

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

ALANCO TECHNOLOGIES INC  
Form 10QSB  
May 15, 2008

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, 2008

\_\_\_\_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 5, 2008 there were 23,538,000 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

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

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 little or no control.

### INDEX

Page Number	
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
	Condensed Consolidated Balance Sheets March 31, 2008 (Unaudited) and June 30, 2007.....3
	Condensed Consolidated Statements of Operations (Unaudited) For the three months ended March 31, 2008 and 2007.....4
	Condensed Consolidated Statements of Operations (Unaudited) For the nine months ended March 31, 2008 and 2007.....5
	Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited) For the nine months ended March 31, 2008.....6
	Condensed Consolidated Statements of Cash Flows (Unaudited) For the nine months ended March 31, 2008 and 2007.....7
	Notes to Condensed Consolidated Financial Statements (Unaudited).....9
	Note A - Basis of Presentation and Recent Accounting Pronouncements
	Note B - Stock Based Compensation
	Note C - Inventories
	Note D - Contracts in Process
	Note E - Deferred Revenue
	Note F - Loss per Share
	Note G - Equity
	Note H - Industry Segment Data
	Note I - Related Party Transactions
	Note J - Line of Credit and Term Loan
	Note K - Litigation
	Note L - Subsequent Events
	Note M - Liquidity
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....16
	Item 3. Controls and Procedures.....22
PART II. OTHER INFORMATION	
	Item 1. Legal Proceedings.....23
	Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.....24
	Item 4. Submission of Matters to a Vote of Security Holders.....24
	Item 6. Exhibits.....24

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF MARCH 31, 2008 AND JUNE 30, 2007

	March 31, 2008	June 30, 2007
	-----	-----
ASSETS	(unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,116,400	\$ 615,800
Accounts receivable, net	2,032,400	2,248,600
Notes receivable, current	29,600	29,600
Cost and estimated earnings in excess of billing	-	122,000
Inventories, net	5,561,900	3,808,100
Prepaid expenses and other current assets	449,500	382,800
	-----	-----
Total current assets	9,189,800	7,206,900
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	262,100	250,700
	-----	-----
OTHER ASSETS		
Goodwill, net	17,931,700	17,931,700
Other intangible assets, net	1,684,600	2,066,200
Other assets	647,400	427,400
	-----	-----
Total other assets	20,263,700	20,425,300
	-----	-----
TOTAL ASSETS	\$ 29,715,600	\$ 27,882,900
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expense	\$ 4,163,200	\$ 4,155,500
Notes payable, current	1,524,700	2,485,900
Billings in excess of cost & estimated earnings	28,100	-
Deferred revenue, current	882,000	784,600
	-----	-----
Total current liabilities	6,598,000	7,426,000
	-----	-----
LONG TERM LIABILITIES		
Notes payable, long term	4,313,700	4,814,100
Deferred revenue, long term	122,600	129,300
	-----	-----
TOTAL LIABILITIES	11,034,300	12,369,400
	-----	-----
Preferred Stock - Series B, 89,100 and 82,800 shares issued and outstanding, respectively	878,300	815,000
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred Stock - Series A Convertible, 5,647,200 and 3,759,800 shares issued		

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

and outstanding, respectively	7,359,500	4,930,100
Common Stock - 23,528,500 and 20,223,100 shares outstanding, net of 200,000		
Treasury Stock	94,337,300	87,595,100
Accumulated deficit	(83,893,800)	(77,826,700)
	-----	-----
Total shareholders' equity	17,803,000	14,698,500
	-----	-----
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 29,715,600	\$ 27,882,900
	=====	=====

See accompanying notes to the consolidated financial statements

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

	2008	2007
	-----	-----
NET SALES	\$ 4,167,900	\$ 4,422,800
Cost of goods sold	2,863,200	3,106,200
	-----	-----
GROSS PROFIT	1,304,700	1,316,600
Selling, general and administrative expense	2,735,400	2,568,800
	-----	-----
OPERATING LOSS	(1,430,700)	(1,252,200)
INTEREST EXPENSE AND OTHER INCOME		
Interest expense, net	(166,300)	(211,800)
Other Income	39,100	17,200
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(1,557,900)	(1,446,800)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	-	-
Preferred stock dividends	(642,100)	(335,700)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (2,200,000)	\$ (1,782,500)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Net loss attributable to common shareholders	\$ (0.09)	\$ (0.10)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	23,453,000	17,968,300
	=====	=====

See accompanying notes to the consolidated financial statements

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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

	2008	2007
	-----	-----
NET SALES	\$ 12,490,700	\$ 15,115,000
Cost of goods sold	8,432,100	10,172,100
	-----	-----
GROSS PROFIT	4,058,600	4,942,900
Selling, general and administrative expense	8,617,700	7,389,500
	-----	-----
OPERATING LOSS	(4,559,100)	(2,446,600)
INTEREST EXPENSE AND OTHER INCOME		
Interest expense, net	(564,600)	(551,100)
Other Income	76,800	56,800
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(5,046,900)	(2,940,900)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	-	(83,200)
Preferred stock dividends	(1,020,200)	(652,900)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (6,067,100)	\$ (3,677,000)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Net loss attributable to common shareholders	\$ (0.27)	\$ (0.22)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	22,749,800	16,441,500
	=====	=====

See accompanying notes to the consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED MARCH 31, 2008 (unaudited)

