

ALANCO TECHNOLOGIES INC  
Form 10-Q  
May 16, 2011

ALANCO TECHNOLOGIES, INC.

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2011

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.  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 | <input type="checkbox"/> | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated file    | <input type="checkbox"/> | Smaller reporting company | <input checked="" type="checkbox"/> |

(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       No

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

As of May 4, 2011 there were 5,567,700 shares of common stock outstanding.

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,” “potentially,” “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.

## ALANCO TECHNOLOGIES, INC.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2011 AND JUNE 30, 2010

|   | March 31, 2011<br>(unaudited) | June 30, 2010        |
|---|-------------------------------|----------------------|
| <b>ASSETS</b>   |                               |                      |
| <b>CURRENT ASSETS</b>   |                               |                      |
| Cash and cash equivalents   | \$ 183,600                    | \$ 152,100           |
| Assets held for sale  | 17,873,000                    | 20,243,200           |
| Prepaid expenses and other<br>current assets  | 221,800                       | 100,000              |
| Total current assets  | 18,278,400                    | 20,495,300           |
| <b>PROPERTY AND<br/>EQUIPMENT, NET</b>  |                               |                      |
|   | 400                           | 900                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 18,278,800</b>          | <b>\$ 20,496,200</b> |
| <b>LIABILITIES<br/>AND SHAREHOLDERS'<br/>EQUITY</b>   |                               |                      |
| <b>CURRENT LIABILITIES</b>  |                               |                      |
| Accounts payable and accrued<br>expenses  | \$ 602,100                    | \$ 581,700           |
| Dividends payable   | 50,400                        | 56,400               |
| Notes payable, current  | 4,757,900                     | 6,328,000            |
| Liabilities related to assets held<br>for sale  | 3,926,000                     | 3,545,900            |
| <b>TOTAL LIABILITIES</b>  | <b>9,336,400</b>              | <b>10,512,000</b>    |
| Preferred Stock - Series B<br>Convertible - 500,000 shares<br>authorized,<br>119,700 and 111,200 issued and<br>outstanding, respectively          | 1,183,600                     | 1,098,500            |
| <b>SHAREHOLDERS' EQUITY</b>   |                               |                      |
| Preferred Stock - Series D<br>Convertible - 500,000 shares<br>authorized,<br>82,300 and 134,200 shares<br>issued and outstanding,<br>respectively | 814,900                       | 1,333,800            |
| Preferred Stock - Series E<br>Convertible - 750,000 shares  |                               |                      |

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|  |                   |                   |
|--|-------------------|-------------------|
| authorized,<br>725,000 and 735,000 shares<br>issued and outstanding,<br>respectively   | 3,165,900         | 3,210,900         |
| Common Stock - 75,000,000<br>authorized, 5,534,500 and<br>4,665,500<br>shares outstanding, net of 2,000<br>shares of Treasury Stock,<br>at a cost of \$30,000, outstanding<br>at June 30, 2010 | 109,475,600       | 107,355,700       |
| Accumulated deficit  | (105,697,600)     | (103,014,700)     |
| Total shareholders' equity   | 7,758,800         | 8,885,700         |
| <br>TOTAL LIABILITIES &<br>SHAREHOLDERS' EQUITY  | <br>\$ 18,278,800 | <br>\$ 20,496,200 |

See accompanying notes to the condensed consolidated financial statements

## ALANCO TECHNOLOGIES, INC.

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

|   | 2011          | 2010           |
|---|---------------|----------------|
| NET SALES   | \$ -          | \$ -           |
| Cost of goods sold                                    | -             | -              |
| GROSS PROFIT  | -             | -              |
| Corporate expense                                     | 262,100       | 227,100        |
| Amortization of<br>stock-based compensation           | -             | 400            |
| Depreciation and<br>amortization                      | 100           | 200            |
| OPERATING LOSS  | (262,200 )    | (227,700 )     |
| OTHER INCOME &<br>(EXPENSES)                          |               |                |
| Interest expense, net                                 | (130,400 )    | (277,400 )     |
| Other income (expense),<br>net                        | -             | (800 )         |
| LOSS FROM<br>CONTINUING<br>OPERATIONS                 | (392,600 )    | (505,900 )     |
| INCOME (LOSS) LOSS<br>FROM DISCONTINUED<br>OPERATIONS | 800           | (514,900 )     |
| NET LOSS  | (391,800 )    | (1,020,800)    |
| Preferred stock dividends                             | (79,400 )     | (43,600 )      |
| NET LOSS<br>ATTRIBUTABLE TO<br>COMMON<br>SHAREHOLDERS | \$ (471,200 ) | \$ (1,064,400) |
| NET LOSS PER<br>COMMON SHARE -<br>BASIC AND DILUTED   |               |                |
| - Continuing operations                               | \$ (0.07 )    | \$ (0.12 )     |
| - Discontinued<br>operations                          | \$ 0.00       | \$ (0.12 )     |
| - Preferred stock<br>dividends                        | \$ (0.02 )    | \$ (0.01 )     |
|   | \$ (0.09 )    | \$ (0.25 )     |



- Net loss per share  
attributable to common  
shareholders  
WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING

|                     |           |           |
|---------------------|-----------|-----------|
| - Basic and diluted | 5,528,800 | 4,331,800 |
|---------------------|-----------|-----------|

See accompanying notes to the condensed consolidated financial  
statements

## ALANCO TECHNOLOGIES, INC.

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

|   | 2011           | 2010           |
|---|----------------|----------------|
| NET SALES   | \$ -           | \$ -           |
| Cost of goods sold                                    | -              | -              |
| GROSS PROFIT  | -              | -              |
| Corporate expense                                     | 847,400        | 657,700        |
| Amortization of<br>stock-based compensation           | 193,400        | 99,400         |
| Depreciation and<br>amortization                      | 500            | 600            |
| OPERATING LOSS  | (1,041,300)    | (757,700 )     |
| OTHER INCOME &<br>(EXPENSES)                          |                |                |
| Interest expense, net                                 | (384,400 )     | (657,300 )     |
| Other income (expense),<br>net                        | (9,300 )       | (2,700 )       |
| LOSS FROM<br>CONTINUING<br>OPERATIONS                 | (1,435,000)    | (1,417,700)    |
| LOSS FROM<br>DISCONTINUED<br>OPERATIONS               | (1,008,900)    | (1,858,800)    |
| NET LOSS  | (2,443,900)    | (3,276,500)    |
| Preferred stock dividends                             | (239,000 )     | (301,800 )     |
| NET LOSS<br>ATTRIBUTABLE TO<br>COMMON<br>SHAREHOLDERS | \$ (2,682,900) | \$ (3,578,300) |
| NET LOSS PER<br>COMMON SHARE -<br>BASIC AND DILUTED   |                |                |
| - Continuing operations                               | \$ (0.27 )     | \$ (0.34 )     |
| - Discontinued<br>operations                          | \$ (0.19 )     | \$ (0.44 )     |
| - Preferred stock<br>dividends                        | \$ (0.04 )     | \$ (0.07 )     |
| - Net loss per share<br>attributable to common        | \$ (0.50 )     | \$ (0.85 )     |

shareholders

WEIGHTED AVERAGE

COMMON SHARES

OUTSTANDING

- Basic and diluted

5,352,400

4,215,000

See accompanying notes to the condensed consolidated financial  
statements

## ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED MARCH 31, 2011 (unaudited)

|   | COMMON STOCK |               | SERIES D<br>PREFERRED<br>STOCK |             | SERIES E<br>PREFERRED<br>STOCK |             | ACCUMULATED     | TOTAL       |
|---|--------------|---------------|--------------------------------|-------------|--------------------------------|-------------|-----------------|-------------|
|   | SHARES       | AMOUNT        | SHARES                         | AMOUNT      | SHARES                         | AMOUNT      | DEFICIT         |             |
| Balances,<br>June 30, 2010                                  | 4,665,500    | \$107,355,700 | 134,200                        | \$1,333,800 | 735,000                        | \$3,210,900 | \$(103,014,700) | \$8,885,700 |
| Shares<br>issued for<br>services                            | 3,100        | 5,300         | -                              | -           | -                              | -           | -               | 5,300       |
| Shares<br>issued for<br>payment on<br>notes and<br>interest | 1,100        | 2,100         | -                              | -           | -                              | -           | -               | 2,100       |
| Shares<br>issued for<br>exercise of<br>warrants             | 256,200      | 304,800       | -                              | -           | -                              | -           | -               | 304,800     |
| Value of<br>stock based<br>compensation                     | -            | 498,600       | -                              | -           | -                              | -           | -               | 498,600     |
| Private<br>offering, net<br>of expenses                     | 384,300      | 612,400       | -                              | -           | -                              | -           | -               | 612,400     |
| Series D<br>Preferred<br>dividends,<br>paid as<br>indicated | 23,700       | 37,500        | -                              | -           | -                              | -           | -               | 37,500      |
| Series B<br>Preferred<br>dividends,<br>paid in kind         | -            | -             | -                              | -           | -                              | -           | (85,000 )       | (85,000 )   |
| Series D<br>Preferred<br>dividends,<br>paid or<br>accrued   | -            | -             | -                              | -           | -                              | -           | (31,000 )       | (31,000 )   |
| Series E<br>Preferred<br>dividends,<br>paid or<br>accrued   | 53,900       | 83,200        | -                              | -           | -                              | -           | (123,000 )      | (39,800 )   |

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|                                |           |                |          |            |          |              |                 |              |
|--------------------------------|-----------|----------------|----------|------------|----------|--------------|-----------------|--------------|
| Conversion of Pref D to common | 129,700   | 518,900        | (51,900) | (518,900)  | -        | -            | -               | -            |
| Conversion of Pref E to common | 15,000    | 45,000         | -        | -          | (10,000) | (45,000)     | -               | -            |
| NASDAQ listing fees and other  | -         | (17,900)       | -        | -          | -        | -            | -               | (17,900 )    |
| Treasury share adjustment      | 2,000     | 30,000         | -        | -          | -        | -            | -               | 30,000       |
| Net loss                       | -         | -              | -        | -          | -        | -            | (2,443,900 )    | (2,443,900)  |
| Balances, March 31, 2011       | 5,534,500 | \$ 109,475,600 | 82,300   | \$ 814,900 | 725,000  | \$ 3,165,900 | \$(105,697,600) | \$ 7,758,800 |

