888,900                              | \$106,319,600 | 292,000                     | \$2,913,000 | 150,000                                    | \$ 600,000 |

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, (unaudited)

|   | 2009           | 2008           |
|---|----------------|----------------|
|   | -----          | -----          |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                |                |
| Net loss  | \$ (1,065,400) | \$ (1,231,700) |
| Adjustments to reconcile net income to net cash used in operating activities: |                |                |
| Depreciation and amortization   | 164,600        | 140,600        |
| Stock and warrants issued for services  | 69,000         | 18,800         |
| Stock-based compensation  | 179,200        | 120,200        |
| Treasury shares adjustment related to TSIN acquisition                        | -              | 187,500        |
| Notes payable/receivable write-off associated with TSIN                       | -              | (284,500)      |
| Changes in operating assets and liabilities:                                  |                |                |
| Accounts receivable, net  | 422,500        | (521,500)      |
| Inventories, net  | 215,700        | 1,114,900      |
| Prepaid expenses and other current assets                                     | (41,500)       | (235,000)      |
| Accounts payable and accrued expenses   | (726,900)      | (759,100)      |
| Deferred revenue  | 269,700        | 214,000        |
| Costs and estimated earnings in excess of billings on uncompleted contracts   | 64,000         | (330,200)      |
| Billings in excess of costs and estimated earnings on uncompleted contracts   | (43,300)       | 429,000        |
| Customer advances   | 155,300        | 14,600         |
| Other assets  | 94,000         | 246,700        |
|   | -----          | -----          |
| Net cash used in operations   | (243,100)      | (875,700)      |
|   | -----          | -----          |
| CASH FLOWS FROM INVESTING ACTIVITIES  |                |                |
| Purchase of property, plant and equipment                                     | (7,400)        | (18,000)       |
|   | -----          | -----          |
| Net cash provided by (used in) investing activities                           | \$ (7,400)     | \$ (18,000)    |
|   | -----          | -----          |

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, (continued)

|                                      | 2009  | 2008  |
|--------------------------------------|-------|-------|
|                                      | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES |       |       |

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|  |            |              |
|--|------------|--------------|
| Net (repayments) advances on line of credit    | \$ -       | \$ 500,000   |
| Repayment on borrowings                        | (25,000)   | (1,587,600)  |
| Repayment on capital leases                    | (3,600)    | -            |
| Net proceeds from sale of preferred stock      | 541,000    | -            |
| Proceeds from notes payable                    | -          | 500,000      |
| Proceeds from sale of equity instruments, net  | -          | 2,039,300    |
| Cash dividends paid                            | -          | (68,300)     |
|  | -----      | -----        |
| Net cash provided by financing activities      | 512,400    | 1,383,400    |
|  | -----      | -----        |
| NET INCREASE (DECREASE) IN CASH                | 261,900    | 489,700      |
| CASH AND CASH EQUIVALENTS, beginning of period | 413,500    | 726,900      |
|  | -----      | -----        |
| CASH AND CASH EQUIVALENTS, end of period       | \$ 675,400 | \$ 1,216,600 |
|  | =====      | =====        |

### SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

|   |            |            |
|---|------------|------------|
| Net cash paid during the period for interest                  | \$ 115,800 | \$ 70,500  |
|   | =====      | =====      |
| Non-Cash Activities:  |            |            |
| Value of shares issued for services and credit line amendment | \$ 19,000  | \$ 18,800  |
|   | =====      | =====      |
| Value of shares issued in payment of interest and services    | \$ 50,000  | \$ -       |
|   | =====      | =====      |
| Treasury stock adjustment related to TSIN acquisition         | \$ -       | \$ 187,500 |
|   | =====      | =====      |
| Write-off of contingent notes payable - TSIN settlement       | \$ -       | \$ 314,100 |
|   | =====      | =====      |
| Write-off of notes receivable - TSIN settlement               | \$ -       | \$ 29,600  |
|   | =====      | =====      |
| Value of stock issued for payment of notes                    | \$ 460,000 | \$ -       |
|   | =====      | =====      |
| Series B preferred stock dividend, paid in kind               | \$ 25,100  | \$ 22,700  |
|   | =====      | =====      |
| Series D preferred stock dividend, accrued                    | \$ 110,000 | \$ -       |
|   | =====      | =====      |
| Series E preferred stock dividend, paid or accrued            | \$ 5,400   | \$ -       |
|   | =====      | =====      |

See accompanying notes to the condensed consolidated financial statements



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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. During the fiscal quarter ended September 30, 2009, the Company expanded its divestiture plan to include the RFID Technology segment. Accordingly, the "Assets Held for Sale" and "Liabilities Related to Assets Held for Sale" presented in the attached balance sheets as of September 30, 2009 and 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 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 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,

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 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.

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 three months ended September 30, 2009, that are of significance, or potential significance, to us.