	COMMON STOCK		SERIES A PREFERRED STOCK		TREASURY
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES A
Balances, June 30, 2007	20,423,100	\$87,970,200	3,759,800	\$4,930,100	200,000 \$ (
Shares issued for services	41,500	69,200	-	-	-
Shares issued for credit line amendment	10,000	20,800	-	-	-
Value of stock based compensation	-	298,500	-	-	-
Shares issued for conversion of debt	800,000	1,000,000	-	-	-
Private offering, net of expenses	2,453,900	5,123,700	1,425,500	1,736,500	-
Value of special Series A Preferred					

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

Stock dividend	264,000				
Preferred dividends, paid in kind - A	-	-	461,900	692,900	-
Preferred dividends, paid in kind - B	-	-	-	-	-
NASDAQ listing fees and other		(34,000)			
Net loss	-	-	-	-	-
Balances, March 31, 2008	23,728,500	\$94,712,400	5,647,200	\$7,359,500	200,000 \$ (

See accompanying notes to the consolidated financial statements

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

	2008	2007
	-----	-----
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss from continuing operations	\$ (5,046,900)	\$ (2,940,900)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	499,300	733,300
Gain on Sale - Data Storage Assets	-	(18,300)
Stock-based Compensation	298,500	127,100
Stock issued for services	69,200	5,500
Income from assets held for sale	(59,200)	(29,000)
(Loss) from discontinued operations	-	(83,200)
Changes in:		
Accounts receivable, net	216,200	(1,324,100)
Inventories, net	(1,753,800)	(1,082,400)
Costs and estimated earnings in excess of billings	122,000	(106,600)
Prepaid expenses and other current assets	(66,700)	192,800
Accounts payable and accrued expenses	28,500	(439,000)
Deferred revenue	90,700	935,800
Billings in excess of costs and estimated earnings	28,100	(43,500)
Customer Advances	-	(1,001,100)
Other assets	(220,000)	(222,700)
Net cash used in operating activities	(5,794,100)	(5,296,300)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net cash from discontinued operations and assets held for sale	59,200	806,200
Net cash forfeited in sale	-	(2,600)
Goodwill	-	(56,600)
Collection of notes receivable, net	-	2,000
Purchase of property, plant and equipment	(128,100)	(158,100)
Patent renewal and other	(1,000)	(4,100)
Net cash provided by (used in) investing activities	(69,900)	586,800

See accompanying notes to the consolidated financial statements

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

2008 2007

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) advances on line of credit	500,000	850,000
Repayment on borrowings	(961,600)	(2,747,400)
Proceeds from notes payable	-	5,117,500
Proceeds from sale of equity instruments	6,860,200	453,700
Other	(34,000)	-
	-----	-----
Net cash provided by financing activities	6,364,600	3,673,800
	-----	-----
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	500,600	(1,035,700)
CASH AND CASH EQUIVALENTS, beginning of period	615,800	1,155,500
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$1,116,400	\$ 119,800
	=====	=====
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION		
Net cash paid during the period for interest	\$ 398,500	\$ 185,200
	=====	=====
Non-Cash Activities:		
Value of stocks and warrants issued for services and prepayments	\$ 69,200	\$ 519,100
	=====	=====
Value of shares issued - StarTrak Deferred stock payment	\$ -	\$ 5,715,400
	=====	=====
Value of Stock issued for line of credit amendment	\$ 20,800	\$ -
	=====	=====
Value of Stock issued for note payable conversion	\$1,000,000	\$ 107,000
	=====	=====
Series B preferred stock dividend, paid in kind	\$ 63,300	\$ 57,500
	=====	=====
Series A preferred stock dividend, paid in kind	\$ 692,900	\$ 595,400
	=====	=====
Value of special Series A preferred stock dividend	\$ 264,000	\$ -
	=====	=====

See accompanying notes to the consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2008

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

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

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, 2007 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 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 nine-month period ended March 31, 2008 and 2007 includes compensation expense for all stock-based compensation awards granted during the period, or granted in a prior period if not fully vested as of July 1, 2006, based on the grant date fair value estimated in accordance with the original provisions 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

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

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.

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 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 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, 2007.

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:

Assumptions for awards of options granted during the nine months ended March 31, 2008 were:

	Awards Granted Nine months ended March 31, 2008 -----
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	\$2.16

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

The following table summarizes the Company's stock option activity during the first nine months of fiscal 2008:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value	Aggregate Intrinsic Value(2)
Outstanding July 1, 2007	5,543,800	\$1.97	4.95	\$3,496,100	
Granted	1,293,000	\$2.16	-	1,000,800	
Exercised	-	-	-	-	
Forfeited or expired	(140,800)	\$2.37	-	(88,800)	
	-----	-----	-----	-----	-----
Outstanding March 31, 2008	6,696,000	\$2.00	4.25	\$4,408,100	\$5,000
	=====	=====	=====	=====	=====
Exercisable March 31, 2008	4,695,500	\$2.01	4.38	\$3,091,100	\$5,000
	=====	=====	=====	=====	=====

(1) Remaining contractual term presented in years.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of and the closing price of the Company's common stock as of March 31, 2008, for those awards t exercise price currently below the closing price as of March 31, 2008 of \$0.94.