See accompanying notes to the condensed consolidated financial statements

## ALANCO TECHNOLOGIES, INC.

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

|   | 2011           | 2010           |
|---|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                 |                |                |
| Net loss  | \$ (2,443,900) | \$ (3,276,500) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                |                |
| Depreciation and amortization   | 394,600        | 478,200        |
| Stock-based compensation  | 498,600        | 341,800        |
| Stock issued for services   | 5,300          | 14,800         |
| Loss on sale of data storage assets   | -              | 48,700         |
| Impairment charge   | -              | 325,000        |
| Interest converted to equity  | -              | 62,500         |
| Fees and interest paid with debt  | -              | 108,100        |
| Changes in operating assets and liabilities:                                |                |                |
| Accounts receivable, net  | 796,100        | (758,500 )     |
| Inventories, net  | (841,700 )     | 370,500        |
| Costs in excess of billings and estimated earnings on uncompleted contracts | 12,800         | 56,600         |
| Prepaid expenses and other current assets                                   | 133,300        | 186,200        |
| Accounts payable and accrued expenses                                       | 241,000        | (445,100 )     |
| Deferred revenue  | 52,400         | (13,700 )      |
| Billings and estimated earnings in excess of costs on uncompleted contracts | 7,300          | (146,900 )     |
| Customer advances   | (4,500 )       | 677,500        |
| Other assets  | 42,600         | 143,600        |
| Net cash used in operations   | (1,106,100)    | (1,827,200)    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                 |                |                |
|   | (21,500 )      | (15,200 )      |

|  |              |    |        |
|--|--------------|----|--------|
| Purchase of property, plant and equipment                |              |    |        |
| Cash received for sale of net data storage assets        | -            |    | 61,500 |
| Proceeds from sale of net RFID Technology segment assets | 2,000,000    |    | -      |
| Net cash provided by investing activities                | \$ 1,978,500 | \$ | 46,300 |

See accompanying notes to the condensed consolidated financial statements

## ALANCO TECHNOLOGIES, INC.

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

|   | 2011              |           | 2010              |
|---|-------------------|-----------|-------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>           |                   |           |                   |
| Proceeds from borrowings                              | \$ 784,800        | \$        | 812,700           |
| Repayment on borrowings                               | (2,382,800)       |           | (142,800 )        |
| Repayment of capital lease                            | (13,200 )         |           | (11,100 )         |
| Proceeds from sale of equity instruments              | 947,200           |           | 965,500           |
| Cash dividends paid                                   | (39,200 )         |           | (17,800 )         |
| Other   | (17,900 )         |           | (25,000 )         |
| Net cash provided (used) by financing activities      | (721,100 )        |           | 1,581,500         |
| <b>NET INCREASE (DECREASE) IN CASH</b>                | <b>151,300</b>    |           | <b>(199,400 )</b> |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b> | <b>400,500</b>    |           | <b>413,500</b>    |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>       | <b>\$ 551,800</b> | <b>\$</b> | <b>214,100</b>    |
| <b>SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION</b> |                   |           |                   |
| Net cash paid during the period for interest          | \$ 376,000        | \$        | 323,300           |
| <b>Non-Cash Activities:</b>                           |                   |           |                   |
| Value of shares issued for services                   | \$ 5,300          | \$        | 14,800            |
| Value of stock issued for payment of notes            | \$ 2,100          | \$        | 748,700           |
| Value of stock issued for payment of interest         | \$ -              | \$        | 67,300            |
| Dividends accrued                                     | \$ -              | \$        | 29,600            |
| Series B preferred stock dividend, paid in kind       | \$ 85,000         | \$        | 77,000            |
| Series D preferred stock dividend, paid in kind       | \$ -              | \$        | 178,500           |



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|  |    |         |    |           |
|--|----|---------|----|-----------|
| Series D preferred stock dividend, paid in common                  | \$ | 37,000  | \$ | 105,300   |
| Series D preferred stock converted to line of credit               | \$ | -       | \$ | 1,691,100 |
| Series D preferred stock converted to common stock                 | \$ | 518,900 | \$ | -         |
| Series E preferred stock dividend, paid in common stock or accrued | \$ | 83,700  | \$ | -         |
| Series E preferred stock converted to common stock                 | \$ | 45,000  | \$ | -         |
| Financing costs paid with debt                                     | \$ | 30,000  | \$ | -         |
| Net data storage assets sold                                       | \$ | -       | \$ | 110,200   |

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Basis of Presentation and Recent Accounting Pronouncements

Alanco Technologies, Inc., an Arizona corporation (“Alanco” or “Company”), has in recent years reported three business segments: Data Storage, Wireless Asset Management and RFID Technology. At June 30, 2010 and December 31, 2010, in compliance with the Company’s plan to divest the Data Storage and RFID Technology segments and invest the proceeds into the Wireless Asset Management segment, the Data Storage and RFID Technology segments had either been sold or were presented as “Assets Held for Sale” and “Liabilities Related to Assets Held for Sale”. During the quarter ended March 31, 2011, the Company entered into a definitive agreement to sell the remaining segment, Wireless Asset Management, subject to shareholder approval. The transaction was voted upon at the Company’s annual meeting on May 10, 2011. Due to the agreement and approval vote, all operating segments were reported as Discontinued Operations for the quarter ended March 31, 2011. Prior period balances have been reclassified to report all operating segments as discontinued operations for all periods presented.

The Company announced on August 26, 2010 that the Board of Directors had elected to effect a 1 for 8 reverse stock split that was effective on August 27, 2010, when the Company’s common stock began trading on a post split-adjusted basis under the interim trading symbol “ALAND” for a period of 20 days, after which the Company’s trading symbol returned to “ALAN”. (The Company again began trading under the symbol “ALAN” on September 27, 2010.) The Company had previously received authority from its shareholder to effect a reverse split at a ratio within a specified range, if and as determined by the Board of Directors, in order to maintain its NASDAQ listing.

As a result of the reverse split, each eight (8) shares of the Company’s Class A Common Stock outstanding at the time of the reverse split was automatically reclassified and changed into one share of common stock, and the total number of common shares outstanding was reduced from approximately 41.7 million shares to approximately 5.2 million shares post split. The reverse stock split resulted in the same adjustment to the Company’s outstanding stock options and securities reserved for issuance under its current incentive plans. No fractional shares were issued in connection with the reverse stock split. Upon surrender of their stock certificates, shareholders have received or will receive, cash in lieu of the fractional shares to which they would otherwise be entitled. All per share amounts and outstanding shares, including all common stock equivalents (stock options, warrants and convertible securities) have been restated in the Condensed Consolidated Financial Statements, the Notes to the Condensed Consolidated Financial Statements and the loss per share for all periods presented to reflect the reverse stock split.

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, 2010 Annual Report filed on Form 10-K. Interim results are not necessarily indicative of results for a full year. Certain reclassifications may have been made to conform prior period financials to the presentation in the current reporting period. The reclassifications had no effect on net loss.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Significant estimates include, but are not limited to, the Company's Wireless Asset Management segment estimates of warranty cost accruals based upon contractual first year warranty obligations.

ALANCO TECHNOLOGIES, INC.

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

Actual results could differ from these estimates. This segment is being sold with certain sales consideration being escrowed pending a review of changes in working capital. Refer to Note I – Sale of StarTrak.

The Company received a letter of reprimand from Nasdaq on December 28, 2010 concerning Nasdaq's belief that the Company has failed to maintain a majority of independent directors on its Board of Directors in violation of Nasdaq rule 5605 (b)(1), and had a non-independent director on its Nominating Committee in violation of Nasdaq Rule 5605 (e)(1). In particular, Nasdaq has determined that Donald E. Anderson, who served as a director from June 2002 until his resignation on October 4, 2010 and was a member of the Company's Nominating Committee, should not have been classified as an independent director under Nasdaq Rule 5605(a)(2)(d). The Company relied upon outside counsel who determined that the instrument representing the Company's obligation to repay a long term loan by a Trust involving Mr. Anderson constituted a security and that the exception provided by Nasdaq Rule 5605(a)(2)(D)(i) applied. Although there is no Nasdaq Rule or published interpretation to the contrary, Nasdaq staff determined that said obligation of the Company does not constitute a security for purposes of the exemption and Mr. Anderson was therefore not independent.

Nasdaq also found that the Company's violation did not appear to have been the result of a deliberate intent to avoid compliance and was based upon advice of outside counsel. Therefore, the appropriate sanction is issuance of the Letter of Reprimand. The Company was given until its next Annual Meeting of Shareholders scheduled for May 10, 2011 to regain compliance with Nasdaq Rule 5605(b)(1). The annual meeting was held on the date indicated and a slate of five directors, three of which are independent, were elected to serve for a one-year term expiring at the next Annual Meeting of Shareholders or until their successors have been duly elected and qualified. Management believe the Company now complies with Nasdaq Rule 5605(b)(1) and is awaiting a Nasdaq confirmation.

Stock-based compensation - 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:

- 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;
- 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;
- 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,
- 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.

## ALANCO TECHNOLOGIES, INC.

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

## Recent Accounting Pronouncements

With the exception of those discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended March 31, 2011, that are of significance, or potential significance, to us.

In April 2011, the FASB issued guidance which addresses agreements that entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The guidance is effective for the first interim or annual period on or after December 15, 2011. The Company is currently assessing the impact of this guidance on its financial position and results of operations.

## Note B – Stock-Based Compensation and Warrants

The Company has several employee stock option and officer and director stock option plans that have been approved by the shareholders of the Company. The plans require that options be granted at a price not less than market on date of grant and are more fully discussed in our Form 10-K for the year ended June 30, 2010.

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

Assumptions for awards of options granted during the nine months ended March 31, 2011 were:

|   |  |
|---|--|
|   | Awards<br>granted<br>Nine months<br>ended<br>March 31,<br>2011 |
| Dividend yield                            | 0%   |
| Expected volatility                       | 62%  |
| Weighted-average volatility               | 62%  |
| Risk-free interest rate                   | 2% -<br>4%   |
| Expected life of options (in<br>years)    | 2.0 - 3.75   |
| Weighted average grant-date<br>fair value | \$.68  |

The following table summarizes the Company's stock option activity during the first nine months of fiscal 2011:

|        | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term (1) | Aggregate<br>Fair<br>Value | Aggregate<br>Intrinsic<br>Value (2) |
|--------|--|---|----------------------------|-------------------------------------|
| Shares | Per Share                                |   |                            |                                     |

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|                               |           |        |      |              |     |
|-------------------------------|-----------|--------|------|--------------|-----|
| Outstanding July 1, 2010      | 955,800   | \$6.27 | 3.01 | \$ 4,324,300 | -   |
| Shares repriced during period | (866,000) | \$5.82 | 2.78 | (3,873,400)  | -   |
| Repriced replacement shares   | 866,000   | \$1.52 | 2.78 | 415,900      | -   |
| Granted                       | 172,500   | \$1.91 | 4.50 | 117,600      | -   |
| Exercised                     | -         | \$0.00 | -    | -            | -   |
| Forfeited or expired          | (86,600)  | \$4.90 | -    | (391,800)    | -   |
| Outstanding March 31, 2011    | 1,041,700 | \$1.59 | 2.66 | \$ 592,600   | \$0 |
| Exercisable March 31, 2011    | 813,400   | \$1.59 | 2.34 | \$ -         | \$0 |

- (1) Remaining contractual term presented in years.
- (2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of the Company's common stock as of March 31, 2011, for those awards that have an exercise price below the closing price as of March 31, 2011 of \$1.14.

