

ALANCO TECHNOLOGIES INC
Form 10-Q
May 15, 2014

ALANCO TECHNOLOGIES, INC.

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-9347

ALANCO TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Arizona

(State or other jurisdiction of incorporation or organization)

86-0220694

(I.R.S. Employer Identification No.)

7950 E. Acoma Drive, Suite 111, Scottsdale, Arizona 85260

(Address of principal executive offices) (Zip Code)

(480) 607-1010

(Registrant's telephone number)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements in the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Accelerated filer

Large
accelerated filer

Non-accelerated Smaller X
filer reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes No

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

As of May 7, 2014 there were 4,962,500 shares of common stock outstanding.

ALANCO TECHNOLOGIES, INC.

INDEX

| | Page Number |
|--|----------------|
| PART I. FINANCIAL INFORMATION | |
| Item 1. Financial Statements | |
| Condensed Consolidated Balance Sheets as of March 31, 2014 (Unaudited) and June 30, 2013 | 4 |
| Condensed Consolidated Statements of Operations (Unaudited) For the three months ended March 31, 2014 and 2013 | 5 |
| Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) For the three months ended March 31, 2014 and 2013 | 6 |
| Condensed Consolidated Statements of Operations (Unaudited) For the nine months ended March 31, 2014 and 2013 | 7 |
| Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) For the nine months ended March 31, 2014 and 2013 | 8 |
| Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited) For the nine months ended March 31, 2014 | 9 |
| Condensed Consolidated Statements of Cash Flows (Unaudited) For the nine months ended March 31, 2014 and 2013 | 10 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | 11 |
| Note A – Basis of Presentation and Recent Accounting Policies and Pronouncements | |
| Note B – Stock-Based Compensation and Warrants | |
| Note C – Marketable Securities | |

| | |
|----------|-------------------------------|
| Note D – | Note Receivable |
| Note E – | Land, Property and Equipment |
| Note F – | Earnings Per Share |
| Note G – | Equity |
| Note H – | Contingent Payments |
| Note I - | Asset Retirement Obligation |
| Note J - | Commitments and Contingencies |
| Note K - | Related Party Transactions |
| Note L - | Subsequent Events |
| Note M – | Liquidity |

| | | |
|---------|---|----|
| Item 2. | Management’s Discussion and Analysis of Financial Condition and Results of Operations | 23 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 27 |
| Item 4. | Controls and Procedures | 28 |

PART II. OTHER INFORMATION

| | | |
|---------|--|----|
| Item 1. | Legal Proceedings | 28 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 28 |
| Item 6. | Exhibits | 29 |

ALANCO TECHNOLOGIES, INC.

Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “could,” “target,” “potential,” “is likely,” “will,” “expect,” and other similar expressions, as they relate to the Company are intended to identify forward-looking statements within the meaning of the “safe harbor” provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements are based on the expectations of management when made and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors, among others, that could affect the outcome of the Company's forward-looking statements: general economic and market conditions; the inability to attract, hire and retain key personnel; failure of a future acquired business to further the Company's strategies; the difficulty of integrating an acquired business; unforeseen litigation; unfavorable result of potential litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders; the ability to maintain satisfactory relationships with current and future suppliers; federal and/or state regulatory and legislative action; the ability to implement or adjust to new technologies and the ability to secure and maintain key contracts and relationships. New risk factors emerge from time to time and it is not possible to accurately predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Annual Report or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2014 AND JUNE 30, 2013

| | March 31, 2014 (unaudited) | June 30, 2013 |
|---|-------------------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,275,500 | \$ 696,400 |
| Accounts receivable - trade | 53,300 | 9,600 |
| Other receivables | 5,400 | 32,800 |
| Note receivable | 434,000 | 375,000 |
| Marketable securities | 650,800 | 1,562,600 |
| Prepaid expenses and other current assets | 93,500 | 121,000 |
| Total current assets | 2,512,500 | 2,797,400 |
| LAND, PROPERTY AND EQUIPMENT, NET | 4,296,500 | 4,339,900 |
| OTHER ASSETS | | |
| Trust account - asset retirement obligation | 44,000 | 30,000 |
| Prepaid royalties, long-term | 50,000 | 50,000 |
| TOTAL ASSETS | \$ 6,903,000 | \$ 7,217,300 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 151,700 | \$ 220,900 |
| Contingent payments, current | 50,000 | 50,000 |
| Total current liabilities | 201,700 | 270,900 |
| LONG-TERM LIABILITIES | | |

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| | | |
|--|------------------|------------------|
| Contingent payments, long-term | 1,129,800 | 1,104,600 |
| Asset retirement obligation, long-term | 417,400 | 417,400 |
| TOTAL LIABILITIES | 1,748,900 | 1,792,900 |

SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Preferred Stock | - | - |
| Common Stock | | |
| Class A - 75,000,000 no par shares authorized, 4,962,500 and 4,989,300 shares issued and outstanding at March 31, 2014 and June 30, 2013, respectively | 109,106,800 | 109,121,200 |
| Class B - 25,000,000 no par shares authorized, none issued or outstanding | - | - |
| Accumulated Other Comprehensive Income | 160,100 | 549,900 |
| Accumulated Deficit | (104,112,800) | (104,246,700) |
| Total shareholders' equity | 5,154,100 | 5,424,400 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 6,903,000 | \$ 7,217,300 |

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

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

| | 2014 | 2013 |
|---|------------|--------------|
| NET REVENUES | \$ 180,200 | \$ 92,100 |
| Cost of revenues | 137,400 | 131,400 |
| GROSS PROFIT (LOSS) | 42,800 | (39,300) |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Corporate expenses | 82,000 | 152,200 |
| Alanco Energy Services | 193,800 | 178,500 |
| Amortization of stock-based compensation | - | 42,700 |
| | 275,800 | 373,400 |
| OPERATING LOSS | (233,000) | (412,700) |
| OTHER INCOME & EXPENSES | | |
| Interest income, net | 11,200 | 5,100 |
| Gain on sale of marketable securities | 288,200 | 260,500 |
| Other income, net | 86,700 | 200 |
| NET INCOME (LOSS) | \$ 153,100 | \$ (146,900) |
| NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED | | |
| Net income (loss) per share attributable to common shareholders | \$ 0.03 | \$ (0.03) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 4,932,500 | 5,010,300 |

See accompanying notes to the condensed consolidated financial
statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, (unaudited)

| | 2014 | 2013 |
|---|-------------|--------------|
| Net Income (Loss) | \$ 153,100 | \$ (146,900) |
| Reclassification adjustment for gain included in Net Income (Loss) | (288,200) | (260,500) |
| Net unrealized gain (loss) on marketable securities held at March 31, | (41,500) | 353,300 |
| Net unrealized gain on marketable securities sold during the period | 125,500 | 209,800 |
| Comprehensive Income (Loss) | \$ (51,100) | \$ 155,700 |

See accompanying notes to the condensed consolidated financial
statements

ALANCO TECHNOLOGIES, INC.

