

ALANCO TECHNOLOGIES INC  
Form 10-Q  
February 14, 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 December 31, 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)  
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 February 7, 2014 there were 4,932,500 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 December 31, 2013 (Unaudited) and June 30, 2013	4
Condensed Consolidated Statements of Operations (Unaudited) For the three months ended December 31, 2013 and 2012	5
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) For the three months ended December 31, 2013 and 2012	6
Condensed Consolidated Statements of Operations (Unaudited) For the six months ended December 31, 2013 and 2012	7
Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) For the six months ended December 31, 2013 and 2012	8
Condensed Consolidated Statement of Changes in Shareholders' Equity (Unaudited) For the six months ended December 31, 2013	9
Condensed Consolidated Statements of Cash Flows (Unaudited) For the six months ended December 31, 2013 and 2012	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 – Restricted	
Note D – Note Receivable	
Note E – Land, Property and Equipment	
Note F – Earnings Per Share	
Note G – Equity	

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

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	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4.	Controls and Procedures	26

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 6.	Exhibits	27

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 DECEMBER 31, 2013 AND JUNE 30, 2013

	December 31, 2013 (unaudited)	June 30, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,371,000	\$ 696,400
Accounts receivable - trade	62,900	9,600
Other receivables	22,600	32,800
Note receivable, current	400,000	375,000
Marketable securities - restricted	673,200	1,562,600
Prepaid expenses and other current assets	104,100	121,000
Total current assets	2,633,800	2,797,400
LAND, PROPERTY AND EQUIPMENT, NET	4,309,500	4,339,900
<b>OTHER ASSETS</b>		
Trust account - asset retirement obligation	39,300	30,000
Prepaid royalties, long-term	50,000	50,000
<b>TOTAL ASSETS</b>	<b>\$ 7,032,600</b>	<b>\$ 7,217,300</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 250,300	\$ 220,900
Contingent payments, current	50,000	50,000
Total current liabilities	300,300	270,900
<b>LONG-TERM LIABILITIES</b>		
Contingent payments, long-term	1,121,400	1,104,600
	417,400	417,400

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Asset retirement obligation, long-term		
TOTAL LIABILITIES	1,839,100	1,792,900
SHAREHOLDERS' EQUITY		
Preferred Stock	-	-
Common Stock		
Class A - 75,000,000 no par shares authorized, 4,932,500 and 4,989,300 shares issued and outstanding at December 31, 2013 and June 30, 2013, respectively	109,095,100	109,121,200
Class B - 25,000,000 no par shares authorized, none outstanding	-	-
Accumulated Other Comprehensive Income	364,300	549,900
Accumulated Deficit	(104,265,900)	(104,246,700)
Total shareholders' equity	5,193,500	5,424,400
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 7,032,600	\$ 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 DECEMBER 31, (unaudited)

	2013	2012
NET REVENUES	\$ 69,600	\$ 43,800
Cost of revenues	86,700	93,900
GROSS PROFIT (LOSS)	(17,100)	(50,100)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Corporate expenses	78,300	134,200
Alanco Energy Services	185,800	183,200
Amortization of stock-based compensation	-	34,100
	264,100	351,500
OPERATING LOSS	(281,200)	(401,600)
OTHER INCOME & EXPENSES		
Interest income (expense), net	8,300	5,800
Gain on sale of marketable securities	403,900	210,200
Other income (expense), net	1,100	-
NET INCOME (LOSS)	132,100	(185,600)
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED		
Net income (loss) per share attributable to common shareholders	\$ 0.03	\$ (0.04)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	4,941,800	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 DECEMBER 31, (unaudited)

	2013	2012
Net Income (Loss)	\$ 132,100	\$ (185,600)
Reclassification adjustment for gain included in Net Income (Loss)	(403,900)	(210,200)
Net unrealized gain (loss) on marketable securities held at December 31,	116,800	(7,200)
Net unrealized gain on marketable securities sold during the period	57,700	140,400
Comprehensive Income (Loss)	\$ (97,300)	\$ (262,600)