## ALANCO TECHNOLOGIES, INC.

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

As of March 31, 2011, the Company had 201,100 warrants outstanding with a weighted average exercise price of \$5.77. The life of the outstanding warrants extends from September 30, 2011 through July 9, 2013. The following table summarizes the Company's warrant activity during the first nine months of fiscal 2011:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|---|---------------------|--|
| Warrants Outstanding,<br>June 30, 2010  | 409,000             | \$ 11.47                                 |
| Granted                                 | 95,100              | 2.64                                     |
| Exercised                               | (256,200)           | 1.19                                     |
| Canceled/Expired                        | (46,800)            | 24.00                                    |
| Warrants Outstanding,<br>March 31, 2011 | 201,100             | \$ 5.77                                  |

## Note C – Assets Held for Sale and Discontinued Operations

The Company implemented a plan during fiscal 2009 to divest the operations of its Data Storage segment and reinvest the proceeds into the remaining business segments. The Company expanded its divestiture plan during the quarter ended September 30, 2009 to include the RFID Technology segment. The Company executed an agreement, during the quarter ended March 31, 2010, to sell substantially all of the assets and liabilities of its Data Storage segment.

On August 18, 2010, the Company announced the divestiture of Alanco/TSI PRISM, Inc. (“TSI”) operations, the Company's RFID Technology segment, with the sale of substantially all of the assets and business of TSI to Black Creek Integrated Systems Corp., a private company located in Irondale, Alabama. The transaction, which closed August 17, 2010, consisted of approximately \$2 million in cash, and a potential earn-out that could approach five hundred thousand to one million dollars. (The earn-out has not been valued in the transaction due to the lack of supportability.)

At March 31, 2011, the “Assets Held for Sale” and “Liabilities Related to Assets Held for Sale” represent assets retained by seller or receivables resulting from the sales transactions, and liabilities not assumed in the transactions. The divestiture program significantly improved Alanco's financial position by reducing secured debt and eliminating the large operating losses associated with the divested businesses.

In February 2011, the Company entered into a definitive agreement to sell the remaining business segment, Wireless Asset Management, subject to shareholder approval. The transaction was voted upon at the Company's annual shareholders' meeting scheduled for May 10, 2011. Accordingly, at June 30, 2010 and March 31, 2011, all operating segments were reported as “Assets Held for Sale” and “Liabilities Related to Assets Held for Sale”. All operating results for those segments were reclassified to discontinued operations for the three and nine months ended March 31, 2011 and 2010. The reclassification of those segment assets and liabilities to “Assets Held for Sale” and “Liabilities Related to Assets Held for Sale” does not affect the reported net loss for the periods presented.

During the fourth quarter ended June 30, 2010, the Company recorded an impairment charge of \$4.5 million, reducing the RFID Technology segment values in anticipation of a sale. The impairment charge was made as of June 30, 2010



with knowledge of the RFID Technology transaction sales value as well as knowledge of the segment's operating results for the period from July 1, 2010 through the August 17, 2010 sale date of (\$142,200) on sales of \$38,700. The operating loss had been accrued at June 30, 2010 as it represented the minimum cost to maintain the operation for sale and resulted in no income or loss from discontinued operations for the RFID Technology segment reported for the nine months ending March 31, 2011. The RFID Technology segment operating loss for the nine months ended March 31, 2010 was \$1,153,300, on sales of \$674,000.

## ALANCO TECHNOLOGIES, INC.

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

The results for Discontinued Operations (comprised of Wireless Asset Management, Data Storage and RFID Technology business segments) for the nine months and three months ended March 31, 2011 and 2010 were as follows:

|  | Nine Months Ended March 31, |               | Three Months Ended March 31, |              |
|--|-----------------------------|---------------|------------------------------|--------------|
|  | 2011                        | 2010          | 2011                         | 2010         |
| <b>Sales</b>                                       |                             |               |                              |              |
| Wireless Asset Management                          | \$ 11,741,200               | \$ 10,430,000 | \$ 4,088,400                 | \$ 3,825,800 |
| RFID Technology                                    | 38,700                      | 674,000       | -                            | 110,300      |
| Data Storage                                       | -                           | 974,100       | -                            | 144,600      |
| Total Sales  | \$ 11,779,900               | \$ 12,078,100 | \$ 4,088,400                 | \$ 4,080,700 |
| <b>Gross Profit (Loss)</b>                         |                             |               |                              |              |
| Wireless Asset Management                          | \$ 4,578,600                | \$ 4,494,500  | \$ 1,892,300                 | \$ 1,637,400 |
| RFID Technology                                    | 13,500                      | 86,500        | -                            | (27,700 )    |
| Data Storage                                       | -                           | 321,000       | -                            | 36,700       |
| Total Gross Profit (Loss)                          | \$ 4,592,100                | \$ 4,902,000  | \$ 1,892,300                 | \$ 1,646,400 |
| <b>Gross Margin</b>                                |                             |               |                              |              |
| Wireless Asset Management                          | 39.0                        | % 43.1        | % 46.3                       | % 42.8       |
| RFID Technology                                    | 34.9                        | % 12.8        | % -                          | % -25.1      |
| Data Storage                                       | -                           | % 33.0        | % -                          | % 25.4       |
| Total Gross Margin                                 | 39.0                        | % 40.6        | % 46.3                       | % 40.3       |
| <b>Selling, General and Administrative Expense</b> |                             |               |                              |              |
| Wireless Asset Management                          | \$ 5,487,600                | \$ 4,736,900  | \$ 1,891,500                 | \$ 1,642,300 |
| RFID Technology                                    | 13,500                      | 1,239,800     | -                            | 371,500      |
| Data Storage                                       | 99,900                      | 410,400       | -                            | 98,800       |
| Data Storage asset impairment charge               | -                           | 325,000       | -                            | -            |
| Total SG&A Expense                                 | \$ 5,601,000                | \$ 6,712,100  | \$ 1,891,500                 | \$ 2,112,600 |
| <b>Income (Loss) from Discontinued Operations</b>  |                             |               |                              |              |
| Wireless Asset Management                          | \$ (909,000 )               | \$ (242,400 ) | \$ 800                       | \$ (4,900 )  |
| RFID Technology                                    | -                           | (1,153,300 )  | -                            | (399,200 )   |

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|  |                 |                 |            |               |
|--|-----------------|-----------------|------------|---------------|
| Data Storage                                     | (99,900 )       | (414,400 )      | -          | (62,100 )     |
| Loss on Sale - Data Storage                      | -               | (48,700 )       | -          | (48,700 )     |
| Total Income (Loss) from Discontinued Operations | \$ (1,008,900 ) | \$ (1,858,800 ) | \$ 800     | \$ (514,900 ) |
| Capital Expenditures                             |                 |                 |            |               |
| Wireless Asset Management                        | \$ 151,400      | \$ -            | \$ 16,600  | \$ -          |
| Data Storage                                     | -               | -               | -          | -             |
| RFID Technology                                  | -               | 5,600           | -          | -             |
| Total Capital Expenditures                       | \$ 151,400      | \$ 5,600        | \$ 16,600  | \$ -          |
| Depreciation and Amortization                    |                 |                 |            |               |
| Wireless Asset Management                        | \$ 390,700      | \$ 402,500      | \$ 134,600 | \$ 132,800    |
| Data Storage                                     | 3,400           | 57,100          | -          | 14,800        |
| RFID Technology                                  | -               | 18,200          | -          | 4,600         |
| Total Depreciation and Amortization              | \$ 394,100      | \$ 477,800      | \$ 134,600 | \$ 152,200    |

## ALANCO TECHNOLOGIES, INC.

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

Assets and Liabilities related to Discontinued Operations at March 31, 2011 and June 30, 2010 consisted of the following:

|  | Wireless<br>Asset<br>Management | RFID<br>Technology | Data<br>Storage | Total         |     |
|--|---------------------------------|--------------------|-----------------|---------------|-----|
| As of March 31, 2011                               |                                 |                    |                 |               |     |
| Assets held for sale                               |                                 |                    |                 |               |     |
| Cash   | \$ 368,200                      | \$ -               | \$ -            | \$ 368,200    |     |
| Accounts receivable, net                           | 1,690,000                       | 37,300             | -               | 1,727,300     | (1) |
| Inventory, net                                     | 2,134,600                       | 2,500              | -               | 2,137,100     | (2) |
| Prepaid expenses and other assets                  | 301,200                         | -                  | -               | 301,200       |     |
| Property and equipment, net                        | 316,600                         | -                  | -               | 316,600       |     |
| Goodwill   | 12,575,400                      | -                  | -               | 12,575,400    |     |
| Other intangibles                                  | 447,200                         | -                  | -               | 447,200       |     |
| Total assets held for sale                         | \$ 17,833,200                   | \$ 39,800          | \$ -            | \$ 17,873,000 |     |
| Liabilities related to assets held for sale        |                                 |                    |                 |               |     |
| Billings in excess of costs and estimated earnings | \$ -                            | \$ 23,600          | \$ -            | \$ 23,600     |     |
| Deferred warranty revenue and customer advances    | 753,500                         | 751,700            | -               | 1,505,200     | (3) |
| Accounts payable and accrued expenses              | 1,742,600                       | 644,700            | -               | 2,387,300     |     |
| Capital leases                                     | 9,900                           | -                  | -               | 9,900         |     |
| Total liabilities related to assets held for sale  | \$ 2,506,000                    | \$ 1,420,000       | \$ -            | \$ 3,926,000  |     |
| As of June 30, 2010                                |                                 |                    |                 |               |     |
| Assets held for sale                               |                                 |                    |                 |               |     |
| Cash   | \$ 248,400                      | \$ -               | \$ -            | \$ 248,400    |     |
| Accounts receivable, net                           | 2,289,000                       | 135,000            | 69,900          | 2,493,900     | (1) |
| Inventory, net                                     | 1,222,500                       | 860,900            | 50,000          | 2,133,400     | (2) |
| Costs and estimated earnings in excess of billings | -                               | 95,200             | -               | 95,200        |     |

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|  |               |              |            |               |
|--|---------------|--------------|------------|---------------|
| Prepaid expenses and other assets                  | 729,000       | 328,800      | -          | 1,057,800     |
| Property, plant and equipment, net                 | 232,900       | 59,400       | -          | 292,300       |
| Goodwill   | 12,575,400    | 576,700      | -          | 13,152,100    |
| Other intangibles                                  | 770,100       | -            | -          | 770,100       |
| Total assets held for sale                         | \$ 18,067,300 | \$ 2,056,000 | \$ 119,900 | \$ 20,243,200 |
| Liabilities related to assets held for sale        |               |              |            |               |
| Billings in excess of costs and estimated earnings | \$ -          | \$ 98,700    | \$ -       | \$ 98,700     |
| Deferred warranty revenue and customer advances    | 689,200       | 768,100      | -          | 1,457,300 (3) |
| Accounts payable and accrued expenses              | 1,335,400     | 631,300      | -          | 1,966,700     |
| Capital leases                                     | 23,200        | -            | -          | 23,200        |
| Total liabilities related to assets held for sale  | \$ 2,047,800  | \$ 1,498,100 | \$ -       | \$ 3,545,900  |

- Accounts receivable as of March 31, 2011 and June 30, 2010 are reported net of reserves for the
- (1) Wireless Asset Management segment of \$40,000. Inventory as of March 31, 2011 is reported net of reserves of \$15,000 for the Wireless Asset Management Segment.
  - (2) Inventory as of June 30, 2010 is reported net of reserves for the Wireless Asset Management, RFID Technology and Data Storage segments in the amount of \$415,000, \$175,000 and \$50,000, respectively. Deferred warranty revenue and customer advances as of March 31, 2011 and June 30, 2010 include \$366,100 and
  - (3) \$375,400, respectively, of long-term deferred warranty revenue for the Wireless Asset Management segment.

