

ALANCO TECHNOLOGIES INC
Form 10-Q
November 14, 2013

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 September 30, 2013

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)
YesXNo

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

As of November 5, 2013 there were 4,939,300 shares of common stock outstanding.

ALANCO TECHNOLOGIES, INC.

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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 SEPTEMBER 30, 2013 AND JUNE 30, 2013

| | September 30, 2013 (unaudited) | June 30, 2013 |
|---|-----------------------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 863,300 | \$ 696,400 |
| Accounts receivable - trade | 13,600 | 9,600 |
| Other receivables | 13,400 | 32,800 |
| Note receivable, current | 400,000 | 375,000 |
| Marketable securities - restricted | 1,293,700 | 1,562,600 |
| Prepaid expenses and other current assets | 108,000 | 121,000 |
| Total current assets | 2,692,000 | 2,797,400 |
| | | |
| LAND, PROPERTY AND EQUIPMENT, NET | 4,311,900 | 4,339,900 |
| | | |
| OTHER ASSETS | | |
| Trust account - asset retirement obligation | 34,700 | 30,000 |
| Prepaid royalties, long-term | 50,000 | 50,000 |
| TOTAL ASSETS | \$ 7,088,600 | \$ 7,217,300 |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 232,500 | \$ 220,900 |
| Contingent payments, current | 50,000 | 50,000 |
| Total current liabilities | 282,500 | 270,900 |
| | | |
| LONG-TERM LIABILITIES | | |
| Contingent payments, long-term | 1,113,000 | 1,104,600 |
| | 417,400 | 417,400 |

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| | | |
|--|---------------|---------------|
| Asset retirement obligation, long-term | | |
| TOTAL LIABILITIES | 1,812,900 | 1,792,900 |
| SHAREHOLDERS' EQUITY | | |
| Preferred Stock | - | - |
| Common Stock | | |
| Class A - 75,000,000 no par shares authorized, 4,939,300 and 4,989,300 shares issued and outstanding at September 30, 2013 and June 30, 2013, respectively | 109,098,300 | 109,121,200 |
| Class B - 25,000,000 no par shares authorized and none issued and outstanding | - | - |
| Accumulated Other Comprehensive Income | 575,300 | 549,900 |
| Accumulated Deficit | (104,397,900) | (104,246,700) |
| Total shareholders' equity | 5,275,700 | 5,424,400 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 7,088,600 | \$ 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 SEPTEMBER 30, (unaudited)

| | 2013 | 2012 |
|---|--------------|------------|
| NET REVENUES | \$ 14,800 | \$ 101,200 |
| Cost of revenues | 68,800 | 64,500 |
| GROSS PROFIT (LOSS) | (54,000) | 36,700 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | | |
| Corporate expenses | 77,100 | 196,100 |
| Alanco Energy Services | 232,900 | 84,500 |
| Amortization of stock-based compensation | - | 34,200 |
| | 310,000 | 314,800 |
| OPERATING LOSS | (364,000) | (278,100) |
| OTHER INCOME & EXPENSES | | |
| Interest income (expense), net | 7,800 | 6,200 |
| Gain on sale of Symbius investment | - | 86,800 |
| Gain on sale of marketable securities | 204,800 | 280,800 |
| Other income (expense), net | 200 | 200 |
| NET INCOME (LOSS) | \$ (151,200) | \$ 95,900 |
| NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED | | |
| Net income (loss) attributable to common shareholders | \$ (0.03) | \$ 0.02 |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 4,944,300 | 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 SEPTEMBER 30, (unaudited)

| | 2013 | 2012 |
|---|--------------|------------|
| Net Income (Loss) | \$ (151,200) | \$ 95,900 |
| Reclassification adjustment for gain included in Net Income (Loss) | (204,800) | (280,800) |
| Net unrealized gain on marketable securities held at September 30, | 185,200 | 332,600 |
| Net unrealized gain on marketable securities sold during the period | 45,000 | 139,800 |
| Comprehensive Income (Loss) | \$ (125,800) | \$ 287,500 |

See accompanying notes to the condensed consolidated financial
 statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2013 (unaudited)

| | COMMON STOCK | | TREASURY STOCK | | ACCUMULATED OTHER COMPREHENSIVE INCOME | ACCUMULATED DEFICIT | TOTAL |
|--|--------------|----------------|----------------|----------|---|------------------------|--------------|
| | SHARES | AMOUNT | SHARES | AMOUNT | | | |
| Balances, June 30, 2013 | 4,989,300 | \$ 109,121,200 | - | \$ - | 549,900 | \$ (104,246,700) | \$ 5,424,400 |
| Shares of Alanco common stock repurchased | - | - | 50,000 | 22,900 | - | - | 22,900 |
| Treasury shares retired | (50,000) | (22,900) | (50,000) | (22,900) | - | - | (45,800) |
| Unrealized gain on marketable securities, net of tax | - | - | - | - | 25,400 | - | 25,400 |
| Net loss | - | - | - | - | - | (151,200) | (151,200) |
| Balances, September 30, 2013 | 4,939,300 | \$ 109,098,300 | - | \$ - | 575,300 | \$ (104,397,900) | \$ 5,275,700 |