See accompanying notes to the condensed consolidated financial  
 statements

## ALANCO TECHNOLOGIES, INC.

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

	2013	2012
NET REVENUES	\$ 84,400	\$ 145,000
Cost of revenues	155,500	158,400
GROSS PROFIT (LOSS)	(71,100)	(13,400)
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Corporate expenses	155,500	330,300
Alanco Energy Services	418,700	267,700
Amortization of stock-based compensation	-	68,300
	574,200	666,300
OPERATING LOSS	(645,300)	(679,700)
OTHER INCOME & EXPENSES		
Interest income (expense), net	16,100	12,000
Gain on sale of Symbius investment	-	86,800
Gain on sale of marketable securities	608,700	491,000
Other income (expense), net	1,300	200
NET LOSS	(19,200)	(89,700)
NET LOSS PER SHARE - BASIC AND DILUTED		
Net loss attributable to common shareholders	\$ (0.00)	\$ (0.02)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	4,941,800	5,010,300

See accompanying notes to the condensed consolidated financial  
statements



ALANCO TECHNOLOGIES, INC.

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

	2013	2012
Net Income (Loss)	\$ (19,200)	\$ (89,700)
Reclassification adjustment for gain included in Net Income (Loss)	(608,700)	(491,000)
Net unrealized gain (loss) on marketable securities held at December 31,	196,500	325,300
Net unrealized gain on marketable securities sold during the period	226,600	280,000
Comprehensive Income (Loss)	\$ (204,800)	\$ 24,600

See accompanying notes to the condensed consolidated financial  
 statements

## ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2013 (unaudited)

	COMMON STOCK		TREASURY STOCK		ACCUMULATED OTHER COMPREHENSIVE	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)
Unrealized loss on marketable securities, net of tax	-	-	-	-	(185,600)	-	(185,600)
Net loss	-	-	-	-	-	(19,200)	(19,200)
Balances, December 31, 2013	4,932,500	\$ 109,095,100	-	\$ -	364,300	\$ (104,265,900)	5,193,500

See accompanying notes to the condensed consolidated financial statements

## ALANCO TECHNOLOGIES, INC.

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

	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (19,200)	\$ (89,700)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	85,900	58,300
Accretion expense	16,800	12,700
Gain on sale of Symbius investment	-	(86,800)
Gain on sale of marketable securities	(608,700)	(491,000)
Stock-based compensation	-	68,300
Changes in operating assets and liabilities:		
Accounts receivable	(53,300)	(4,100)
Other receivables	10,200	(18,900)
Prepaid expenses and other current assets	16,900	(44,200)
Trust account - asset retirement obligation	(9,300)	-
Accounts payable and accrued expenses	29,400	(406,900)
Net cash used in operating activities	(531,300)	(1,002,300)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Issuance of note receivable to American Citizenship Center, LLC	(25,000)	(50,000)

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Proceeds from repayment of Symbius and ACC note	-	150,000
Purchase of land, property, and equipment	(55,500)	(861,200)
Proceeds from sale of marketable securities	1,312,500	2,245,500
Proceeds from sale of Symbius investment, net of legal expenses	-	248,900
Net cash provided by investing activities	1,232,000	1,733,200
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Purchase of treasury shares	(26,100)	-
Repayment of debt	-	(200,000)
Net cash used in financing activities	(26,100)	(200,000)
<b>NET INCREASE IN CASH</b>	<b>674,600</b>	<b>530,900</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>696,400</b>	<b>284,300</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 1,371,000\$</b>	<b>815,200</b>
<b>SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION</b>		
Non-cash investing & financing activities:		
Unrealized gain (loss) on marketable securities	\$ 185,600\$	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 six months ended December 31, 2013, the Company paid TCO \$109,000 under the management agreement. In addition, TCO earned an additional variable fee of approximately \$3,900 for December 2013 revenues which was paid in January 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.

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 December 31, 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 December 31, 2013
Marketable Securities - Restricted	\$ -	\$ 673,200	\$ -	\$ 673,200
Asset Retirement Obligation	-	-	417,400	417,400
Contigent Land Payment	-	-	650,800	650,800
Contigent Purchase Price	-	-	520,600	520,600
	\$ -	\$ 673,200	\$ 1,588,800	\$ 2,262,000

**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 and 83,300 shares included in Marketable Securities are held in escrow as discussed in Note J – Commitments and Contingencies. The sale restriction above is why the fair value measurement at December 31, 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 six months ended December 31, 2013.