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

| | 2014 | 2013 |
|---|------------|--------------|
| NET REVENUES | \$ 264,600 | \$ 237,400 |
| Cost of revenues | 292,900 | 289,900 |
| GROSS PROFIT (LOSS) | (28,300) | (52,500) |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Corporate expenses | 237,500 | 482,500 |
| Alanco Energy Services | 612,500 | 446,200 |
| Amortization of stock-based compensation | - | 111,000 |
| | 850,000 | 1,039,700 |
| OPERATING LOSS | (878,300) | (1,092,200) |
| OTHER INCOME & EXPENSES | | |
| Interest income, net | 27,300 | 17,000 |
| Gain on sale of Symbius investment | - | 86,800 |
| Gain on sale of marketable securities | 896,900 | 751,500 |
| Other income, net | 88,000 | 300 |
| NET INCOME (LOSS) | \$ 133,900 | \$ (236,600) |
| NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED | | |
| Net loss attributable to common shareholders | \$ 0.03 | \$ (0.05) |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 4,938,700 | 5,010,300 |

See accompanying notes to the condensed consolidated financial
statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF
 COMPREHENSIVE INCOME (LOSS)
 FOR THE NINE MONTHS ENDED MARCH 31, (unaudited)

| | 2014 | 2013 |
|---|--------------|--------------|
| Net Income (Loss) | \$ 133,900 | \$ (236,600) |
| Reclassification adjustment for gain included in Net Income (Loss) | (896,900) | (751,500) |
| Net unrealized gain (loss) on marketable securities held at March 31, | (19,900) | 678,600 |
| Net unrealized gain on marketable securities sold during the period | 527,000 | 489,800 |
| Comprehensive Income (Loss) | \$ (255,900) | \$ 180,300 |

See accompanying notes to the condensed consolidated financial
 statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 2014 (unaudited)

| | COMMON STOCK | | TREASURY STOCK | | ACCUMULATED OTHER | ACCUMULATED | TOTAL |
|--|--------------|----------------|----------------|----------|----------------------|------------------|--------------|
| | SHARES | AMOUNT | SHARES | AMOUNT | INCOME | DEFICIT | |
| Balances, June 30, 2013 | 4,989,300 | \$ 109,121,200 | - | \$ - | 549,900 | \$ (104,246,700) | \$ 5,424,400 |
| Shares of Alanco common stock repurchased | - | - | 56,800 | 26,100 | - | - | 26,100 |
| Treasury shares retired | (56,800) | (26,100) | (56,800) | (26,100) | - | - | (52,200) |
| Shares issued for services | 30,000 | 11,700 | - | - | - | - | 11,700 |
| Unrealized loss on marketable securities, net of tax | - | - | - | - | (389,800) | - | (389,800) |
| Net income | - | - | - | - | - | 133,900 | 133,900 |
| Balances, March 31, 2014 | 4,962,500 | \$ 109,106,800 | - | \$ - | 160,100 | \$ (104,112,800) | \$ 5,154,100 |

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

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

| | 2014 | 2013 |
|--|-----------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) \$ | 133,900\$ | (236,600) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation | 129,200 | 103,200 |
| Accretion of fair value - contingent payments | 25,200 | 21,100 |
| Gain on sale of Symbius investment | - | (86,800) |
| Gain on sale of StarTrak, excluding shares for services valued at \$7,800 | (129,500) | - |
| Gain on sale of marketable securities | (896,900) | (751,500) |
| Stock issued for services | 11,700 | - |
| Note receivable issued for ACC amendment and accounting fees | (34,000) | - |
| Stock-based compensation | - | 111,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (43,700) | (56,500) |
| Other receivables | 27,400 | (24,400) |
| Prepaid expenses and other current assets | 27,500 | (41,500) |
| Trust account - asset retirement obligation | (14,000) | (25,300) |
| | 85,900 | (363,000) |

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| | | |
|---|-----------------------|------------------|
| Accounts payable and accrued expenses | | |
| Net cash used in operating activities | (677,300) | (1,350,300) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Issuance of note receivable to American Citizenship Center, LLC | (25,000) | (50,000) |
| Proceeds from repayment of Symbius and ACC note | - | 175,000 |
| Purchase of land, property, and equipment | (85,800) | (934,500) |
| Proceeds from sale of marketable securities | 2,037,100 | 2,927,900 |
| Proceeds from sale of Symbius investment, net of legal expenses | - | 248,900 |
| Payments pursuant to StarTrak sale | (643,800) | - |
| Net cash provided by investing activities | 1,282,500 | 2,367,300 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Purchase of treasury shares | (26,100) | - |
| Repayment of debt | - | (200,000) |
| Net cash used in financing activities | (26,100) | (200,000) |
| NET INCREASE IN CASH | 579,100 | 817,000 |
| CASH AND CASH EQUIVALENTS, beginning of period | 696,400 | 284,300 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 1,275,500\$ | 1,101,300 |
| SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION | | |
| Non-cash investing & financing activities: | | |
| | \$ (389,800)\$ | 416,900 |

Unrealized gain
(loss) on
marketable
securities

See accompanying notes to the condensed consolidated financial
statements

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A – Basis of Presentation, Accounting Policies and Recent Accounting Pronouncements

Recent Business Development

Alanco Technologies, Inc. – During the current quarter, the Company reported the March 8, 2014 death of Robert Kauffman, Alanco President, CEO and Chairman of the Board. Mr. Kauffman had been President, CEO and Chairman of the Board of Alanco since August 1998 and will be missed both as a leader and a friend.

On March 14, 2014, the Company's Board of Directors appointed John A. Carlson to serve as President and Chief Executive Officer. Mr. Carlson joined the Company in September 1998 holding the positions of Chief Financial Officer and Executive Vice President and was elected to the Board of Directors in 1999. The Board also appointed Danielle Haney as Chief Financial Officer. Ms. Haney joined the Company in September 2001 and has most recently served as Corporate Controller and Corporate Secretary. Ms. Haney will continue to serve as Corporate Secretary. The Board has delayed action regarding the nomination or naming of a successor director.

Background information on the creation of Alanco Energy Services, Inc.

Alanco Energy Services, Inc. – In April 2012, Alanco Energy Services, Inc. ("AES"), a wholly-owned subsidiary of the Company, executed an agreement with TC Operating, LLC ("TCO") of Grand Junction, CO to transfer a land lease for approximately 24 acres near Grand Junction, CO ("Deer Creek site") and all related assets to AES with the intent for AES to construct facilities for the treatment and disposal of large quantities of produced water generated by oil and natural gas producers in Western Colorado. The site was chosen due to its unique ability to meet stringent government requirements for disposal of the high saline water produced as a by-product of oil and gas production, and termed "produced water". The agreement included the transfer of all related tangible and intangible assets as well as Federal, State and County permits (issued or in process) required to construct and operate the facilities. Subsequent to the TCO agreement, AES renegotiated an amended lease that became effective on May 1, 2012. The terms of the amended lease requires minimum monthly lease payments plus additional rent based upon quantities of produced water received at the site. In addition, under the TCO agreement, TCO can earn additional payments based upon a percentage of the net cumulative EBITDA (net of all related AES capital investments) over a period of approximately 10 years (contingent purchase price obligation), starting January 1, 2014. Under certain circumstances, the acreage covered by the lease may be expanded by up to 50 acres to allow for additional expansion at the site. See Note H – Contingent Payments for additional discussion of the earn-out.

AES also purchased a 160 acre site near Grand Junction, CO ("Indian Mesa site"), for additional expansion of the disposal facility. As consideration for the land purchase, AES paid \$500,000 at the April 13, 2012 closing and assumed a non-interest bearing, secured, \$200,000 note which was paid on its November 15, 2012 due date. AES has also agreed to contingent quarterly earn-out payments to Deer Creek Disposal, previous owner of Indian Mesa, up to a maximum total of \$800,000, generally determined as 10% of quarterly revenues in excess of operating expenses, not to exceed \$200,000 for any calendar quarter (contingent land payment). See Note H – Contingent Payments for additional discussion of the contingent land payment.