In April 2008, the FASB issued guidance which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. This guidance is effective for fiscal years beginning after December 15, 2008. The Company has evaluated the impact of this guidance on our financial statements, and has determined that it will not have a material impact on the Company's financial statements.

In May 2008, the FASB issued guidance which clarifies the accounting for convertible debt instruments and specifies that issuers should separately account for the liability and the equity components of convertible debt instruments that may be settled in cash upon conversion. This guidance is effective for fiscal years and interim periods beginning after December 15, 2008. The Company has evaluated the impact of this statement and has determined that this clarification will not have a material impact on the Company's financial position and results of operations.

In June 2008, the EITF reached a consensus that addresses the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which is the first part of the scope exception in FASB ASC 815-10-15. This consensus is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early application is not permitted. The Company has evaluated the impact of this statement on our financial statements, and has determined that the consensus did not have a material impact on its financial position and results of operations.

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

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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 April 2009, the FASB issued guidance on interim disclosures about fair value of financial instruments which are effective for interim and annual reporting periods ending after June 15, 2009. The guidance amends the other-than-temporary impairment guidance in GAAP for debt securities to modify the requirement for recognizing other-than-temporary impairments and changes the existing impairment model and modifies the presentation and frequency of related disclosures. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

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ALANCO TECHNOLOGIES, INC.

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

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (ASC 105), (formerly SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles). This standard establishes only two levels of US GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification" or "ASC") became the source of authoritative, nongovernmental US GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative US GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. The Company began using the new guidelines and numbering system prescribed by the Codification when referring to US GAAP in the first quarter of fiscal 2010. As the Codification was not intended to change or alter existing US GAAP, it did not have any impact on the Company's condensed consolidated financial statements.

In August 2009, the FASB issued guidance clarifying the measurement of liabilities at fair value. This guidance is effective for the first reporting period (including interim periods) beginning after issuance. 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.

### 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

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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 three months ended September 30, 2009 were:

|  | Awards granted during the<br>three months ended<br>September 30, 2009<br>----- |
|--|--|
| 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 Black Scholes<br>calculated fair value | \$0.15   |

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### ALANCO TECHNOLOGIES, INC.

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

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

|                                | Number of<br>Shares | Weighted Average<br>Exercise Price<br>Per Share | Weighted Average<br>Remaining<br>Contractual<br>Term (1) | Aggregate<br>Intrinsic<br>Value (2) |
|--------------------------------|---------------------|---|--|-------------------------------------|
| Outstanding July 1, 2009       | 6,044,700           | \$0.94  | 3.41   | \$5,500                             |
| Granted                        | 1,165,000 (3)       | \$0.50  | 4.79   | \$81,500                            |
| Exercised                      | -                   | \$0.00  | -  | -                                   |
| Forfeited or expired           | (188,700)           | \$0.86  | -  | -                                   |
| Outstanding September 30, 2009 | 7,021,000           | \$0.87  | 3.49   | \$87,000                            |
| Exercisable September 30, 2009 | 5,887,200           | \$0.90  | 3.45   | \$57,100                            |

(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 September 30, 2009, for those awards that have an exercise price currently below the closing price as of September 30, 2009 of \$0.57.

(3) Options granted during the quarter ended September 30, 2009 totaling 1,165,000 shares had an aggregate fair value of \$174,500.

#### Note C - Inventories

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

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|                                   | September 30,<br>2009 | June 30,<br>2009 |
|-----------------------------------|-----------------------|------------------|
|                                   | -----                 | -----            |
|                                   | (unaudited)           |                  |
| Raw materials and purchased parts | \$ 1,807,700          | \$ 1,954,800     |
| Finished goods                    | -                     | -                |
|                                   | -----                 | -----            |
|                                   | 1,807,700             | 1,954,800        |
| Less reserves for obsolescence    | (600,000)             | (600,000)        |
|                                   | -----                 | -----            |
|                                   | \$ 1,207,700          | \$ 1,354,800     |
|                                   | =====                 | =====            |

## Note D - Assets Held For Sale

During the quarter ended September 30, 2009 the Company expanded its divestiture plan by including RFID Technology segment assets along with Data Storage segment assets in its plan to divest certain assets and reinvest the proceeds into the Company's Wireless Asset Management segment. Accordingly, the "Assets Held for Sale" and "Liabilities Related to Assets Held for Sale" presented in the attached balance sheets as of September 30, 2009 and 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 period presented. The Company has entered into agreements with investment bankers to represent the Company in the sale of those assets and liabilities; however, a firm acceptable offer has not yet been received. The Company is continuing to operate the segments and believes the net asset value recorded for the business segments are appropriate.

The Data Storage segment and RFID Technology segment operating results for the quarters ended September 30, 2009 and 2008 were as follows:

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## ALANCO TECHNOLOGIES, INC.