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, (unaudited)

| | 2013 | 2012 |
|--|--------------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (151,200) | \$ 95,900 |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Depreciation and amortization | 42,900 | 15,400 |
| Accretion expense | 8,400 | 4,200 |
| Gain on sale of Symbius investment | - | (86,800) |
| Gain on sale of marketable securities | (204,800) | (280,800) |
| Stock-based compensation | - | 34,200 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,000) | (56,100) |
| Other receivables | 19,400 | (63,400) |
| Prepaid expenses and other current assets | 13,000 | (4,200) |
| Trust account - asset retirement obligation | (4,700) | - |
| Accounts payable and accrued expenses | 11,600 | (199,500) |
| Net cash used in operating activities | (269,400) | (541,100) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Issuance of note receivable to American Citizenship Center, LLC | (25,000) | (50,000) |
| Proceeds from repayment of Symbius note | - | 100,000 |
| Purchase of land, property, and equipment | (14,900) | (824,000) |
| Proceeds from sale of marketable securities | 499,100 | 1,453,200 |
| Proceeds from sale of Symbius investment, net of legal expenses | - | 248,900 |
| Net cash provided by investing activities | 459,200 | 928,100 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |

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| | | |
|--|------------|------------|
| Purchase of treasury shares | (22,900) | - |
| Net cash used in financing activities | (22,900) | - |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 166,900 | 387,000 |
| CASH AND CASH EQUIVALENTS, beginning of period | 696,400 | 284,300 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 863,300 | \$ 671,300 |

SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION

| | | |
|--|-----------|------------|
| Non-cash investing & financing activities: | | |
| Unrealized gain on marketable securities | \$ 25,400 | \$ 191,600 |

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Recent Business Development

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”) from Deer Creek Disposal, LLC (“DCD”), 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 DCD 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 quarter ended September 30, 2013, the Company paid TCO \$63,000 under the management agreement. Refer to the Company’s Form 10-K for the fiscal year ended June 30, 2013 for additional discussion about the TCO management agreement.

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.

ALANCO TECHNOLOGIES, INC.

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

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.

The following are the classes of assets and liabilities measured at fair value on a recurring basis at September 30, 2013, 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 September 30, 2013 |
|---|--|--|---|--------------------------------------|
| Marketable \$ Securities - Restricted | -\$ | 1,293,700\$ | - \$ | 1,293,700 |
| Asset Retirement Obligation | - | - | 417,400 | 417,400 |
| Contingent Land Payment | - | - | 646,100 | 646,100 |
| Contingent Purchase Price | - | - | 516,900 | 516,900 |
| \$ | -\$ | 1,293,700\$ | 1,580,400\$ | 2,874,100 |

Fair Value of Marketable Securities - Restricted – The estimated fair values of Marketable Securities - Restricted are determined at discrete points in time based on relevant market information. The Marketable Securities – Restricted is 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. The sale restriction above is why the fair value measurement at September 30, 2013 of ORBCOMM’s Stock is based on quoted prices for similar assets in active markets that are directly observable and thus represent a Level 2 fair value measurement. However, management does not believe the restriction will interfere with any plans to market their stock holdings. As such, the trading price is used as 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.

ALANCO TECHNOLOGIES, INC.

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

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 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.

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.

New Accounting Policies

The Company did not adopt any new accounting policies in the quarter ended September 30, 2013.

Recent Accounting Pronouncements

In February 2013, the FASB issued guidance on reporting of amounts reclassified out of accumulated other comprehensive income. The guidance is effective for fiscal years beginning after December 15, 2012. The Company has adopted the guidance, which had no material impact on its financial position and results of operations.

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.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the three months ended September 30, 2013, that are of significance, or potential significance, to us.

ALANCO TECHNOLOGIES, INC.

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

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;
- 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 three months of fiscal 2014:

ALANCO TECHNOLOGIES, INC.

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

| | 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 September 30, 2013 | 1,076,600 | \$0.66 | 3.96 | \$ 292,100\$ | - |
| Exercisable September 30, 2013 | 1,076,600 | \$0.66 | 3.96 | \$ 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 September 30, 2013, for those awards that have an exercise price currently below the closing price as of September 30, 2013 of \$.50.

