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ALANCO TECHNOLOGIES INC  
Form 10QSB  
May 15, 2007

ALANCO TECHNOLOGIES, INC.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-QSB

X QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES  
-----

EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2007

\_\_\_\_ 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 small business issuer 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  
(Issuer's telephone number)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of May 10, 2007 there were 20,159,800 shares, net of treasury shares, of common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes \_\_\_\_ No X

Forward-Looking Statements: Some of the statements in this Form 10-QSB Quarterly Report, as well as statements by the Company in periodic press releases, oral statements made by the Company's officials to analysts and shareholders in the course of presentations about the Company, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words or phrases denoting the anticipated results of future events such as "anticipate," "believe," "estimate," "will likely," "are expected to," "will continue," "project," "trends" and similar expressions that denote uncertainty are intended to identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among other things, (i) general economic and business conditions; (ii) changes in industries in which the Company does business; (iii) the loss of market share and increased competition in certain markets; (iv) governmental regulation including environmental laws; and (v) other factors over which the company has

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little or no control.

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## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2007 AND JUNE 30, 2006

	March 31, 2007	June 30, 2006
	(unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 119,800	\$ 1,155,500
Accounts receivable, net	2,795,500	1,471,400
Notes receivable, current	29,600	31,600
Cost and estimated earnings in excess of billing	106,600	-
Inventories, net	3,784,000	2,701,600
Prepaid expenses and other current assets	357,100	551,000
Total current assets	7,192,600	5,911,100
PROPERTY, PLANT AND EQUIPMENT, NET	247,600	201,100
OTHER ASSETS		
Goodwill, net	17,931,700	17,875,100
Other intangible assets	2,263,600	2,881,200
Net assets held for sale	-	755,500
Other assets	646,800	37,500
Total other assets	20,842,100	21,549,300
TOTAL ASSETS	\$ 28,282,300	\$ 27,661,500
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Credit Line	\$ 1,850,000	\$ 1,000,000
Notes payable, current	737,500	875,300
Accounts payable and accrued expense	4,604,200	5,043,200
Billings in excess of cost and est earnings on uncompleted contracts	-	43,500
Deferred stock payment, StarTrak	-	5,715,400
Customer advances	-	1,001,100
Deferred revenue, current	932,800	126,000
Total Current Liabilities	8,124,500	13,804,500
LONG TERM LIABILITIES		
Notes payable, long term	5,079,900	2,679,100
Deferred revenue, long term	129,000	-
Total Long-term liabilities	5,208,900	2,679,100
TOTAL LIABILITIES	13,333,400	16,483,600
Preferred Stock - Series B, 80,700 and 75,000 shares issued and outstanding, respectively	795,000	737,500
SHAREHOLDERS' EQUITY		
Preferred Stock - Series A Convertible,		

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3,759,800 and 3,122,900 shares issued and outstanding, respectively	4,930,100	3,925,200
Common Stock- 18,859,800 and 15,261,500 shares outstanding, net of Treasury Stock of 200,500 and 200,000, respectively	84,855,800	78,470,200
Accumulated deficit	(75,632,000)	(71,955,000)
	-----	-----
Total shareholders' equity	14,153,900	10,440,400
	-----	-----
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 28,282,300	\$ 27,661,500
	=====	=====

See accompanying notes to the consolidated financial statements

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

	2007	2006
	-----	-----
NET SALES	\$ 4,422,800	\$ 988,000
Cost of goods sold	3,106,200	716,000
	-----	-----
GROSS PROFIT	1,316,600	272,000
Selling, general and administrative expense	2,568,800	1,439,100
	-----	-----
OPERATING LOSS	(1,252,200)	(1,167,100)
OTHER INCOME & (EXPENSES)		
Interest expense, net	(211,800)	(23,700)
Other income, net	17,200	60,200
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(1,446,800)	(1,130,600)
INCOME FROM DISCONTINUED OPERATIONS	-	138,500
Preferred stock dividends - paid in kind	(335,700)	(281,500)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (1,782,500)	\$ (1,273,600)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Net loss attributable to common shareholders	\$ (0.10)	\$ (0.11)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	17,968,600	12,044,800
	=====	=====

See accompanying notes to the consolidated financial statements

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

	2007	2006
	-----	-----
NET SALES	\$ 15,115,000	\$ 3,858,400
Cost of goods sold	10,172,100	2,757,700
	-----	-----
GROSS PROFIT	4,942,900	1,100,700
Selling, general and administrative expense	7,389,500	4,216,300
	-----	-----
OPERATING LOSS	(2,446,600)	(3,115,600)
OTHER INCOME & (EXPENSES)		
Interest expense, net	(551,100)	(66,400)
Other income, net	56,800	77,300
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(2,940,900)	(3,104,700)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	(83,200)	6,500
Preferred stock dividends - paid in kind	(652,900)	(564,600)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (3,677,000)	\$ (3,662,800)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Net loss attributable to common shareholders	\$ (0.22)	\$ (0.32)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	16,441,500	11,340,700
	=====	=====

See accompanying notes to the consolidated financial statements

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS FOR THE NINE MONTHS ENDED MARCH 31, 2007 (unaudited)

	COMMON STOCK		SERIES A PREFERRED STOCK		TREASURY S	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	A
Balances, June 30, 2006	15,461,500	\$ 78,845,300	3,122,900	\$ 3,925,200	200,000	\$ (
Shares issued for services	4,000	5,500	-	-	-	
Shares issued for loan fees	210,000	267,200	-	-	-	
Shares issued for options						

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exercised	48,000	44,200	-	-	-
Shares issued-StarTrak Deferred					
Stock Payment	3,280,000	5,715,400	-	-	-
Conversion of note payable to equity	56,800	107,000	-	-	-
Fractional shares eliminated and purchased in reverse split	-	-	-	-	500
Value of warrant issued for loan fees	-	119,300	-	-	-
Value of stock based compensation	-	127,100	-	-	-
Private offering, net of expenses	-	-	240,000	409,500	-
Preferred dividends, paid in kind - A	-	-	396,900	595,400	-
Preferred dividends, paid in kind - B	-	-	-	-	-
Net loss	-	-	-	-	-
Balances, March 31, 2007	19,060,300	\$ 85,231,000	3,759,800	\$ 4,930,100	200,500 \$ (
	=====	=====	=====	=====	=====