ALANCO TECHNOLOGIES, INC.

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

Note D - 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, convertible preferred stock and convertible debt that are freely exercisable into common stock at less than the prevailing market price. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share. As of March 31, 2011, there were zero potentially dilutive securities included in the weighted average shares of common stock outstanding as inclusion of outstanding stock options, warrants, and stock issuable upon conversion of debt or preferred stock would be anti-dilutive.

Note E – Equity

During the nine months ended March 31, 2011, the Company issued a total of 869,000 shares, including a 2,000 treasury share adjustment, of Class A Common Stock. Included were 3,100 shares issued for services valued at \$5,300, 1,100 shares issued for payment of notes and interest valued at \$2,100, 256,200 shares issued for exercise of warrants valued at \$304,800, 384,300 shares coupled with 95,100 warrants to purchase Class A Common Stock at \$2.64 per share, valued at \$612,400, net of \$55,400 in expenses issued in a private offering to accredited investors, 23,700 common shares issued in payment of certain Series D Preferred Dividend obligations, valued at \$37,500, 53,900 common shares issued in payment of certain Series E Preferred Dividend obligations, valued at \$83,200, 129,700 shares, valued at \$518,900, issued in the conversion of 51,900 Series D Preferred shares to common shares, and 15,000 shares, valued at \$45,000, issued in the conversion of 10,000 Series E Preferred shares to common shares.

The Company declared and paid dividends-in-kind on the Company's Series B Convertible Preferred Stock through the issuance of 8,500 shares of Series B Preferred Stock valued at \$85,100. The Company's Preferred Stocks are more fully discussed in the Form 10-K for the year ended June 30, 2010.

On September 16, 2010, the Board of Directors approved the immediate re-pricing of certain outstanding stock options (approximately 866,000 shares to forty-nine individuals) held by current Officers, Directors and employees to \$1.52 per share, a 7.9% premium to the closing market price on September 15, 2010 of \$1.39. The compensation value created by the re-pricing, as determined under the Black Scholes method, was approximately \$298,400 and under current accounting rules results in a non cash expense in current and future periods, not to exceed the vesting periods of the stock options. The Company elected to expense in the quarter ended December 31, 2010, the entire increase in stock based compensation resulting from the re-pricing. Accordingly, the value of employee stock-based compensation recognized for the nine months ended March 31, 2011 amounted to \$498,600, including the \$298,400 discussed above, compared to \$341,800 recognized in the comparable nine months of the prior fiscal year. See Note B – Stock-Based Compensation for additional discussion related to employee stock-based compensation.

During October 2010, the Company raised \$304,800 through the exercise of 256,200 warrants. On October 13, 2010, the Company's Board of Directors approved the re-pricing of certain warrants, held by non officers and directors, to purchase 256,200 shares of the Company's Class A Common Stock. The warrants, with exercise prices ranging from \$4.00 to \$14.40 per share, were re-priced to \$1.19 per share, reflecting an approximate 15% discount from the then current market, and required the warrants to be exercised through October 21, 2010. If the warrants

were not exercised by the October 21, 2010 date, the exercise price reverted back to the pre-adjusted price. The warrant re-pricing discount represented the Company's estimate of market value, net of costs, of a private placement of an equal amount and was completed to raise required working capital for the Company.

At June 30, 2010, the Company reported 2,000 treasury shares, valued at \$30,000, representing the estimated number of Alanco shares to be distributed upon the liquidation of a private Company in which Alanco had ownership.

ALANCO TECHNOLOGIES, INC.

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

During the quarter ended December 31, 2010, the Company received \$18,200 as partial liquidation of its investment. In January 2011, the Company received another \$2,800 as a final distribution and accordingly the Company reduced treasury shares at March 31, 2011 to zero, resulting in a loss of approximately \$9,000 for the nine month period, reported in the current quarter as other expense.

Note F – 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, 2010 with a private trust (“Lender”) controlled by Mr. Donald Anderson, a greater than five percent stockholder of the Company. Mr. Anderson’s investments in the Company are more fully discussed in Note I (below) – Line of Credit and Term Loan and in the Company’s Form 10-K for the fiscal year ended June 30, 2010.

At March 31, 2011 the principal balance due under the Agreement was approximately \$4.2 million compared to \$5.7 million at June 30, 2010. During the quarter ended September 30, 2010, the Company paid \$1.8 million against the credit line from the sale of the net RFID Technology segment assets. During the quarter ended December 31, 2010, the Company borrowed \$300,000 under the Agreement. See Note G – Line of Credit and Term Loan for additional discussion of the Agreement.

As discussed in the equity footnote above, during the nine months ended March 31, 2011, the Company issued a total of 23,700 shares of Class A Common Stock, valued at \$37,500, in payment of Series D Preferred Stock dividends. 7,900 or 33.3% of the Class A Common Stock issued as Series D Preferred Stock dividend payments went to officers and directors of the Company.

On December 16, 2010, the Company issued a \$100,000 note payable to an officer and director for an additional \$100,000 of working capital provided to the Company. The note is unsecured, bears interest at a rate of 12% and is payable within thirty (30) days following written demand for such payment by the Holder.

Note G – Line of Credit and Term Loan

On December 16, 2010, the Company and the Anderson Family Trust, a private trust, agreed to an amendment to the Company’s line of credit, entered into in June 2002, which reduced the credit limit on the line to \$4.23M from \$4.7M, extended the maturity date to January 31, 2011 and decreased the conversion price from \$10.00 to \$1.37 on the \$1 million convertible portion of the debt. The amendment also restricted the \$1 million convertible portion to an event of default and placed restrictions on the Company’s issuance of stock. In addition, during the quarter ended March 31, 2011, the Line of Credit maturity date was extended several times to allow the Company time to evaluate available strategic alternatives. The Anderson Family Trust received a \$30,000 fee for the amendments, which was added to the loan balance. Currently, the maturity date has been extended to May 16, 2011 as discussed in Footnote J – Subsequent Events.

At March 31, 2011, the Company had reached the maximum outstanding balance under the Line of Credit of \$4,230,000. Under the Agreement, the Company must maintain a minimum balance due of at least \$2.5 million through its maturity date. Interest is accrued at the prime rate plus 3% (6.25% at March 31, 2011) for any balance up to \$2 million and 12% on balances in excess of \$2 million.

In addition, ORBCOMM, Inc., an entity that had entered into an agreement to purchase StarTrak Systems, LLC, agreed during the quarter ended March 31, 2011 to loan the Company \$300,000, pursuant to a secured promissory note with interest at the rate of six percent per annum. The loan is secured by a second lien on all of the assets of



Alanco and StarTrak. See Footnote I – Sale of StarTrak Systems, LLC for additional discussion of the loan.

ALANCO TECHNOLOGIES, INC.

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

The Company received a letter of resignation on October 4, 2010, from Don Anderson as a member of the Company's Board of Directors, effective immediately. Mr. Anderson is the owner of approximately 8.6% of the Company's Class A Common Stock and provider of the Company's Line of Credit arrangement discussed above and was the Chairman of the Independent Directors/Nominating Committee, member of the Company's Board of Directors and Trustee of the Anderson Trust. A copy of the resignation, with attachments, submitted with the resignation letter was filed as an Exhibit 99.2 to Form 10-K for fiscal year ended June 30, 2010.

As noted in Footnote F – Related Party Transactions, the Trust advanced \$300,000 under the agreement during the month of December 2010. In addition, the maturity date has been extended through May 13, 2011 to allow the Company to evaluate available strategic alternatives. During the quarter ended December 31, 2010, the Company also made the final \$100,000 payment on a \$4 million term loan financing completed in September 2006 with ComVest Capital LLC.

Note H – Legal

The Company's subsidiary, StarTrak Systems, has recently been made a defendant concerning certain patent infringement claims as follows:

Arrivalstar S.A, et all. v. StarTrak Systems, LLC, et al. Case No.: 4:10-CV-0033. This action was a patent infringement action venued in the United States District Court for the Northern District of Indiana. StarTrak believes that the plaintiff's patents are invalid due to prior art, based, in part, upon the substantial commercial activity concerning the patent claims long before the patents were applied for or issued. However, StarTrak has resolved the action by agreeing to pay \$70,000 over a number of monthly payments, thus avoiding substantially greater expenses that would be incurred in defending the action.

Innovative Global Systems LLC v. StarTrak Systems, LLC, et al. Case No.: 6:10-CV-00327. This action is another patent infringement action venued in the United States District Court for the Eastern District of Texas. Again, StarTrak believes that the plaintiff's patents are invalid due to prior art, based, in part, upon the substantial commercial activity concerning the patent claims long before the patents were applied for or issued. Similarly, StarTrak is in discussions with the plaintiff in cooperation with other defendants to resolve the matter by paying a sum substantially less than would be incurred in defending the action. This lawsuit is quite early in the discovery stage and StarTrak's counsel has not formed an opinion concerning the likely outcome. However, the Company's management believes that the suit is without merit and the Company will continue to vigorously defend itself in the matter if it is not soon resolved.

On February 11, 2011, the Company received claims and threatened litigation from Tim Slifkin ("Slifkin") and Tom Robinson ("Robinson"), a director and executive officer, respectively, (both employees of StarTrak) alleging that the Company had not recorded a total of approximately \$630,000 of salaries, finder's fees and commissions allegedly earned by Slifkin and Robinson and payable at December 31, 2010. In addition, Slifkin and Robinson claimed that upon the completion of future anticipated transactions they will be owed an additional \$335,000 each for a total additional liability of \$770,000.

However, in connection with the ORBCOMM acquisition of the StarTrak assets (which was approved by the Company's shareholders at its annual meeting of shareholders held May 10, 2011), the Company entered into a Settlement Agreement and Mutual Release, signed on February 22, 2011 but not effective until signatures were

released on February 24, 2011, with Slifkin and Robinson. The agreement provides incentive compensation to Slifkin and Robinson in cash and ORBCOMM stock a total of approximately \$85,000 each, upon the successful completion of the sale of StarTrak to ORBCOMM, Inc. In addition, Slifkin and Robinson will receive up to approximately 3.2%, each, of the future potential earn out based upon reported sales for the period March 1, 2011 to February 28, 2012 as discussed in Note I – Sale of StarTrak Systems, LLC, below.

