

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

ALANCO TECHNOLOGIES INC
Form 10QSB
February 14, 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 December 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 February 5, 2008 there were 23,528,000 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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 little or no control.

INDEX

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets December 31, 2007 (Unaudited) and June 30, 2007.....	3
Condensed Consolidated Statements of Operations (Unaudited) For the three months ended December 31, 2007 and 2006.....	4
Condensed Consolidated Statements of Operations (Unaudited) For the six months ended December 31, 2007 and 2006.....	5
Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited) For the six months ended December 31, 2007.....	6
Condensed Consolidated Statements of Cash Flows (Unaudited) For the six months ended December 31, 2007 and 2006.....	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.....	17
Item 3. Controls and Procedures.....	23
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings.....	23
Item 2. Unregistered Sale of Equity Securities and Use of Proceeds.....	25
Item 4. Submission of Matters to a Vote of Security Holders.....	25
Item 6. Exhibits.....	25

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Dec. 31, 2007	June 30, 2007
	-----	-----
ASSETS	(unaudited)	
CURRENT ASSETS		
Cash and cash equivalents	\$ 420,100	\$ 615,800
Accounts receivable, net	2,214,500	2,248,600
Notes receivable, current	29,600	29,600
Cost and estimated earnings in excess of billing	24,400	122,000
Inventories, net	4,925,900	3,808,100
Prepaid expenses and other current assets	471,200	382,800
	-----	-----
Total current assets	8,085,700	7,206,900
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	265,900	250,700
	-----	-----
OTHER ASSETS		
Goodwill, net	17,931,700	17,931,700
Other intangible assets, net	1,812,100	2,066,200
Other assets	696,500	427,400
	-----	-----
Total other assets	20,440,300	20,425,300
	-----	-----
TOTAL ASSETS	\$ 28,791,900	\$ 27,882,900
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expense	\$ 3,810,500	\$ 4,155,500
Notes payable, current	2,340,100	2,485,900
Deferred revenue, current	902,000	784,600
	-----	-----
Total current liabilities	7,052,600	7,426,000
LONG TERM LIABILITIES		
Notes payable, long term	4,622,000	4,814,100
Deferred revenue, long term	122,600	129,300
	-----	-----
TOTAL LIABILITIES	11,797,200	12,369,400
	-----	-----
Preferred Stock - Series B, 86,900 and 82,800 shares issued and outstanding, respectively	856,700	815,000
	-----	-----
SHAREHOLDERS' EQUITY		
Preferred Stock - Series A Convertible, 3,984,100 and 3,759,800 shares issued and outstanding, respectively	5,266,100	4,930,100
Common Stock - 22,728,500 and 20,223,100 shares outstanding, net of 200,000		
Treasury Stock	92,565,700	87,595,100
Accumulated deficit	(81,693,800)	(77,826,700)

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

Total shareholders' equity	16,138,000	14,698,500
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 28,791,900	\$ 27,882,900

See accompanying notes to the consolidated financial statements

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

	2007	2006
NET SALES	\$ 3,770,200	\$ 5,591,100
Cost of goods sold	2,604,000	3,734,100
GROSS PROFIT	1,166,200	1,857,000
Selling, general and administrative expense	3,005,500	2,261,900
OPERATING LOSS	(1,839,300)	(404,900)
INTEREST EXPENSE AND OTHER INCOME		
Interest expense, net	(187,900)	(253,300)
Other Income	21,400	17,800
LOSS FROM CONTINUING OPERATIONS	(2,005,800)	(640,400)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	-	-
Preferred stock dividends - paid in kind	(21,100)	(19,100)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (2,026,900)	\$ (659,500)
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Net loss attributable to common shareholders	\$ (0.09)	\$ (0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	21,890,100	15,680,700

See accompanying notes to the consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED DECEMBER 31, (unaudited)

	2007	2006
NET SALES	\$ 8,322,800	\$ 10,692,200
Cost of goods sold	5,568,900	7,065,800