See accompanying notes to the consolidated financial

## ALANCO TECHNOLOGIES, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED MARCH 31, (Unaudited)

	2007	2006
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	\$ (2,940,900)	\$ (3,104,700)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	733,300	301,200
Gain on Sale - Data Storage Assets	(18,300)	-
Stock-based Compensation	127,100	-
Stock issued for services	5,500	51,100
(Loss) Income from discontinued operations	(83,200)	6,500
Income from assets held for sale	(29,000)	(23,600)
Changes in:		
Accounts receivable, net	(1,324,100)	166,000
Inventories, net	(1,082,400)	(328,600)
Costs in excess of billings and estimated earnings on uncompleted contracts	(106,600)	-
Prepaid expenses and other current assets	192,800	(147,600)
Accounts payable and accrued expenses	(439,000)	214,500
Deferred revenue	935,800	(12,700)
Billings and estimated earnings in excess of costs on uncompleted contracts	(43,500)	27,700
Customer Advances	(1,001,100)	-
Other assets	(222,700)	8,200
	-----	-----
Net cash used in operating activities	(5,296,300)	(2,842,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash from assets sold	806,200	77,200

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Net cash forfeited in sale	(2,600)	-
Goodwill	(56,600)	-
Collection of notes receivable, net	2,000	54,900
Purchase of property, plant and equipment	(158,100)	(80,000)
Patent renewal and other	(4,100)	900
	-----	-----
Net cash provided by investing activities	586,800	53,000
	-----	-----

See accompanying notes to the consolidated financial statements

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

	2007	2006
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) advances on line of credit	850,000	495,500
Repayment on borrowings	(2,747,400)	(236,000)
Proceeds from notes payable	5,117,500	-
Proceeds from sale of equity instruments	453,700	1,989,500
	-----	-----
Net cash provided by financing activities	3,673,800	2,249,000
	-----	-----
NET (DECREASE) IN CASH	(1,035,700)	(540,000)
CASH AND CASH EQUIVALENTS, beginning of period	1,155,500	737,300
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 119,800	\$ 197,300
	=====	=====

## SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

Net cash paid during the period for interest	\$ 185,200	\$ 47,400
	=====	=====

### Non-Cash Activities:

Value of stocks and warrants issued for services and prepayments	\$ 519,100	\$ 135,100
	=====	=====

Value of shares issued - Startrak Deferred Stock payment	\$ 5,715,400	\$ -
	=====	=====

Value of stock issued for note payable conversion	\$ 107,000	\$ -
	=====	=====

Valuation adjustment	\$ -	\$ (64,700)
	=====	=====

Series B preferred stock dividend, paid in kind	\$ 57,500	\$ 52,000
	=====	=====

Series A preferred stock dividend,

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paid in kind	\$	595,400	\$	512,500
	=====		=====	

See accompanying notes to the consolidated financial statements

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2007

#### Note A - Basis of Presentation and Recent Accounting Pronouncements

Alanco Technologies, Inc., an Arizona corporation ("Alanco" or "Company"), operates in three business segments: Data Storage, Wireless Asset Management and RFID Technology.

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-QSB. 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, 2006, Annual Report filed on Form 10-KSB. Interim results are not necessarily indicative of results for a full year. Certain reclassifications have been made to conform prior period financials to the presentation in the current reporting period. The reclassifications had no effect on net loss.

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

The Company announced on October 16, 2006 that the Board of Directors had elected to effect a 2 for 5 reverse stock split effective October 16, 2006, 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 had previously received authority from its shareholders 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 five shares of the Company's Class A Common Stock outstanding at the time of the reverse split was automatically changed into two shares of common stock, and the total number of common shares outstanding was reduced from approximately 38.7 million shares to approximately 15.5 million shares post-split. 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



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Consolidated Financial Statements and the loss per share for all periods presented to reflect the reverse stock split.

The Company has stock-based compensation plans and effective July 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), using the modified prospective transition method and therefore have not restated results for prior periods. Under this transition method, stock-based compensation expense for the third quarter and nine month period ended March 31, 2007 of fiscal 2007 includes compensation expense for all

stock-based compensation awards granted during the quarter, or granted in a prior quarter if not fully vested as of July 1, 2006, based on the grant date fair value estimated in accordance with the original provision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-based Compensation" ("SFAS 123"). Stock-based compensation expense for all stock-based compensation awards granted after July, 2006 is based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. The value of the compensation cost is amortized on a straight-line basis over the requisite service periods of the award (the option vesting term).

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

- o Expected term is determined using a weighted average of the contractual term and vesting period of the award;
- o Expected volatility of award grants made under the Company's plans is measured using the historical daily changes in the market price of the Company's common stock over the expected term of the award;
- o Risk-free interest rate is to approximate the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,
- o Forfeitures are based on the history of cancellations of awards granted by the Company and management's analysis of potential forfeitures.

Prior to the adoption of SFAS 123R, the Company recognized stock-based compensation expense in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APBO 25"). In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") regarding the SEC's interpretation of SFAS 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB 107 in their adoption of SFAS 123R.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS 123 to options granted under the stock option plans in the nine months ended March 31, 2006. For purposes of pro forma disclosures, the value of the options granted during the period is estimated using the Black-Scholes option-pricing formula and expensed in the period of grant whether or not the options were vested. The following pro forma information sets forth the net loss and net loss per share assuming that the Company had used the SFAS 123 fair value method in accounting for stock options during the nine months ended March 31, 2006:

9 months ended  
March 31, 2006  
-----

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Net loss, as reported	\$ (3,662,800)
Add: Stock-based employee compensation expense included in reported income	
Deduct: Total stock-based employee compensation expense determined under fair value based methods, net of related tax effects	(525,000)
	-----
Pro Forma net loss	\$ (4,187,800)
	=====
Net loss per common share, basic and diluted	
As reported	\$ (0.32)
	=====
Pro forma	\$ (0.37)
	=====
Weighted Average Shares Outstanding	
Basic and Diluted	11,340,700
	=====

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.

### Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued a standard that addresses accounting for income taxes: FIN 48, Accounting for Uncertainty in Income Taxes. Among other things, FIN 48 requires applying an audit sustainability standard of "more likely than not" related to the recognition and de-recognition of tax positions. The new guidance will be effective for us in fiscal 2008. We are currently evaluating the requirements of FIN 48 and the impact this interpretation may have on our consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin (SAB) 108 "Considering the Effects of Prior Year Misstatements in Current Year Financial Statements," which provides interpretive guidance on how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. There is currently diversity in practice, with the two commonly used methods to quantify misstatements being the "rollover" method (which primarily focuses on the income statement impact of misstatements) and the "iron curtain" method (which focuses on the balance sheet impact). SAB 108 requires registrants to use a dual approach whereby both of these methods are considered in evaluating the materiality of financial statement errors. Prior materiality assessments will need to be reconsidered using both the rollover and iron curtain methods.

In September 2006, the FASB issued SFAS 157 "Fair Value Measurements", which establishes how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes under GAAP. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of SFAS 157 are effective for the Company in July 2008. The Company is currently evaluating the impact of this Statement on our consolidated financial statements, but we do not expect SFAS 157 to have a material effect.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The

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objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined whether it will elect the fair value option for any of its financial instruments.