#### 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 December 2013, the FASB issued updates to the definition of a public business entity. The guidance is designed to clarify the definition of a public entity within the U.S. generally accepted accounting principles on a going-forward basis. The guidance does not have a set effective date, but is applicable for new issuances that may be applicable to the Company.

There have been no other recent accounting pronouncements or changes in accounting pronouncements during the six months ended December 31, 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 six months of fiscal 2014:

## ALANCO TECHNOLOGIES, INC.

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

	Shares	Weighted Average Exercise Price	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 December 31, 2013	1,076,600	\$0.66	3.70	\$ 292,100\$	-
Exercisable December 31, 2013	1,076,600	\$0.66	3.70	\$ 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 December 31, 2013, for those awards that have an exercise price currently below the closing price as of December 31, 2013 of \$.45.

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

As of December 31, 2013, there were no unamortized Black Scholes values related to stock option grants made in prior periods. There were no new grants during the six months ended December 31, 2013.

As of December 31, 2013, 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 six months of fiscal 2014:

Number of Shares	Weighted Average Exercise Price
---------------------	--



Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Warrants Outstanding, June 30, 2013	95,100\$	2.64
Granted	-	-
Exercised	-	-
Canceled/Expired	(95,100)	2.64
Warrants Outstanding, December 31, 2013	-\$	-

Note C – Marketable Securities – Restricted

At December 31, 2013, the Company had net Marketable Securities - Restricted in the amount of \$673,200 representing the market value (\$6.34 per share) of 106,180 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 December 31, 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 December 31, 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, of which 22,875 were freely tradable as of December 31, 2013. 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 \$6.34 per share at December 31, 2013, the Company recorded an unrealized gain on marketable securities held at December 31, 2013 (presented in the Condensed Consolidated Statements of Comprehensive Income (Loss)), of \$196,500. The actual gain or loss on securities sold is reported in the Condensed Consolidated Statements of Operations. At December 31, 2013, the Accumulated Other Comprehensive Income of \$364,300 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 February 7, 2014, the per share value of the ORBCOMM Common Stock was \$7.15, \$4.24 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 241,831 shares of ORBCOMM, Inc. Common Stock during the six months ended December 31, 2013 for total proceeds of \$1,312,500, and an average selling price of approximately \$5.43 per share, resulting in a net gain of \$608,700. The remaining net shares at December 31, 2013 of 106,180 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 six months ended December 31, 2013:

	Net Shares	Marketable Securities		Accumulated Unrealized		
		Cost Basis at \$2.91 Per Share	Market Value Per Share	Market Value Total Value	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\$	-
Shares sold	(140,713)	(409,500)				
December 31, 2013	106,180\$	308,900\$	6.34\$	673,200\$	364,300\$	-



## ALANCO TECHNOLOGIES, INC.

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

## Note D – Note Receivable

Note receivable of \$400,000 and \$375,000 at December 31, 2013 and June 30, 2013 respectively, represents a note due from American Citizenship Center, LLC (“ACC”), a related party. The \$400,000 balance at December 31, 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’s first payment under the note agreement of \$100,000 was due not later than December 31, 2013. ACC failed to make that payment and defaulted on the note.

The Company believes its interests are best served by working with ACC and subsequent to December 31, 2013, the parties renegotiated new terms for 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%, a loan restructuring fee of \$25,000 was added to the note balance and will be recognized when paid, certain warrants held by the Company were extended and re-priced, payment of accounting services fees of \$3,000 per month for January 2014 through March 2014 were deferred and added to the note balance, and finally, a personal guarantee for \$50,000 was obtained from the founding partner of ACC.

The Company has reviewed ACC’s current projections and has discussed its new business plan and believes the new plan will provide for repayment of the ACC note under 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 December 31, 2013 as current ACC financial projections indicate the note will be paid under amended terms.