### Note C - Inventories

Inventories are recorded at the lower of cost or market. The composition of inventories as of March 31, 2008 and June 30, 2007 are summarized as follows:

	March 31, 2008	June 30, 2007
	-----	-----
	(unaudited)	
Raw materials and purchased parts	\$ 5,902,900	\$ 4,160,400
Work-in-process	11,600	6,400
Finished goods	86,300	70,900
	-----	-----
	6,000,800	4,237,700
Less reserves for obsolescence	(438,900)	(429,600)
	-----	-----
	\$ 5,561,900	\$ 3,808,100
	=====	=====

### Note D - Contracts In Process

Costs incurred and estimated earnings and billings in the RFID Technology segment related to contracts for the installation of TSI PRISM systems in process at March 31, 2008 and June 30, 2007 consist of the following:

	March 31, 2008	June 30, 2007
	-----	-----
	(unaudited)	
Costs incurred on uncompleted contracts	\$ 691,800	\$ 242,100

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

Estimated gross profit earned to date	201,300	161,900
	-----	-----
Revenue earned to date	893,100	404,000
Less: Billings to date	(921,200)	(282,000)
	-----	-----
Costs and estimated earnings/(billings) in excess of billings/(costs and estimated earnings)	\$ (28,100)	\$ 122,000
	=====	=====

### Note E - Deferred Revenue

Deferred Revenues at March 31, 2008 and June 30, 2007 consist of the following:

	March 31, 2008	June 30, 2007
	-----	-----
	(unaudited)	
Extended warranty revenue	\$ 1,004,600	\$ 913,900
Less - current portion	(882,000)	(784,600)
	-----	-----
Deferred revenue - long term	\$ 122,600	\$ 129,300
	=====	=====

### 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, 2008 there were 248,000 potentially dilutive securities outstanding.

### Note G - Equity

During the nine months ended March 31, 2008, the Company issued a total of 3,305,400 shares of the Company's Class A Common Stock. Included were 800,000 shares issued for conversion of debt valued at \$1,000,000, 41,500 shares issued for services valued at \$69,200 and 10,000 shares, valued at \$20,800, issued as partial consideration for an amendment to the Company's line of credit agreement. In addition, the Company completed the sale of a private offering to qualified investors, of 2,453,900 units consisting of one share of its Class A Common Stock together with a 3-year warrant to purchase .4 of a share of the Company's Class A Common Stock at a price of \$3.00 per share. The Company received \$4,752,700, net of commissions of \$172,300, from the offering.

The value of employee stock-based compensation recognized for the nine months ended March 31, 2008 amounted to \$298,500, compared to \$127,100 recognized in the same period of the prior fiscal year when 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 an offering to accredited investors during the

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

quarter ended March 31, 2008 of 1,425,500 Units at a unit price of \$1.50, each unit consisting of one share of its Series A Convertible Preferred Stock together with a 5-year warrant to purchase one share of the Company's Class A Common Stock at a price of \$1.75 per share. The warrants included a redemption feature that effectively forces the warrant to be exercised in the event the market price of the Company's Common Stock reached \$3.50 per share. The Series A Convertible Preferred Stock is convertible into 1.2 shares of the Company's Class A Common Stock. The Company received \$2,107,500, net of expense, from the offering.

The Series A Preferred Stock offering has been recorded giving consideration to the value of the underlying common shares into which the Preferred A is convertible and to a Black Scholes value for the related warrants. The Company allocated the proceeds of the offering based upon relative fair values. The Black Scholes method does not consider the effect of the warrant's force conversion feature. Based upon the implied value of warrants, utilizing a volatility of 62 based on weekly weighted average changes in the market price and an assumed time to expiration of 912 days, a beneficial conversion feature of \$264,000 was determined and is recorded as a special Series A Preferred Stock dividend for the current quarter. The implied value for the warrant has been credited to Common Stock as of March 31, 2008. The recording of the Series A Preferred Stock beneficial conversion feature under this methodology increases the Net Loss Attributable to Common Shareholders by the amount of the special dividend but has no effect on cash or equity.

The Company declared and paid dividends-in-kind on the Company's preferred shares through the issuance of 461,900 shares of Series A Preferred Stock valued at \$692,900 and 6,300 shares of Series B Preferred Stock valued at \$63,300. The Preferred Stocks are more fully discussed in the Form-10KSB for the year ended June 30, 2007.

### Note H -Industry Segment Data

Information concerning operations by industry segment follows (unaudited):

	Nine Months ended 3/31		Three Months end	
	2008	2007	2008	
Revenue				
Data Storage	\$ 2,982,800	\$ 3,556,900	\$ 920,200	\$
Wireless Asset Management	8,592,700	10,708,600	3,012,600	3
RFID Technology	915,200	849,500	235,100	
Total Revenue	\$ 12,490,700	\$ 15,115,000	\$ 4,167,900	\$ 4
Gross Profit				
Data Storage	\$ 859,800	\$ 814,500	\$ 294,900	\$
Wireless Asset Management	3,100,000	3,866,000	974,100	1
RFID Technology	98,800	262,400	35,700	
Total Gross Profit	\$ 4,058,600	\$ 4,942,900	\$ 1,304,700	\$ 1
Gross Margin				
Data Storage	28.8%	22.9%	32.0%	
Wireless Asset Management	36.1%	36.1%	32.3%	
RFID Technology	10.8%	30.9%	15.2%	