ALANCO TECHNOLOGIES, INC.

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

StarTrak has recently been served with a Third-Party Complaint by Great American Lines, Inc. and related parties in a lawsuit against them by certain freight shippers in the US District Court for the District of New Jersey, being Case No. 3:10-ev-02023-JAP-TJB. The main case against Great American Lines involves allegations concerning a lost or stolen trailer containing freight owned by the plaintiffs. Great American Lines has brought its Third-Party Complaint against StarTrak alleging that StarTrak breached its contract with Great American Lines to allow Great American Lines to track its trailer and for indemnity. StarTrak has tendered its defense in the lawsuit to its insurance company, but counsel has not yet formed an opinion on the likely outcome. However, the Company's management believes that the suit is without merit and the Company will vigorously defend itself in the matter.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of March 31, 2011 there was no other such litigation pending deemed material by the Company.

Note I – Sale of StarTrak Systems, LLC

On February 23, 2011, Alanco Technologies, Inc. Alanco's wholly-owned subsidiary, StarTrak Systems, LLC ("StarTrak") and ORBCOMM Inc. ("ORBCOMM") entered into a Definitive Asset Purchase Agreement (the "Agreement") whereby ORBCOMM will purchase the business and operations of StarTrak Systems, LLC. The transaction is structured as an asset purchase whereby ORBCOMM will acquire substantially all of StarTrak's assets and liabilities. The transaction is considered the sale of substantially all of the assets of Alanco and accordingly required shareholder approval. The proposal was scheduled for a vote at the annual shareholders meeting held on May 10, 2011. (See Item 4. "Submission of Matters to a Vote of Security Holders" below for a summary of the vote results.)

Total transaction consideration payable at close, including escrowed amounts as required by the agreement, for substantially all of the assets of StarTrak is equal to an aggregate face amount of approximately \$18.2 million in cash, stock and assumption of debt. Consideration consists of the following:

1. Cash consideration in an amount equal to two million dollars (\$2,000,000) less any amount due under the secured loan referred to in 3 below;
2. ORBCOMM's acquisition and discharge of the Anderson Trust secured debt in the principal amount of \$3,900,000;
3. Cancellation and termination of all outstanding obligations of Alanco and StarTrak to ORBCOMM under the Secured Promissory Note (as defined below), including the then outstanding principal amount anticipated to be \$300,000 plus interest and fees, if any, due thereunder as of the closing date;
4. Delivery to Alanco of 500,000 shares of Series E Convertible Preferred Stock of Alanco having a face amount of \$2,250,000;
5. Delivery of approximately 1,212,500 shares of Alanco Class A Common Stock;
6. Issuance and delivery to Mellon Investor Services LLC, as escrow agent, ("Mellon") of 249,917 shares of ORBCOMM common stock ("ORBCOMM Stock") registered in the name of Alanco, which escrowed shares will be available to pay for half of the out of pocket costs incurred as a result of certain litigation currently pending against StarTrak;
7. The issuance and delivery to Mellon, as escrow agent of 166,611 shares of ORBCOMM Stock registered in the name of Alanco (subject to certain reductions), which escrowed shares will be available to pay for a portion of certain product warranty costs;
8. The issuance and delivery to Alanco of 1,987,194 shares of ORBCOMM Stock, minus the number of escrowed shares described under 6 above;
9. The issuance and delivery to Alanco of 183,550 shares of Series A perpetual convertible preferred stock of ORBCOMM with a face value of \$10 per share, entitled to a 4% annual paid-in-kind dividend and each such share

convertible into 1.666 shares of ORBCOMM Stock; and

10. Assumption by ORBCOMM of certain specified liabilities, generally consisting of liabilities arising after the closing date and liabilities reflected in the closing working capital calculations.

ALANCO TECHNOLOGIES, INC.

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

The parties have also agreed to compensate the other for changes in working capital between November 30, 2010 and the effective date. If working capital, defined as current assets minus current liabilities minus long-term deferred revenue, increases over the period, ORBCOMM will pay the value of that increase in cash or additional ORBCOMM Stock under number 8 above. If the defined working capital decreases during the period, ORBCOMM will deduct that amount from ORBCOMM Stock issued under number 8 above.

In addition to the Closing Consideration discussed above, up to an additional gross amount of approximately \$1.17 million in contingent payments (the "Earn Out Amount") is payable to Alanco by ORBCOMM if certain revenue milestones of the StarTrak business are achieved for the 2011 calendar year (the "Earn-Out Period"), ranging from approximately \$194,000 in payout for total revenue of \$20 million in the Earn-Out Period to approximately \$1.17 million from total revenue of \$24 million in the Earn-Out Period.

ORBCOMM, Alanco and StarTrak also entered into a Secured Promissory Note, approved by the Anderson Family Trust, pursuant to which ORBCOMM loaned \$300,000 to Alanco and StarTrak payable, together with interest at the rate of six percent per annum, on the closing date of the Asset Purchase Agreement, or ten days following the termination thereof. The loan is secured by a second lien on all of the assets of Alanco and StarTrak.

ORBCOMM has also entered into a voting agreement with certain shareholders of Alanco, including Alanco CEO, Robert Kauffman, StarTrak employees, Timothy Slifkin and Thomas Robinson, Alanco's senior lender, The Anderson Family Trust and others, whereby the shareholders have agreed to vote their shares of Alanco stock to approve the purchase and sale contemplated by the Asset Purchase Agreement and to take certain other actions in furtherance of the transactions contemplated therein.

#### Representations, Warranties and Covenants

The Asset Purchase Agreement contains customary representations, warranties and covenants. The representations and warranties generally survive the closing for eighteen (18) months. At the closing, a portion of the Closing Consideration in the form of ORBCOMM Stock will be delivered into an escrow and will be available to compensate ORBCOMM for 50% of costs incurred as a result of a patent infringement litigation currently pending against StarTrak.

#### Conditions to Closing

Each party's obligation to close the transactions contemplated by the Asset Purchase Agreement is subject to customary closing conditions, including obtaining the approval of the shareholders of Alanco to the asset sale transaction, if required under applicable law. Each party's obligation to close the transactions contemplated by the other transaction documents described above is also subject to customary closing conditions, including the closing conditions under the Asset Purchase Agreement.

#### Termination

The Asset Purchase Agreement contains certain termination rights for both ORBCOMM and Alanco, including termination rights in the event that the closing conditions of the transactions contemplated by the Asset Purchase Agreement is not consummated by June 30, 2011.

#### About ORBCOMM

ORBCOMM Inc. (Nasdaq: ORBC) is a leading global satellite data communications company, focused on Machine-to-Machine (M2M) communications. Its customers include Caterpillar Inc., Doosan Infracore America, Hitachi Construction Machinery, Hyundai Heavy Industries, Asset Intelligence a division of I.D. Systems, Inc., Komatsu Ltd., Manitowoc Crane Companies, Inc., and Volvo Construction Equipment among other industry leaders. By means of a global network of low-earth orbit (LEO) satellites and accompanying ground infrastructure, ORBCOMM's low-cost and reliable two-way data communication services track, monitor and control mobile and fixed assets in four core markets: commercial transportation; heavy equipment; industrial fixed assets; and marine/homeland security. ORBCOMM is headquartered in Fort Lee, New Jersey and has its network control center in Dulles, Virginia.

ALANCO TECHNOLOGIES, INC.

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

Selected Pro Forma Financial Data (Unaudited):

The following is unaudited pro forma condensed consolidated financial information of Alanco and its subsidiaries. The financial information is designed to show how the sale of assets of StarTrak might have affected our historical financial statements if such asset sale had been contemplated at an earlier time. The following unaudited pro forma consolidated financial information was prepared based on the historical financial results of Alanco and its subsidiaries. The following should be read in connection with Alanco's Consolidated Financial Statements which are included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2010.

The unaudited pro forma condensed consolidated financial information is presented for illustrative purposes only and is not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the asset sale occurred during the referenced period. Estimated costs of the transaction have not been included in the pro forma Statement of Operations for the twelve month period ending June 30, 2010 or the nine months ended March 31, 2011. An unaudited condensed pro forma Balance Sheet as of March 31, 2011, and the unaudited condensed pro forma combining Statement of Operations for Alanco for the nine months ended March 31, 2011 and the twelve months ended June 30, 2010 are presented below.



## ALANCO TECHNOLOGIES, INC.

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

Alanco Technologies, Inc. and Subsidiaries  
 Pro Forma Condensed Consolidated Balance Sheet (Unaudited)  
 March 31, 2011

Pro Forma Condensed Consolidated Unaudited Financial Information:  
 The following represents an unaudited pro forma condensed consolidated balance sheet as of March 31, 2011, assuming the Company's StarTrak System, LLC sale was consummated as of that date.

|   | ------(Dollars in<br>Thousands)----- |   |                                      |
|---|--------------------------------------|---|--------------------------------------|
| ASSETS  | Alanco<br>(Historical)               | Pro<br>Forma<br>Adj   | Pro Forma<br>Consolidated<br>Amounts |
| <b>Current Assets:</b>                          |                                      |   |                                      |
| Cash  | \$ 184                               | \$ 2,000(1)<br>(670)(2)<br>(228)(3)<br>(330)(6)<br>(300)(9) | \$ 656                               |
| ORBCOMM Common Stock                            | -                                    | 5,464(1)  | 5,464                                |
| ORBCOMM Common<br>Stock, held in Escrow         | -                                    | 1,250(1)  | 1,250                                |
| ORBCOMM Preferred Stock                         | -                                    | 1,835(1)<br>(1,835)(4)                                      | -                                    |
| Assets Held for Sale                            | 17,873                               | (17,833)(8)   | 40                                   |
| Other Current Assets                            | 222                                  | -   | 222                                  |
| Total Current<br>Assets                         | 18,279                               | (10,647)  | 7,632                                |
| <b>TOTAL ASSETS</b>                             | <b>\$ 18,279</b>                     | <b>\$ (10,647)</b>  | <b>\$ 7,632</b>                      |
| <b>LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b> |                                      |   |                                      |
| Accounts Payable and<br>Accrued Expenses        | \$ 602                               | \$ -  | \$ 602                               |
| Dividends Payable                               | 50                                   | (50)(5)   | -                                    |
| Notes Payable - Current<br>Portion              | 4,758                                | (3,900)(1)<br>(330)(6)<br>(228)(3)<br>(300)(9)              | -                                    |
| Liabilities related to Assets<br>Held for Sale  | 3,926                                | (2,506)(8)  | 1,420                                |
| Total Current<br>Liabilities                    | 9,336                                | (7,314)   | 2,022                                |

|  |           |   |           |
|--|-----------|---|-----------|
| TOTAL LIABILITIES                                | 9,336     | (7,314)   | 2,022     |
| PREFERRED STOCK - SERIES<br>B CONVERTIBLE        | 1,184     | -   | 1,184     |
| SHAREHOLDERS' EQUITY                             |           |   |           |
| Series D Convertible<br>Preferred Stock          | 815       | (815)(4)  | -         |
| Series E Convertible<br>Preferred Stock          | 3,165     | (2,250)(1)<br>(915)(4)                                    | -         |
| Class A Common Stock                             | 109,476   | (1,588)(1)  | 107,888   |
| Accumulated Deficit                              | (105,697) | 18,287(1)<br>50(5)<br>(670)(2)<br>(105)(4)<br>(15,327)(8) | (103,462) |
| Total Shareholders'<br>Equity                    | 7,759     | (3,333)(7)  | 4,426     |
| TOTAL LIABILITIES AND<br>SHAREHOLDERS'<br>EQUITY | \$ 18,279 | \$ (10,647)   | \$ 7,632  |

ALANCO TECHNOLOGIES, INC.