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

	-----	-----
GROSS PROFIT	2,753,900	3,626,400
Selling, general and administrative expense	5,882,300	4,820,700
	-----	-----
OPERATING LOSS	(3,128,400)	(1,194,300)
INTEREST EXPENSE AND OTHER INCOME		
Interest expense, net	(398,200)	(339,400)
Other Income	37,600	39,600
	-----	-----
LOSS FROM CONTINUING OPERATIONS	(3,489,000)	(1,494,100)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS	-	(83,400)
Preferred stock dividends - paid in kind	(378,100)	(317,000)
	-----	-----
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (3,867,100)	\$ (1,894,500)
	=====	=====
NET LOSS PER COMMON SHARE - BASIC AND DILUTED		
- Net loss attributable to common shareholders	\$ (0.17)	\$ (0.12)
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	22,403,100	15,871,600
	=====	=====

See accompanying notes to the consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED DECEMBER 31, 2007 (unaudited)

	COMMON STOCK		SERIES A PREFERRED STOCK		TREASURY S	
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	\$ (
	-----	-----	-----	-----	-----	-----
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	-	161,900	-	-	-	
Private offering, net of expenses	2,453,900	4,752,700	-	-	-	
Preferred dividends, paid in kind - A	-	-	224,300	336,400	-	
Preferred dividends, paid in kind - B	-	-	-	-	-	
NASDAQ listing fees and other	-	(34,000)	-	(400)	-	
Net loss	-	-	-	-	-	
	-----	-----	-----	-----	-----	-----
Balances, December 31, 2007	22,928,500	\$92,940,800	3,984,100	\$5,266,100	200,000	\$ (
	=====	=====	=====	=====	=====	=====

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

See accompanying notes to the consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 31, (unaudited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from continuing operations	\$ (3,489,000)	\$ (1,494,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	338,000	486,600
Gain on Sale - Data Storage Assets	-	(18,300)
Stock-based Compensation	161,900	84,700
Stock issued for services	69,200	5,500
Amortization of debt discount	45,000	45,000
Income from assets held for sale	(37,600)	(11,800)
(Loss) Income from discontinued operations	-	(83,400)
Changes in:		
Accounts receivable, net	34,100	(1,159,900)
Inventories, net	(1,117,800)	(568,100)
Costs in excess of billings and estimated earnings on uncompleted contracts	97,600	(273,100)
Prepaid expenses and other current assets	(88,400)	110,200
Accounts payable and accrued expenses	(324,200)	(713,200)
Deferred revenue	110,700	663,200
Billings and estimated earnings in excess of costs on uncompleted contracts	-	(43,500)
Customer Advances	-	(664,200)
Other assets	(269,100)	(260,700)
	(4,469,600)	(3,895,100)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash from discontinued operations and assets held for sale	37,600	484,600
Net cash forfeited in sale	-	(2,600)
Goodwill	-	(56,600)
Collection of notes receivable, net	-	2,000
Purchase of property, plant and equipment	(98,200)	(111,500)
Patent renewal and other	(1,000)	(4,000)
	(61,600)	311,900

See accompanying notes to the consolidated financial statements

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

	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (repayments) advances on line of credit	475,000	500,000
Repayment on borrowings	(857,800)	5,095,000
Proceeds from notes payable	-	(2,752,400)
Proceeds from sale of equity instruments	4,752,700	427,900

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

Other	(34,400)	-
	-----	-----
Net cash provided by financing activities	4,335,500	3,270,500
	-----	-----
NET INCREASE IN CASH	(195,700)	(312,700)
CASH AND CASH EQUIVALENTS, beginning of period	615,800	1,155,500
	-----	-----
CASH AND CASH EQUIVALENTS, end of period	\$ 420,100	\$ 842,800
	-----	-----

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

Net cash paid during the period for interest	\$ 230,500	\$ 185,200
	-----	-----
Non-Cash Activities:		
Value of stocks and warrants issued for services and prepayments	\$ 69,200	\$ 392,000
	-----	-----
Common Shares issued for line of credit amendment	\$ 20,800	\$ -
	-----	-----
Series B preferred stock dividend, paid in kind	\$ 41,700	\$ 37,800
	-----	-----
Series A preferred stock dividend, paid in kind	\$ 336,400	\$ 279,200
	-----	-----

See accompanying notes to the consolidated financial statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 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, 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.