Related to the treatment and disposal facilities, in fiscal year 2012 AES entered into a management agreement with TCO to manage the project for a monthly management fee of \$10,000 initially and \$20,000 after final permits for the Deer Creek operation are obtained. The management agreement expired in January 2013 and is continuing on a month to month basis. During the nine months ended March 31, 2014, the Company paid TCO \$161,900 under the management agreement. In addition, Tom Pool, Manager of TCO, was issued 10,000 shares of Alanco Common

Stock in March 2014 valued at \$3,900 and TCO earned an additional variable fee of approximately \$4,000 for March 2014 revenues which was paid in April 2014. Refer to the Company's Form 10-K for the fiscal year ended June 30, 2013 for additional discussion about the TCO management agreement.

ALANCO TECHNOLOGIES, INC.

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

Current Status of Deer Creek facility

The Deer Creek produced water disposal facility, located near Grand Junction, CO, became operational in August 2012 with annual evaporative capacity of approximately 300,000 barrels, providing Piceance Basin producers with significant transportation cost savings compared to alternative water disposal sites. In November 2013, the facility received approval from the Mesa County Board of Commissioners allowing 24 hours a day, seven days per week operations. The facility had previously been restricted to daylight hours Monday through Saturday.

Current Status of Indian Mesa facility

The permitting process for the Indian Mesa facility, located approximately 4 miles North West of the Deer Creek site, has been in process for a number of years and in December 2013 the Company announced the Mesa Colorado County Board of Commissioners unanimously approved a proposal for Alanco Energy Services, Inc. to construct and operate on its 160 acre Indian Mesa site an 80 acre, 3 million cubic yard capacity, landfill for disposal of solid oil and gas (O&G) waste, such as drill cuttings, tank bottoms, sock filters, etc. The landfill approval also allows for disposal of Naturally-Occurring Radioactive Material (NORM) contaminated O&G wastes, including both solids and produced water. This new County landfill approval is in the form of an amendment to AES's initial Indian Mesa permit issued in 2010 approving produced water disposal utilizing evaporations ponds.

AES expects within the next few weeks, final construction approval from the Colorado Department of Public Health and Environment (CDPHE) for Indian Mesa's produced water disposal ponds, which will consist of 12 ponds on the north 80 acres of the 160 acre site with an annual evaporative capacity in excess of 1 million barrels of produced water. Complete build-out of the Indian Mesa facility, including both landfill and evaporative ponds, would result in a unique Western Colorado "one stop shop" for all O&G waste products, including NORM contaminated waste streams.

Basis of Presentation

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") 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, 2013 Annual Report filed on Form 10-K. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with GAAP 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 statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Fair Value of Assets and Liabilities – The estimated fair values for assets and liabilities are determined at discrete points in time based on relevant information. The Accounting Standards Codification ("ASC") prioritizes inputs used in

measuring fair value into a hierarchy of three levels: Level 1 – unadjusted quoted prices for identical assets or liabilities traded in active markets, Level 2 – observable inputs other than quoted prices included within Level 1 such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and Level 3 – unobservable inputs in which little or no market activity exists that are significant to the fair value of the assets or liabilities, therefore requiring an entity to develop its own assumptions that market participants would use in pricing. These estimates involve uncertainties and cannot be determined with precision. The carrying amounts of receivables, prepaid expenses, accounts payable, and accrued liabilities approximate fair value given their short-term nature, which represent Level 3 input levels.

ALANCO TECHNOLOGIES, INC.

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

The following are the classes of assets and liabilities measured at fair value on a recurring basis at March 31, 2014, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

| | Level 1: Quoted Prices in active Markets for Identical Assets | Level 2: Significant Other Observable Inputs | Level 3: Significant Unobservable Inputs | Total at March 31, 2014 |
|-----------------------------------|--|--|---|----------------------------------|
| Marketable \$ Securities | 650,800\$ | -\$ | - \$ | 650,800 |
| Asset Retirement Obligation | - | - | 417,400 | 417,400 |
| Contigent Land Payment | - | - | 655,500 | 655,500 |
| Contingent Purchase Price | - | - | 524,300 | 524,300 |
| | \$ 650,800\$ | -\$ | 1,597,200\$ | 2,248,000 |

Fair Value of Marketable Securities – The estimated fair values of Marketable Securities are determined at discrete points in time based on relevant market information. The Marketable Securities are comprised entirely of ORBCOMM Inc. (“ORBCOMM”) common shares (NASDAQ: ORBC) registered under a currently effective ORBCOMM Form S-3 registration statement. Under the terms of the Agreement, the Company is limited to selling up to 279,600 shares per month. Additionally, 166,611 shares of the ORBCOMM stock were previously held in a Product Warranty Escrow account. These shares were released on February 24, 2014 pursuant to a settlement agreement as discussed further in Note J. These sale restrictions are why the fair value measurement of Marketable Securities, prior to February 24, 2014, was based on quoted prices for similar assets in active markets that are directly observable and thus represented a Level 2 fair value measurement. However, management did not believe the restriction would interfere with any plans to market their stock holdings. As such, the trading price was used as fair value with no further adjustment. As of February 24, 2014, these sales restrictions no longer existed. As such, the fair value measurement after February 24, 2014 is based on unadjusted quoted prices for identical assets in active markets and thus represents a Level 1 fair value measurement. There was no change to the fair value of the shares held prior to February 24, 2014 since the trading price previously used was also fair value with no further adjustment. The remaining shares will be revalued at the end of each reporting period with per share market value fluctuations reported as Comprehensive Income (Loss) for the period.

Asset Retirement Obligation – The Deer Creek asset retirement obligation is the estimated cost to close the Deer Creek facility under terms of the lease, meeting environmental and State of Colorado regulatory requirements. The estimate is determined at discrete points in time based upon significant unobservable inputs in which little or no

market activity exists that is significant to the fair value of the liability, therefore requiring the Company to develop its own assumptions. Management's estimate of the asset retirement obligation is based upon a cost estimate developed by a consultant knowledgeable of government closure requirements and costs incurred at similar water disposal facility operations. The process used was to identify each activity in the closure process, obtaining vendor estimated costs, in current dollars, to perform the closure activity and accumulating the various vendor estimates to determine the asset retirement obligation. A present value discount has not been taken as the estimated closure costs, excluding regulatory changes and inflation adjustments, are anticipated to remain fairly consistent over the operational life of the facility. The lack of an active market to validate the estimated asset retirement obligation results in the fair value of the asset retirement obligation to be a Level 3 fair value measurement. ASC Topic 410-20: Asset Retirement Obligations requires the Company to review the asset retirement obligation on a recurring basis and record changes in the period incurred.

ALANCO TECHNOLOGIES, INC.

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

Contingent Payments – The contingent land payment and contingent purchase price liabilities are also determined at discrete points in time based upon unobservable inputs in which little or no market activity exists that is significant to the fair value of the liability, therefore requiring the Company to develop its own assumptions. In calculating the estimate of fair value for both of the contingent payments, management completed an estimate of the present value of each identified contingent liability based upon projected income, cash flows and capital expenditures for the Deer Creek facility developed under plans currently approved by the Company's board of directors. Different assumptions relative to the expansion or alternative uses of the Deer Creek and Indian Mesa facilities could result in significantly different valuations. The projected payments have been discounted at a rate of 3% per annum to determine net present value. The lack of an active market to validate the estimated contingent land and purchase price liabilities results in the fair value of the contingent land and purchase price liabilities to be a Level 3 fair value measurement. ASC Topic 820: Fair Value Measurement requires the Company to review the contingent land and purchase price liabilities on a recurring basis and record changes in the period incurred.