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

- (1) Pro forma adjustments to reflect the sale of StarTrak Systems, LLC for consideration totaling \$18.287 million, including \$2 million cash, \$6.714 million in ORBCOMM Common Stock, \$1.835 million in ORBCOMM Preferred Stock, the assumption of \$3.9 million in Notes Payable, the surrender of \$1.588 million in Alanco Common Stock valued at \$1.31 per share and \$2.25 million of Series E Preferred Stock held by ORBCOMM.
- (2) To record estimated costs related to the transaction including investment banking costs, legal and bonus incentives.
- (3) To reflect the payoff of an additional \$228,000 in notes payable, eliminating the interest bearing debt.
- (4) The entry reflects the retirement of Alanco's remaining preferred stock with similar value of ORBCOMM preferred stock. The Company believes the transaction will facilitate the retirement of the remaining \$815,000 of Series D and \$915,000 of Series E Preferred Stock with a combined stated value of \$1,835,000 through an exchange with the equal face value of the ORBCOMM preferred stock received in the transaction.
- (5) To eliminate preferred stock dividends at March 31, 2011 consistent with the retirement of the Series D and Series E Preferred Stock discussed in 4 above.
- (6) To record repayment of an approximate final \$330,000 balance under the Anderson Family Trust line of credit agreement.
- (7) Pro forma book value at 3-31-11 of \$1.07 is determined by dividing the pro forma shareholder equity by the net common shares outstanding after adjusting for the 1,212,500 treasury shares to be acquired in the transaction, resulting in a pro forma common shares outstanding at March 31, 2011 of 4,139,900.
- (8) Elimination of StarTrak Assets Held for Sale and Liabilities Related to Assets

Held for Sale.

- (9) Payment of the \$300,000 note payable to ORBCOMM pursuant to the loan agreement for an advance provided to Alanco.

Refer to Note C for detailed information on the balances included in Assets Held for Sale and Liabilities Related to Assets Held for Sale.

## ALANCO TECHNOLOGIES, INC.

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

Alanco Technologies, Inc. and Subsidiaries  
 Pro Forma Condensed Consolidated Statement of Operations (Unaudited)  
 For the Nine Months Ended March 31, 2011

The following represents an unaudited pro forma condensed consolidated statement of operations for the nine months ended March 31, 2011, assuming the sale of StarTrak Systems, LLC was consummated on July 1, 2010.

|  | ------(Dollars in<br>Thousands)----- |                             |                                      |
|--|--------------------------------------|-----------------------------|--------------------------------------|
|  | Alanco<br>(Historical)               | Pro<br>Forma<br>Adjustments | Pro Forma<br>Consolidated<br>Amounts |
| Sales  | \$ -                                 | \$ -                        | \$ -                                 |
| Cost of Sales  | -                                    | -                           | -                                    |
| Corporate expense  | 1,041                                | -                           | 1,041                                |
|  | 1,041                                | -                           | 1,041                                |
| Operating Loss   | (1,041 )                             | -                           | (1,041 )                             |
| Interest Expense, net  | (334 )                               | 334                         | (1) -                                |
| Other Income (Expense)                                       | (10 )                                | -                           | (10 )                                |
| <b>LOSS FROM CONTINUING<br/>OPERATIONS</b>                   | <b>(1,385 )</b>                      | <b>334</b>                  | <b>(1,051 )</b>                      |
| Loss from Discontinued<br>Operations                         | (1,059 )                             | 959                         | (4) (100 )                           |
| <b>NET LOSS</b>  | <b>(2,444 )</b>                      | <b>1,293</b>                | <b>(1,151 )</b>                      |
| Preferred Stock Dividends                                    | (239 )                               | 154                         | (2) (85 )                            |
| <b>NET LOSS ATTRIBUTABLE<br/>TO COMMON<br/>SHAREHOLDERS</b>  | <b>\$ (2,683 )</b>                   | <b>\$ 1,447</b>             | <b>\$ (1,236 )</b>                   |
| <b>NET LOSS PER COMMON<br/>SHARE - BASIC AND<br/>DILUTED</b> |                                      |                             |                                      |
| Continuing<br>Operations                                     | \$ (0.26 )                           |                             | \$ (0.26 )                           |
| Discontinued<br>Operations                                   | \$ (0.20 )                           |                             | \$ (0.02 )                           |
| Preferred Stock<br>Dividends                                 | \$ (0.04 )                           |                             | \$ (0.02 )                           |
| Net Loss Per Share<br>Attributable to<br>Common              | \$ (0.50 )                           |                             | \$ (0.30 )                           |

Shareholders

WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING

|                   |           |             |     |           |
|-------------------|-----------|-------------|-----|-----------|
| Basic and Diluted | 5,352,400 | (1,212,500) | (3) | 4,139,900 |
|-------------------|-----------|-------------|-----|-----------|

- (1) To reverse interest expense for the period based upon assumption that all interest bearing debt was paid.
- (2) Elimination of dividends for Series E and Series D preferred shares to be retired with ORBCOMM preferred shares received in the transaction. Balance of dividends related to Series B Preferred Stock.
- (3) To adjust for Alanco Common Shares received from ORBCOMM in transaction.
- (4) Elimination of Loss from Discontinued Operations related to StarTrak.

## ALANCO TECHNOLOGIES, INC.

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

Alanco Technologies, Inc. and Subsidiaries  
 Pro Forma Condensed Consolidated Statement of Operations (Unaudited)  
 For the Twelve Months Ended June 30, 2010

The following represents an unaudited pro forma condensed consolidated statement of operations for the twelve months ended June 30, 2010, assuming the sale of StarTrak Systems, LLC was consummated on July 1, 2009.

|   | ------(Dollars in<br>Thousands)----- |                          |                             |                                      |
|---|--------------------------------------|--------------------------|-----------------------------|--------------------------------------|
|   | Alanco<br>(Historical)               | StarTrak<br>(Historical) | Pro<br>Forma<br>Adjustments | Pro Forma<br>Consolidated<br>Amounts |
| Sales   | \$ 14,632                            | \$ (14,632)              | \$ -                        | \$ -                                 |
| Cost of Sales   | 8,664                                | (8,664)                  | -                           | -                                    |
| Selling, General and<br>Administrative Expense        | 6,726                                | (5,780)                  | -                           | 946                                  |
| Amortization of Stock<br>Based Compensation           | 400                                  | (292)                    | -                           | 108                                  |
| Depreciation and<br>Amortization                      | 535                                  | (535)                    | -                           | -                                    |
|   | 16,325                               | (15,271)                 | -                           | 1,054                                |
| Operating Loss  | (1,693 )                             | (639)                    | -                           | (1,054 )                             |
| Interest Expense, net                                 | (862 )                               | -                        | 862                         | (1) -                                |
| Other Income (Expense)                                | (4 )                                 | -                        | -                           | (4 )                                 |
| LOSS FROM<br>CONTINUING<br>OPERATIONS                 | (2,559 )                             | (639)                    | 862                         | (1,058 )                             |
| Loss from Discontinued<br>Operations                  | (6,569 )                             | -                        | -                           | (6,569 )                             |
| NET LOSS  | (9,128 )                             | (639)                    | 862                         | (7,627 )                             |
| Preferred Stock<br>Dividends                          | (385 )                               | -                        | 281                         | (2) (104 )                           |
| NET LOSS<br>ATTRIBUTABLE TO<br>COMMON<br>SHAREHOLDERS | \$ (9,513 )                          | \$ (639)                 | \$ 1,143                    | \$ (7,731 )                          |
| NET LOSS PER<br>COMMON SHARE -<br>BASIC AND DILUTED   |                                      |                          |                             |                                      |
| Continuing<br>Operations                              | \$ (0.60 )                           |                          |                             | \$ (0.34 )                           |

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|  |            |            |
|--|------------|------------|
| Discontinued Operations                                | \$ (1.53 ) | \$ (2.13 ) |
| Preferred Stock Dividends                              | \$ (0.09 ) | \$ (0.03 ) |
| Net Loss Per Share Attributable to Common Shareholders | \$ (2.22 ) | \$ (2.50 ) |

WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING

|                   |           |                 |           |
|-------------------|-----------|-----------------|-----------|
| Basic and Diluted | 4,295,100 | (1,212,500) (3) | 3,082,600 |
|-------------------|-----------|-----------------|-----------|

- (1) To reverse interest expense for the period based upon assumption that all interest bearing debt was paid.
- (2) Elimination of dividends for Series E and Series D preferred shares to be retired with ORBCOMM preferred shares received in the transaction. Balance of dividends related to Series B Preferred Stock.
- (3) To adjust for Alanco Common Shares received from ORBCOMM in the transaction.

Note J – Subsequent Events

The Company and The Anderson Family Trust agreed in April 2011 to amend the Line of Credit Agreement extending the maturity date to May 16, 2011. The Company is working with the lender and expects reasonable future extension requests to be granted as required to accommodate the sale of StarTrak to ORBCOMM. For more information see Note G (above) – Line of Credit and Term Loan and the Company’s Form 10-K for the fiscal year ended June 30, 2010.

Subsequent to March 31, 2011, the Company issued 33,200 shares, valued at \$37,900, of its Class A Common Stock in payment of Series D Preferred and Series E Preferred Dividends. 26.8% of the shares issued were issued to officers and directors of the Company.

The Company completed the transaction, on May 16, 2011, to sell StarTrak Systems, LLC to ORBCOMM Inc. under terms approximating the transaction disclosures above. Final accounting will be presented in the Form 10-K for the year ended June 30, 2011.



ALANCO TECHNOLOGIES, INC.

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

Note K – Liquidity

During the nine months ended March 31, 2011, the Company reported a net loss of approximately \$2.4 million. During fiscal year ended June 30, 2010, the Company reported a net loss from continuing operations of approximately \$2.6 million. Although the Company raised additional capital during the current quarter and prior year, the significant losses raise substantial doubt about the ability of the Company to continue as a going concern. As a result, the Company's independent registered public accounting firm issued a going concern opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2010. During fiscal 2011, the Company expects to sell its remaining operating segment, retire all notes payable, provide its working capital and other cash requirements with its cash and other liquid reserves obtained in the sale and other financing as required.