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

	32.5%	32.7%	31.3%	
Overall Gross Margin				
Selling, General and Administrative Expense				
Data Storage	\$ 1,188,300	\$ 1,082,900	\$ 356,800	\$
Wireless Asset Management	4,766,700	3,767,900	1,524,800	1
RFID Technology	1,677,700	1,603,300	527,200	
Total Segment Operating Expense	\$ 7,632,700	\$ 6,454,100	\$ 2,408,800	\$ 2
Operating Profit (Loss)				
Data Storage	\$ (328,500)	\$ (268,400)	\$ (61,900)	\$
Wireless Asset Management	(1,666,700)	98,100	(550,700)	
RFID Technology	(1,578,900)	(1,340,900)	(491,500)	
Corporate Expense, net	(985,000)	(935,400)	(326,600)	
Operating Loss	\$ (4,559,100)	\$ (2,446,600)	\$ (1,430,700)	\$ (1
Depreciation and Amortization				
Data Storage	\$ 20,500	\$ 16,200	\$ 5,400	\$
Wireless Asset Management	340,600	482,500	112,000	
RFID Technology	137,400	232,500	43,500	
Corporate	800	2,100	300	
Total Depreciation and Amortization	\$ 499,300	\$ 733,300	\$ 161,200	\$
	Mar. 31, 2008	June 30, 2007		
Accounts Receivable				
Data Storage	\$ 246,100	\$ 327,300		
Wireless Asset Management	1,673,900	1,561,300		
RFID Technology	94,800	342,400		
Corporate	17,600	17,600		
Total Accounts Receivable	\$ 2,032,400	\$ 2,248,600		
Inventories				
Data Storage	\$ 930,000	\$ 859,600		
Wireless Asset Management	2,449,600	1,669,400		
RFID Technology	2,182,300	1,279,100		
Total Inventories	\$ 5,561,900	\$ 3,808,100		

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, 2007, with a private trust controlled by Mr. Donald Anderson, a greater than five percent stockholder of the Company and member of the Company's Board of Directors. During February 2008, the Agreement was amended whereby its maturity date was extended to July 1, 2010. See Note J - Line of Credit and Term Loan for additional discussion on the line of credit.

Note J - Line of Credit and Term Loan

At March 31, 2008, the Company had an outstanding balance of \$2,000,000 under a \$2.0 million line of credit agreement with a private trust ("Lender"),

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

entered into in June 2002 and last modified in February 2008. Under the Agreement, \$500,000 of the outstanding balance is convertible into Class A Common Shares of the Company at \$1.25 per share and the Company must maintain a minimum balance outstanding of \$2 million through the July 1, 2010 maturity date.

During July and December 2007, the Company amended its 2006 term loan agreement with ComVest Capital LLC reducing the prepayment requirements and delaying the monthly installment payments in the event the Company raised additional equity capital. Under the amended agreement, the prepayment requirement was reduced to approximately 17.5% of the net equity raised in excess of \$1.25 million through January 2008 and the monthly installment payments were delayed by approximately 9 months. The amended agreement also provided for approximately \$1.7 million of the outstanding term loan balance to be convertible into Class A Common Stock at \$1.69 per share and approximately \$600,000 at \$3 per share. The Company paid approximately \$28,000 in fees related to the transactions.

On February 11, 2008 the Company amended a \$1.5 million term loan agreement with Tenix Holdings, Inc. whereby \$1 million of the \$1.5 million term loan balance was immediately converted into 800,000 shares of Class A Common Stock (\$1.25 per share). Payment terms for the remaining \$500,000 balance required monthly installments of \$20,000 commencing May 1, 2008 and continuing through November 2008 with the remaining \$360,000 balance due on December 1, 2008. A \$50,000 fee was paid as consideration for the transaction and as interest on the remaining \$500,000 balance.

### Note K - Litigation

The Company is a plaintiff in litigation initiated by its subsidiary, StarTrak Systems, LLC, against former employees and others for violation of certain non-disclosure covenants and for misappropriation of trade secrets. The actions are more fully described below. The Company continues as a party to certain post-litigation procedures relating to the acquisition, in May of 2002, of substantially all the assets of Technology Systems International, Inc., a Nevada Corporation ("TSIN"), and to litigation arising from an expired property lease between the Company's former subsidiary, Arraid, Inc., and Arraid Property L.L.C., an Arizona limited liability company.

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

TSIN Litigation - The Company was party to litigation arising out of the Company's acquisition of substantially all of the assets of TSIN. This initial derivative suit was terminated and the action converted into a direct action by TSIN in July 2003.

TSIN is currently in Chapter 7 bankruptcy. The parties to the lawsuit have entered into a Settlement Agreement, which was attached as an exhibit to Form 8-K filed on September 21, 2007. In place of the litigation, which has been dismissed with prejudice, the Settlement Agreement provides for a valuation procedure, conducted by an independent third party valuation expert,

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

to value (i) the assets transferred by TSIN to Alanco in connection with the Acquisition Agreement ("Business Value"), and (ii) the consideration paid by Alanco to TSIN ("Consideration Value"). If the appraiser determines that the Consideration Value is within 15% of the Business Value, neither party shall be entitled to any damages or claims. If the Consideration Value is less than 85% of the Business Value, Alanco shall pay to TSIN's bankruptcy estate the full difference in the values, plus interest thereon, plus the sum of \$300,000 for attorneys' fees incurred by TSIN in prosecuting the various related litigation matters. Alanco's payment may be made, at Alanco's option, in cash or by an equivalent market value of additional Alanco Class A Common Stock (subject to certain conditions set forth in the Settlement Agreement). If the Consideration Value is greater than 115% of the Business Value, TSIN shall immediately pay Alanco the sum of \$300,000 for Alanco's attorneys' fees and costs incurred in connection with the various litigation matters. The Settlement Agreement was approved by the bankruptcy court following a hearing for the same on September 19, 2007, and the parties have undertaken the appraisal process. The Company anticipates that the appraisal will be accomplished and the matter entirely resolved over the next few months.

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

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of March 31, 2008, there was no such litigation pending deemed material by the Company.