Recent Accounting Pronouncements

In July 2013, the FASB issued guidance on the presentation of unrecognized tax benefits when a net operating loss carry forward, a similar tax loss, or a tax credit carry forward exists at the reporting date. The guidance is effective for fiscal and interim periods within those years, beginning after December 15, 2013 and early adoption is permitted. The Company has adopted the guidance, which had no material impact on its financial position and results of operations.

In March 2014, the FASB issued technical corrections and improvements related to glossary terms. The ongoing project will facilitate clarifications and improvements to glossary terms and updates are effective upon issuance as applicable to affected accounting guidance. The Company has adopted the updates, which had no material impact on its financial position and results of operations.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the nine months ended March 31, 2014, that are of significance, or potential significance, to us.

Note B – Stock-Based Compensation and Warrants

The Company has stock-based compensation plans and reports stock-based compensation expense for all stock-based compensation awards based on the estimated grant date fair value. The value of the compensation cost is amortized on a straight-line basis over the requisite service periods of the award (generally the option vesting term).

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

- Expected term is determined under the simplified method using an average of the contractual term and vesting period of the award as appropriate statistical data required to properly estimate the expected term was not available;

ALANCO TECHNOLOGIES, INC.

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

- 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 and contemplation of future activity;
- Risk-free interest rate is the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,
- Forfeitures are based on the history of cancellations of awards granted by the Company and management's analysis of potential future forfeitures.

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 the date of grant and are more fully discussed in our Form 10-K for the year ended June 30, 2013.

The following table summarizes the Company's stock option activity during the first nine months of fiscal 2014:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (1) | Aggregate Fair Value (3) | Aggregate Intrinsic Value (2) |
|----------------------------------|-----------|---|---|--------------------------------|-------------------------------------|
| Outstanding July 1, 2013 | 1,084,100 | \$0.67 | 4.18 | \$ 296,100 | - |
| Granted | - | - | - | - | - |
| Exercised | - | - | - | - | - |
| Forfeited or expired | (7,500) | \$1.50 | - | (4,000) | - |
| Outstanding March 31, 2014 | 1,076,600 | \$0.66 | 3.46 | \$ 292,100 | - |
| Exercisable March 31, 2014 | 1,076,600 | \$0.66 | 3.46 | \$ 292,100 | - |

(1) Remaining contractual term presented in years.

(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of the Company's common stock as of March 31, 2014, for those awards that have an exercise price currently below the closing price as of March 31, 2014 of \$.40.

(3)

Aggregate Fair Value is calculated using the Black Scholes option pricing model to estimate fair value of stock-based compensation.

As of March 31, 2014, there were no unamortized Black Scholes values related to stock option grants made in prior periods. There were no new grants during the nine months ended March 31, 2014.

As of March 31, 2014, the Company had no outstanding warrants. All warrants that were outstanding as of June 30, 2013 expired during the three months ended September 30, 2013. The following table summarizes the Company's warrant activity during the first nine months of fiscal 2014:

ALANCO TECHNOLOGIES, INC.

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

| | Number of Shares | Weighted Average Exercise Price |
|--|---------------------|--|
| Warrants Outstanding, June 30, 2013 | 95,100 | \$ 2.64 |
| Granted | - | - |
| Exercised | - | - |
| Canceled/Expired | (95,100) | 2.64 |
| Warrants Outstanding, March 31, 2014 | - | -\$ - |

Note C – Marketable Securities

At March 31, 2014, the Company had Marketable Securities in the amount of \$650,800 representing the market value (\$6.85 per share) of 95,000 ORBCOMM Common Shares (NASDAQ: ORBC). The ORBCOMM Common Shares are related to the May 16, 2011 sale of the Company's StarTrak subsidiary which is more fully explained in Note J of this Form 10-Q filing and in Form 10-K filed for the fiscal year ended June 30, 2013. The average cost basis of these shares at March 31, 2014 and June 30, 2013 is \$5.16 per share and \$2.91 per share, respectively.

The shares held are revalued at the end of each reporting period with per share market value fluctuations reported as Comprehensive Income (Loss) for the period. Based primarily upon the change in market value of \$4.49 per share at June 30, 2013 to \$6.85 per share at March 31, 2014, the Company recorded an unrealized gain on marketable securities held during the nine months ended March 31, 2014 (presented in the Condensed Consolidated Statements of Comprehensive Income (Loss)), of \$507,100. The realized gain on securities sold during the nine months ended March 31, 2014 of \$896,900 is reported in the Condensed Consolidated Statements of Operations. At March 31, 2014, the Accumulated Other Comprehensive Income of \$160,100 was presented in the Shareholders' Equity section of the Condensed Consolidated Balance Sheet.

The Company reviews its marketable equity holdings in ORBCOMM on a regular basis to determine if its investment has experienced an other-than-temporary decline in fair value. The Company considers ORBCOMM's cash position, earnings and revenue outlook, stock price performance, liquidity and management ownership, among other factors, in its review. If it is determined that an other-than-temporary decline exists, the Company writes down the investment to its market value and records the related impairment as an investment loss in its Statement of Operations. As of close of market on May 7, 2014, the per share value of the ORBCOMM Common Stock was \$6.00, \$0.84 per share above the average cost basis of \$5.16 per share and above the June 30, 2013 valuation of \$4.49 per share as presented on the attached balance sheet.

The Company sold a total of 336,317 shares of ORBCOMM, Inc. Common Stock during the nine months ended March 31, 2014 for total proceeds of \$2,037,100, and an average selling price of approximately \$6.06 per share, resulting in a net gain of \$896,900. The cost of the securities sold for purposes of computing the realized gain is based on the average cost of the securities.

The following table summarizes the activities related to investment in Marketable Securities for the nine months ended March 31, 2014:

16

ALANCO TECHNOLOGIES, INC.

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

| | Marketable Securities | | | | Accumulated | | |
|---|-----------------------|-------------------------|-------------|------------------------------|-------------|--------------------|---|
| | Net Shares | Cost Basis Per Share | Cost Basis | Market Value Per Share | Total Value | Unrealized Gain | |
| June 30, 2013 | 348,011\$ | 2.91\$ | 1,012,700\$ | 4.49\$ | 1,562,600\$ | 549,900\$ | - |
| Shares sold | (101,118) | 2.91 | (294,300) | | | | |
| September 30, 2013 | 246,893\$ | 2.91\$ | 718,400\$ | 5.24\$ | 1,293,700\$ | 575,300\$ | - |
| Shares sold | (140,713) | 2.91 | (409,500) | | | | |
| December 31, 2013 | 106,180\$ | 2.91\$ | 308,900\$ | 6.34\$ | 673,200\$ | 364,300\$ | - |
| Shares sold prior to 2/24/14 | (22,875) | 2.91 | (66,600) | | | | |
| Shares recorded pursuant to ORBCOMM settlement | 83,306 | 7.42 | 618,100 | | | | |
| Subtotal | 166,611\$ | 5.16\$ | 860,400 | | | | |
| Shares sold after 2/24/14 | (71,611) | 5.16 | (369,700) | | | | |
| March 31, 2014 | 95,000\$ | 5.16\$ | 490,700\$ | 6.85\$ | 650,800\$ | 160,100\$ | - |

Note D – Note Receivable

Note receivable of \$434,000 and \$375,000 at March 31, 2014 and June 30, 2013, respectively, represents a note due from American Citizenship Center, LLC (“ACC”), a related party. The \$434,000 balance at March 31, 2014 represents the outstanding amount drawn on a \$400,000 credit line plus an amendment fee of \$25,000 and \$9,000 of accounting fees pursuant to the amended of the note during the current quarter as discussed below. The note is secured by all assets of ACC and bears interest at the rate of 9.0% per annum.