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

|   | Data<br>Storage | RFID<br>Technology | Total        |
|---|-----------------|--------------------|--------------|
|   | -----           | -----              | -----        |
| Three Months Ended September 30, 2009         |                 |                    |              |
| Sales   | \$ 470,800      | \$ 231,900         | \$ 702,700   |
| Cost of Goods Sold                            | 298,600         | 240,600            | 539,200      |
|   | -----           | -----              | -----        |
| Gross Profit (Loss)                           | 172,200         | (8,700)            | 163,500      |
| Selling, General & Administrative<br>Expenses | 165,600         | 500,700            | 666,300      |
|   | -----           | -----              | -----        |
| Operating Income (Loss)                       | \$ 6,600        | \$ (509,400)       | \$ (502,800) |
|   | =====           | =====              | =====        |
| Gross Margin                                  | 36.6%           | -3.8%              | 23.3%        |
|   | =====           | =====              | =====        |
| Capital Expenditures                          | \$ -            | \$ 1,700           | \$ 1,700     |
|   | =====           | =====              | =====        |
| Depreciation & Amortization                   | \$ 6,900        | \$ 22,100          | \$ 29,000    |
|   | =====           | =====              | =====        |

As of September 30, 2009  
Assets held for sale

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|  |              |              |              |
|--|--------------|--------------|--------------|
| Inventory, net                                     | \$ 450,900   | \$ 987,700   | \$ 1,438,600 |
| Costs and estimated earnings in excess of billings | -            | 108,500      | 108,500      |
| Prepaid expenses and other assets                  | 85,000       | 319,400      | 404,400      |
| Property, plant and equipment, net                 | 43,100       | 79,400       | 122,500      |
| Goodwill   | 279,600      | 5,076,700    | 5,356,300    |
|  | -----        | -----        | -----        |
| Total  | \$ 858,600   | \$ 6,571,700 | \$ 7,430,300 |
|  | =====        | =====        | =====        |
| Liabilities related to assets held for sale        |              |              |              |
| Billings in excess of costs and estimated earnings | \$ -         | \$ 202,200   | \$ 202,200   |
| Deferred warranty revenue and customer advances    | 247,200      | 1,026,200    | 1,273,400    |
| Accounts payable and accrued expenses              | 186,200      | 687,500      | 873,700      |
|  | -----        | -----        | -----        |
| Total  | \$ 433,400   | \$ 1,915,900 | \$ 2,349,300 |
|  | =====        | =====        | =====        |
| Three Months Ended September 30, 2008              |              |              |              |
| Sales  | \$ 573,300   | \$ 2,141,800 | \$ 2,715,100 |
| Cost of Goods Sold                                 | 388,800      | 1,547,200    | 1,936,000    |
|  | -----        | -----        | -----        |
| Gross Profit                                       | 184,500      | 594,600      | 779,100      |
| Selling, General & Administrative Expenses         | 295,100      | 387,400      | 682,500      |
|  | -----        | -----        | -----        |
| Operating Income (Loss)                            | \$ (110,600) | \$ 207,200   | \$ 96,600    |
|  | =====        | =====        | =====        |
| Gross Margin                                       | 32.2%        | 27.8%        | 28.7%        |
|  | =====        | =====        | =====        |
| Capital Expenditures                               | \$ -         | \$ 9,500     | \$ 9,500     |
|  | =====        | =====        | =====        |
| Depreciation & Amortization                        | \$ 5,100     | \$ 19,800    | \$ 24,900    |
|  | =====        | =====        | =====        |
| As of September 30, 2009                           |              |              |              |
| Assets held for sale                               |              |              |              |
| Inventory, net                                     | \$ 527,200   | \$ 980,000   | \$ 1,507,200 |
| Costs and estimated earnings in excess of billings | -            | 172,500      | 172,500      |
| Prepaid expenses and other assets                  | 67,100       | 326,300      | 393,400      |
| Property, plant and equipment, net                 | 49,900       | 94,800       | 144,700      |
| Goodwill   | 279,600      | 5,076,700    | 5,356,300    |
|  | -----        | -----        | -----        |
| Total  | \$ 923,800   | \$ 6,650,300 | \$ 7,574,100 |
|  | =====        | =====        | =====        |
| Liabilities related to assets held for sale        |              |              |              |
| Billings in excess of costs and estimated earnings | \$ -         | \$ 245,500   | \$ 245,500   |
| Deferred warranty revenue and customer advances    | 231,200      | 805,500      | 1,036,700    |
| Accounts payable and accrued expenses              | 199,900      | 766,300      | 966,200      |
|  | -----        | -----        | -----        |
| Total  | \$ 431,100   | \$ 1,817,300 | \$ 2,248,400 |
|  | =====        | =====        | =====        |

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ALANCO TECHNOLOGIES, INC.