### Note L - Subsequent Events

The Company announced on April 3, 2008 a multi-year exclusive agreement between Alanco/TSI PRISM and NEC Australia and its first sale under the agreement for a TSI PRISM system to be installed at Maconochie prison in Canberra, Australia. Under the terms of the agreement, NEC has incorporated the TSI PRISM technology into its suite of security systems and integration services which it is marketing to the 100 other prison facilities located throughout Australia and New Zealand. The Maconochie facility houses multiple classifications of residents, including young adult offenders as well as both male and female detainees. The TSI PRISM system will be utilized to monitor physical separation and to control movement between various segments of the populations and will provide a wide range of staff efficiencies and cost reduction measures to the facility. The total project value is in excess of \$1 million.

### Note M - Liquidity

During the nine months ended March 31, 2008, the Company reported a loss from continuing operations of approximately \$5 million. During Fiscal year ended June 30, 2007 the Company reported losses from continuing operations of approximately \$5.1 million. Although the Company raised approximately \$6.8 million during the nine months ended March 31, 2008 through the sale of equity, the significant losses raise doubt about the ability of the Company to continue

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

as a going concern. During fiscal 2008, the Company expects to meet its working capital and other cash requirements with its current cash reserves, cash generated from operations, its borrowing capacity under its credit facility, and other financing as required. While the Company believes that it will succeed in attracting additional capital and generate capital from operations, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations. As a result, the Company's independent registered public accountants have issued a going concern opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2007. 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 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

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

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 not completed in the reporting period) in all business segments are recognized on the percentage-of-completion method for individual contracts, commencing when significant costs are incurred and adequate estimates are verified for substantial portions of the contract to where experience is sufficient to estimate final results with reasonable

accuracy. Revenues are recognized in the ratio that costs incurred bear to total estimated costs. Changes in job performance, estimated profitability and final contract settlements would result in revisions to cost and income, and are recognized in the period in which the revisions were determined. Contract costs include all direct materials, subcontracts, labor costs and those direct and indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. At the time a loss on a contract is known, the entire amount of the estimated ultimate loss is accrued.

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

### Results of Operations

(A) Three months ended March 31, 2008 versus March 31, 2007

#### Net Sales

Consolidated net sales for the three months ended March 31, 2008 were \$4,167,900, a decrease of \$254,900, or 5.8%, compared to sales of \$4,422,800 for the same period of the prior year. Increased sales in the Company's Data Storage and RFID Technology segments were offset by a sales decrease in the Company's Wireless Asset Management segment. The Company's Data Storage segment reported an increase in sales of \$44,800, or 5.1%, to \$920,200 as compared to \$875,400 in the prior year. The Company's Wireless Asset Management segment reported a sales decrease of \$388,300, or 11.4%, due to its inability to duplicate a major contract with a customer that accounted for \$1.4 million for the quarter ended March 31, 2007 versus \$280,000 of sales in the current quarter, a reduction of more than \$1.1 million. In addition, the sales decrease was impacted by delays in new product introductions targeted at the refrigerated truck/trailer market that had been planned for the current quarter. Sales for the RFID Technology segment increased by \$88,600, or 60.5%, when compared to the same quarter of the previous year due to start up of new contracts during the current quarter.

#### Gross Profit

Gross profit reported for the quarter amounted to \$1,304,700, a decrease of \$11,900, or .9%, when compared to \$1,316,600 reported for the comparable quarter of the prior year. The Company's Data Storage segment reflected an increase in gross profit of \$193,000 which is primarily due to improvement in the segment's gross margin. The Company's Wireless Asset Management segment reported a decrease in gross profit of \$198,600, due to a decrease in sales and a reduction in gross margin to 32.3% compared to 34.5% in

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

the same quarter of the prior year. Gross profit reported by the RFID Technology segment reflects a decrease of \$6,300 as compared to the prior year and is due to reduced gross margins resulting primarily from the Company's strategic decision to install a system at low margin providing a significant opportunity for the RFID Technology segment to test certain design concepts with an objective of developing a lower cost RFID system designed for a new market.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the current quarter, excluding corporate expenses, increased 13.7% to \$2,408,800, an increase of \$290,700 compared to \$2,118,100 reported for the comparable quarter of the prior year. The net increase among the segments was due primarily to increases in SG&A of the Company's Wireless Asset Management segment which added \$336,800 in SG&A expense. The increase in SG&A was due to increased engineering costs for new product development. The Company's Data Storage segment SG&A expense increased \$23,700, or 7.1%, compared to the prior year while the RFID Technology segment reduced its SG&A expense as compared to the prior year by \$69,800.

### Operating Loss

The Operating Loss for the quarter was (\$1,430,700) compared to a loss of (\$1,252,200) for the same quarter of the prior year, an increase of (\$178,500), or 14.3%. The increase in Operating Loss is due primarily to the reported operating loss of the Wireless Asset Management segment of (\$550,700), an increase of (\$535,400) compared to operating loss of (\$15,300) reported for the comparable quarter of the prior fiscal year. The Data Storage segment reported an operating loss of (\$61,900), a 73% reduction compared to an

operating loss of (\$231,200) reported in the comparable quarter of the prior year. The RFID Technology segment operating loss decreased to (\$491,500), a decrease of \$63,500, or 11.4%, compared to (\$555,000) reported for the comparable period of the prior year. Corporate expense decreased to (\$326,600) from (\$450,700) reported in the three months ended March 31, 2007 and is primarily due to a reduction in legal and professional fees.

### Other Income and Expense

Net interest expense for the quarter decreased to \$166,300, a decrease of \$45,500, or 21.5%, compared to \$211,800 reported for the same quarter in the prior year. The decrease was due to a reduction in average net borrowings and a reduction in interest rates as a result of reduced prime rates. The Loss from Continuing Operations of (\$1,557,900) increased by (\$111,100) compared to (\$1,446,800) reported for the quarter ended March 31, 2007.