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 received cash in lieu of the fractional shares to which they would otherwise be entitled. All per share amounts and outstanding shares, including all common stock equivalents (stock options, warrants and convertible securities) have been restated in the Condensed Consolidated Financial Statements, the Notes to the Condensed Consolidated Financial Statements and the loss per share for all periods presented to reflect the reverse stock split.

The 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 six-month period ended December 31, 2007 and 2006 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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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.

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 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 six months ended December 31, 2007 were:

	Awards Granted Six months ended December 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	\$2.16

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value
Outstanding July 1, 2007	5,543,800	\$1.97	4.95	\$3,496,1
Granted	1,293,000	\$2.16	-	1,000,8
Exercised	-	-	-	-
Forfeited or expired	(98,600)	\$2.32	-	(62,2
Outstanding December 31, 2007	6,738,200	\$2.00	4.50	\$4,434,7
Exercisable December 31, 2007	4,721,900	\$2.01	4.62	\$3,107,5

(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 December 31, 2007, for those awarded exercise price currently below the closing price as of December 31, 2007 of \$1.37.

Note C - Inventories

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

	December 31, 2007	June 30, 2007
	(unaudited)	(unaudited)
Raw materials and purchased parts	\$ 5,165,600	\$ 4,160,400
Work-in-process	11,600	6,400
Finished goods	62,100	70,900
	5,239,300	4,237,700
Less reserves for obsolescence	(313,400)	(429,600)
	\$ 4,925,900	\$ 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 December 31, 2007 and June 30, 2007 consist of the following:

	December 31, 2007	June 30, 2007
	(unaudited)	(unaudited)
Costs incurred on uncompleted contracts	\$ 603,600	\$ 242,100
Estimated gross profit earned to date	172,700	161,900
Revenue earned to date	776,300	404,000
Less: Billings to date	(751,900)	(282,000)

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

Costs and estimated earnings/(billings)		
in excess of billings/(costs and estimated earnings)	\$ 24,400 =====	\$ 122,000 =====

Note E - Deferred Revenue

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

	December 31, 2007	June 30, 2007
	-----	-----
	(unaudited)	
Extended warranty revenue	\$ 1,024,600	\$ 913,900
Less - current portion	(902,000)	(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 December 31, 2007 there were 1,097,000 potentially dilutive securities outstanding.

Note G - Equity

During the six months ended December 31, 2007, the Company issued a total of 2,505,400 shares of the Company's Class A Common Stock. Included were 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, in August 2007, 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 six months ended December 31, 2007 amounted to \$161,900, compared to \$84,700 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 declared and paid dividends-in-kind on the Company's preferred shares through the issuance of 224,300 shares of Series A Preferred Stock valued at \$336,400 and 4,100 shares of Series B Preferred Stock valued at \$41,700. The Preferred Stocks are more fully discussed in the Form-10KSB for the year ended June 30, 2007.

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

Note H -Industry Segment Data

Information concerning operations by industry segment follows (unaudited):