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

If the Data Storage segment had been included in continuing consolidated operating results for the period, sales for the three-months ended September 30, 2009 would have been \$3,447,700 (a \$438,300, or 11.3%, decrease), compared to \$3,886,000 for the same period of the prior year. Gross profit would have increased to \$1,561,500, an increase of 57.9%, or \$572,500, when compared to the comparable quarter of the prior fiscal year. Selling, General and Administrative expenses would have been \$1,682,200, a decrease of \$130,200 when compared to the quarter ended September 30, 2008 and the operating loss would have been (\$380,600) compared to an operating loss of (\$877,100) for the same quarter of the prior year, a decrease of \$496,500 or 56.6%. The improved operating results were due to improved margins (36.6% vs. 32.2%) and reduced Selling, General and Administrative expenses.

Including the RFID Technology segment in continuing consolidated operating results, sales for the three-months ended September 30, 2009 would have been \$3,208,800, a decrease of \$2,245,700, or 41.2%, compared to \$5,454,500 for the same period of the prior year. Gross profit would have increased to \$1,380,600, a decrease of 1.3%, or \$18,500, when compared to the comparable quarter of the prior fiscal year. Selling, General and Administrative expenses would have been \$2,017,300, an increase of \$112,600, or 5.9%, compared to the quarter ended September 30, 2008 and the operating loss would have been (\$896,700) compared to an operating loss of (\$559,300) for the same quarter of the prior year, an increase of \$337,400 or 60.3%. The operating results for the RFID Technology segment were significantly affected by reduced revenues resulting from delays in customer progress on awarded contracts and lack of available project funding at both the state and federal level.

The reclassification of the Data Storage and RFID Technology segments to "Assets Held for Sale" does not affect the reported net loss for the periods presented as both segments' results are reflected in Income (Loss) From Discontinued Operations. The Company has entered into an agreement with an investment banker to represent the Company in the sale of the Data Storage "Assets Held for Sale" and has entered into a separate agreement with a second investment banker to represent the Company in the sale of the RFID Technology "Assets Held for Sale." A firm acceptable offer has not yet been received for either segment. The Company is continuing to operate the segments and believes the net asset value recorded for the business segments are appropriate.

### Note E - Deferred Revenue

Deferred revenues at September 30, 2009 and June 30, 2009 consist of the following:

|                              | September 30,<br>2009 | June 30,<br>2009 |
|------------------------------|-----------------------|------------------|
|                              | -----                 | -----            |
|                              | (unaudited)           |                  |
| Deferred revenue             | \$ 560,100            | \$ 248,300       |
| Less - current portion       | (560,100)             | (248,300)        |
|                              | -----                 | -----            |
| Deferred revenue - long term | \$ -                  | \$ -             |
|                              | =====                 | =====            |

ALANCO TECHNOLOGIES, INC.

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

#### 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 September 30, 2009, there were no dilutive securities included in the loss per share calculation as the effect would be antidilutive. However, there were 815,100 options and \$100,000 of debt, convertible into 264,500 shares of common stock, whose exercise price and conversion price, respectively, were "in the money" at September 30, 2009.

#### Note G - Equity

During the three months ended September 30, 2009, the Company issued a total of 1,441,300 shares of the Company's Class A Common Stock. Included were 50,000 shares issued for services valued at \$19,000, 1,287,900 shares issued for payment of notes and interest valued at \$510,000 and 103,400 common shares issued in payment of certain Series D Preferred Dividend obligations, valued at \$41,200. The Company also issued 6,500 shares of Class D Preferred Stock in payment in-kind of certain Series D Preferred Dividend obligations, valued at \$65,300.

The Company completed a private offering to accredited investors during the quarter with the issuance of 135,000 shares of Series E Convertible Preferred Stock. The Company received \$541,000, net of expenses of \$62,000, for the offering.

The Company declared and paid dividends-in-kind on the Company's Series B Convertible Preferred Stock through the issuance of 2,500 shares of Series B Preferred Stock valued at \$25,100. The Company's Preferred Stocks are more fully discussed in the Form 10-K for the year ended June 30, 2009.

The value of employee stock-based compensation recognized for the three months ended September 30, 2009 amounted to \$179,200, compared to \$120,200 recognized in the same quarter 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.

#### 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 ("Lender") controlled by Mr. Donald Anderson, a greater than five percent stockholder of the Company and member of the Company's Board of Directors. Mr. Anderson is also the holder of a \$500,000 unsecured note issued by StarTrak Systems LLC, a wholly owned subsidiary of the Company and has disclosed beneficial ownership of approximately \$1.6 million in Series D Preferred Stock owned by the Lender and by several related corporations. Mr. Anderson's investments in the Company are more fully discussed in the Company's Form 10-K for the fiscal year ended June 30, 2009.

As discussed in the equity footnote above, during the quarter ended September 30, 2009, the Company issued a total of 103,400 shares of Class A



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Common Stock, valued at \$41,200 and 6,500 shares of Series D Preferred Stock, valued at \$65,300, in payment of Series D Preferred Stock dividends. \$3,700, or 9% of the Class A Common Stock issued and \$65,300, or 100% of the Series D Preferred Stock issued as Series D Preferred Stock dividend payments went to officers and directors of the Company.