ACC was unable to make the \$100,000 payment due by December 31, 2013 under the note terms. During the current quarter, the parties amended the note, delaying repayments until June 2014 when a \$25,000 payment is due, followed by a July 2014 payment of \$25,000 and subsequent monthly payments of \$50,000 until the note is paid in full. In addition, the interest rate increased from 7.5% to 9%, an amendment fee of \$25,000 and \$3,000 of accounting fees per month for January 2014 through March 2014 were deferred and added to the note balance, and certain warrants held by the Company were extended and re-priced. The Company believes the value of these warrants to be de minimis and no value has been recorded. Finally, a personal guarantee for \$50,000 was obtained from the founding partner of ACC.

The Company has reviewed ACC's current projections and its new business plan, and believes the new plan will provide for repayment of the ACC note under the payment terms discussed above. The new plan is based upon the assumption that immigration reform will not be passed by Congress. If immigration reform is passed in the next few months, it is assumed the impact on ACC's business plan would be positive. No provision for collectability has been recorded as of March 31, 2014 as current ACC financial projections indicate the note will be paid under the amended terms. ACC is currently in compliance with all terms of the amended note.

ALANCO TECHNOLOGIES, INC.

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

Note E – Land, Property and Equipment

Land, Property and Equipment at March 31, 2014 and June 30, 2013 consist of the following:

| | June 30, 2013 | Additions | March 31, 2014 |
|--------------------------------|---------------|-------------|----------------|
| Office furniture and equipment | \$ 51,300 | - \$ | 51,300 |
| Water disposal facility | 2,707,700 | 6,900 | 2,714,600 |
| Production equipment | 207,800 | 16,100 | 223,900 |
| | 2,966,800 | 23,000 | 2,989,800 |
| Less accumulation depreciation | (190,200) | (129,200) | (319,400) |
| Land and improvements | 1,429,900 | 50,100 | 1,480,000 |
| Construction in progress | 133,400 | 12,700 | 146,100 |
| Net book value | \$ 4,339,900 | (43,400) \$ | 4,296,500 |

Note F – Earnings Per Share

Basic and diluted income (loss) per share of common stock was computed by dividing net income (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 using the treasury stock method. Dilutive securities are options, warrants, convertible debt, and preferred stock 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. For the nine months ended March 31, 2014 and 2013, there were no dilutive securities included in the loss per share calculation as the effect would be antidilutive. While the Company had net income for the three and nine months ended March 31, 2014, the potentially dilutive securities are priced above the average market price for the respective periods and are therefore antidilutive. Considering all holders' rights, total common stock equivalents issuable under these potentially dilutive securities are approximately 1,076,600 and 769,200 at March 31, 2014 and 2013, respectively.

Note G – Equity

The Company issued 30,000 shares of Common Stock during the nine months ended March 31, 2014 for services and recorded a cost of \$11,700 for the shares.

During the nine months ended March 31, 2014, the Company recognized a comprehensive unrealized gain on marketable securities in the amount of \$507,100 to reflect the increase in value of Marketable Securities held during the period, offset by a reclassification of \$896,900 for realized gain on marketable securities sold during the period included in Net Income (Loss). These amounts are reported in the Condensed Consolidated Statement of Changes in Shareholders' Equity as a net change of (\$389,800) during the nine months ended March 31, 2014. See Note A – Basis of Presentation, Accounting Policies and Recent Accounting Pronouncements for additional discussion of fair value of financial instruments and marketable securities.

In December 2011, the Company announced that its board of directors had authorized a stock repurchase program whereby the Company could repurchase up to 2 million shares of its outstanding common stock over the next 12 months. The stock repurchase program was extended, under the same limitation, through December 31, 2013. For the six months ended December 31, 2013, the Company had repurchases under the program for a total of 56,800 shares at a cost of approximately \$26,100, or \$.46 per share. During the current quarter, the board of directors renewed the stock repurchase program, extending it through December 31, 2014 and establishing an aggregate future amount of shares that may be purchased under the program to 2 million shares.

ALANCO TECHNOLOGIES, INC.

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

The Company has authorized 25,000,000 shares of Preferred Stock of which 5,000,000 shares have been allocated to Series A, 500,000 have been allocated to Series B, 400,000 have been allocated to Series C Junior Participating, 500,000 have been allocated to Series D, and 750,000 have been allocated to Series E. At March 31, 2014 and June 30, 2013, no Preferred Stock of any series was issued or outstanding. Refer to the Company's Form 10-K for the fiscal year ended June 30, 2013 for additional discussion of the Company's authorized and allocated preferred shares.

Note H - Contingent Payments

Contingent payments at March 31, 2014 and June 30, 2013 relate to AES asset purchase transactions completed in conjunction with the construction of water disposal facilities for the treatment and disposal of produced water generated by oil and natural gas producers in Western Colorado. Details of the contingent payments are as follows:

| | March 31, 2014 | June 30, 2013 |
|--------------------------------------|-----------------------|-----------------------|
| Fair value - \$ | 655,500\$ | 641,400 |
| contingent land payment | | |
| Fair value - | 524,300 | 513,200 |
| contingent purchase price | | |
| Less | 1,179,800 (50,000) | 1,154,600 (50,000) |
| current portion | | |
| Fair value - \$ | 1,129,800 \$ | 1,104,600 |
| contingent payments, long-term | | |

Contingent land payment of \$655,500 at March 31, 2014 represents the net present value of \$800,000 of estimated contingent land payments due under an agreement whereby Alanco Energy Services, Inc. ("AES") acquired 160 acres of land known as Indian Mesa. The payment is based upon 10% of any quarterly income (defined as gross revenues less operating expenses up to a maximum of \$200,000 per quarter and \$800,000 annually) for activity at both the Deer Creek and the Indian Mesa locations. The payments were projected considering current operating plans as approved by the Alanco Board of Directors, with the payments discounted at a rate of 3% per annum. Accretion expense is being imputed at 3% per annum, increasing the fair value of the contingent land payment during the nine months ended March 31, 2014 by \$14,100.

Contingent purchase price of \$524,300 at March 31, 2014 represents the net present value of projected payments to be made to TC Operating, LLC ("TCO") pursuant to an Asset Purchase Agreement under which TC Operating transferred a land lease for approximately 24 acres of land known as Deer Creek and all related tangible and intangible assets. Per the agreement, the contingent payments are determined as 28% of the Cumulative EBITDA in excess of all of AES's capital investment for the ten (10) year period commencing on January 1, 2014. AES's Capital investment shall mean the aggregate amount incurred by AES in acquiring the Assets, the Indian Mesa Facility, and or improving either the

Deer Creek Facility or the Indian Mesa Facility. Payments of said Contingent Purchase Price shall be payable quarterly. The projected payments consider current operating plans as approved by the Alanco Board of Directors, with payments discounted at a rate of 3% per annum to determine net present value. Accretion expense is being imputed at 3% per annum, increasing the fair value of the contingent purchase price during the nine months ended March 31, 2014 by \$11,100.

Note I – Asset Retirement Obligation

The Company has recognized estimated asset retirement obligations (closure cost) of \$417,400 to remove leasehold improvements, remediate any pollution issues and return the Deer Creek water disposal property to its natural state at the conclusion of the Company's lease. The closure process is a requirement of both the Deer Creek lease and the State of Colorado, a permitting authority for such facilities. The closure cost estimate, in current dollars, was completed by an approved independent consultant experienced in estimating closure costs for water disposal operations and the estimated amount was approved by the State of Colorado. A present value discount has not been taken as the estimated closure costs, excluding regulatory changes and inflation adjustments, are anticipated to remain fairly consistent over the operational life of the facility. The amount of \$417,400 as of March 31, 2014 reflects a 1.8% inflation adjustment recorded during the fiscal year ended June 30, 2013.