	Six Months ended 2007	12/31 2006	Three Mo 2007
Revenue			
Data Storage	\$ 2,062,600	\$ 2,681,500	\$ 939,800
Wireless Asset Management	5,580,100	7,307,700	2,453,000
RFID Technology	680,100	703,000	377,400
Total Revenue	\$ 8,322,800	\$ 10,692,200	\$ 3,770,200
Gross Profit			
Data Storage	\$ 564,900	\$ 712,500	\$ 265,400
Wireless Asset Management	2,125,900	2,693,400	896,200
RFID Technology	63,100	220,500	4,600
Total Gross Profit	\$ 2,753,900	\$ 3,626,400	\$ 1,166,200
Gross Margin			
Data Storage	27.4%	26.6%	28.2%
Wireless Asset Management	38.1%	36.9%	36.5%
RFID Technology	9.3%	31.4%	1.2%
Overall Gross Margin	33.1%	33.9%	30.9%
Selling, General and Administrative Expense			
Data Storage	\$ 831,500	\$ 749,800	\$ 383,300
Wireless Asset Management	3,241,900	2,579,800	1,677,800
RFID Technology	1,150,500	1,006,300	586,800
Total Segment Operating Expense	\$ 5,223,900	\$ 4,335,900	\$ 2,647,900
Operating Profit (Loss)			
Data Storage	\$ (266,600)	\$ (37,300)	\$ (117,900)
Wireless Asset Management	(1,116,000)	113,600	(781,600)
RFID Technology	(1,087,400)	(785,800)	(582,200)
Corporate Expense, net	(658,400)	(484,800)	(357,600)
Operating Loss	\$ (3,128,400)	\$ (1,194,300)	\$ (1,839,300)
Depreciation and Amortization			
Data Storage	\$ 15,100	\$ 10,800	\$ 7,400
Wireless Asset Management	228,500	322,600	114,800
RFID Technology	93,900	151,300	45,900
Corporate	500	1,400	300
Total Depreciation and Amortization	\$ 338,000	\$ 486,100	\$ 168,400
	Dec. 31, 2007	June 30, 2007	
Accounts Receivable			
Data Storage	\$ 522,600	\$ 327,300	
Wireless Asset Management	1,120,400	1,561,300	

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

RFID Technology	553,900	342,400
Corporate	17,600	17,600
	-----	-----
Total Accounts Receivable	\$ 2,214,500	\$ 2,248,600
	=====	=====
Inventories		
Data Storage	\$ 1,012,300	\$ 859,600
Wireless Asset Management	2,228,300	1,669,400
RFID Technology	1,685,300	1,279,100
	-----	-----
Total Inventories	\$ 4,925,900	\$ 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 December 2007, the Agreement was amended whereby its maturity date was extended to December 31, 2009. As consideration for the amendment, the Company agreed to a minimum borrowing balance under the Agreement (effective January 1, 2008) of \$2 million.

Note J - Line of Credit and Term Loan

At December 31, 2007, the Company had an outstanding balance under the line of credit agreement of \$1,975,000. 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 December 2007. Under the Agreement, the Company must maintain a minimum balance (effective January 1, 2008) under the Agreement of \$2 million through the December 31, 2009 maturity date. At December 31, 2007, the Company had \$25,000 available under the line of credit agreement.

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.

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 is also a party to litigation that relates 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,

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 - On January 30, 2003, a shareholder of TSIN filed a derivative suit naming as defendants the Company and its wholly owned subsidiary, ATSI. The venue for this action is the Arizona Superior Court in and for Maricopa County, Arizona, as case number CV2003-001937. The complaint sets forth various allegations and seeks damages arising out of the Company's acquisition of substantially all of the assets of TSIN. This derivative suit was terminated and the action converted into a direct action by TSIN by stipulation and court order in July 2003.

TSIN is currently in Chapter 7 bankruptcy. The Chapter 7 Trustee failed to prosecute the action timely and the state court dismissed the action for lack of prosecution, but allowed the Trustee to restart the action, which the Trustee has done as case number CV2006-007398. The Company is seeking its attorney's fees with respect to the dismissed action, and has appealed the court's order allowing the Trustee to restart the action.

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, 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 and TSIA 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 the 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 are beginning the appraisal process. All of the pending litigation matters have been dismissed by the parties. 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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

plaintiff approximately \$95,000 in attorney's fees and costs. The Company's management, in consultation with legal counsel, has determined to appeal 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 December 31, 2007, there was no such litigation pending deemed material by the Company.

Note L - Subsequent Events

The Company completed a private offering to accredited investors on January 22, 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 Series A Convertible Preferred Stock is convertible into 1.2 shares of the Company's Class A Common Stock. The Company received \$2,108,200, net of expenses, from the offering.