### Note B - Stock-Based Compensation

The Company has several employee stock option and officer and director stock option plans that have been approved by the shareholders of the Company. The plans require that options be granted at a price not less than market on date of grant and are more fully discussed in Form 10-KSB for the year ended June 30, 2006.

The Company uses the Black-Scholes option pricing model to estimate fair value of stock-based awards with the following assumptions for prior awards of options:

	Awards Prior to July 1, 2006 -----
Dividend yield	0%
Expected volatility	27%-80%
Weighted-average volatility	43.1%
Risk-free interest rate	3%-4 1/2%
Expected life of options (in years)	5-10
Weighted average grant-date fair value	\$0.61

Assumptions for awards of options granted during the nine months ended March 31, 2007 were:

	Awards Granted Nine months ended March 31, 2007 -----
Dividend yield	0%
Expected volatility	80%
Weighted-average volatility	80%
Risk-free interest rate	4 1/2%
Expected life of options (in years)	3.2 - 3.4
Weighted average grant-date fair value	\$0.78

The following table summarizes the Company's stock option activity during the first nine months of fiscal 2007:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value	Aggr Intr Val
Outstanding July 1, 2006	5,721,000	\$1.98	5.82	\$3,597,300	
Granted	278,000	\$1.47	-	185,300	
Exercised	(48,000)	\$0.92	-	(30,400)	
Forfeited or expired	(105,200)	\$3.31	-	(66,100)	
Outstanding March 31, 2007	5,845,800	\$1.94	5.09	\$3,686,100	\$3,10
	=====	=====	=====	=====	=====
Exercisable March 31, 2007	4,654,800	\$1.99	5.29	\$2,934,200	\$1,78

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- (1) Remaining contractual term presented in years.
- (2) The aggregate intrinsic value is calculated as the difference between the exercise price of awards and the closing price of the Company's common stock as of March 31, 2007, for those awards with an exercise price currently below the closing price as of March 30, 2007 of \$2.24.

## Note C - Inventories

Inventories are recorded at the lower of cost or market. The composition of Inventories as of March 31, 2007 and June 30, 2006 (excluding inventories included in net assets held for sale at June 30, 2006) are summarized as follows:

	March 31, 2007	June 30, 2006
	-----	-----
	(unaudited)	
Raw materials and purchased parts	\$ 4,046,300	\$ 2,915,600
Finished goods	75,300	101,000
	-----	-----
	4,121,600	3,016,600
Less reserves for obsolescence	(337,600)	(315,000)
	-----	-----
	\$ 3,784,000	\$ 2,701,600
	=====	=====

## Note D - Contracts In Process

Costs incurred, estimated earnings and billings in the RFID Technology segment, related to contracts for the installation of TSI PRISM systems in process at March 31, 2007 and June 30, 2006 consist of the following:

	March 31, 2007	June 30, 2006
	-----	-----
	(unaudited)	
Costs incurred on uncompleted contracts	\$ 529,300	\$ 97,100
Estimated gross profit earned to date	177,800	19,900
	-----	-----
Revenue earned to date	707,100	117,000
Less: Billings to date	(600,500)	(160,500)
	-----	-----
Costs and estimated earnings/(billings) in excess of billings/(costs and estimated earnings)	\$ 106,600	\$ (43,500)
	=====	=====

## Note E - Deferred Revenue

Deferred Revenues at March 31, 2007 and June 30, 2006 consist of the following:

	March 31, 2007	June 30, 2006
	-----	-----
	(unaudited)	
Extended warranty revenue	\$ 1,061,800	\$ 126,000
Less - current portion	(932,800)	(126,000)
	-----	-----
Deferred revenue - long term	\$ 129,000	\$ -

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### Note F - Loss Per Share

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

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options and warrants 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, 2007 there were 4,999,000 potentially dilutive securities outstanding.

### Note G - Equity

The Company's annual meeting of shareholders was held on January 30, 2007. Proposals voted upon and approved included Proposal #5 - "Approval of Issuance of Class A Common Stock as Payment in Lieu of Cash Related to Obligations Incurred in Connection with the Company's Acquisition of StarTrak Systems, LLC," resulting in the Company issuing, in January 2007, 3,280,000 shares of Class A Common Stock in payment of \$5,715,400 in "Deferred stock payment, StarTrak" and 56,800 shares issued for payment of \$107,000 notes payable acquired in the acquisition. The acquisition of StarTrak Systems, LLC, which became effective June 30, 2006, is more fully discussed in the Company's Form 10-KSB filed for the year ended June 30, 2006.

During the nine months ended March 31, 2007, the Company issued, in addition to the 3,336,800 discussed above, a total of 262,000 shares of the Company's Class A Common Stock. Included were 4,000 shares issued for services valued at \$5,500, 48,000 shares issued in connection with the exercise of employee stock options and 210,000 shares issued as financing costs in conjunction with a \$4 million term loan transaction valued at fair market value on date of issue at \$267,200, net of a \$5,000 payment made by the lender. Warrants to purchase 283,500 shares of the Company's Class A Common Stock at a strike price of \$1.80 (valued at \$119,300) were also issued in conjunction with the term loan. The net value of stock and warrants issued in conjunction with the term loan has been recorded and will be amortized over the loan period as interest expense.

The value of employee stock-based compensation recognized for the nine months ended March 31, 2007 amounted to \$127,100. The Company initiated the expensing of stock-based compensation on July 1, 2006. See Note A - Basis of Presentation and Recent Accounting Pronouncements for additional discussion of the Company's policies related to employee stock-based compensation.

The Company completed in July 2006 an offering of 240,000 units consisting of one share of Series A Preferred Stock and a warrant to purchase 1.2 shares of the Company's Class A Common Stock at a strike price of \$1.50 per share. The units were sold for \$1.71 each and generated \$409,500, net of expenses. 180,000 units were purchased by directors and officers of the Company including 60,000 units each purchased by Robert R. Kauffman, director and CEO, Harold S. Carpenter, director, and Donald E. Anderson, director. The remaining 60,000 units were sold to non-related third parties.

The Company declared and paid dividends-in-kind on the Company's preferred shares through the issuance of 396,900 shares of Series A Preferred Stock valued at \$595,400 and 5,700 shares of Series B Preferred Stock valued at \$57,500. The Preferred Stocks are more fully discussed in the Form-10KSB for the year ended June 30, 2006.