The Company believes that additional cash resources may be required for working capital to achieve planned operating results for fiscal year 2011 and, if working capital requirements exceed current availability, the Company anticipates raising capital through additional borrowing, the exercise of stock options and warrants and/or the sale of stock in a private placement. 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 2011.

The Company anticipates improved future operating results if a suitable operating merger candidate can be identified and a merger completed, however, actual results may be affected by unfavorable economic conditions and/or a lack of a merger candidate. 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 business plans and financial condition. The Condensed Consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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," "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.

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

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

Fair value of financial instruments – The estimated fair values for financial instruments are determined at discrete points in time based on relevant market information. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of accounts receivable, accounts payable, accrued liabilities, and notes payable approximate fair value given their short-term nature.

Results of Operations

(A) Three months ended March 31, 2011 versus three months ended March 31, 2010

DISCONTINUED OPERATIONS

Net Sales

Net sales reported by the Wireless Asset Management segment represented the entire reported sales for the quarter ended March 31, 2011, was \$4,088,400, an increase of \$262,600, or 6.9% over the sales reported for the Wireless Asset Management segment in the same quarter of the previous year. The RFID Technology and the Data Storage segments

ALANCO TECHNOLOGIES, INC.

were sold prior to the December 31, 2010 and did not contribute to the reported sales for the current quarter. For the quarter ended March 31, 2010, the RFID Technology segment reported sales of \$110,300 and Data Storage reported Sales of \$144,600.

#### Gross Profit

Gross profit from discontinued operations for the quarter ended March 31, 2011 amounted to \$1,892,300, an increase of \$245,900, or 14.9% compared to \$1,646,400 in gross profit reported for the comparable quarter of the prior year. The gross profit increase was primarily due to a \$254,900 increase in gross profit of the Wireless Asset Management segment due to the increased sales and improved gross margins that increased from 42.8% to 46.3%.

#### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses, excluding corporate expense discussed below, for the quarter ended March 31, 2011 were \$1,891,500, a decrease of \$221,100, or 10.5%, compared to \$2,112,600 reported in the comparable quarter of the prior year. Data Storage and RFID Technology segments, included in the totals, reported SG&A of \$470,300 for the quarter ended March 31, 2010, accounting for all of the decrease. Wireless Asset Management SG&A for the quarter ended March 31, 2011 amounted to \$1,891,500, an increase of \$249,200, or 15.2%, compared to \$1,642,300 reported for the quarter ended March 31, 2010. The increase in SG&A expense resulted primarily from increases in engineering, customer service and sales expense incurred in anticipation of additional sales growth.

### CONTINUING OPERATIONS

#### Corporate Expense

Corporate expense for the three months ended March 31, 2011 was \$262,100, an increase of \$35,000, or 15.4%, compared to the \$227,100 reported for the three months ended March 31, 2010. The increase was due primarily to a partial reinstatement of previous payroll reductions that were initiated to reduce overhead costs and conserve cash.

#### Other Income and Expense

Net interest expense decreased \$147,000, or 53%, to \$130,400 for the current quarter compared to net interest expense of \$277,400 reported in the comparable quarter of the previous year. The decrease in interest expense resulted from reduced interest rates and reduced borrowing.

#### Loss from Continuing Operations

Loss from continuing operations for the quarter decreased \$113,300, or 22.4% to (\$392,600) from (\$505,900) in the quarter ended March 31, 2010. The improvement was due to reductions in interest expense.

#### Income (Loss) from Discontinued Operations

Income from Discontinued operations for the quarter ended March 31, 2011 was \$800, a 100.2% improvement when compared to loss reported for the quarter ended March 31, 2010, of (\$514,900). The reduction in loss from discontinued operations was due to the sale of the RFID Technology and Data Storage segments that eliminated the (\$510,000) loss from discontinued operations reported for the comparable quarter of the previous year. The operating income for the Wireless Asset Management segment was \$800 compared to a loss of (\$4,900) for the quarter ended March 31, 2010.

#### Dividends

Preferred stock dividend expense for the three months ended March 31, 2011 was \$79,400, an increase of \$35,800, or 82.1%, compared to the \$43,600 in preferred stock dividends recorded in the comparable period of the prior fiscal year. The increase was due to an increase in the average preferred stock outstanding in the current quarter compared to

the quarter ended March 31, 2010.

ALANCO TECHNOLOGIES, INC.

Net Loss Attributable to Common Shareholders

Net Loss Attributable to Common Shareholders for the quarter ended March 31, 2011 amounted to (\$471,200), or (\$.09) per share, a \$593,200 reduction when compared to a loss of (\$1,064,400), or (\$.25) per share, in the comparable quarter of the prior year. The Company anticipates improved future operating results if a suitable operating merger candidate can be identified and a merger completed, however, actual results may be affected by unfavorable economic conditions and/or a lack of a merger candidate. 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.

(B) Nine months ended March 31, 2011 versus nine months ended March 31, 2010

DISCONTINUED OPERATIONS

Net Sales

Net sales reported by the Wireless Asset Management segment, representing substantially all the reported sales for the nine months ended March 31, 2011 for discontinued operations, was \$11,741,200, an increase of \$1,311,200, or 12.6% over Wireless Asset Management segment sales reported for the same period of the prior year of \$10,430,000. The RFID Technology and the Data Storage segments were sold prior to the December 31, 2010 and for the nine month period ended March 31, 2011 reported only \$38,700 in sales compared to \$1,648,100 reported in the comparable nine months of the prior year.

Gross Profit

Gross profit from discontinued operations for the nine months ended March 31, 2011 amounted to \$4,592,100, a decrease of \$309,900, or 6.3% compared to \$4,902,000 in gross profit reported for the comparable quarter of the prior year. The Wireless Asset Management portion of the gross profit amounted to \$4,578,600, representing an increase of \$84,100, or 1.9%, compared to \$4,494,500 reported by the Wireless Asset Management segment for the nine months ended March 31, 2010. The Data Storage and RFID Technology segments reported a significant reduction in gross profit due to the sale of the segments as previously discussed.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses, excluding corporate expense discussed below, for the nine months ended March 31, 2011 were \$5,601,000, a decrease of \$1,111,100, or 16.6%, compared to \$6,712,100 reported in the comparable nine months of the prior year. Data Storage and RFID Technology segments accounted for all of the decrease reporting SG&A for the nine months ended March 31, 2011 of \$113,400, compared to \$1,975,200 reported for the comparable period of the prior year. Wireless Asset Management SG&A for the nine month period ended March 31, 2011 amounted to \$5,487,600, an increase of \$750,700, or 15.8%, compared to \$4,736,900 reported for the nine months ended March 31, 2010. The increase in SG&A expense resulted primarily from increases in engineering, customer service and sales expense, in anticipation of additional sales growth.

CONTINUING OPERATIONS

Corporate Expense

Corporate expense for the nine months ended March 31, 2011 was \$847,400, an increase of \$189,700, or 28.8%, compared to the \$657,700 reported for the nine months ended March 31, 2010. The prior year nine months ended March 31, 2010 included activity whereby the Arizona Court of Appeals vacated an award of Attorney's fees and damages awarded to the Plaintiff in the Arraid Property lawsuit resulting in the reversal of related accruals in the amount of approximately \$127,000. In addition, the current nine month period included approximately \$155,000 in

stock based compensation that is expected to be paid pursuant to the Alanco 2011 Stock Incentive Plan approved by Alanco shareholders at the Company's annual meeting held on May 10, 2011.

Amortization of Stock-based compensation reported for the nine months ended March 31, 2011 was \$193,400, an increase of \$94,000, or 94.6%, compared to \$99,400 reported for the nine months ended March 31, 2010. The increase is the result of the Company's election to re-price certain employee stock options during the quarter ended September 30, 2010, as



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described in Note E – Equity, and to expense in the first quarter of the fiscal year the entire \$298,400 increase (\$189,800 Alanco corporate and \$108,600 discontinued operations) in Black-Scholes net value of the re-priced options in the quarter ended September 30, 2010.

Other Income and Expense

Net interest expense decreased \$272,900, or 41.5%, to \$384,400 for the nine months ended March 31, 2011 compared to net interest expense of \$657,300 reported in the comparable period of the previous year. The decrease in interest expense resulted from reduced interest rates and reduced borrowing.

Loss from Continuing Operations

Loss from continuing operations for the nine month period ended March 31, 2011 increased \$17,300, or 1.2% to (\$1,435,000) from (\$1,417,700) in the comparable period ended March 31, 2010. The increase in Loss from Continuing Operations was due to the stock-based compensation expense recognized as a result of repricing certain stock options as discussed above.

Loss from Discontinued Operations

Loss from Discontinued operations for the nine months ended March 31, 2011 was (\$1,008,900), a 45.7% decrease when compared to loss reported for the comparable period ended March 31, 2010, of (\$1,858,800). The reduction in loss from discontinued operations was due to the sale of the RFID Technology and Data Storage segments reducing the loss from discontinued operations by approximately \$1.5 million from the (\$1,616,400) reported for the comparable period of the previous year. The operating loss for the Wireless Asset Management segment, reported as Discontinued Operations, increased to (\$909,000), an increase of (\$666,600), or 275%, from a operating loss of (\$242,400) for the nine months ended March 31, 2010. The increased loss resulted primarily from a \$376,000 increased sales expense and a \$194,000 increases in amortization of Stock-based compensation, including the Black-Scholes expense of re-pricing certain employee stock options discuss in Footnote E – Equity that resulted in a charge of \$108,600 to the Wireless Asset Management segment.

Dividends

Preferred dividend expense for the nine months ended March 31, 2011 was \$239,000, a decrease of \$62,800, or 20.8%, compared to the \$301,800 in preferred stock dividends recorded in the comparable period of the prior fiscal year. The decrease resulted primarily from a reduction in the Series D Convertible Preferred stock dividend rate from 15% to 5%.

Net Loss Attributable to Common Shareholders

Net Loss Attributable to Common Shareholders for the nine months ended March 31, 2011 amounted to (\$2,682,900), or (\$.50) per share, a \$895,400 reduction when compared to a loss of (\$3,578,300), or (\$.85) per share, in the comparable period of the prior year. The Company anticipates improved future operating results if a suitable operating merger candidate can be identified and a merger completed, however, actual results may be affected by unfavorable economic conditions and/or a lack of a merger candidate. 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 March 31, 2011 exceeded current liabilities by \$8,942,000, resulting in a current ratio of 1.96 to 1. The comparable working capital at June 30, 2010 was \$9,983,300, reflecting a current ratio of 1.95 to 1. At both March 31, 2011 and June 30, 2010, all of the Company's operating segments are presented as Assets Held for Sale and Liabilities related to Assets Held for Sale.

At March 31, 2011 the only operating segment in Assets held for sale was the Wireless Asset Management, which reported accounts receivable of \$1,690,000, or 33.1 days sales outstanding, compared to \$2,289,000 reported at June 30, 2010, representing 60.1 days sales outstanding. The improvement was due to more favorable payment terms and an unusually high balance at June 30, 2010 to which the March 31, balance is compared.