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### ALANCO TECHNOLOGIES, INC.

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

##### Note I - Line of Credit and Term Loan

At September 30, 2009, the Company had an outstanding balance under a line of credit agreement of \$3,250,000. The balance is under a \$3.25 million line of credit agreement with a private trust, entered into in June 2002 and last modified in January 2009. Under the Agreement, the Company must maintain a minimum balance due of at least \$2.5 million through the July 1, 2010 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 September 30, 2009, the Company had drawn the maximum balance under the Agreement.

During September 2009, the Company amended its term loan agreement with ComVest Capital LLC, 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 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.

The Company also executed, on September 16, 2009, an amendment to a note issued to Tenix Holding Inc. with a remaining principal balance of \$360,000. The amended note converts 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 10, 2009 was \$.50 per share and no amount has been accrued for the possibility of additional shares being issued under the amended agreement.

##### Note J - Litigation

The Company is a plaintiff in litigation initiated by its subsidiary, StarTrak Systems, LLC, against former employees and others for violation of certain non-disclosure covenants and for misappropriation of trade secrets. The Company continues as a party to litigation arising from an expired property

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lease between the Company's former subsidiary, Arraid, Inc., and Arraid Property L.L.C., an Arizona limited liability company. The actions are more fully described below.

### StarTrak Systems Litigation

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On July 12, 2007, the Company's subsidiary, StarTrak Systems, LLC, commenced a lawsuit against Brian Hester, Satamatics, Ltd., Satamatics, Inc., and Farruhk Shahzad in the United States District Court, District of New Jersey, as case number 07-3203(DRD), for misappropriation of trade secrets, violation of confidentiality agreements and contempt for violation of a previously issued court order concerning such trade secrets issued to Brian Hester. Brian Hester and Farruhk Shahzad are previous employees of StarTrak, and the Company believes that they have employed and/or are attempting to employ trade secrets of StarTrak in connection with their association with Satamatics in direct competition with StarTrak. The Company is seeking injunctive relief and damages from the defendants. Settlement discussions are proceeding and the Company anticipates conclusion of the litigation in the near future.

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ALANCO TECHNOLOGIES, INC.

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

### Arraid Litigation

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On July 18, 2003, Arraid Property L.L.C., an Arizona Limited Liability Company ("Arraid LLC"), filed a complaint in the Arizona Superior Court in and for Maricopa County, Arizona (case number CV 2003-13999) against the Company and its wholly owned subsidiary, Arraid, Inc., alleging breach of lease and seeking substantial monetary damages in excess of \$3 million. The suit relates to an expired lease agreement for property previously leased by Arraid. Following a trial, the Court found in favor of Arraid LLC against the Company with respect to certain factual findings resulting in damages owed by the Company in an amount of approximately \$35,000, less than one percent of the amount sought by the plaintiff. The court determined that the plaintiff was the prevailing party, and awarded the plaintiff approximately \$95,000 in attorney's fees and costs. The Company appealed the decision to the Arizona Court of Appeals. The Court of Appeals vacated the award of attorney's fees against the Company as well as some of the damages awarded to the plaintiff, awarded the Company \$60,000 in appeal legal fees and in excess of \$10,000 in appeal costs, and returned the case to the trial court to determine the final judgment and to award the successful party its legal fees. The matter has been heard in the Superior Court and the Company anticipates final resolution of the matter in the near future.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of September 30, 2009 there was no such litigation pending deemed material by the Company.

### Note K - Subsequent Events

The Company announced on October 5, 2009 that its StarTrak Systems subsidiary has entered into a four year contract valued in excess of \$3 million dollars with FFE Transportation Services, Inc. (NASDAQ: FFEX), a premier provider of refrigerated transportation and logistics services, for fleetwide deployment of StarTrak's ReeferTrak monitoring and management services. The new contract will commence immediately to outfit approximately 2,500 of FFE's refrigerated trailers with StarTrak's new ReeferTrak RT-6000 communicator/modem.

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StarTrak will also provide FFE with its extensive menu of unique reefer network management and control data services over an initial four year period.

Subsequent to September 30, 2009, the Company issued 50,400 shares of Class A Common Stock, valued at \$25,800, and 8,422 shares of Series D Preferred Stock, valued at \$84,200, as payment for \$110,000 in Series D Preferred Stock dividends that had been accrued at September 30, 2009. 13,300, or 26.4% of the Class A Common Shares and 6,500, or 77.2%, of the Series D Preferred Stock were issued to officers and directors 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.

During October 2009, the Company issued 70,000 shares of Series E Convertible Preferred Stock in a private offering to accredited investors for \$308,250. 15,000, or 21.4%, of the shares were issued to an officer and director.