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

The Company believes that (loss) earnings before taxes, net interest expense, 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 2008 fiscal year third quarter represents a loss of (\$1,230,400) compared to a loss of (\$987,300) for the same quarter in the prior year. A reconciliation of EBITDA to Loss from Continuing Operations for the quarters ended March 31, 2008 and 2007 is presented below:

#### EBITDA RECONCILIATION to LOSS FROM CONTINUING OPERATIONS

3 months ended	3 months ended
March 31,	March 31,
2008	2007
-----	-----

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

EBITDA	\$ (1,230,400)	\$ (987,300)
Net interest expense	(166,300)	(211,800)
Depreciation and amortization	(161,200)	(247,700)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (1,557,900)	\$ (1,446,800)
	=====	=====

### Dividends

The Company paid quarterly in-kind Series A and Series B Preferred Stock dividends with values of \$378,100 and \$335,700 in the quarters ended March 31, 2008 and 2007, respectively. The Company also recorded a special Series A Preferred Stock dividend during the current quarter of \$264,000 related to the beneficial conversion feature calculated based upon the implied value of warrants issued in the Series A Preferred Stock Offering. The recording of the Series A Preferred Stock special dividend increases the Net Loss Attributable to Common Shareholders by the amount of the special dividend, but has no effect on the Company's cash or equity balances.

### Net Loss Attributable to Common Stockholders

Net Loss Attributable to Common Stockholders for the quarter ended March 31, 2008 amounted to (\$2,200,000), or (\$.09) per share, compared to a loss of (\$1,782,500), or (\$.10) 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, 2008 versus March 31, 2007

### Net Sales

Consolidated net sales for the nine months ended March 31, 2008 were \$12,490,700, a decrease of \$2,624,300, or 17.4%, compared to sales of \$15,115,000 for the same period of the prior year. The sales decrease resulted from a decrease in the Data Storage and Wireless Asset Management segments offset by a modest increase in the RFID Technology segment. The Company's Data Storage segment reported a decrease in sales of \$574,100, or 16.1%, due to an unusually large sale (approximately \$945,000) recorded in the second quarter of the prior year that was not duplicated in the current period. The Company's Wireless Asset Management segment incurred a sales decrease of \$2,115,900, or 19.8%, when compared to the nine months ended March 31, 2007 due to a major contract with a customer that accounted for sales of approximately \$4.9 million in the nine months ended March 31, 2007 compared to approximately \$2.1 million in sales in the current nine-month period, representing sales reductions of approximately \$2.8 million. In addition, delays in new product introductions targeted at the refrigerated truck/trailer market contributed to the Wireless Asset Management segment sales decrease. Sales for the RFID Technology segment increased by \$65,700, or 7.7%, when compared to the same period of the previous year due to start up of new contracts during the current quarter.

### Gross Profit

Gross profit reported for the nine-month period amounted to \$4,058,600, a decrease of \$884,300, or 17.9%, when compared to \$4,942,900 reported for the comparable period of the prior year. The net decrease in gross profit resulted from sales decreases in the Company's Wireless Asset Management segment and reduced margins as discussed above and decreases in gross margin in the Company's RFID Technology segment resulting primarily from the Company's strategic decision to install a system at a low margin that provided a significant opportunity for the RFID Technology segment to test certain design

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

concepts with an objective of developing a lower cost RFID system designed for a new market. Gross profit for the Data Storage segment increased by \$45,300, or 5.6%, due to increased margins from 22.9% during the nine months ended March 31, 2007 compared to 28.8% for the current nine-month period.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the nine months ended March 31, 2008, excluding corporate expenses, increased 18.3% to \$7,632,700, an increase of \$1,178,600 compared to \$6,454,100 reported for the comparable period of the prior year. The increase was due primarily to increases in SG&A of the Company's Wireless Asset Management segment which added \$998,800 in SG&A expense, or 84.7% of the Company's increase. The segment's SG&A increase consisted of increased legal expense, warranty costs and additional costs to complete product development necessary to commercialize its new product line targeted at the truck/trailer market. The RFID Technology segment's SG&A increased \$74,400, or 4.6%, from \$1,603,300 to \$1,677,700 in the comparable period of the prior year due to additional engineering investment. The Data Storage segment reported an increase in SG&A expense of 9.7%, or \$105,400.

### Operating Loss

The Operating Loss for the nine-month period was (\$4,559,100) compared to a loss of (\$2,446,600) for the same period of the prior year, an increase of (\$2,112,500), or 86.3%. The increase in Operating Loss is due primarily to the operating loss incurred by the Wireless Asset Management segment of (\$1,666,700), an increase of (\$1,764,800) compared to operating profit of \$98,100 reported for the comparable period of the prior fiscal year. The Data Storage segment incurred an operating loss of (\$328,500) compared to an operating loss of (\$268,400) reported in the comparable nine-month period of the prior year. The RFID Technology segment operating loss increased to (\$1,578,900), an increase of (\$238,000), or 17.7%, compared to (\$1,340,900) reported for the comparable period of the prior year. Corporate expense increased to (\$985,000) from (\$935,400) reported in the nine months ended March 31, 2007.

### Other Income and Expense

Net interest expense for the nine months ended March 31, 2008 increased to \$564,600, an increase of \$13,500, or 2.4%, compared to \$551,100 reported for the same period in the prior year. The increase was due to an increase in net borrowings compared to the prior year, offset by lower interest rates. The Loss from Continuing Operations of (\$5,046,900) increased to (\$2,106,000) compared to (\$2,940,900) reported for the nine months ended March 31, 2007.