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## Note H -Industry Segment Data

Information concerning operations by industry segment follows (unaudited):

	Nine Months ended 3/31		Three Months ended	
	2007	2006	2007	2006
Revenue				
Data Storage	\$ 3,556,900	\$ 3,537,100	\$ 875,400	\$ 902,000
Wireless Asset Management	10,708,600	n/a	3,400,900	
RFID Technology	849,500	321,300	146,500	85,000
	-----	-----	-----	-----
Total Revenue	\$15,115,000	\$ 3,858,400	\$ 4,422,800	\$ 987,000
	=====	=====	=====	=====
Gross Profit				
Data Storage	\$ 814,500	\$ 1,015,900	\$ 101,900	\$ 251,000
Wireless Asset Management	3,866,000	n/a	1,172,700	
RFID Technology	262,400	84,800	42,000	20,000
	-----	-----	-----	-----
Total Gross Profit	\$ 4,942,900	\$ 1,100,700	\$ 1,316,600	\$ 272,000
	=====	=====	=====	=====
Gross Margin				
Data Storage	22.9%	28.7%	11.6%	27.0%
Wireless Asset Management	36.1%	n/a	34.5%	
RFID Technology	30.9%	26.4%	28.7%	23.0%
	-----	-----	-----	-----
Overall Gross Margin	32.7%	28.5%	29.8%	27.0%
	=====	=====	=====	=====
Selling, General and Administrative Expense				
Data Storage	\$ 1,082,900	\$ 1,030,000	\$ 333,100	\$ 304,000
Wireless Asset Management	3,767,900	n/a	1,188,000	
RFID Technology	1,603,300	2,062,300	597,000	692,000
	-----	-----	-----	-----
Total Segment Operating Expen	\$ 6,454,100	\$ 3,092,300	\$ 2,118,100	\$ 997,000
	=====	=====	=====	=====
Operating Profit (Loss)				
Data Storage	\$ (268,400)	\$ (14,100)	\$ (231,200)	\$ (52,000)
Wireless Asset Management	98,100	n/a	(15,300)	
RFID Technology	(1,340,900)	(1,977,500)	(555,000)	(672,000)
Corporate Expense, net	(935,400)	(1,124,000)	(450,700)	(441,000)
	-----	-----	-----	-----
Operating Loss	\$ (2,446,600)	\$ (3,115,600)	\$ (1,252,200)	\$ (1,167,000)
	=====	=====	=====	=====
Depreciation and Amortization				
Data Storage	\$ 16,200	\$ 18,200	\$ 5,900	\$ 5,000
Wireless Asset Management	482,500	n/a	159,900	
RFID Technology	232,500	280,500	81,200	75,000
Corporate	2,100	2,500	700	
	-----	-----	-----	-----
Total Depreciation and Amortization	\$ 733,300	\$ 301,200	\$ 247,700	\$ 81,000
	=====	=====	=====	=====

Mar. 31, 2007      June 30, 2006

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Accounts Receivable		
Data Storage	\$ 473,000	\$ 356,100
Wireless Asset Management	1,937,200	919,700
RFID Technology	367,900	178,300
Corporate	17,400	17,300
	-----	-----
Total Accounts Receivable	\$ 2,795,500	\$ 1,471,400
	=====	=====
Inventories		
Data Storage	\$ 852,000	\$ 875,200
Wireless Asset Management	1,612,600	885,900
RFID Technology	1,319,400	940,500
	-----	-----
Total Inventories	\$ 3,784,000	\$ 2,701,600
	=====	=====

### Note I - Related Party Transactions

The Company has a \$2.0 million line of credit agreement ("Agreement"), more fully discussed in the Company's Form 10-KSB for the year ended June 30, 2006, with a private trust controlled by Mr. Donald Anderson, a greater than five percent stockholder and a member of the Company's Board of Directors.

See Note G - Equity for discussion of units sold in July 2006 consisting of one share of Series A Preferred Stock and warrants to purchase 1.2 shares of the Company's Class A Common Stock for a strike price of \$1.50 per share. The units were purchased by a group of investors that included Robert R. Kauffman, CEO and Company director, Harold S. Carpenter, Company director, and Donald E. Anderson, Company director.

During the first quarter of fiscal 2007, the Company sold its wholly owned subsidiary, Arraid, Inc., to a trust controlled by Donald E. Anderson, a director of the Company, for cash of approximately \$456,400. The transaction was completed in conformance with a fairness opinion letter received by the Company.

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

At March 31, 2007, the Company had an outstanding balance under the line of credit agreement of \$1,850,000. The balance is under a \$2.0 million line of credit agreement with a private trust ("Lender"), entered into in June 2002 and last modified in June 2006. Under the Agreement, the Company must maintain a minimum balance due under the line of at least \$1.5 million through the July 1, 2007 expiration date. Under the Agreement, the lender has the unilateral right to reduce the line of credit Agreement to \$1.5 million, at which time the minimum outstanding balance under the Agreement reduces from \$1.5 to \$1.0 million. At March 31, 2007, the Company had \$150,000 available under the line of credit agreement.

The Company completed a \$4 million term loan financing on September 28, 2006 with ComVest Capital LLC, to be used to repay short-term notes and provide working capital to fund operations. Provisions for the four-year loan include interest only payments for the first year with the loan balance amortized over the remaining three-year period. The loan bears interest at prime plus two and one-half percent per annum, currently 10.75%, matures in September 2010 and is secured by the Company assets. Closing fees and expenses related to the transaction paid in cash, common stock and warrants amounted to \$532,800. The costs will be amortized over the term of the loan. The loan transaction was reported via Form 8-K filed on October 3, 2006, including the applicable loan

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documents.

### Note K - Litigation

The Company continues to be a defendant in litigation that relates to the acquisition, in May of 2002, of substantially all the assets of Technology Systems International, Inc., a Nevada corporation ("TSIN"), as described in our Form 10-KSB filed for the year ended June 30, 2006. The court dismissed the initial suit due to lack of prosecution, but allowed the bankruptcy trustee for the plaintiff to re-initiate the suit. The Company believes that allowing re-initiation of the suit was improper and has appealed the order allowing the suit to be re-initiated to an appellate court. In the meantime the re-started suit is pending. The Company's management, in consultation with legal counsel, continues to believe the plaintiff's claims are without merit and the Company will aggressively defend against the action.

Litigation previously reported as arising from an expired property lease between the Company's subsidiary, Arraid, Inc., and Arraid Property L.L.C., a limited liability company, has been concluded at the trial court level with an order adverse to the Company in an amount of approximately \$35,000 (representing less than one percent of the amount claimed by the plaintiffs), plus certain attorney's fees and costs in the amount of approximately \$100,000, both of which have been accrued. The Company is currently awaiting a judgment and intends to appeal the judgment when entered. The Company's management, in consultation with legal counsel, believes the Company will be successful upon the appeal.