On February 11, 2008 the Company amended a \$1.5 million term loan agreement with Tenix Holding, 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 require 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.

Note M - Liquidity

During the six months ended December 31, 2007, the Company reported a loss from continuing operations of approximately \$3.5 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 \$4.7 million during the six months ended December 31, 2007 and an additional \$2.1 million in January 2008 through the sale of equity, the significant losses raise doubt about the ability of the Company to continue 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 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 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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 December 31, 2007 versus December 31, 2006

Net Sales

Consolidated net sales for the three months ended December 31, 2007 were \$3,770,200, a decrease of \$1,820,900, or 32.6%, compared to sales of \$5,591,100 for the same period of the prior year. The sales decrease resulted from decreases in all three business segments. The Company's Data Storage segment reported decreased sales of \$917,200, or 49.4% due to an unusually large sale (approximately \$945,000) recorded in the comparable quarter of the prior year that was not duplicated in the current quarter. The Company's Wireless Asset Management segment reported a sales decrease of \$814,800, or 24.9%, due to its inability to duplicate a contract with a major customer that accounted for \$1.68 million in sales for the quarter ended December 31, 2006 versus \$540,000 of sales in the current quarter. 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 Technologies segment decreased by \$88,900, or 19.1%, when compared to the same quarter of the previous year due to delays in system sales.

Gross Profit

Gross profit reported for the quarter amounted to \$1,166,200, a decrease of \$690,800, or 37.2%, when compared to \$1,857,000 reported for the comparable quarter of the prior year. 76%, or \$524,900, of the decreased gross profit resulted from sales decreases in the Company's Data Storage and Wireless Asset Management segments as discussed above. The balance of the reduction in gross profit was reported in the RFID Technology segment, accounting for \$165,900, or 24%, of the decrease. The reduced gross profit of the RFID Technology segment resulted from reductions in both system sales, as discussed above, and reduced gross margins. The reduced gross margins resulted primarily from the Company's strategic decision to install a system at a low margin in an attempt to develop 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 23.7% to \$2,647,900, an increase of \$506,900 compared to \$2,141,000 reported for the comparable quarter of the prior year. The increase was due primarily to increases in SG&A of the Company's Wireless Asset Management segment which added \$442,700 in SG&A expense, 87.3% of the Company's increase, in the period to complete new product development costs necessary to commercialize the Company's new product line targeted at the truck/trailer market. The RFID Technology segment's SG&A increased \$88,200, or 17.7%, from \$498,600 to \$586,800 in the comparable quarter of the prior year due to additional engineering investment. The Data Storage segment reported a decrease in SG&A expense of 5.9%, or \$24,000, due primarily to reduced sales commissions.

Operating Loss

The Operating Loss for the quarter was (\$1,839,300) compared to a loss of (\$404,900) for the same quarter of the prior year, an increase of (\$1,434,400), or 354.3%. The increase in Operating Loss is due primarily to the

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

reported operating loss of the Wireless Asset Management segment of (\$781,600), an increase of (\$704,800) compared to operating loss of (\$76,800) reported for the comparable quarter of the prior fiscal year. The Data Storage segment reported an operating loss of (\$117,900) compared to an operating profit of \$120,900 reported in the comparable quarter of the prior year. The RFID Technology segment operating loss increased to (\$582,200), an increase of (\$254,100), or 77.4%, compared to (\$328,100) reported for the comparable period of the prior year. Corporate expense increased to (\$357,600) from (\$120,900) reported in the three months ended December 31, 2006. The prior year corporate expenses were reduced by a \$300,000 insurance settlement related to the TSIN Litigation. See Note K - Litigation for a discussion of the TSIN Litigation.

Other Income and Expense

Net interest expense for the quarter decreased to \$187,900, a decrease of \$65,400, or 25.8% compared to \$253,300 reported for the same quarter in the prior year. The decrease was due to a reduction in net borrowings and a reduction in the average prime rate. The Loss From Continuing Operations of (\$2,005,800) increased by (\$1,365,400) compared to (\$640,400) reported for the quarter ended December 31, 2006.