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

The Company believes that (loss) earnings before taxes, net interest expense, 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 first nine months ended March 31, 2008 represents a loss of (\$3,983,000) compared to a loss of (\$1,656,500) for the same period of the prior year. A reconciliation of EBITDA to Loss from Continuing Operations for the nine months ended March 31, 2008 and 2007 is presented below:

#### EBITDA RECONCILIATION to LOSS FROM CONTINUING OPERATIONS

	9 months ended March 31, 2008	9 months ended March 31, 2007
EBITDA	\$ (3,983,000)	\$ (1,656,500)

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

Net interest expense	(564,600)	(551,100)
Depreciation and amortization	(499,300)	(733,300)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (5,046,900)	\$ (2,940,900)
	=====	=====

### Dividends

The Company paid quarterly in-kind Series A and Series B Preferred Stock dividends with values of \$756,200 and \$652,900 in the nine months ended March 31, 2008 and 2007, respectively. The Company also recorded a special Series A Preferred Stock dividend during the current period of \$264,000 related to the beneficial conversion feature calculated based upon the implied value of warrants issued in the Series A Preferred Stock Offering. The recording of the Series A Preferred Stock special dividend increases the Net Loss Attributable to Common Shareholders by the amount of the special dividend, but has no affect on the Company's cash or equity balances.

### Net Loss Attributable to Common Stockholders

Net Loss Attributable to Common Stockholders for the nine months ended March 31, 2008 amounted to (\$6,067,100), or (\$.27) per share, compared to a loss of (\$3,677,000), or (\$.22) per share, in the comparable period 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.

### Liquidity and Capital Resources

The Company's current assets at March 31, 2008 exceeded current liabilities by \$2,591,800, resulting in a current ratio of 1.4 to 1. The comparable working capital at June 30, 2007 was negative with current liabilities exceeding current assets by (\$219,100) and reflecting a current ratio of .97 to 1. The improvement in current ratio at March 31, 2008 versus June 30, 2007 resulted from the conversion of approximately \$1 million in debt to equity and the completion of a private offering to accredited investors whereby the Company issued 2,453,900 shares and granted 3-year warrants to purchase approximately 981,600 common shares at a price of \$3.00, raising approximately \$4.7 million.

Accounts receivable of \$2,032,400 at March 31, 2008 reflects a decrease of \$216,200, or 9.6%, when compared to the \$2,248,600 reported as consolidated accounts receivable at June 30, 2007. The accounts receivable balance at March 31, 2008 for the Data Storage segment represents twenty-three days' sales in receivables, a decrease compared to twenty-seven days' sales at June 30, 2007. The decrease was due to an increase in the proportion of credit card sales. The days' sales calculation of the Data Storage segment can be significantly affected by the proportion of credit card sales in the last month of the reporting period and therefore, the decrease 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, 2008 was \$1,673,900 compared to \$1,561,300 at June 30, 2007, an increase of \$112,600, or 7.2%. Days' sales in receivables for the Wireless Asset Management increased to fifty-three from forty-four days' sales in receivables reported at June 30, 2007 due to customer advances in the prior year.

The RFID Technology segment accounts receivable balance at March 31, 2008 of \$94,800 represents twenty-eight days' sales in receivables as compared

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

to one hundred and sixteen days' sales in receivables at June 30, 2007. Days' sales in receivables for the RFID Technology segment are distorted at both March 31, 2008 and June 30, 2007 due to the minimal reported sales and the Company's accounting method of recognizing contract revenue on a percentage of completion method, whereby accounts receivable balances may be deferred and excluded from reported revenue.

Consolidated inventories at March 31, 2008 amounted to \$5,561,900, an increase of \$1,753,800, or 46.1%, when compared to \$3,808,100 at June 30, 2007. The inventory balance at March 31, 2008 for the Data Storage segment of \$930,000 reflects an inventory turnover of 3.0 compared to an inventory turnover of 3.9 at June 30, 2007. The inventory balance for the Wireless Asset Management segment at March 31, 2008 was \$2,449,600 compared to \$1,669,400 at June 30, 2007, an increase of \$780,200, or 46.7%. The inventory balance at March 31, 2008 for the Wireless Asset Management segment represents an inventory turnover of 3.0 compared to 5.1 as of June 30, 2007. The increase in Wireless Asset Management segment inventory is due to product conversions and development including the changeover from an analog to digital control channel, purchase of end-of-life materials for products, and purchases of material for new product deployment. The inventory balance of the RFID Technology segment at March 31, 2008 was \$2,182,300 compared to \$1,279,100 at June 30, 2007, an increase of \$903,200, or 70.6%. The inventory balance at March 31, 2008 for the RFID Technology segment represents an inventory turnover of .50 as compared to .58 at June 30, 2007. The RFID Technology segment inventory increase is considered a short-term condition due to the award of contracts during the period for which the Company made strategic purchases to take advantage of pricing incentives offered by its vendors.

At March 31, 2008, the Company had an outstanding balance of \$2,000,000 under a \$2.0 million formula-based revolving line of credit agreement with interest calculated at prime plus 3%. The line of credit formula is based upon current asset values and is used to finance working capital. At March 31, 2008, the Company had no availability under the line of credit. See Line of Credit and Term Loan Footnote J for additional discussion of the existing line of credit agreement.

Cash used in operations for the nine-month period ended March 31, 2008 was \$5,794,100, an increase of \$497,800, or 9.4%, when compared to cash used in operations of \$5,296,300 for the comparable period ended March 31, 2007. The increase during the current nine-month period resulted primarily from an increase in Loss from Continuing Operations and inventories offset by a significant increase in accounts receivable and Costs in excess of billings and estimated earnings on uncompleted contracts during the comparable period of the prior year.