The Company has settled litigation against the Company's insurance carrier with respect to claims originating from the TSIN litigation and has received payment from the insurance carrier in the amount of \$350,000.

### Note L - Subsequent Events

Subsequent to March 31, 2007, the Company issued 1,300,000 shares of its Class A Common Stock receiving approximately \$2.5 million, net of expenses. 564,000 shares were issued pursuant to the exercise of warrants and employee stock options generating approximately \$1,048,000 and 736,000 shares were issued in a private offering to several qualified investors for approximately \$1,468,000, net of expenses.

### Note M - Liquidity

Through March 31, 2007, the Company had sustained recurring losses from operations, and as of March 31, 2007, the Company has a deficit working capital position. These conditions raise substantial doubt about the ability of the Company to continue as a going concern. During fiscal 2007, the Company expects to meet its working capital and other cash requirements with its current cash reserves, cash generated from operations, its borrowing capacity under its credit facility, and other financing as required. While the Company believes that it will succeed in attracting additional capital and generate capital from operations from its StarTrak acquisition, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations. As a result, the Company's independent certified public accountants have issued a going concern opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2006. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

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

Except for historical information, the statements contained herein are



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forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements are subject to 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: 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; 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; and the ability to maintain satisfactory relationships with suppliers and customers.

### General

Information on industry segments is incorporated by reference from Note H - Industry Segment Data to the Condensed Consolidated Financial Statements.

### 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. The preparation of our financial statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, estimates are revalued, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These areas include allowances for doubtful accounts, inventory valuations, carrying value of goodwill and intangible assets, estimated profit 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 differ from these estimates under different assumptions and conditions.

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

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

Revenue recognition - The Company recognizes revenue from the Data Storage Segment, 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 (in excess of \$250,000 and completed 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

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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 becomes known, the entire amount of the estimated ultimate loss is accrued.

Contract costs include all direct materials, subcontracts, labor costs and those direct and indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. At the time a loss on a contract is known, the entire amount of the estimated ultimate loss is accrued.

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

### Results of Operations

(A) Three months ended March 31, 2007 versus March 31, 2006

#### Net Sales

Consolidated sales for the third fiscal year quarter ended March 31, 2007 were \$4,422,800, an increase of \$3,434,800, or 347.7%, versus comparable quarter sales of \$988,000 for the third quarter of the prior year. The increase in sales primarily resulted from the \$3,400,900 of added sales reported by the Wireless Asset Management segment, acquired effective June 30, 2006. Revenues from the RFID Technology segment for the quarter increased to \$146,500 from \$85,300, an increase of \$61,200 or 71.7% as compared to revenues for the comparable quarter of the prior year. The improvement in the RFID Technology segment reflects recent activity on execution of contracts the Company started

during the current fiscal year. Revenues from the Data Storage segment decreased to \$875,400 from \$902,700, a decrease of \$27,300, or 3%, when compared to sales in the same quarter of the prior year. The Data Storage segment revenues for both periods reflect only Excel/Meridian Data ("Excel"), the company's remaining business in this segment after the sale of Arraid, Inc. during the first quarter of the current fiscal year. As a result of the adoption of SAB 108 during the quarter, the Company recorded an adjustment to increase deferred revenue relative to extended warranty sales. The Company had previously recognized a portion of its extended warranty revenue in the period of sale, as opposed to over the term of the warranty coverage. The adjustment, representing the cumulative effect, decreased net sales in the current quarter by approximately \$150,000. The practice had occurred over a number of years and the effect on individual prior reporting periods was deemed to be immaterial.

#### Gross Profit

Gross profit reported during the quarter amounted to \$1,316,600, an increase of \$1,044,600, or 384%, when compared to \$272,000 reported for the same quarter of the prior year. Approximately 89% of the increase, or \$1,172,700, is due to gross profit of the Wireless Asset Management segment, acquired in June of 2006. Gross profit for the RFID Technology segment increased to \$42,000 as compared to \$20,300 for the prior year's quarter and is a result of the additional revenue in the current quarter. The Data Storage segment gross profit decreased \$149,800 to \$101,900 compared to \$251,700 in the same quarter of the prior year. This decrease in gross profit is a result of the one-time adjustment to net sales. Consolidated gross margin increased from 27.5% for the quarter ended March 31, 2006 to 29.8% for the current quarter. The net improvement in gross margin resulted from the Wireless Asset Management margin and improved gross margin of the RFID Technology segment, which increased to 28.7% from 23.8%

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for the same quarter of the prior year. The Data Storage segment gross margin for the quarter ended March 31, 2007 was 11.6% as compared to 27.9% for the same quarter of the prior fiscal year. Again, the current period gross margin was negatively impacted by the one-time adjustment mentioned above and therefore is not considered a trend. Excluding the one-time adjustment, gross margin for the Data Storage Segment would have been 28.8%. Gross margin can be impacted for all segments by economic conditions and specific market pressures. As a result, the margins reported are not considered to be trends.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses, excluding corporate expenses, for the current quarter increased to \$2,118,100, an increase of \$1,120,900, or 112.4%, when compared to \$997,200 incurred in the comparable quarter of fiscal year 2006. The increase was due to the newly acquired Wireless Asset Management segment which added \$1,188,000 in SG&A expenses for the current quarter. Excluding the Wireless Asset Management segment, SG&A expense decreased by \$67,100, or 6.7%, when compared to the comparable quarter of the prior year.

The decrease resulted primarily from a decrease in RFID Technology segment expenses of \$95,900, or 13.8%, from \$692,900 to \$597,000 when compared to the same quarter of the prior year. The reduction was due to approximately \$50,000 of engineering development costs related to new technology products that was deferred pursuant to FAS No. 86 and reduced marketing expenses. Data Storage segment operating expenses increased by \$28,800, or 9.5%. The increase is primarily due to increased marketing expenses.

### Operating Loss

The Operating Loss for the quarter was (\$1,252,200) compared to a loss of (\$1,167,100) for the same quarter of the prior year, an increase of \$85,100, or 7.3%. The increase in Operating Loss is primarily due to the increased loss in the Data Storage segment resulting from an approximately \$150,000 one-time adjustment to its deferred warranty revenues, discussed above. The Data Storage segment reported an Operating Loss of (\$231,200), compared to (\$52,600) reported in the comparable quarter of the prior year. The Wireless Asset Management segment has an Operating Loss of (\$15,300) for the current quarter; there is no applicable comparison in the prior year. The RFID Technology segment decreased its Operating Loss by \$117,600 to (\$555,000), a decrease of 17.5%, when compared to the Operating Loss reported in the same quarter of the prior year of (\$672,600).