On November 11, 2009, the Company announced a new strategic initiative focused on accelerating growth of the Company's core wireless monitoring services business, StarTrak Systems, LLC. Since Alanco acquired StarTrak in June, 2006, its sales have grown at a compounded rate of 25% to approximately \$14 million in the fiscal year ending June 30, 2009. A key element of the new plan is significant additional non-dilutive financing expected to be generated through the divestiture of the Company's non-core assets, Alanco/TSI PRISM, Inc., its RFID inmate tracking business, and Excel Meridian

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ALANCO TECHNOLOGIES, INC.

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

Data, Inc., its data storage products business. The Company estimates the cash market value of both businesses to total in excess of \$10 million. Alanco is being advised on the TSI PRISM and Excel Meridian divestitures by Imperial Capital LLC, Los Angeles, CA, and Cove Partners LLC, San Diego, CA, respectively.

The Company has evaluated subsequent events through November 16, 2009, which is the date the financial statements were issued.

### Note L - Liquidity

During the quarter ended September 30, 2009, the Company reported a net loss of approximately \$1.065 million. During fiscal year ended June 30, 2009, the Company reported losses from continuing operations of approximately \$5.4 million. Although the Company raised additional capital during the current quarter and prior year, 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, 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

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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.

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### 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 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.

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### 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.

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 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.

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,

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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

Three months ended September 30, 2009 versus three months ended September 30, 2008

#### Net Sales

Net sales from continuing operations for the first fiscal quarter ended September 30, 2009 were \$2,976,900, a decrease of \$335,800, or 10.1%, compared to net sales of \$3,312,700 reported for the comparable quarter of the prior year. The decrease resulted from reduced hardware shipments under major contracts during the quarter ended September 30, 2009 compared to the quarter ended September 30, 2008. 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.

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ALANCO TECHNOLOGIES, INC.

#### Gross Profit

Gross profit from continuing operations for the quarter ended September 30, 2009 amounted to \$1,389,200, an increase of \$584,700, or 72.7% compared to \$804,500 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 46.7% compared to 24.3% 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 in all business segments 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 first quarter ended September 30, 2009.

#### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the quarter ended September 30, 2009 were \$1,311,300, a \$28,500, or 2.1%, decrease when compared to the \$1,339,800 reported for the comparable period of the prior year. Corporate expenses reported for the current quarter of \$160,800 represents an increase of \$158,400 compared to \$2,400 reported for the quarter ended September 30, 2008. 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 quarter corporate expenses also included credits related to lawsuits. During the current quarter, the Arizona Court of Appeals vacated an award of attorney's fees and damages awarded to the Plaintiff in the Arriad 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 would reflect a decrease of \$11,800, or 3.9%.

Amortization of stock-based compensation reported for the quarter ended

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September 30, 2009 increased to \$168,800, an increase of \$55,700, or 49.2% due to the Company's election to accelerate vesting of certain officer, director and employee stock options, a 22% increase in the number of shares granted and change in assumptions used to value the stock options under the Black-Scholes valuation method.

Depreciation and amortization expense for the quarter increased to \$135,600, an increase of \$19,900, or 17.2% due to additional production equipment and leasehold improvements at the Company's facilities in Morris Plains, New Jersey.

### Operating Loss

Operating Loss for the quarter ended September 30, 2009 was (\$387,300) compared to an Operating Loss of (\$766,500) reported for the same quarter of the prior year, an improvement of \$379,200, or 49.5%. The improved operating results are due to a significant improvement in gross margins offset by increases in corporate expenses and stock-based compensation expense.

### Other Income and Expense

Net interest expense for the quarter decreased to \$174,500, a decrease of \$203,900, or 53.9%, compared to net interest expense of \$378,400 for the same quarter in the prior year. The decrease was due to a one-time accelerated amortization of deferred loan costs of approximately \$216,000 recorded in the quarter ended September 30, 2008 related to the prepayment on the ComVest term loan.

The Company reported a reduction in Other Expense from \$183,400 in the first quarter of the prior fiscal year to a loss of (\$800) reported in the current quarter ended September 30, 2009. Other Expense for the prior year quarter included a \$187,500 charge related to reduction in estimated value of the Company's 8.9% investment in TSIN.

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### ALANCO TECHNOLOGIES, INC.

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.

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.

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### Discontinued Operations

The Company reported a loss from Discontinued Operations for the quarter ended September 30, 2009 of (\$502,800), an increase of approximately (\$599,400) compared to income from Discontinued Operations of \$96,600 reported for the comparable quarter of the prior year. The significant increase resulted primarily from a 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 expected to resume and accelerate in the January quarter of 2010.