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

As of September 30, 2013, there were no unamortized Black Scholes values related to stock option grants made in prior periods. There were no new grants during the three months ended September 30, 2013.

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

| | Number of Shares | Weighted Average Exercise Price |
|-------------------------------|---------------------|--|
| Warrants Outstanding, June | 95,100\$ | 2.64 |

| | | |
|---------------------------------------|----------|------|
| 30, 2013 | | |
| Granted | - | - |
| Exercised | - | - |
| Canceled/Expired | (95,100) | 2.64 |
| Warrants | -\$ | - |
| Outstanding, September 30, 2013 | | |

Note C – Marketable Securities – Restricted

At September 30, 2013, the Company had net Marketable Securities - Restricted in the amount of \$1,293,700 representing the market value (\$5.24 per share) of 246,893 ORBCOMM Common Shares (NASDAQ: ORBC) received as partial consideration in the May 16, 2011 sale of StarTrak, net of an estimated 83,306 shares to be returned to ORBCOMM for settlement of obligations under the escrow agreement more fully discussed in our Form 10-K filed for the fiscal year ended June 30, 2013. The net cost basis of these shares at September 30, 2013 and June 30, 2013 is \$2.91 per share.

The ORBCOMM common shares are registered under a currently effective ORBCOMM Form S-3 registration statement, however, under the terms of the Agreement, the Company is limited to selling up to 279,600 shares monthly. The Company has classified these securities as available-for-sale at both September 30, 2013 and June 30, 2013. The fair value measurement on the date indicated is based upon quoted prices for similar assets in active markets and thus represents a Level 2 fair value measurement. The restriction discussed above is why ORBCOMM's Common Stock trading price is deemed a Level 2 input. However, management does not believe the restriction will interfere with any plans to market their stock holdings. As such, the trading price is used as fair value with no further adjustment.

ALANCO TECHNOLOGIES, INC.

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

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 upon the change in market value of \$4.49 per share at June 30, 2013 to \$5.24 per share at September 30, 2013, the Company recorded an unrealized gain on marketable securities held at September 30, 2013 (presented in the Condensed Consolidated Statements of Comprehensive Income (Loss)), of \$185,200. The actual gain or loss on securities sold is reported in the Condensed Consolidated Statements of Operations. At September 30, 2013, the Accumulated Other Comprehensive Income of \$575,300 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 November 5, 2013, the per share value of the ORBCOMM Common Stock was \$6.11, \$3.20 per share above the cost basis of \$2.91 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 101,118 shares of ORBCOMM, Inc. Common Stock during the three months ended September 30, 2013 for total proceeds of \$499,100, and an average selling price of approximately \$4.94 per share, resulting in a net gain of \$204,800. The remaining net shares at September 30, 2013 of 246,893 include approximately 83,300 shares that are still held in escrow.

The following table summarizes the activities related to investment in Marketable Securities for the three months ended September 30, 2013:

| | Net Shares | Marketable Securities | | Accumulated | | |
|-----------------------|---------------|--------------------------------------|---------------------------|-----------------------------|--------------------|--------|
| | | Cost Basis at \$2.91 Per Share | Market Value Per Share | Market Value Total Value | Unrealized Gain | (Loss) |
| June 30, 2013 | 348,011\$ | 1,012,700\$ | 4.49\$ | 1,562,600\$ | 549,900\$ | - |
| Shares sold | (101,118) | (294,300) | | | | |
| September 30, 2013 | 246,893\$ | 718,400\$ | 5.24\$ | 1,293,700\$ | 575,300\$ | - |

Note D – Note Receivable

Note receivable of \$400,000 and \$375,000 at September 30, 2013 and June 30, 2013 respectively, represents a note due from American Citizenship Center, LLC ("ACC"), a related party. The \$400,000 balance at September 30, 2013 represents the outstanding amount drawn on a \$400,000 credit line. The note is secured by all assets of ACC and

bears interest at the rate of 7.5% per annum. ACC must make payments on the note to reduce its outstanding balance to at least \$300,000 as of December 31, 2013. The outstanding principal balance shall be reduced to at least \$100,000 on or before March 31, 2014 with the remaining unpaid balance of the note due by June 30, 2014. Refer to the Company's Form 10-K for the fiscal year ended June 30, 2013 for additional discussion on the Company's investment in ACC.

ALANCO TECHNOLOGIES, INC.