### Other Income and Expense

Net interest expense for the quarter increased to \$211,800 compared to interest expense of \$23,700 for the same quarter in the prior year. The increase was primarily due to interest expense in the current quarter on the \$4 million term loan financing the Company completed on September 28, 2006. In addition, interest expense increased due to increases in the prime rate and an increase in the minimum borrowing limit of our credit line. Other Income was \$17,200 versus \$60,200 reported for the comparable quarter of the prior year which included a \$50,000 recovery of bad debt. The net interest expense and other income resulted in a Loss From Continuing Operations of (\$1,446,800), an increase of \$316,200, or 28%, when compared to (\$1,130,600) reported for the quarter ended March 31, 2006.

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

The Company believes that (loss) earnings before net interest income, income taxes, depreciation, and amortization of intangible assets, (EBITDA), is an important measure used by management to measure performance. EBITDA may also be used by certain investors to compare and analyze our operating results between accounting periods. However, EBITDA should not be considered in isolation or as a substitute for net income, cash flows or other financial statement data prepared in accordance with US GAAP or as a measure of our performance or liquidity. EBITDA for Alanco's 2007 fiscal year third quarter

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represents a loss of (\$987,300) compared to a loss of (\$1,025,900) for the same quarter of the prior fiscal year, a decrease of 3.7%. A reconciliation of EBITDA to Loss From Continuing Operations for the quarters ended March 31, 2007 and 2006 is presented below:

### EBITDA RECONCILIATION to LOSS FROM CONTINUING OPERATIONS

	3 months ended March 31, 2007	3 months ended March 31, 2006
	-----	-----
EBITDA	\$ (987,300)	\$ (1,025,900)
Net interest expense	(211,800)	(23,700)
Depreciation and amortization	(247,700)	(81,000)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (1,446,800)	\$ (1,130,600)
	=====	=====

#### Dividends

The Company paid quarterly in-kind Series A and Series B Preferred Stock dividends with values of \$335,700 and \$281,500 in the quarters ended March 31, 2007 and 2006, respectively.

#### Net Loss Attributable to Common Stockholders

Net Loss Attributable to Common Stockholders for the quarter ended March 31, 2007 amounted to (\$1,782,500), or (\$.10) per share, compared to a loss of (\$1,273,600), or (\$.11) per share, in the comparable quarter of the prior year. The Company anticipates improved future operating results in all business segments. However, actual results in the Wireless Asset Management segment, Data Storage segment and the RFID Technology segment may be affected by unfavorable economic conditions and reduced capital spending budgets. If the economic conditions in the United States deteriorate or if a wider global economic slowdown occurs, Alanco may experience a material adverse impact on its operating results and business conditions.

(B) Nine months ended March 31, 2007 versus March 31, 2006

#### Net Sales

Consolidated Sales for the nine months ended March 31, 2007 were \$15,115,000, an increase of \$11,256,600, or 291.7%, compared to \$3,858,400 reported for the comparable period of the previous year. Approximately 95.1%, or \$10,708,600 of the total sales increase, is attributed to the Wireless Asset Management segment, acquired effective June 30, 2006. The RFID Technology segment reported sales of \$849,500 for the nine months ended March 31, 2007 as compared to \$321,300 for the same period in the prior year, an increase of \$528,200, or 164.4%. The increase in revenue is due to activity on contracts the Company started to execute during the current fiscal year. Data Storage segment revenue increased \$19,800, or .6%, for the nine-month period. The Data

Storage segment revenues for both periods reflect only those for Excel/Meridian Data, the Company's remaining business in this segment. As a result of the adoption of SAB 108 during the quarter, the Company recorded an adjustment to increase deferred revenue relative to extended warranty sales. The Company had previously recognized a portion of its extended warranty revenue in the period of sale, as opposed to over the term of the warranty coverage. The adjustment, representing the cumulative effect, decreased net sales in the current quarter by approximately \$150,000. The practice had occurred over a number of years and the effect on individual prior reporting periods was deemed to be immaterial.

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Without this adjustment, the Data Storage segment would have experienced an increase in sales of approximately 4.8% over the comparable period of the prior year.

### Gross Profit

Gross profit generated during the nine-month period ended March 31, 2007 amounted to \$4,942,900, an increase of \$3,842,200, or 349.1%, when compared to \$1,100,700 reported for the same period of the prior year. The Wireless Asset Management segment contributed \$3,866,000 of gross profit during the nine-month period, whereas there is no comparable contribution for the same period of the prior year. The RFID Technology segment reported gross profit of \$262,400, an increase of \$177,600, or 209.4%, when compared to gross profit of \$84,800 for the same period of the prior year. The increase is due to increased revenue for new system sales during the period and improved gross margin for the segment. The Data Storage segment reported a decrease in gross profit of \$201,400 which was the result of a decrease in gross margin to 22.9% versus 28.7% in the same period of the prior year. The decrease in gross margin and gross profit is primarily due to the one-time adjustment made in the current quarter discussed above and therefore is not considered a trend. Gross margins from all business segments can be impacted by economic conditions and specific market pressures. As a result, the changes in margins reported are not considered to be trends.

### Selling, General and Administrative Expenses

Selling, general, and administrative ("SG&A") expenses, excluding corporate expenses, for the nine months ended March 31, 2007 increased to \$6,454,100, a 108.7% or \$3,361,800 increase, when compared to \$3,092,300 incurred in the comparable period of fiscal year 2006. The increase was due to the newly acquired Wireless Asset Management segment which added \$3,767,900 in SG&A expenses for the nine-month period. Excluding the Wireless Asset Management segment, SG&A decreased by \$406,100, or 13.1%, when compared to the comparable quarter of the prior year. The decrease resulted from a decrease in RFID Technology segment SG&A expenses of \$459,000, or 22.3%, from \$2,062,300 to \$1,603,300 when compared to the same nine month period of the prior year. The reduction was due to approximately \$240,000 of engineering development costs related to new technology products that was deferred pursuant to FAS No. 86 and reduced marketing expenses. In addition, the nine-months ended March 31, 2006 included a one time charge for the write down of certain marketing assets. The RFID Technology segment decrease was offset by an increase in Data Storage segment expenses of \$52,900, or 5.1%, due primarily to an increase in advertising expense related to the promotion of a new product line introduced during the period.

Corporate expenses for the nine months ended March 31, 2007 of \$935,400 reflected a decrease of \$188,600, or 16.8%, when compared to the \$1,124,000 reported in the comparable nine months of the prior year. The decrease was primarily due to a settlement with respect to claims originating from the TSIN litigation that reduced legal fees for the nine months by approximately \$200,000.