ALANCO TECHNOLOGIES, INC.

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

Asset retirement obligations are recorded in the period in which they are incurred and reasonably estimable. Retirement of assets may involve efforts such as removal of leasehold improvements, contractually required demolition, and other related activities, depending on the nature and location of the assets. In identifying asset retirement obligations, the Company considers identification of legally enforceable obligations, changes in existing law, estimate of potential settlement dates, and the calculation of an appropriate discount rate to be used in calculating the fair value of the obligation. The Company reviews the asset retirement obligation quarterly and performs a formal annual assessment of its estimates to determine if an adjustment to the value of the asset retirement obligation is required.

The laws of the State of Colorado require companies to meet environmental and asset retirement obligations by selecting an approved payment method. The Company has elected to meet its obligation by making quarterly payments of approximately \$4,700 into a trust that, over the expected lease period, will build liquid assets to meet the asset retirement obligation. During the nine months ended March 31, 2014, the Company made the required quarterly payments. The balances in the trust account for the asset retirement obligation as of March 31, 2014 and June 30, 2013 were \$44,000 and \$30,000, respectively.

Note J – Commitments and Contingencies

Sale of StarTrak Systems, LLC

In May of 2011, the Company sold the operations of StarTrak Systems, LLC (“StarTrak”), a subsidiary comprising the Company’s Wireless Asset Management segment, to ORBCOMM Inc. (“ORBCOMM”). (See Form 10-K for the year ended June 30, 2013 for a further discussion on the sale). The following discusses the remaining unresolved items related to the sale prior to the current quarter:

Working Capital Adjustment – The Asset Purchase Agreement (“APA”) provided compensation for changes in working capital between November 30, 2010 and May 31, 2011, the measurement date, determined in accordance with GAAP consistently applied. If working capital, defined as current assets minus current liabilities less long-term deferred revenue, increased over the period, ORBCOMM will pay the value of that increase in cash or additional ORBCOMM Common Stock. If the defined working capital decreased during the period, Alanco will return that amount from ORBCOMM Common Stock, valued at \$3.001 per share.

ORBCOMM delivered to Alanco on August 12, 2011, a written statement of the Current Assets, Current Liabilities and Net Working Capital Amount pursuant to the terms of the Agreement reflecting a working capital adjustment in favor of ORBCOMM of approximately \$700,000. Under terms of the Agreement, Alanco submitted a “Notice of Disagreement” of the Net Working Capital Amount submitted by ORBCOMM. The Agreement stipulates third party arbitration to resolve disagreements over the working capital adjustment. The Company had recorded a reserve in excess of \$100,000 for this contingent liability as of December 31, 2013 and June 30, 2013.

Product Warranty Escrow - The APA required a Product Warranty Escrow account in the amount of 166,611 shares of ORBCOMM common stock be established to provide for the availability of ORBCOMM shares to pay for half of certain product warranty costs incurred during the period March 1, 2011 to April 30, 2012, but only to the extent total warranty costs during the period exceed \$600,000. Under the escrow agreement, shares returned to ORBCOMM in payment of those warranty costs would again be valued at \$3.001 per share. Upon distribution of the shares to ORBCOMM from the escrow account, the remaining shares would be distributed to Alanco. To recognize at December 31, 2013 and June 30, 2013 the potential return of ORBCOMM shares under this agreement, Alanco had

reduced the balance of the Marketable Securities by the value of 83,306 shares. The 83,306 share reduction was based on management's best estimate of the warranty costs.

ALANCO TECHNOLOGIES, INC.

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

Settlement of Working Capital Adjustment and Product Warranty Escrow – To avoid significant litigation/resolution expenses, the parties negotiated a general settlement for the working capital adjustment and all product warranty liabilities. The agreement, effective February 24, 2014, required a) ORBCOMM to release to Alanco all ORBCOMM Common Shares (166,611 shares) held in the warranty escrow account; b) Alanco to pay ORBCOMM \$691,000; c) ORBCOMM (through its StarTrak subsidiary) to pay a past due Alanco invoice in the amount of approximately \$48,000 and required both parties to agree to provisions of a general mutual release. The effect of the settlement was to give Alanco the ability to sell the 166,611 ORBCOMM shares held in escrow and increased Alanco's gain on sale of its StarTrak subsidiary, by \$121,700. That amount is included in Other Income for both the three months and nine months ended March 31, 2014.

Legal Proceedings

The Company may from time to time be involved in litigation arising from the normal course of business. As of March 31, 2014, there was no such litigation pending deemed material by the Company.

Note K – Related Party Transactions

During the current quarter, the Company reported that Mr. Robert Kauffman, the Company's President and Chief Executive officer died on March 8, 2014. Mr. Kauffman had been President, CEO and Chairman of the Board of the Company since August 1998. The Board appointed John A. Carlson to serve as President and CEO effective March 14, 2014. Mr. Carlson has been with the Company since November 1998 and his previous position was Executive Vice President and CFO.

Both Mr. Kauffman and Mr. Carlson had employment agreements that allowed the Company to reduce salaries (with corresponding reductions in the employees' time commitment). The Company had elected to effect that provision with a 40% reduction in salaries for both parties effective October 16, 2013. The salary reductions continued until April 1, 2014, when, in consideration of Mr. Carlson's appointment as President and CEO, Mr. Carlson's full salary was reinstated.

The Board also appointed Danielle Haney as Chief Financial Officer. Ms. Haney joined the Company in September 2001 and has most recently served as Corporate Controller and Corporate Secretary. Ms. Haney will also continue to serve as Corporate Secretary. The Board has delayed action regarding the nomination or naming of a successor director.

Note L – Subsequent Events

Subsequent to March 31, 2014, the Company sold approximately 10,000 shares of ORBCOMM, Inc. (presented at March 31, 2014 as Marketable Securities) for approximately \$68,600, or an average of \$6.86 per share. See Note C – Marketable Securities for additional discussion on the ORBCOMM stock held.

On April 28, 2014 the Company held its Annual Meeting of Shareholders at the Company's offices in Scottsdale, Arizona for the purpose of considering two proposals. Both proposals were approved by shareholders. Refer to the Company's Form 8-K filed on May 1, 2014 disclosing the voting results.

ALANCO TECHNOLOGIES, INC.

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

Note M - Liquidity

During nine months ended March 31, 2014, the Company reported a net income of \$133,900 and for fiscal year ended June 30, 2013, the Company reported a net loss of (\$683,000). For the next year, the Company expects to meet its working capital and other cash requirements with its current operations, cash reserves and sales of marketable securities as required. However, if for any reason, the Company does require additional working capital to complete its business plan, there can be no assurance that the Company's efforts to acquire the required additional working capital will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations, identify profitable acquisition/merger candidates and/or successfully invest its capital.

ALANCO TECHNOLOGIES, INC.