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

The Company believes that (loss) earnings before net interest expense, income taxes, depreciation, and amortization of intangible assets, (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 for Alanco's 2010 fiscal year first quarter represents a loss of (\$726,300) compared to a loss of (\$712,600) for the same quarter of the prior fiscal year, a change of \$13,700, or 1.9%. EBITDA from continuing operations represents a Net Loss of (\$252,500) and (\$834,200) for the quarters ended September 30, 2009 and 2008, respectively. EBITDA before Stock-based compensation and Corporate Expense for the current quarter was \$77,100 compared to a loss of (\$718,700) for the comparable quarter of the prior year. A reconciliation of the EBITDA calculations are presented below:

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

|  | 3 months ended<br>September 30,<br>2009 | 3 months ended<br>September 30,<br>2008 |
|--|---|---|
|  | -----                                   | -----                                   |
| EBITDA before Stock-based compensation and Corporate Expense | \$ 77,100                               | \$ (718,700)                            |
| Corporate Expense  | (160,800)                               | (2,400)                                 |
| Stock-based compensation                                     | (168,800)                               | (113,100)                               |
|  | -----                                   | -----                                   |
| EBITDA   | (252,500)                               | (834,200)                               |
| Net interest expense   | (174,500)                               | (378,400)                               |
| Depreciation and amortization                                | (135,600)                               | (115,700)                               |
|  | -----                                   | -----                                   |
| NET LOSS FROM CONTINUING OPERATIONS                          | \$ (562,600)                            | \$ (1,328,300)                          |
|  | =====                                   | =====                                   |

### Dividends

Dividend expense for the three months ended September 30, 2009 was \$140,500, an increase of \$49,500, or 54.4%, over the \$91,000 in preferred stock dividends recorded in the comparable period of the prior fiscal year. The



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increase resulted primarily due to additional Series D Preferred Stock outstanding during the current quarter as compared to the quarter ended September 30, 2008.

### Net Loss Attributable to Common Shareholders

Net Loss Attributable to Common Shareholders for the quarter ended September 30, 2009 amounted to (\$1,205,900), or (\$.04) per share, a \$116,800 reduction when compared to a loss of (\$1,322,700), 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.

### Liquidity and Capital Resources

The Company's current assets at September 30, 2009 exceeded current liabilities by \$2,453,700, resulting in a current ratio of 1.26 to 1. At June 30, 2009, current assets exceeded current liabilities by \$5,209,500 reflecting a current ratio of 1.74 to 1. The change in current ratio at September 30, 2009 versus June 30, 2009 resulted from certain notes payable with maturity dates within one year being reclassified from long-term to current. See Note I - Line of Credit and Term Loan for further details on notes payable.

Consolidated accounts receivable of \$1,880,500 at September 30, 2009 reflects a decrease of \$422,500, or 18.3%, when compared to the \$2,303,000 reported as consolidated accounts receivable at June 30, 2009. The accounts receivable balance at September 30, 2009 includes receivables from the two business segments reported as "Assets Held for Sale" at both September 30, 2009 and June 30, 2009, as well as receivables from Wireless Asset Management segment, the Company's continuing operation. The accounts receivable balance for the Wireless Asset Management segment at September 30, 2009 was \$1,449,900 compared to \$1,484,600 at June 30, 2009, a decrease of \$34,700, or 2.3%. Days' sales in receivables for the Wireless Asset Management increased to forty-four from forty days' sales in receivables reported at June 30, 2009.

Receivables for the Data Storage at September 30, 2009 were \$220,800, an increase of \$139,300, compared to the \$81,500 reported at June 30, 2009. Data Storage receivables represents forty-three days' sales in receivables, an increase compared to fourteen days' sales at June 30, 2009. The increase was due primarily to a decrease in the proportion of credit card sales during the current quarter compared to the year ended June 30, 2009. The days' sales calculation of the Data Storage segment can be significantly affected by the proportion of credit card sales in the last month of the reporting period and therefore, the increase in days' sales for the Data Storage segment is not considered a trend.

Receivables for the RFID Technology segment at September 30, 2009 were \$209,800, a decrease of \$527,100, compared to the \$736,900 reported at June 30, 2009. The accounts receivable balance at September 30, 2009 for the RFID Technology segment represents eighty-three days' sales in receivables as compared to forty-nine days' sales in receivables at June 30, 2009. Days' sales in receivables for the RFID Technology segment increased during the period ended September 30, 2009 primarily due to one receivable that is outstanding and past due. However, the days' sales in receivables for the RFID Technology segment can be distorted based on the sales for the periods reported.

Inventories at September 30, 2009 represent only inventories for the Wireless Asset Management segment and amount to \$1,207,700, a decrease of \$147,100, or 10.9%, when compared to \$1,354,800 reported at June 30, 2009. The inventory balance at September 30, 2009 for the Wireless Asset Management

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segment represents an inventory turnover of 5.3 compared to 7.0 as of June 30, 2009. The Company does not consider the reduced inventory turnover a trend and anticipates that calculation will fluctuate from quarter to quarter.

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### ALANCO TECHNOLOGIES, INC.

At September 30, 2009, the Company had fully drawn available funds of \$3.25 million under a \$3.25 million line of credit agreement. See Note I - Line of Credit and Term Loan for additional discussion of the existing line of credit agreement.