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

Note E – Land, Property and Equipment

Land, Property and Equipment at September 30, 2013 and June 30, 2013 consist of the following:

| | June 30, 2013 | Additions | September 30, 2013 |
|--------------------------------|---------------|-------------|--------------------|
| Office furniture and equipment | \$ 51,300 | - \$ | 51,300 |
| Water disposal facility | 2,707,700 | 2,400 | 2,710,100 |
| Production equipment | 207,800 | - | 207,800 |
| | 2,966,800 | 2,400 | 2,969,200 |
| Less accumulation depreciation | (190,200) | (42,900) | (233,100) |
| Land and improvements | 1,429,900 | 12,500 | 1,442,400 |
| Construction in progress | 133,400 | - | 133,400 |
| Net book value | \$ 4,339,900 | (28,000) \$ | 4,311,900 |

Note F – Earnings Per Share

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

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options, warrants, convertible 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. As of September 30, 2013 and 2012, there were no dilutive securities included in the loss per share calculation as the effect would be antidilutive. Considering all holders' rights, total common stock equivalents issuable under these potentially dilutive securities are approximately 1,076,600 and 830,500 at September 30, 2013 and 2012, respectively.

Note G – Equity

The Company did not issue any Common Stock during the three months ended September 30, 2013.

During the three months ended September 30, 2013, the Company recognized a comprehensive unrealized gain on marketable securities held in the amount of \$25,400, reported in the Condensed Consolidated Statement of Changes in Shareholders' Equity, to reflect the increase in value of Marketable Securities – Restricted held at September 30, 2013. See Note A – Basis of Presentation and Recent Accounting Policies and 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 three months ended September 30, 2013, the Company had repurchases under the program for a total of 50,000 shares at a cost of approximately \$22,900, or \$.46 per share.

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, 500,000 have been allocated to Series D, and 750,000 have been allocated to Series E. At September 30, 2013 and June 30, 2013 no Preferred Stock of any series are 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 September 30, 2013 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:

| | September 30, 2013 | June 30, 2013 |
|--|-----------------------|------------------|
| Fair value \$ | 646,100\$ | 641,400 |
| - contingent land payment Fair value | 516,900 | 513,200 |
| - contingent purchase price | 1,163,000 | 1,154,600 |
| Less current portion Fair value \$ | (50,000) | (50,000) |
| - contingent payments, long-term | 1,113,000 \$ | 1,104,600 |

Contingent land payment of \$646,100 at September 30, 2013 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 cumulative) 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 three months ended September 30, 2013 by \$4,700.

Contingent purchase price of \$516,900 at September 30, 2013 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 the earlier of (i) the recovery of AES’s capital investment, or (ii) 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 land payment during the three months ended September 30, 2013 by \$3,700.

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 September 30, 2013 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 quarter ended September 30, 2013, the Company made the required quarterly payment. The balances in the trust account for the asset retirement obligation as of September 30, 2013 and June 30, 2013 were \$34,700 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 as of September 30, 2013:

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. In an attempt to avoid the expense of submitting the disagreement to arbitration prematurely, and in consideration of mutual desires to resolve the issue, the parties are working to resolve the issue. The Company has recorded a reserve in excess of \$100,000 for this contingent liability as of September 30, 2013. However, based upon the limited documentation received from ORBCOMM to date, we cannot reasonably estimate the likelihood of additional liability. Although we believe our reserve to be adequate, the ultimate liability may be materially revised as we continue to work to resolve the matter. As of the filing of this Form 10-Q, the parties were reviewing the working capital calculations and no resolution had been reached.

ALANCO TECHNOLOGIES, INC.

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

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 September 30, 2013 and June 30, 2013 the potential return of ORBCOMM shares under this agreement, Alanco has reduced the balance of the Marketable Securities – Restricted by the value of 83,306 shares. The 83,306 shares reduction is based on management’s best estimate of the warranty costs at September 30, 2013 and June 30, 2013. The ultimate number of shares of ORBCOMM Common Stock to be returned to ORBCOMM in the final settlement is currently undeterminable and may be in excess of the 83,306 shares currently estimated by the Company. The parties are currently in discussion with the objective of resolving the final distribution under this escrow agreement.

Legal Proceedings

The Company may from time to time be involved in litigation arising from the normal course of business. As of September 30, 2013, there was no such litigation pending deemed material by the Company.

Note K – Related Party Transactions

On October 10, 2011, the Company entered into employment agreements with the Company’s Chief Executive Officer and Chief Financial Officer. The agreements have severance provisions and are effective through December 31, 2014. In addition, the Company and the parties had agreed to defer certain compensation to future years. At September 30, 2012, all deferred amounts had been paid. Prior to December 31, 2011, the Company also agreed to defer the January 1, 2012 salary reductions discussed in the agreements due to anticipated increased business activity. The effective date of the salary reduction is currently on hold and will be reviewed on a quarterly basis. Copies of the agreements were attached as exhibits to the Form 10-K filed for the fiscal year ended June 30, 2011.