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

Forward-Looking Statements: Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements, which are other than statements of historical facts. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "should," "plan," "could," "target," "potential," "will," "expect" and similar expressions, as they relate to the Company are intended to identify forward-looking statements within the meaning of the "safe harbor" provisions of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements are based on the expectations of management when made and are subject to, and are qualified by, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors, among others, that could affect the outcome of the Company's forward-looking statements: general economic and market conditions; the inability to attract, hire and retain key personnel; failure of a future acquired business to further the Company's strategies; the difficulty of integrating an acquired business; unforeseen litigation; unfavorable result of potential litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders; the ability to maintain satisfactory relationships with current and future suppliers; federal and/or state regulatory and legislative action; the ability to implement or adjust to new technologies and the ability to secure and maintain key contracts and relationships. New risk factors emerge from time to time and it is not possible to accurately predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statements. Except as otherwise required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Annual Report or in the documents we incorporate by reference, whether as a result of new information, future events, changed circumstances or any other reason after the date of this Quarterly Report on Form 10-Q.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the United States Securities and Exchange Commission. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. On an on-going basis, we evaluate our estimates and assumptions concerning classification and valuation of investments, the estimated fair value of stock-based compensation, expense recognition, realization of deferred tax assets, accounts and note receivables, estimated useful lives of fixed assets, the recorded values of accruals and contingencies including the estimated fair values of the Company's asset retirement obligation and the contingent land and purchase price liabilities. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances. The result of these estimates and judgments form the basis for making conclusions about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may materially differ from these estimates under different assumptions or conditions. For a discussion of our critical accounting policies and estimates, refer to the Company's Form 10-K for the fiscal year ended June 30, 2013. There have been no material changes to our critical accounting policies during 2014.

ALANCO TECHNOLOGIES, INC.

Results of Operations

Presented below is management's discussion and analysis of financial condition and results of operations for the periods indicated:

(A) Three months ended March 31, 2014 versus three months ended March 31, 2013

Net Revenues

Net revenues reported for the quarter ended March 31, 2014 were \$180,200 versus \$92,100 for the quarter ended March 31, 2013, an increase of \$88,100, or 95.7%. While there is improvement for the comparative three month period as the Company develops customer relationships in the region, revenues continue to be inconsistent as water disposal operations remain in an early stage of development. Water deliveries are also impacted by the prices of oil and gas which drives drilling activities in the region, the restriction on drilling during winter months which negatively impact water deliveries, and alternative uses of produced water, such as for fracking fluid that some current and potential customers are utilizing. As additional customers are expected to recognize the savings of using a local water disposal company and improved weather allows additional oil and gas production activity, we expect revenues to increase.

Cost of Revenues

Cost of Revenues for the three months ended March 31, 2014 and 2013 were \$137,400 and \$131,400, respectively, an increase of \$6,000 or 4.6% when comparing the periods. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs and other operating costs. Variable costs of revenues include labor which decreased during the current quarter when compared to the same quarter of the prior year. The labor cost decrease for the quarter was offset by an increase in variable land lease costs when compared to the same quarter of the prior year. The gross margin for the three months ended March 31, 2014 and 2013 were 23.8% and (42.7%), respectively. The improvement is due to revenue increases during the current three month period covering fixed costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended March 31, 2014 (consisting of corporate expenses, AES selling, general and administrative expense, and amortization of stock-based compensation) was \$275,800, a decrease of \$97,600, or 26.1%, compared to \$373,400 reported for the quarter ended March 31, 2013. Corporate expenses for the current quarter was \$82,000 and represented a decrease of \$70,200, or 46.1%, compared to corporate expenses of \$152,200 reported for the comparable quarter ended March 31, 2013. The decrease resulted primarily from increased allocation of corporate service cost to AES from \$97,000 for the three months ended March 31, 2013 to \$121,500 for the three months ended March 31, 2014 and a reduction in executive salaries which were effective during the quarter ended December 31, 2013. AES expense of \$193,800 for the quarter ended March 31, 2014 compared to \$178,500 for the quarter ended March 31, 2013 reflects an increase of \$15,300 or 8.6% when comparing the two periods and primarily reflects the increased corporate allocations. The AES operating expenses relate to the Deer Creek Water Disposal facility that initiated operation during the quarter ended September 30, 2012 and represented general overhead associated with the operation. There was no amortization of stock-based compensation during the current quarter versus \$42,700 for the quarter ended March 31, 2013. The decrease is reflective of no new stock options being issued during the current period.

Operating Loss

Operating Loss for the quarter ended March 31, 2014 was (\$233,000), a decrease of \$179,700, or 43.5%, compared to an Operating Loss of (\$412,700) reported for the same quarter of the prior year. The decreased operating loss resulted from the improvement to a gross profit of \$42,800 for the quarter ended March 31, 2014 from a gross loss for the quarter ended March 31, 2013 of (\$39,300) and a decrease in selling, general and administrative expenses during the

current quarter as compared to the same quarter of the previous year as discussed above.

ALANCO TECHNOLOGIES, INC.

Other Income and Expense

Net interest income for the quarter ended March 31, 2014 was \$11,200, an improvement of \$6,100, or 119.6%, when compared to net interest income of \$5,100 for the quarter ended March 31, 2013. The increase in interest income related primarily to an increase in the average outstanding balance of the ACC note receivable and the increased interest rate on the note pursuant to the renegotiated terms.

During the quarter ended March 31, 2014, the Company recorded net gains on the sale of marketable securities of \$288,200, resulting from the sale of approximately 94,486 shares of its ORBCOMM Common Stock at an average selling price of \$7.67 per share, compared to net gains on sale of marketable securities in the comparable quarter of the prior year of \$260,500, resulting from the sale of 144,958 shares of ORBCOMM Common Stock at an average selling price of \$4.71 per share.

During the quarter ended March 31, 2014, the Company recorded other income, net of \$86,700 as compared to \$200 in the quarter ended March 31, 2013, an increase of \$86,500. The increase is primarily due to other income recorded in the current quarter of \$121,700 for the settlement with ORBCOMM on the working capital adjustment and product warranty escrow, \$25,000 for the loan amendment fee for the ACC note, offset by other expense of \$60,000 accrued for estimated legal costs related to the Company's Alanco/TSI PRISM, Inc. subsidiary.

Net Income (Loss)

Net income for the quarter ended March 31, 2014 amounted to \$153,100, or \$.03 per share, compared to net loss of (\$146,900), or (\$.03) per share, in the comparable quarter of the prior year for reasons previously discussed.

Comprehensive Income (Loss)

Comprehensive loss for the current quarter of (\$51,100) reflects the \$204,200 unrealized gain for the change in market value of the Company's Marketable Securities held during the current quarter compared to the same period of the prior fiscal year. Unrealized loss for the quarter ended March 31, 2014 consisted of the net value of three items: 1) the quarter ending market value reclassification adjustment for gain included in Net Income of \$288,200; 2) an Unrealized Loss on Marketable Securities of \$41,500 resulting from a decrease in the market value of the shares recorded during the current quarter pursuant to the ORBCOMM settlement, compared to the recorded cost, and; 3) the net unrealized gain on marketable securities sold during the period of \$125,500. At March 31, 2014 the Company valued 95,000 shares of ORBCOMM, Inc. Common Stock at \$6.85 per share for a total value of \$650,800.

(B) Nine months ended March 31, 2014 versus nine months ended March 31, 2013

Net Revenues

Net revenues reported for the nine months ended March 31, 2014 were \$264,600 compared to \$237,400 for March 31, 2013, an increase of \$27,200, or 11.5%. Revenues continue to be inconsistent as water disposal operations remain in an early stage of development and the Company develops relationships with potential customers in the region. Water deliveries are also impacted by the prices of oil and gas which drives drilling activities in the region, the restriction on drilling during winter months which negatively impacts water deliveries, and alternative uses of produced water, such as for fracking fluid that some current and potential customers are utilizing. As additional customers are expected to recognize the savings of using a local water disposal company and improved weather allows additional oil and gas production activity, we expect revenues to increase.

Cost of Revenues

Cost of revenues for the nine months ended March 31, 2014 were \$292,900 as compared to \$289,900 for the same nine month period of the prior year, a minimal increase when comparing the two periods. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs and other operating costs. The gross

margin (negative margin) for the nine months ended March 31, 2014 and 2013 were (10.7%) and (22.1%), respectively. The improvement in gross margin when comparing the periods is primarily due to the increased revenues in the current nine month period.