(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 second quarter represents a loss of (\$1,649,500) compared to a loss of (\$157,200) for the same quarter in the prior year. A reconciliation of EBITDA to Loss from Continuing Operations for the quarters ended December 31, 2007 and 2006 is presented below:

EBITDA RECONCILIATION to LOSS FROM CONTINUING OPERATIONS

	3 months ended December 31, 2007	3 months ended December 31, 2006
	-----	-----
EBITDA	\$ (1,649,500)	\$ (157,200)
Net interest expense	(187,900)	(253,300)
Depreciation and amortization	(168,400)	(229,900)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (2,005,800)	\$ (640,400)
	=====	=====

Dividends

The Company paid quarterly in-kind Series B Preferred Stock dividends with values of \$21,100 and \$19,100 in the quarters ended December 31, 2007 and 2006, respectively.

Net Loss Attributable to Common Stockholders

Net Loss Attributable to Common Stockholders for the quarter ended December 31, 2007 amounted to (\$2,026,900), or (\$.09) per share, compared to a loss of (\$659,500), or (\$.04) 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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

operating results and business conditions.

(B) Six months ended December 31, 2007 versus December 31, 2006

Net Sales

Consolidated net sales for the six months ended December 31, 2007 were \$8,322,800, a decrease of \$2,369,400, or 22.2%, compared to sales of \$10,692,200 for the same period of the prior year. The sales decrease resulted from decreases in all three business segments. The Company's Data Storage segment reported decreased sales of \$618,900, or 23.1%, 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 \$1,727,600, or 23.6%, when compared to the six months ended December 31, 2006 due to a contract with a major customer that accounted for sales of approximately \$3.1 million in the six months ended December 31, 2006 compared to approximately \$1.8 million in sales in the current six-month period, representing a sales decrease of approximately \$1.3 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 Technologies segment decreased by \$22,900, or 3.3%, when compared to the same period of the previous year due to delays in system sales.

Gross Profit

Gross profit reported for the six-month period amounted to \$2,753,900, a decrease of \$872,500, or 24.1%, when compared to \$3,626,400 reported for the comparable period of the prior year. 82%, or \$715,100, of the decreased gross profit resulted from sales decreases in the Company's Data Storage and Wireless Asset Management segments as discussed above. The balance of the reduction in gross profit was reported in the RFID Technology segment, accounting for \$157,400, or 18%, of the decrease. The reduced gross profit of the RFID Technology segment resulted from reductions in both system sales, as discussed above, and reduced gross margins. The reduced gross margins resulted primarily from the Company's strategic decision to install a system at a low margin in an attempt to develop a new 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 20.5% to \$5,223,900, an increase of \$888,000 compared to \$4,335,900 reported for the comparable quarter of the prior year. The increase was due primarily to increases in SG&A of the Company's Wireless Asset Management segment which added \$662,100 in SG&A expense, 74.6% of the Company's increase, in the period to complete product development necessary to commercialize the Company's new product line targeted at the truck/trailer market. The RFID Technology segment's SG&A increased \$144,200, or 14.3%, from \$1,006,300 to \$1,150,500 in the comparable period of the prior year due to additional engineering investment. The Data Storage segment reported a decrease in SG&A expense of 10.9%, or \$81,700, due primarily to reduced sales commissions.

Operating Loss

The Operating Loss for the six-month period was (\$3,128,400) compared to a loss of (\$1,194,300) for the same quarter of the prior year, an increase of (\$1,934,100), or 161.9%. The increase in Operating Loss is due primarily to the operating loss incurred by the Wireless Asset Management segment of (\$1,116,000), an increase of (\$1,229,600) compared to operating profit of \$113,600 reported for the comparable period of the prior fiscal year. The Data Storage segment incurred an operating loss of (\$266,600) compared to an operating loss of (\$37,300) reported in the comparable six-month period of the prior year. The RFID Technology segment operating loss increased to (\$1,087,400), an increase of (\$301,600), or 38.4%, compared to (\$785,800)

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

reported for the comparable period of the prior year. Corporate expense increased to (\$658,400) from (\$484,800) reported in the six months ended December 31, 2006. The prior year corporate expenses were reduced by a \$300,000 one-time insurance settlement related to the TSIN Litigation. See Note K - Litigation for a discussion of the TSIN Litigation.