During the quarter ended September 30, 2013, the Company provided \$25,000 in loan advances to ACC, increasing the amount due to \$400,000, the maximum amount under the agreement. See Note D – Notes Receivable for additional discussion of the ACC loan agreement.

Note L – Subsequent Events

Subsequent to September 30, 2013, the Company sold approximately 135,100 shares of ORBCOMM, Inc. (presented at September 30, 2013 as Marketable Securities – Restricted) for approximately \$778,100, or an average of \$5.76 per share. See Note C – Marketable Securities – Restricted for additional discussion on the ORBCOMM stock held.

ALANCO TECHNOLOGIES, INC.

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

Note M - Liquidity

During the three months ended September 30, 2013, the Company reported a net loss of (\$151,200) and for fiscal year ended June 30, 2013, the Company reported a net loss of (\$683,000). 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, 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 ORBCOMM fuel sensor escrow and working capital adjustment liabilities, 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.

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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 September 30, 2013 versus three months ended September 30, 2012

Net Revenues

Net revenues reported for the quarter ended September 30, 2013 were \$14,800, a decrease of \$86,400, or 85.4% as compared to \$101,200 reported for the quarter ended September 30, 2012. Revenues continue to be at a low level as water disposal operations remain in a startup mode 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 that some potential customers are utilizing. As additional customers are expected to recognize the savings of using a local water disposal company and as additional relationships develop, we expect revenues to increase.

Cost of Revenues

Cost of revenues for the three months ended September 30, 2013 and 2012 were \$68,800 and \$64,500, respectively, which represents a slight increase when comparing the periods. Cost of revenues consists of direct labor costs, equipment costs (including depreciation), land lease costs and other operating costs. Approximately 71% of the cost of revenues for the quarter ended September 30, 2013 consisted of fixed costs such as depreciation, amortization, accretion and lease costs versus 29% for the quarter ended September 30, 2012. Variable costs in the current quarter, including labor and lease costs tied to water deliveries, were down due to the reduced revenues in the period while the fixed costs reflect a full quarter of expense. The facility was open in mid-August of 2012, so the same period in the prior fiscal year did not include a full quarter of the fixed costs noted previously and the variable expenses were higher due to higher water deliveries.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended September 30, 2013 (consisting of corporate expenses, AES selling, general and administrative expense, and amortization of stock-based compensation) was \$310,000, a decrease of \$4,800, or 1.5%, compared to \$314,800 reported for the quarter ended September 30, 2012. Corporate expenses for the current quarter was \$77,100 and represented a decrease of \$119,000, or 60.7%, compared to corporate expenses of \$196,100 reported for the comparable quarter ended September 30, 2012. The decrease resulted from increased allocation of corporate service cost to AES from \$16,000 for the three months ended September 30, 2012 to \$150,000 for the three months ended September 30, 2013 and reflects the increased activity performed by corporate for the AES operation and billings for accounting services provided to ACC which totaled \$9,000 for the three months ended September 30, 2012 and 2013. AES operating expenses were \$232,900 for the quarter ended September 30, 2013, an increase of \$148,400, or 175.6%, compared to \$84,500 reported for the quarter ended September 30, 2012. The AES operating expenses relate to the Deer Creek Water Disposal facility that initiated operations during August 2012 and represents general overhead associated with the operation. The increase is primarily related to the increase in corporate service cost discussed previously. Amortization of stock-based compensation for the quarter ended September 30, 2013 was \$0 as compared to \$34,200 for the same period of the prior fiscal year. All stock-based compensation for grants in prior years was recorded as of the fiscal year ended June 30, 2013 and no new grants were issued in the current quarter.

Operating Loss

Operating Loss for the quarter ended September 30, 2013 was (\$364,000), an increase of \$85,900, or 30.9%, compared to an Operating Loss of (\$278,100) reported for the same quarter of the prior year. The increased operating loss resulted primarily from decreased revenues during the current quarter as compared to the same quarter of the previous year.

ALANCO TECHNOLOGIES, INC.

Other Income and Expense

Net interest income for the quarter ended September 30, 2013 was \$7,800, an increase of \$1,600 when compared to interest income of \$6,200 for the quarter ended September 30, 2012. The increase in interest income related primarily to an increase in the average outstanding balance of the ACC note receivable.