ALANCO TECHNOLOGIES, INC.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended March 31, 2014 (consisting of corporate expenses, AES selling, general and administrative expense, amortization of stock-based compensation and depreciation expense) was \$850,000, a decrease of \$189,700, or 18.2%, compared to \$1,039,700 reported for the nine months ended March 31, 2013. Corporate expenses for the nine month period was \$237,500 and represented a decrease of \$245,000, or 50.8%, compared to corporate expenses of \$482,500 reported for the comparable nine months ended March 31, 2013. The decrease resulted primarily from increased allocation of corporate service cost to AES from \$225,500 for the nine months ended March 31, 2013 to \$408,250 for the nine months ended March 31, 2014 and a reduction to executive salaries which were effective during the quarter ended December 31, 2013. AES operating expense was \$612,500 for the nine months ended March 31, 2014 as compared to \$446,200 for the same nine month period of the prior year, an increase of \$166,300, or 37.3%. The primary reason for the increase is the increased allocation of corporate service cost to AES as described above partially offset by lower professional services fees as compared to the prior year. In addition, the Deer Creek Water Disposal facility initiated operation during August 2012 resulting in the prior year nine months not being a full nine months of expense. There was no amortization of stock-based compensation during the nine months ended March 31, 2014 versus \$111,000 for the nine months ended March 31, 2013. The decrease is reflective of no new stock options being issued during the current period.

Operating Loss

Operating Loss for the nine months ended March 31, 2014 was (\$878,300), a decrease of \$213,900, or 19.6%, compared to an Operating Loss of (\$1,092,200) reported for the same period of the prior year. The decreased operating loss resulted primarily from decreased selling, general and administrative expenses, as discussed above.

Other Income and Expense

Net interest income for the nine months ended March 31, 2014 was \$27,300, an improvement of \$10,300, or 60.6%, when compared to net interest income of \$17,000 for the same period ended March 31, 2013. The increase in interest income related primarily to an increase in the average outstanding balance of the ACC note receivable and the increased interest rate on the note pursuant to the renegotiated terms.

During the nine months ended March 31, 2014, the Company recorded net gains on the sale of its Symbius investment of \$86,800. During the nine months ended March 31, 2014, the Company recorded a gain of \$896,900 on the sale of 336,317 shares of its ORBCOMM Common Stock at an average selling price of \$6.06 per share, compared to net gains on sale of marketable securities of \$751,500 during the same period ended March 31, 2013, resulting from the sale of 747,873 shares of its ORBCOMM Common Stock at an average selling price of \$3.91 per share.

During the nine months ended March 31, 2014, the Company recorded other income, net of \$88,000 as compared to \$300 in the nine months ended March 31, 2013, an increase of \$87,700. The increase is primarily due to other income recorded in the current quarter of \$121,700 for the settlement with ORBCOMM on the working capital adjustment and product warranty escrow, \$25,000 for the loan amendment fee for the ACC note, offset by other expense of \$60,000 accrued for estimated legal costs related to the Company's Alanco/TSI PRISM, Inc. subsidiary.

Net Income (Loss)

Net income for the nine months ended March 31, 2014 amounted to \$133,900, or \$0.03 per share, compared to a net loss of (\$236,600), or (\$.05) per share, in the comparable period of the prior year for reasons previously discussed.

ALANCO TECHNOLOGIES, INC.

Comprehensive Income (Loss)

Comprehensive loss for the nine month period ended March 31, 2014 of (\$255,900) reflects the \$389,800 unrealized loss for the change in market value of the Company's Marketable Securities held during the current period. Unrealized gain for the nine months ended March 31, 2014 consisted of the net value of three items: 1) the nine months ending market value reclassification adjustment for gain included in Net Income (Loss) of \$896,900; 2) an Unrealized Loss on Marketable Securities of \$19,900 resulting primarily from an increase in the market value of the shares held at March 31, 2014 compared to the value at June 30, 2013, and; 3) the net unrealized gain on marketable securities sold during the period of \$527,000. At March 31, 2014 the Company valued 95,000 shares of ORBCOMM, Inc. Common Stock at \$6.85 per share for a total value of \$650,800.

Liquidity and Capital Resources

The Company's current assets at March 31, 2014 exceeded current liabilities by \$2,310,800, resulting in a current ratio of 12.5 to 1. At June 30, 2013, current assets exceeded current liabilities by \$2,526,500 reflecting a current ratio of 10.3 to 1. The reduction in net current assets at March 31, 2014 versus June 30, 2013 was due primarily to the sale of Marketable Securities – Restricted the Company held in ORBCOMM, Inc. offset primarily by increases to cash and cash equivalents.

Accounts receivable of \$53,300 represents the outstanding billings at March 31, 2014 of the AES water disposal operation that initiated operations during August 2012. Other receivables totaling \$5,400 represents billings to ACC for interest of \$3,300 and legal fees associated with the note restructuring of \$2,100.

Cash used in operations for the nine month period ended March 31, 2014 was (\$677,300), a decrease of (\$673,000), or 49.8% compared to the (\$1,350,300) reported for the same period of the prior year. The decrease in net cash used in operations for the nine months ended March 31, 2014 was due primarily to decreases in operating losses for the nine months ended March 31, 2014 and less cash used for accounts payable and accrued expenses compared to the same period of the prior year.

Cash provided by investing activities for the nine month period ended March 31, 2014 was \$1,282,500, a decrease of \$1,084,800, or 45.8% compared to the \$2,367,300 provided for the same period of the prior year. The decrease was primarily due to lower proceeds from the sale of marketable securities during the period and the \$643,800 payments pursuant to the StarTrak sale, offset by a reduction in the purchases of land, property, and equipment.

Cash used by financing activities for the nine month period ended March 31, 2014 was (\$26,100) compared to cash used by financing activities of (\$200,000) for the same period of the prior year, a change of (\$173,900). The change was primarily due to the repurchase of treasury shares of \$26,100 in the current period as compared to the payment of a \$200,000 note payable paid during the same period of the prior year.

During fiscal 2014, the Company expects to meet its working capital and other cash requirements with its current operations, cash reserves and sales of marketable securities as required. However, the Company may require additional working capital for future operations. While the Company believes that it will succeed in attracting additional required capital and will generate capital from future 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, identify profitable acquisition/merger candidates and/or successfully invest its capital.

Item 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting company.

ALANCO TECHNOLOGIES, INC.

Item 4 - CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of March 31, 2014, the Company's disclosure controls and procedures were effective. Management has concluded that the condensed consolidated financial statements in this Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations, comprehensive income (loss) and cash flows for the periods and dates presented.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Legal Proceedings - The Company may from time to time be involved in litigation arising from the normal course of business. As of March 31, 2014, 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, 2014, no shares of Company stock were sold.

ALANCO TECHNOLOGIES, INC.

Item 6. EXHIBITS

- 31.1 Certification of Chief
Executive Officer
- 31.2 Certification of Chief
Financial Officer
- 32 Certification of Chief
Executive Officer and Chief
Financial Officer
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy
Extension Schema
- 101.CAL XBRL Taxonomy
Extension Calculation
Linkbase
- 101.LAB XBRL Taxonomy
Extension Label Linkbase
- 101.PRE XBRL Taxonomy
Extension Presentation
Linkbase
- 101.DEF XBRL Taxonomy
Extension Definition
Linkbase

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/ Danielle
Haney
D a n i e l l e
H a n e y
C h i e f
F i n a n c i a l
O f f i c e r
A l a n c o
T e c h n o l o g i e s ,
I n c .