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Inventories for the Wireless Asset Management segment at March 31, 2011 amounted to \$2,134,600, an increase of \$912,100, or 74.6%, when compared to \$1,222,500 at June 30, 2010. The inventory balance at March 31, 2011 represents an inventory turnover of 4.5 compared to 6.4 as of June 30, 2010. The increase was due to additional inventory purchased for anticipated shipments that were delayed.

At March 31, 2011, the Company had fully drawn available funds under a \$4.23 million line of credit agreement. See Note G - Line of Credit and Term Loan for additional discussion of the existing line of credit agreement.

Cash used in operations for the nine-month period ended March 31, 2011 was \$1,106,100, a decrease of \$721,100, or 39.5%, when compared to cash used in operations of \$1,827,200 for the comparable period ended March 31, 2010. The decrease in cash used in operating activities during the nine-month period resulted primarily from a decrease in net cash operating loss and a decrease in accounts receivable, offset by an increase in inventory.

During the nine-months ended March 31, 2011, the Company reported cash provided by investing activities of \$1,978,500 compared to cash provided by investing activities of \$46,300 reported for the same period in the prior fiscal year. The increase in cash provided by investing activities is the result of proceeds from the sale of net RFID Technology segment assets during the current fiscal year.

Cash used by financing activities for the nine-months ended March 31, 2011 amounted to \$721,100 compared to cash provided by financing activities of \$1,581,500 for the nine-months ended March 31, 2010, a change of \$2,302,600. The change is primarily from cash used for repayment of borrowings in the current fiscal year.

The Company believes that additional cash resources may be required for working capital to achieve planned operating results for fiscal year 2011 and, if working capital requirements exceed current availability, the Company anticipates raising capital through additional borrowing, the exercise of stock options and warrants and/or the sale of stock in a private placement. 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 2011.

The Company anticipates improved future operating results if a suitable operating merger candidate can be identified and a merger completed, however, actual results may be affected by unfavorable economic conditions and/or a lack of a merger candidate. 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 business plans and financial condition. 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 4 - CONTROLS AND PROCEDURES

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

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and

15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, the Company's disclosure controls and procedures were not effective as of the end of the period covered by this report, because of the material weaknesses previously identified as of June 30, 2010 and the lack of appropriate independent verification supporting the proper disposal of some \$415,000 of obsolete inventory, previously reserved, during the quarter ended December 31, 2010. The inventory was disposed of by a subcontractor at the direction of StarTrak management who had reviewed inventory values in previous periods. Notwithstanding the existence of the material weaknesses identified as of June 30, 2010 and the additional material weaknesses identified during the quarter ended December 31, 2010, 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.

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, 2010 Form 10-K.

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

- During the remaining period through the year ending June 30, 2011, we intend to devote resources to properly assess, and remedy if needed, our control environment and entity-level controls.
- During the remaining period through the year ending June 30, 2011, we will enhance our risk assessment, internal control design and documentation and develop a plan for testing in accordance with applicable standards.
- The Company has instituted additional requirements relative to the disposal of obsolete inventory, requiring written management approvals and third party verification of the disposal. In addition, the Company has developed a separate obsolete inventory policy, discussing inventory turnover requirements and net realizable value calculations that were implemented during the quarter ending March 31, 2011.
- The Company plans to continue to enhance the staffing and competency level within the department with training and periodic reviews.
- 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 October 7, 2010.

In light of the aforementioned material weakness, management conducted a thorough review of all significant or non-routine adjustments for the nine month period ended March 31, 2011. As a result of this review, management believes that there are no material inaccuracies or omissions of material fact and, to the best of its knowledge, believes that the condensed consolidated financial statements for the nine month period ended March 31, 2011 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's subsidiary, StarTrak Systems, has recently been made a defendant concerning certain patent infringement claims as follows:

ALANCO TECHNOLOGIES, INC.

Arrivalstar S.A, et al. v. StarTrak Systems, LLC, et al. Case No.: 4:10-CV-0033. This action was a patent infringement action venued in the United States District Court for the Northern District of Indiana. StarTrak believes that the plaintiff's patents are invalid due to prior art, based, in part, upon the substantial commercial activity concerning the patent claims long before the patents were applied for or issued. However, StarTrak has resolved the action by agreeing to pay \$70,000 over a number of monthly payments, thus avoiding substantially greater expenses that would be incurred in defending the action.

Innovative Global Systems LLC v. StarTrak Systems, LLC, et al. Case No.: 6:10-CV-00327. This action is another patent infringement action venued in the United States District Court for the Eastern District of Texas. Again, StarTrak believes that the plaintiff's patents are invalid due to prior art, based, in part, upon the substantial commercial activity concerning the patent claims long before the patents were applied for or issued. Similarly, StarTrak is in discussions with the plaintiff in cooperation with other defendants to resolve the matter by paying a sum substantially less than would be incurred in defending the action. This lawsuit is quite early in the discovery stage and StarTrak's counsel has not formed an opinion concerning the likely outcome. However, the Company's management believes that the suit is without merit and the Company will continue to vigorously defend itself in the matter if it is not soon resolved.

On February 11, 2011, the Company received claims and threatened litigation from Tim Slifkin ("Slifkin") and Tom Robinson ("Robinson"), a director and executive officer, respectively, (both employees of StarTrak) alleging that the Company had not recorded a total of approximately \$630,000 of salaries, finder's fees and commissions allegedly earned by Slifkin and Robinson and payable at December 31, 2010. In addition, Slifkin and Robinson claimed that upon the completion of future anticipated transactions they will be owed an additional \$335,000 each for a total additional liability of \$770,000.

However, in connection with the ORBCOMM acquisition of the StarTrak assets (which was approved by the Company's shareholders at its annual meeting of shareholders held May 10, 2011), the Company entered into a Settlement Agreement and Mutual Release, signed on February 22, 2011 but not effective until signatures were released on February 24, 2011, with Slifkin and Robinson. The agreement provides incentive compensation to Slifkin and Robinson in cash and ORBCOMM stock a total of approximately \$85,000 each, upon the successful completion of the sale of StarTrak to ORBCOMM, Inc. In addition, Slifkin and Robinson will receive up to approximately 3.2%, each, of the future potential earn out based upon reported sales for the period March 1, 2011 to February 28, 2012 as discussed in Note I – Sale of StarTrak Systems, LLC, below.

StarTrak has recently been served with a Third-Party Complaint by Great American Lines, Inc. and related parties in a lawsuit against them by certain freight shippers in the US District Court for the District of New Jersey, being Case No. 3:10-ev-02023-JAP-TJB. The main case against Great American Lines involves allegations concerning a lost or stolen trailer containing freight owned by the plaintiffs. Great American Lines has brought its Third-Party Complaint against StarTrak alleging that StarTrak breached its contract with Great American Lines to allow Great American Lines to track its trailer and for indemnity. StarTrak has tendered its defense in the lawsuit to its insurance company, but counsel has not yet formed an opinion on the likely outcome. However, the Company's management believes that the suit is without merit and the Company will vigorously defend itself in the matter.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of March 31, 2011 there was no other such litigation pending deemed material by the Company.

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

During the nine months ended March 31, 2011, the Company issued 8,500 Shares of Series B Preferred Stock as in-kind dividend payments and a total of 869,000 shares of unregistered Class A Common Stock, including 3,100 shares for services rendered, 1,100 shares issued for payment of notes and interest, 256,200 issued for exercise of warrants, 77,600 shares issued in payment of Series D and Series E Preferred Stock dividends, 384,300 shares were issued in a private offering, 129,700 shares issued for a conversion of 51,900 shares of Series D Preferred Stock, 15,000 shares issued to convert 10,000 shares of Series E Preferred Stock into common stock and the Company made a 2,000 share adjustment to treasury shares as discussed in Footnote G – Equity.

ALANCO TECHNOLOGIES, INC.

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

On May 10, 2011 Alanco Technologies, Inc. held its Annual Meeting of Shareholders at the Company's offices in Scottsdale, Arizona for the purpose of considering four proposals. The Company's Definitive Proxy Statement, outlining details of the proposals was filed with the SEC on April 11, 2011. The following proposals were voted upon by 4,669,047 shares, or 67.6% of the 6,903,954 shares eligible to vote, constituting a quorum. The final voting results by proposal are listed below.

Proposals 1, 2 and 3 require a majority of shares voted for approval. The "% For" represents the affirmative votes for the proposal divided by the total number of shares voted.

(1) ELECTION OF DIRECTORS.

For: 4,120,988      Against: 510,559      Abstain: 37,500      % For: 88.3%

(2) RATIFICATION OF RE-APPOINTMENT OF THE INDEPENDENT REGISTERED PUBLICACCOUNTING FIRM.

For: 4,616,774      Against: 2,646      Abstain: 49,627      % For: 98.9%

(3) APPROVAL OF THE ALANCO 2011 STOCK INCENTIVE PLAN.

For: 3,660,817      Against: 1,002,029      Abstain: 6,201      % For: 78.4%

Proposal 4 requires a majority of the 6,903,954 shares eligible to vote. The "% For" for Proposal 4 represents the affirmative votes for the proposal divided by the total number of shares eligible to vote.

(4) APPROVAL TO SELL SUBSTANTIALLY ALL OF THE ASSETS OF THE COMPANY BY SELLING SUBSTANTIALLY ALL THE ASSETS OF STARTRAK SYSTEMS, LLC, A WHOLLY OWNED SUBSIDIARY OF THE COMPANY, TO ORBCOMM INC. PURSUANT TO TERMS AND CONDITIONS OF THE ASSET PURCHASE AGREEMENT AMONG THE COMPANY, STARTRAK AND ORBCOMM. (This proposal requires 50% approval by the 6,903,954 shares eligible to vote.)

For: 4,637,151      Against: 27,761      Abstain: 4,135      % For: 67.2%

Proposal 1, Election of Directors, resulted in the election of three independent and two non-independent directors and therefore the Company believes it is now in compliance with Nasdaq Rule 5605(b)(1) regarding independent director requirements and is awaiting confirmation from Nasdaq.



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  
John A. Carlson  
Executive Vice President and  
Chief Financial Officer

ALANCO TECHNOLOGIES, INC.

EXHIBIT 31.1

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

I, Robert R. Kauffman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Alanco Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the period presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: May 16, 2011

/s/ Robert R. Kauffman

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Robert R. Kauffman  
Chairman and Chief Executive Officer

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

Date: May 16, 2011

/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 March 31, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert R. Kauffman, Chairman and Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Robert R. Kauffman  
Robert R. Kauffman  
Chairman and Chief Executive Officer  
Alanco Technologies, Inc.  
Dated: May 16, 2011

ALANCO TECHNOLOGIES, INC.

EXHIBIT 32.2

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

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

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

/s/ John A. Carlson  
John A. Carlson  
Chief Financial Officer  
Alanco Technologies, Inc.  
Dated: May 16, 2011