During the quarter ended September 30, 2013, the Company recorded net gains on the sale of marketable securities of \$204,800, resulting from the sale of 101,118 shares of its ORBCOMM Common Stock at an average selling price of \$4.94 per share, compared to net gains on sale of marketable securities in the comparable quarter of the prior year of \$280,800, resulting from the sale of 402,888 shares of ORBCOMM Common Stock at an average selling price of \$3.61. During the quarter ended September 30, 2012, the Company recorded a net gain on the sale of its Symbius investment of \$86,800. See the Company's Form 10-K for additional discussion of the Symbius investment.

Net Income (Loss)

Net Income (Loss) for the quarter ended September 30, 2013 amounted to (\$151,200), or (\$0.03) per share, compared to net income of \$95,900, or \$0.02 per share, in the comparable quarter of the prior year for reasons previously discussed.

Comprehensive Income

Comprehensive Income for the current quarter of \$25,400 represents the unrealized change in market value of the Company's Marketable Securities compared to the prior period. Comprehensive income for the quarter ended September 30, 2013 consisted of the net value of three items: 1) the quarter ending market value reclassification adjustment for gain included in Net Income (Loss) of \$204,800, an Unrealized Gain on Marketable Securities of \$185,200 resulting from an increase in the market value of the shares held at September 30, 2013 compared to the value at June 30, 2013, and; 3) the net unrealized gain on marketable securities sold during the period of \$45,000. At September 30, 2013 the Company valued 246,893 shares (net of escrow shares) of ORBCOMM, Inc. Common Stock at \$5.24 per share for a total value of \$1,293,700.

Liquidity and Capital Resources

The Company's current assets at September 30, 2013 exceeded current liabilities by \$2,409,500, resulting in a current ratio of 9.5 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 September 30, 2013 versus June 30, 2013 was due primarily to the sale of marketable securities – restricted during the current quarter, a reduction in accounts and other receivables, offset by an increase in notes receivable.

Accounts receivable of \$13,600 represents the outstanding billings at September 30, 2013 of the AES water disposal operation. Other receivables totaling \$13,400 represents billings to ACC for accounting services of \$6,000 and interest of \$7,400.

Cash used in operations for the three months ended September 30, 2013 was (\$269,400), a decrease of \$271,700, or 50.2% compared to the (\$541,100) reported for the same quarter of the prior year. The decrease in net cash used in operations for the three months ended September 30, 2013 was due primarily to reductions in payments on accounts payable and accruals offset by an operating loss rather than operating income as compared to the same period of the prior year end.

Cash provided by investing activities for the three months ended September 30, 2013 was \$459,200, a decrease of \$468,900 or 50.5% compared to the \$928,100 provided for the same period of the prior year. The decrease was primarily due to decreases in cash proceeds in the quarter ended September 30, 2013 from the sale of marketable

securities compared to the same period of the prior year, and the cash proceeds provided in the quarter ended September 30, 2012 from the repayment of the Symbius note and the sale of the Symbius investment, all offset by a reduction in purchases of land, property and equipment.

ALANCO TECHNOLOGIES, INC.

Cash used in financing activities for the three months ended September 30, 2013 was (\$22,900) compared to \$0 used in financing activities for the same period of the prior year. The \$22,900 represents the purchase of treasury shares in the quarter ended September 30, 2013.

During fiscal 2014, the Company expects to meet its working capital and other cash requirements with its operations, current 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.

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 September 30, 2013, 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 September 30, 2013, there was no such litigation pending deemed material by the Company.

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

During the three months ended September 30, 2013, no shares of Company stock were issued.

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/ John A.
Carlson
J o h n A .
Carlson
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
Technologies,
Inc.

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day on which banking institutions in New York City are authorized or required by law or executive order to remain closed.

Consolidated Net Assets means the gross book value of the assets of us and our Subsidiaries (which under GAAP would appear on the consolidated balance sheet of us and our Subsidiaries) less all reserves (including, without limitation, depreciation, depletion and amortization) applicable thereto and less (i) minority interests and (ii) liabilities which, in accordance with their terms, will be settled within one year after the date of determination.

Consolidated Net Income means the net income of us and our Subsidiaries (which under GAAP would appear on the consolidated income statement of us and our Subsidiaries), excluding, however, (i) any equity of us or a Subsidiary in the unremitted earnings of any corporation which is not a Subsidiary, (ii) gains from the write-up in the book value of any asset and (iii) in the case of an acquisition of any Person which is accounted for on a purchase basis, earnings of such Person prior to its becoming a Subsidiary.