### Operating Loss

The Operating Loss for the nine-month period was (\$2,446,600) compared to a loss of (\$3,115,600) for the same nine-month period of the prior fiscal year, a decrease of \$669,000, or 21.5%. The decreased Operating Loss is due to the combined improvement in gross profit due to higher sales and decreases in SG&A expenses, including corporate expenses, as noted earlier. The Wireless Asset Management segment had an Operating Profit of \$98,100 for the nine-month period, whereas there is no applicable comparison for the same period in the prior year. The Data Storage segment reported an Operating Loss of (\$268,400) compared to an Operating Loss of (\$14,100) in the prior fiscal year and is the result of reduced gross profit as explained above. The RFID Technology segment reported an Operating Loss of (\$1,340,900) for the nine-month period ended March 31, 2007, as compared to the prior year loss of (\$1,977,500), an improvement of

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\$636,600, or 32.2%. The improvement is due to increased sales and gross profit combined with decreased SG&A expenses.

### Other Income and Expense

Net interest expense for the nine months ended March 31, 2007 amounted to \$551,100 compared to net interest expense of \$66,400 for the same nine-month period in the prior year. The increase resulted from increases in the prime rate

and an increase in the minimum borrowing limit of our credit line. In addition, the Company realized interest expense during the nine-month period on the \$4 million term loan financing it completed on September 28, 2006. Other Income was \$56,800 as compared to \$77,300 in the prior nine-month period which included a \$50,000 recovery of bad debt. The net interest expense and other income resulted in a Loss From Continuing Operations of (\$2,940,900) for the nine months ended March 31, 2007, as compared to a Loss From Continuing Operations of (\$3,104,700) for the same period in the prior year, a decrease of \$163,800, or 5.3%.

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

The Company believes that (loss) earnings before net interest income, income taxes, depreciation, and amortization of intangible assets, (EBITDA), is an important measure used by management to measure performance. EBITDA may also be used by certain investors to compare and analyze our operating results between accounting periods. However, EBITDA should not be considered in isolation or as a substitute for net income, cash flows or other financial statement data prepared in accordance with US GAAP or as a measure of our performance or liquidity. EBITDA for Alanco's 2007 fiscal year nine months ended March 31, 2007 represents a loss of (\$1,656,500) compared to a loss of (\$2,737,100) for the same period of the prior fiscal year, a 39.5% decrease. If the value of stock based compensation charged during the nine-month period of \$127,100 is considered in the EBITDA determination, the loss would have been reduced to (\$1,529,400). A reconciliation of EBITDA to Loss From Continuing Operations for the nine months ended March 31, 2007 and 2006 is presented below:

#### EBITDA RECONCILIATION to LOSS FROM CONTINUING OPERATIONS

	9 months ended March 31, 2007	9 months ended March 31, 2006
	-----	-----
EBITDA	\$ (1,656,500)	\$ (2,737,100)
Net interest expense	(551,100)	(66,400)
Depreciation and amortization	(733,300)	(301,200)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (2,940,900)	\$ (3,104,700)
	=====	=====

### Loss From Discontinued Operations and Dividends

The Company reported a loss from discontinued operations for the nine-month period ended March 31, 2007 of \$83,200, representing the losses incurred by one of the Data Storage Segment businesses prior to its sale in September 2006. During the comparable period in the prior year, that business entity reported an income of \$6,500.

The Company paid in-kind Series A and Series B Preferred Stock dividends with values of \$652,900 and \$564,600 in the nine months ended March 31, 2007 and 2006, respectively.

### Net Loss Attributable to Common Stockholders

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Net Loss Attributable to Common Stockholders for the nine months ended March 31, 2007 amounted to (\$3,677,000), or (\$.22) per share, compared to a loss of (\$3,662,800), or (\$.32) per share, in the comparable period of the prior year. The Company anticipates improved future operating results in all segments as the economy improves. However, actual results in the Wireless Asset Management segment, Data Storage segment and the RFID Technology segment may be affected by unfavorable economic conditions and reduced capital spending budgets. If the economic conditions in the United States deteriorate or if a wider global economic slowdown occurs, Alanco may experience a material adverse impact on its operating results and business conditions.

### Liquidity and Capital Resources

The Company's current liabilities at March 31, 2007 exceeded current assets by \$931,900, resulting in negative working capital and a current ratio of .89 to 1. The comparable negative net working capital June 30, 2006 was \$7,893,400, reflecting a current ratio of .43 to 1. The improvement in current ratio at March 31, 2007 versus comparable negative net working capital at June 30, 2006 resulted primarily from the issuance of 3,280,000 shares of Class A Common Stock in payment of approximately \$5.7 million in a deferred stock payment related to the StarTrak Systems acquisition, the funding from a \$4 million term loan, the sale of Arraid, Inc. and the sale of equity, offset by the funding of operating losses.

Accounts receivable of \$2,795,500 at March 31, 2007 reflects an increase of \$1,324,100, or 90%, when compared to the \$1,471,400 reported as consolidated accounts receivable at June 30, 2006 (excludes \$289,300 presented as assets held for sale related to a data storage subsidiary that was sold during the quarter ended September 30, 2006). The accounts receivable balance at March 31, 2007 for the Data Storage segment's remaining company represents twenty-six days' sales in receivables, an increase compared to nineteen days' sales at June 30, 2006. The increase is due to a higher balance of accounts receivable for the remaining data storage company based on about the same amount of sales. The days' sales calculation can be significantly effected by the proportion of credit card sales in the last month of the reporting period and therefore, the increase in days' sales for the Data Storage segment is not considered a trend.

The accounts receivable balance for the Wireless Asset Management segment at March 31, 2007 was \$1,937,200 as compared to \$919,700 at June 30, 2006, an increase of \$1,017,500, or 110.6%. The increase is due to the high volume of sales for the nine-month period and represents thirty-five days' sales in receivables. There is no comparative data for the same period of the prior year since the segment was added effective June 30, 2006; however, the days' sales in receivables for the quarter ended December 31, 2006 also represented thirty-five days in receivables.

The accounts receivable balance at March 31, 2007 for the RFID Technology segment represents eighty-four days' sales in receivables as compared to seventy-three days' sales in receivables at June 30, 2006. The increase in days' sales in receivables is primarily due to one past due invoice which was collected in April 2007.

Consolidated inventories at March 31, 2007 amounted to \$3,784,000, an increase of \$1,082,400, or 40.1%, when compared to \$2,701,600 at June 30, 2006. The \$2,701,600 June 30, 2006 balance has been reduced by \$442,400, the amount associated with a data storage subsidiary that had been sold. The inventory balance at March 31, 2007 for the Data Storage segment's remaining company reflected an inventory turnover of 4.3 compared to an inventory turnover of 3.9 at June 30, 2006. The slight increase in turnover resulted primarily from a decrease in inventory. The inventory balance at March 31, 2007 for the Wireless Asset Management segment represents an inventory turnover of 4.7. There is no

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comparative data for the nine-month period ended March 31, 2006 since the segment was added effective June 30, 2006; however, inventory turnover for the quarter ended December 31, 2006 was 6.3. The reduction in inventory turnover was due to increased inventory purchases related to new product lines and purchase of specific inventory components in anticipation of increased sales. The inventory balance for the Wireless Asset Management segment at March 31, 2007 was \$1,612,600 compared to \$885,900 at June 30, 2006, an increase of \$726,700, or 82%.