Other Income and Expense

Net interest expense for the six months ended December 31, 2007 increased to \$398,200, an increase of \$58,800, or 17.3%, compared to \$339,400 reported for the same period in the prior year. The increase was due to an increase in net borrowings compared to the prior year. The Loss From Continuing Operations of (\$3,489,000) increased by (\$1,994,900) compared to (\$1,494,100) reported for the six months ended December 31, 2006.

(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 six months ended December 31, 2007 represents a loss of (\$2,752,800) compared to a loss of (\$668,600) for the same period of the prior year. A reconciliation of EBITDA to Loss from Continuing Operations for the six months ended December 31, 2007 and 2006 is presented below:

EBITDA RECONCILIATION to LOSS FROM CONTINUING OPERATIONS

	6 months ended December 31, 2007	6 months ended December 31, 2006
	-----	-----
EBITDA	\$ (2,752,800)	\$ (668,600)
Net interest expense	(398,200)	(339,400)
Depreciation and amortization	(338,000)	(486,100)
	-----	-----
LOSS FROM CONTINUING OPERATIONS	\$ (3,489,000)	\$ (1,494,100)
	=====	=====

Dividends

The Company paid quarterly in-kind Series A and Series B Preferred Stock dividends with values of \$378,100 and \$317,000 in the six months ended December 31, 2007 and 2006, respectively.

Net Loss Attributable to Common Stockholders

Net Loss Attributable to Common Stockholders for the quarter ended December 31, 2007 amounted to (\$3,867,100), or (\$.17) per share, compared to a loss of (\$1,894,500), or (\$.12) 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.

Liquidity and Capital Resources

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

The Company's current assets at December 31, 2007 exceeded current liabilities by \$1,033,100, resulting in a current ratio of 1.15 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 December 31, 2007 versus June 30, 2007 resulted from 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 \$2,214,500 at December 31, 2007 reflects a decrease of \$34,100, or 1.5%, when compared to the \$2,248,600 reported as consolidated accounts receivable at June 30, 2007. The accounts receivable balance at December 31, 2007 for the Data Storage segment represents forty-six days' sales in receivables, an increase compared to twenty-seven days' sales at June 30, 2007. The increase was due to a decrease 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 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 December 31, 2007 was \$1,120,400 compared to \$1,561,300 at June 30, 2007, a decrease of \$440,900, or 28.2%. Days' sales in receivables for the Wireless Asset Management decreased to thirty-seven from forty-four days' sales in receivables reported at June 30, 2007. The decrease was due to a reduction in past due balances.

The RFID Technology segment accounts receivable balance at December 31, 2007 of \$553,900 represents one hundred and forty-nine days' sales in receivables as compared 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 December 31, 2007 and June 30, 2007 due to 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 December 31, 2007 amounted to \$4,925,900, an increase of \$1,117,800, or 29.4%, when compared to \$3,808,100 at June 30, 2007. The inventory balance at December 31, 2007 for the Data Storage segment of \$1,012,300 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 December 31, 2007 was \$2,228,300 compared to \$1,669,400 at June 30, 2007, an increase of \$558,900, or 33.5%. The inventory balance at December 31, 2007 for the Wireless Asset Management segment represents an inventory turnover of 3.1 compared to 5.1 as of June 30, 2007. The inventory balance of the RFID Technology segment at December 31, 2007 of \$1,685,300 represents an inventory turnover of .73 as compared to .58 at June 30, 2007.

At December 31, 2007, the Company had an outstanding balance of \$1,975,000 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 December 31, 2007, the Company had \$25,000 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.