Consolidated Net Worth means the sum of (i) the par value (or value stated on the books of such corporation) of the capital stock of all classes of us and our Subsidiaries, plus (or minus in the case of a deficit), (ii) the amount of the consolidated surplus, whether capital or earned, of us and our Subsidiaries, and plus (or minus in the case of a deficit) and (iii) retained earnings of us and our Subsidiaries, all as determined in accordance with GAAP; *provided, however*, that Consolidated Net Worth shall exclude the effects of currency translation adjustments and the application of Statement of Financial Accounting Standards Codification Topic 320 Investments Debt and Equity Securities.

Financing Lease means any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP as it exist on December 3, 2010 to be capitalized on a balance sheet of the lessee.

Funded Debt means any indebtedness for money borrowed, created, issued, incurred, assumed or guaranteed which, in accordance with its terms, will be settled beyond one year after the date of determination, but in any event including all indebtedness for money borrowed, whether secured or unsecured, maturing more than one year, or extendible at the option of the obligor to a date more than one year, after the date of determination thereof (excluding any liabilities which, in accordance with their terms, will be settled within one year after the date of determination).

GAAP means, as to a particular Person, such accounting principles as, in the opinion of the independent public accountants regularly retained by such Person, conform at the time to United States generally accepted accounting principles.

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Governmental Authority means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

Indebtedness of any Person means, at any date and without duplication, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than trade liabilities not more than 60 days past due incurred in the ordinary course of business and payable in accordance with customary practices or endorsements for the purpose of collection in the ordinary course of business and excluding the deferred purchase price of property or services to be repaid through earnings of the purchaser to the extent such amount is not characterized as indebtedness in accordance with GAAP), (b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument, (c) all obligations of such Person under Financing Leases, (d) all payment obligations of such Person in respect of acceptances issued or created for the account of such Person and (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof; *provided* that, if such Person has not assumed or otherwise become liable in respect of such indebtedness, such obligations shall be deemed to be in an amount equal to the lesser of (i) the amount of such indebtedness and (ii) the book value of the property subject to such Lien at the time of determination. For the purposes of this definition, the following shall not constitute Indebtedness: the issuance of payment instruments, consumer funds transfers, or other amounts paid to or received by us, any of our Subsidiaries or any agent thereof in the ordinary course of business in order for us or such Subsidiary to make further distribution to a third party, to the extent payment in respect thereof has been received by us, such Subsidiary or any agent thereof.

Lien means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge or other security interest or any preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Financing Lease having substantially the same economic effect as any of the foregoing), it being understood that the holding of money or investments for the purpose of honoring payment instruments or consumer funds transfers, or other amounts paid to or received by us, any of our Subsidiaries, or any agent thereof in the ordinary course of business in order for us or any of Subsidiaries to make further distributions to a third party, shall not be considered a Lien for the purposes of this definition.

Person means an individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, Governmental Authority or other entity of whatever nature.

Principal Facility means the real property, fixtures, machinery and equipment relating to any facility owned by us or any Subsidiary, except any facility that, in the opinion of our board of directors, any duly authorized committee thereof or any of our duly authorized officers is not of material importance to the business conducted by us and our Subsidiaries, taken as a whole.

Purchased Receivables means accounts receivable purchased by us or any of our Subsidiaries from third parties and not originally created by the sale of goods or services by us or any of our Subsidiaries.

Purchased Receivables Financing means any financing transaction pursuant to which Purchased Receivables are sold, transferred, securitized or otherwise financed by any Receivables Subsidiary and as to which there is no recourse to us or any of our other Subsidiaries (other than customary representations and warranties made in connection with the sale or transfer of Purchased Receivables).

Receivables Subsidiary means any Subsidiary which purchases Purchased Receivables directly or to which Purchased Receivables are transferred by us or any of our Subsidiaries, in either case with the intention of engaging in a Purchased Receivables Financing.

Restricted Subsidiary means at any date, (a) any Subsidiary of ours which, together with its Subsidiaries, (i) has a proportionate share of Consolidated Net Assets that exceeds 10% at the time of determination or (ii) has

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equity in the Consolidated Net Income that exceeds 10% for the period of the four most recently completed fiscal quarters preceding the time of determination or (b) any wholly-owned Subsidiary of ours that at the time of determination shall be designated a Restricted Subsidiary by our board of directors or any duly authorized committee thereof or any of our duly authorized officers (any wholly-owned Subsidiary of ours designated as a Restricted Subsidiary pursuant to this clause (b) is referred to as a Designated Restricted Subsidiary). At any time, our board of directors or any duly authorized committee thereof or any of our duly authorized officers may designate any Designated Restricted Subsidiary to no longer be a Restricted Subsidiary so long as (i) such Subsidiary is not a Restricted Subsidiary pursuant to clause (a) above and (ii) immediately after giving effect to such designation, no Event of Default shall have occurred and be continuing.