The inventory balance of the RFID Technology segment at March 31, 2007 represents inventory turnover of .59 as compared to .51 at June 30, 2006. Although inventory is up for the period ended March 31, 2007, the increased sales during the period still produced a slight improvement to the inventory turnover. The current inventory levels reflect management's continued projected revenue increases.

At March 31, 2007, the Company had an outstanding balance of \$1,850,000 under a \$2.0 million formula-based revolving bank line of credit agreement with interest calculated at prime plus 2%. The line of credit formula is based upon current asset values and is used to finance working capital. At March 31, 2007, the Company had \$150,000 available under the line of credit. See Line of Credit and Term Loan Footnote J for additional discussion of the existing line of credit agreement.

In addition, the Company completed a four-year term loan agreement that provided \$4.0 million in additional working capital. The loan requires interest only payments for the first year and bears interest at prime plus 2.5%. See Line of Credit and Term Loan Note J for additional discussion of the existing line of credit and Term loan agreements.

Cash used in operations for the nine-month period ended March 31, 2007 was \$5,296,300, an increase of \$2,454,300, or 86%, when compared to cash used in operations of \$2,842,000 for the comparable period ended March 31, 2006. The increase during the nine month period resulted primarily from increases in accounts receivable and inventories, reductions in accounts payable and accrued liabilities, offset by increases in deferred revenues.

During the nine months ended March 31, 2007, the Company reported cash flows from investing activities of \$586,800, compared to \$53,000 reported for the same period in the prior fiscal year. The increase is the result of a current period increase in net cash from assets sold offset by increases in purchases of property, plant and equipment and goodwill.

Cash provided by financing activities for the nine months ended March 31, 2007 amounted to \$3,673,800, an increase of \$1,424,800 compared to the \$2,249,000 provided by financing activities for the nine months ended March 31, 2006. The increase resulted primarily from increases in proceeds from net borrowings.

The Company believes that additional cash resources will be required for working capital to achieve planned operating results for fiscal year 2007 and, if working capital requirements exceed current availability, the Company anticipates raising capital through additional borrowing, the exercise of stock options and warrants and/or the sale of stock in a private placement. The additional capital would supplement the projected cash flows from operations and the line of credit agreement in place at March 31, 2007. 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 2007. While the Company believes that it will succeed in attracting additional capital and generate



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capital from operations from its StarTrak acquisition, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### Item 3 - CONTROLS AND PROCEDURES

An evaluation as of the end of the third quarter of fiscal year 2007 was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that those disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In addition, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

The Company also maintains a system of internal controls to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

### PART II. OTHER INFORMATION

#### Item 1. LEGAL PROCEEDINGS

The Company continues to be a defendant in litigation that relates to the acquisition, in May of 2002, of substantially all the assets of Technology Systems International, Inc., a Nevada corporation ("TSIN"), as described in our Form 10-KSB filed for the year ended June 30, 2006. The court dismissed the initial suit due to lack of prosecution, but allowed the bankruptcy trustee for the plaintiff to re-initiate the suit. The Company believes that allowing re-initiation of the suit was improper and has appealed the order allowing the

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suit to be re-initiated to an appellate court. In the meantime the re-started suit is pending. The Company's management, in consultation with legal counsel, continues to believe the plaintiff's claims are without merit and the Company will aggressively defend against the action.

Litigation previously reported as arising from an expired property lease between the Company's subsidiary, Arraid, Inc., and Arraid Property L.L.C., a limited liability company, has been concluded at the trial court level with a order adverse to the Company in an amount of approximately \$35,000 (representing less than one percent of the amount claimed by the plaintiffs), plus certain attorney's fees and costs in the amount of approximately \$100,000. The Company is currently awaiting a judgment and intends to appeal the judgment when entered. The Company's management, in consultation with legal counsel, believes the Company will be successful upon the appeal.

The Company has settled litigation against the Company's insurance carrier with respect to claims originating from the TSIN litigation and has received payment from the insurance carrier in the amount of \$350,000.

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

During the nine months ended March 31, 2007, the Company issued 240,000 shares of Series A Preferred Stock in a private offering, 396,900 shares of Series A Preferred Stock and 5,700 Shares of Series B Preferred Stock as dividend in-kind payments, and a total of 3,598,800 shares of Class A Common Stock including 48,000 shares for the exercise of existing stock options, 214,000 shares for services rendered, including loan fees, 3,280,000 shares issued pursuant to the StarTrak Deferred Stock obligation and 56,800 shares issued to convert a note payable to equity.

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

The Company held its Annual Meeting of Shareholders on January 30, 2007 in Scottsdale, Arizona. The results of proposals considered at the annual meeting were reported in Item 4 of Form 10-QSB for the quarter ended December 31, 2006 filed on February 14, 2007.

### Item 6. EXHIBITS

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer

### SIGNATURE

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

ALANCO TECHNOLOGIES, INC.

(Registrant)

/s/ John A. Carlson

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John A. Carlson

Executive Vice President and  
Chief Financial Officer

### EXHIBIT 31.1

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

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I, Robert R. Kauffman, certify that:

1. I have reviewed this quarterly report on Form 10-QSB 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 registrant as of, and for, the period presented in this report;

4. The small business issuer's other certifying officer 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: May 15, 2007

/s/ Robert R. Kauffman

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Robert R. Kauffman  
Chairman and Chief Executive Officer

EXHIBIT 31.2

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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-QSB 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 registrant as of, and for, the period presented in this report;

4. The small business issuer's other certifying officer 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: May 15, 2007

/s/ John A. Carlson

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John A. Carlson

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Executive Vice President and Chief Financial Officer

### EXHIBIT 32.1

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

This certification is provided pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and accompanies this quarterly report of Form 10-QSB (the "Report") for the period ended March 31, 2007 of Alanco Technologies, Inc. (the "Issuer").

Each of the undersigned, who are the Chief Executive Officer and Chief Financial Officer, respectively, of Alanco Technologies, Inc., hereby certify that, to the best of each such officer's knowledge:

(i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Dated: May 15, 2007

/s/ Robert R. Kauffman

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Robert R. Kauffman  
Chief Executive Officer

/s/ John A. Carlson

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John A. Carlson  
Chief Financial Officer