During the nine months ended March 31, 2008, the Company reported cash used in investing activities of \$69,900, compared to cash flow provided by investing activities of \$586,800 reported for the same period in the prior fiscal year. The decrease is the result of cash generated from the sale of assets in the prior fiscal year period ended March 31, 2007 when the Company sold one of its Data Storage segment companies. In addition, purchases of property, plant and equipment decreased slightly to \$128,100 during the current period compared to \$158,100 in the comparable nine-month period of the prior year.

Cash provided by financing activities for the nine months ended March 31, 2008 amounted to \$6,364,600, an increase of \$2,690,800 compared to the \$3,673,800 provided by financing activities for the nine months ended March 31, 2007. The increase resulted primarily from \$6.8 million in proceeds from the sale of equity instruments during the current nine-month period compared to net borrowing during the same period of the prior year.

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

The Company believes that additional cash resources may be required for working capital to achieve planned operating results for fiscal year 2008 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, 2008. 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 2008. While the Company believes that it will succeed in attracting additional capital and generate capital from operations, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### Item 3 - Controls and Procedures.

An evaluation as of the end of the first nine months of fiscal year 2008 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 fiscal third quarter 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

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

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 is a plaintiff in litigation initiated by its subsidiary, StarTrak Systems, LLC, against former employees and others for violation of certain non-disclosure covenants and for misappropriation of trade secrets. The actions are more fully described below. The Company continues as a party to certain post-litigation procedures relating to the acquisition, in May of 2002, of substantially all the assets of Technology Systems International, Inc., a Nevada Corporation ("TSIN"), and to litigation arising from an expired property lease between the Company's former subsidiary, Arraid, Inc., and Arraid Property L.L.C., an Arizona limited liability company.

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

TSIN Litigation - The Company was party to litigation arising out of the Company's acquisition of substantially all of the assets of TSIN. This initial derivative suit was terminated and the action converted into a direct action by TSIN in July 2003.

TSIN is currently in Chapter 7 bankruptcy. The parties to the lawsuit have entered into a Settlement Agreement, which was attached as an exhibit to Form 8-K filed on September 21, 2007. In place of the litigation, which has been dismissed with prejudice, the Settlement Agreement provides for a valuation procedure, conducted by an independent third party valuation expert, to value (i) the assets transferred by TSIN to Alanco in connection with the Acquisition Agreement ("Business Value"), and (ii) the consideration paid by Alanco to TSIN ("Consideration Value"). If the appraiser determines that the Consideration Value is within 15% of the Business Value, neither party shall be entitled to any damages or claims. If the Consideration Value is less than 85% of the Business Value, Alanco shall pay to TSIN's bankruptcy estate the full difference in the values, plus interest thereon, plus the sum of \$300,000 for attorneys' fees incurred by TSIN in prosecuting the various related litigation matters. Alanco's payment may be made, at Alanco's option, in cash or by an equivalent market value of additional Alanco Class A Common Stock (subject to certain conditions set forth in the Settlement Agreement). If the Consideration Value is greater than 115% of the Business Value, TSIN shall immediately pay Alanco the sum of \$300,000 for Alanco's attorneys' fees and costs incurred in connection with the various litigation matters. The Settlement Agreement was approved by the bankruptcy court following a hearing for the same on September 19, 2007, and the parties have undertaken the appraisal process. The Company anticipates that the appraisal will be accomplished and the matter entirely resolved over the next few months.

Arraid Litigation - On July 18, 2003, Arraid Property L.L.C., an Arizona Limited Liability Company ("Arraid LLC"), filed a complaint in the Arizona Superior Court in and for Maricopa County, Arizona (case number CV

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

2003-13999) against the Company and its wholly owned subsidiary, Arraid, Inc., alleging breach of lease and seeking substantial monetary damages in excess of \$3 million. The suit relates to an expired lease agreement for property previously leased by Arraid. Following a trial, the Court found in favor of Arraid LLC against the Company with respect to certain factual findings resulting in damages owed by the Company in an amount of approximately \$35,000, less than one percent of the amount sought by the plaintiff. The court determined that the plaintiff was the prevailing party, and awarded the plaintiff approximately \$95,000 in attorney's fees and costs. The Company's management, in consultation with legal counsel, has appealed the decision of the court.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As March 31, 2008, there was no 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, 2008, the Company issued 461,900 shares of Series A Preferred Stock and 6,300 Shares of Series B Preferred Stock as dividend in-kind payments. In addition, 1,425,500 shares of Series A Preferred Stock were issued in private offerings to accredited investors.

A total of 3,305,400 shares of Class A Common Stock were issued during the nine month period; including 800,000 shares for conversion of debt, 10,000 shares as consideration for an amendment to the Company's line of credit agreement, 41,500 shares for services rendered, and 2,453,900 shares in a private offering to accredited investors.

### Item 4. Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Shareholders on January 18, 2008. The proposal and results thereof were reported in the Company's Form 10-QSB filed on February 14, 2008 for the period ended December 31, 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  
John A. Carlson  
Executive Vice President and  
Chief Financial Officer

### EXHIBIT 31.1

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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 14, 2008

/s/ Robert R. Kauffman

-----  
Robert R. Kauffman  
Chairman and Chief Executive Officer

EXHIBIT 31.2

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 14, 2008

/s/ John A. Carlson

-----  
John A. Carlson

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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, 2008 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 14, 2008

/s/ Robert R. Kauffman

-----

Robert R. Kauffman  
Chief Executive Officer

/s/ John A. Carlson

-----

John A. Carlson  
Chief Financial Officer