Subsidiary means as to any Person, a corporation, partnership or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, directly or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a Subsidiary or to Subsidiaries shall refer to a Subsidiary or Subsidiaries of ours.

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PLAN OF DISTRIBUTION

We may sell debt securities offered by this prospectus in and/or outside the United States:

through underwriters or dealers;

through agents; or

directly to purchasers.

We will describe in a prospectus supplement the particular terms of any offering of debt securities, including the following:

the names of any underwriters or agents;

the proceeds we will receive from the sale;

any discounts and other items constituting underwriters' or agents' compensation;

any discounts or concessions allowed or reallocated or paid to dealers; and

any securities exchanges on which the applicable debt securities may be listed.

If we use underwriters in the sale, such underwriters will acquire the debt securities for their own account. The underwriters may resell the debt securities in one or more transactions, at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices relating to prevailing market prices or at negotiated prices.

The debt securities may be offered to the public through underwriting syndicates represented by managing underwriters or by underwriters without a syndicate. The obligations of the underwriters to purchase the debt securities will be subject to certain conditions. The underwriters will be obligated to purchase all the debt securities of the series offered if any of the debt securities are purchased.

We may sell debt securities through agents or dealers designated by us. Any agent or dealer involved in the offer or sale of the debt securities for which this prospectus is delivered will be named, and any commissions payable by us to that agent or dealer will be set forth, in the prospectus supplement. Unless indicated in the prospectus supplement, the agents will agree to use their reasonable efforts to solicit purchases for the period of their appointment and any dealer will purchase debt securities from us as principal and may resell those debt securities at varying prices to be determined by the dealer.

We also may sell debt securities directly. In this case, no underwriters or agents would be involved.

Underwriters, dealers and agents that participate in the distribution of the debt securities may be underwriters as defined in the Securities Act, and any discounts or commissions received by them from us and any profit on the resale of the debt securities by them may be treated as underwriting discounts and commissions under the Securities Act.

We may have agreements with the underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act or to contribute with respect to payments which the underwriters, dealers or agents may be required to make.

Underwriters, dealers and agents may engage in transactions with, or perform services for, us or our subsidiaries in the ordinary course of their businesses.

In order to facilitate the offering of the debt securities, any underwriters or agents, as the case may be, involved in the offering of such securities may engage in transactions that stabilize, maintain or otherwise affect

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the price of such securities or other securities the prices of which may be used to determine payments on the securities. Specifically, the underwriters or agents, as the case may be, may overallocate in connection with the offering, creating a short position in such securities for their own account. In addition, to cover overallocations or to stabilize the price of the securities or of such other securities, the underwriters or agents, as the case may be, may bid for, and purchase, such securities in the open market. Finally, in any offering of such securities through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allotted to an underwriter or a dealer for distributing such securities in the offering if the syndicate repurchases previously distributed securities in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the securities above independent market levels. The underwriters or agents, as the case may be, are not required to engage in these activities, and may end any of these activities at any time.

We may solicit offers to purchase debt securities directly from, and we may sell debt securities directly to, institutional investors or others. The terms of any of those sales, including the terms of any bidding or auction process, if utilized, will be described in the applicable prospectus supplement.

Some or all of the debt securities may be new issues of securities with no established trading market. We cannot and will not give any assurances as to the liquidity of the trading market for any of our securities.

VALIDITY OF SECURITIES

The validity of the debt securities and certain other matters will be passed upon for us by Sidley Austin LLP, Chicago, Illinois.

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EXPERTS

The consolidated financial statements of The Western Union Company appearing in The Western Union Company's Annual Report (Form 10-K) for the year ended December 31, 2009 (including the schedule appearing therein), and the effectiveness of The Western Union Company's internal control over financial reporting as of December 31, 2009 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

With respect to the unaudited condensed consolidated interim financial information of The Western Union Company for the three-month periods ended March 31, 2010 and 2009, the three-month and six-month periods ended June 30, 2010 and 2009 and the three-month and nine-month periods ended September 30, 2010 and 2009, incorporated by reference in this prospectus, Ernst & Young LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate reports dated May 6, 2010, August 4, 2010 and November 5, 2010, included in The Western Union Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010, respectively, and incorporated by reference herein, state that they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Ernst & Young LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the "Securities Act"), for their report on the unaudited interim financial information because that report is not a report or a part of the registration statement prepared or certified by Ernst & Young LLP within the meaning of Sections 7 and 11 of the Securities Act.

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\$

% Notes due 2015

\$

% Notes due 2017

PROSPECTUS SUPPLEMENT

, 2012

Joint Book-Running Managers

J.P. Morgan

Morgan Stanley