Cash used in operations for the three-month period ended September 30, 2009 was \$243,100, a decrease of \$632,600, or 72.2%, when compared to cash used in operations of \$875,700 for the comparable period ended September 30, 2008. The decrease in cash used in operating activities during the three-month period resulted primarily from a decrease in receivables and reduced net loss.

During the three months ended September 30, 2009, the Company reported cash used by investing activities of \$7,400, compared to \$18,000 reported for the same period in the prior fiscal year. The decrease in cash used by investing activities is the result of a reduction in purchase of property, plant and equipment compared to the prior fiscal year quarter ended September 30, 2008.

Cash provided by financing activities for the three months ended September 30, 2009 amounted to \$512,400, a decrease of \$871,000, or 63%, compared to the \$1,383,400 provided by financing activities for the three months ended September 30, 2008. The decrease in financing activity was primarily due to a \$2 million proceeds from the sale of equity instruments during the previous quarter ended September 30, 2008.

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 borrowings, the exercise of stock options and warrants and/or the sale of stock in a private placement or public offering. The additional capital would supplement the projected cash flows from operations and the line of credit agreement in place at September 30, 2009. 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, 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.

#### 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

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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 and discussed in the June 30, 2009 10-K. 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.

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### 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 plans to take 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 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

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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 quarter ended September 30, 2009. 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 quarter ended September 30, 2009 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

The Company is a plaintiff in litigation initiated by its subsidiary, StarTrak Systems, LLC, against former employees and others for violation of certain non-disclosure covenants and for misappropriation of trade secrets. The Company continues as a party to litigation arising from an expired property lease between the Company's former subsidiary, Arraid, Inc., and Arraid Property L.L.C., an Arizona limited liability company. The actions are more fully described below.

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#### ALANCO TECHNOLOGIES, INC.

##### StarTrak Systems Litigation

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On July 12, 2007, the Company's subsidiary, StarTrak Systems, LLC, commenced a lawsuit against Brian Hester, Satamatics, Ltd., Satamatics, Inc., and Farruhk Shahzad in the United States District Court, District of New Jersey, as case number 07-3203(DRD), for misappropriation of trade secrets, violation of confidentiality agreements and contempt for violation of a previously issued court order concerning such trade secrets issued to Brian Hester. Brian Hester and Farruhk Shahzad are previous employees of StarTrak, and the Company believes that they have employed and/or are attempting to employ trade secrets of StarTrak in connection with their association with Satamatics in direct competition with StarTrak. The Company is seeking injunctive relief and damages from the defendants. Settlement discussions are proceeding and the Company anticipates conclusion of the litigation in the near future.

##### Arraid Litigation

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On July 18, 2003, Arraid Property L.L.C., an Arizona Limited Liability Company ("Arraid LLC"), filed a complaint in the Arizona Superior Court in and for Maricopa County, Arizona (case number CV 2003-13999) against the Company and its wholly owned subsidiary, Arraid, Inc., alleging breach of lease and seeking substantial monetary damages in excess of \$3 million. The suit relates to an expired lease agreement for property previously leased by Arraid. Following a trial, the Court found in favor of Arraid LLC against the Company with respect to certain factual findings resulting in damages owed by the Company in an amount of approximately \$35,000, less than one percent of the amount sought by the plaintiff. The court determined that the plaintiff was the prevailing party, and awarded the plaintiff approximately \$95,000 in attorney's fees and costs.

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The Company appealed the decision to the Arizona Court of Appeals. The Court of Appeals vacated the award of attorney's fees against the Company as well as some of the damages awarded to the plaintiff, awarded the Company \$60,000 in appeal legal fees and in excess of \$10,000 in appeal costs, and returned the case to the trial court to determine the final judgment and to award the successful party its legal fees. The matter has been heard in the Superior Court and the Company anticipates final resolution of the matter in the near future.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of September 30, 2009 there was no such litigation pending deemed material by the Company.

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

During the three months ended September 30, 2009, the Company issued 2,500 Shares of Series B Preferred Stock as in-kind dividend payments, 6,500 shares of Series D Preferred Stock as dividends paid in kind and a total of 1,441,300 shares of Class A Common Stock, including 50,000 shares for services rendered, 1,287,900 shares issued for payment of notes and interest, and 103,400 as payment for dividends on Series D preferred stock. During the three months ended September 30, 2009, the Company issued 135,000 shares of Series E Convertible Preferred Stock in a private offering to accredited investors.

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

None

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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

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

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ALANCO TECHNOLOGIES, INC.

### EXHIBIT 31.1

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

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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

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: November 16, 2009

/s/ Robert R. Kauffman

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Robert R. Kauffman  
Chairman and Chief Executive Officer

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 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

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other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 16, 2009

/s/ John A. Carlson

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John A. Carlson  
Executive Vice President and Chief Financial Officer

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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 September 30, 2009, 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

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

Dated: November 16, 2009

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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 September 30, 2009, 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



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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

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

Dated: November 16, 2009