Cash used in operations for the six-month period ended December 31, 2007 was \$4,469,600, an increase of \$574,500, or 14.7%, when compared to cash used in operations of \$3,895,100 for the comparable period ended December 31, 2006. The increase during the six-month period resulted primarily from an

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

increase in Loss from Continuing Operations and inventories during the current period offset by a significant increase in accounts receivable during the comparable period.

During the six months ended December 31, 2007, the Company reported cash used in investing activities of \$61,600, compared to cash flow provided by investing activities of \$311,900 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 six months ended December 31, 2006 when the Company sold one of its Data Storage segment companies. In addition, purchases of property, plant and equipment decreased slightly to \$98,200 during the current period compared to \$111,500 in the comparable six-month period of the prior year.

Cash provided by financing activities for the six months ended December 31, 2007 amounted to \$4,335,500, an increase of \$1,065,000 compared to the \$3,270,500 provided by financing activities for the six months ended December 31, 2006. The increase resulted primarily from \$4.7 million in proceeds from the sale of equity instruments during the current six-month period compared to net borrowing during the same period of the prior year.

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 December 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 2008. 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. 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 six 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 period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 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 is also a party to litigation that relates 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 - On January 30, 2003, a shareholder of TSIN filed a derivative suit naming as defendants the Company and its wholly owned subsidiary, ATSI. The venue for this action is the Arizona Superior Court in and for Maricopa County, Arizona, as case number CV2003-001937. The complaint sets forth various allegations and seeks damages arising out of the Company's acquisition of substantially all of the assets of TSIN. This derivative suit was terminated and the action converted into a direct action by TSIN by stipulation and court order in July 2003.

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

TSIN is currently in Chapter 7 bankruptcy. The Chapter 7 Trustee failed to prosecute the action timely and the state court dismissed the action for lack of prosecution, but allowed the Trustee to restart the action, which the Trustee has done as case number CV2006-007398. The Company is seeking its attorney's fees with respect to the dismissed action, and has appealed the court's order allowing the Trustee to restart the action.

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, 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 and TSIA 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 the 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 are beginning the appraisal process. All of the pending litigation matters have been dismissed by the parties. 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 determined to appeal 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 December 31, 2007, there was no such litigation pending deemed material by the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the six months ended December 31, 2007, the Company issued 224,300 shares of Series A Preferred Stock and 4,100 Shares of Series B Preferred Stock as dividend in-kind payments, and a total of 2,505,400 shares of Class A Common Stock; including 10,000 shares as consideration for an amendment to the Company's line of credit agreement, 41,500 shares for services rendered, 2,453,900 in a private offering to accredited investors.

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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

At the Annual Meeting of Shareholders held on January 18, 2008, the following proposal was voted upon and approved by the stockholders.

Proposal #1	Election of Directors		
	For	Withhold	Total Voting
	---	-----	-----
Harold S. Carpenter	17,216,341	403,744	17,620,085
Robert R. Kauffman	17,950,147	929,938	18,880,085
James T. Hecker	16,658,402	961,683	17,620,085
Thomas C. LaVoy	16,519,808	1,100,277	17,620,085
John A. Carlson	16,630,198	989,887	17,620,085
Donald E. Anderson	17,456,099	903,172	18,359,271
Timothy P. Slifkin	17,210,249	409,836	17,620,085

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.

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;

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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: February 14, 2008

/s/ Robert R. Kauffman

Robert R. Kauffman
Chairman and Chief Executive Officer

EXHIBIT 31.2

Certification of
Vice President and Chief Financial Officer
of Alanco Technologies, Inc.

I, John A. Carlson, certify that:

1. I have reviewed this quarterly report on Form 10-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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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: February 14, 2008

/s/ John A. Carlson

John A. Carlson
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

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

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10QSB

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 December 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: February 14, 2008

/s/ Robert R. Kauffman

Robert R. Kauffman
Chief Executive Officer

/s/ John A. Carlson

John A. Carlson
Chief Financial Officer