## Note E – Land, Property and Equipment

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

	June 30, 2013	Additions	December 31, 2013
Office furniture and equipment	\$ 51,300	\$ -	\$ 51,300
Water disposal facility	2,707,700	6,900	2,714,600
Production equipment	207,800	1,500	209,300
	2,966,800	8,400	2,975,200
Less accumulation depreciation	(190,200)	(85,900)	(276,100)
Land and improvements	1,429,900	35,300	1,465,200

Edgar Filing: ALANCO TECHNOLOGIES INC - Form 10-Q

Construction in progress		133,400	11,800	145,200
Net book value	\$	4,339,900	\$(30,400)	\$4,309,500

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.

## ALANCO TECHNOLOGIES, INC.

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

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. For the six months ended December 31, 2013 and 2012, 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 months ended December 31, 2013, the potentially dilutive securities are priced above market as of December 31, 2013 and are therefore antidilutive. Considering all holders' rights, total common stock equivalents issuable under these potentially dilutive securities are approximately 1,076,600 and 815,700 at December 31, 2013 and 2012, respectively.

## Note G – Equity

The Company did not issue any Common Stock during the six months ended December 31, 2013.

During the six months ended December 31, 2013, the Company recognized a comprehensive unrealized gain on marketable securities in the amount of \$423,100 to reflect the increase in value of Marketable Securities – Restricted during the period, offset by a reclassification of \$608,700 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 (\$185,600) during the six months ended December 31, 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 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.

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 December 31, 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 December 31, 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:

	December 31, 2013	June 30, 2013
\$	650,800\$	641,400

Fair value - contingent land payment		
Fair value - contingent purchase price	520,600	513,200
	1,171,400	1,154,600
Less current portion	(50,000)	(50,000)
Fair value - contingent payments, long-term	\$ 1,121,400	\$ 1,104,600

ALANCO TECHNOLOGIES, INC.

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

Contingent land payment of \$650,800 at December 31, 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 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 six months ended December 31, 2013 by \$9,400.

Contingent purchase price of \$520,600 at December 31, 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 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 six months ended December 31, 2013 by \$7,400.

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 December 31, 2013 reflects a 1.8% inflation adjustment recorded during the fiscal year ended June 30, 2013.

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 six months ended December 31, 2013, the Company made the required



quarterly payments. The balances in the trust account for the asset retirement obligation as of December 31, 2013 and June 30, 2013 were \$39,300 and \$30,000, respectively.

ALANCO TECHNOLOGIES, INC.

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

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 December 31, 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 December 31, 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.

**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 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 December 31, 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 December 31, 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 contained severance provisions, allowed for reductions in executive compensation (with corresponding reductions in the employees' time commitment) and are effective through December 31, 2014. The Company had previously elected to defer the executive salary reduction provisions due to increased business activity. That decision was reversed effective October 16, 2013 with the implementation of a 40% salary reduction instituted for the Chief Executive Officer and Chief Financial Officer. Copies of the agreements were attached as exhibits to the Form 10-K filed for the fiscal year ended June 30, 2011.

ALANCO TECHNOLOGIES, INC.

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

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. As of December 31, 2013, ACC owed \$22,600 to the Company, of which \$7,600 was interest and \$15,000 was for accounting services. The entire amount was paid as of January 31, 2014. See Note D – Note Receivable for additional discussion of the ACC loan agreement.

Note L – Subsequent Events

Subsequent to December 31, 2013, the Company sold approximately 22,875 shares of ORBCOMM, Inc. (presented at December 31, 2013 as Marketable Securities – Restricted) for approximately \$170,200, or an average of \$7.44 per share. See Note C – Marketable Securities – Restricted for additional discussion on the ORBCOMM stock held.

At its Board of Directors meeting on January 31, 2014, the Company i) renewed its stock repurchase program through December 31, 2014 limiting the number of aggregate future shares that may be purchased under the program to 2 million; and ii) approved a resolution authorizing Company officers to renegotiate the ACC loan agreement under terms as more fully discussed in Note D – Note Receivable of this filing.

Finally, on February 13, 2014 the Company's Board of Directors adopted a Stockholder Rights Plan (by consent in writing) designed to provide current shareholders certain advantages in the event of a hostile takeover attempt. A copy of that plan is attached as an exhibit to this Form 10-Q filing.

Note M - Liquidity

During the six months ended December 31, 2013, the Company reported a net loss of (\$19,200) 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," "potentially," "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.

22

---

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 December 31, 2013 versus three months ended December 31, 2012

Net Revenues

Net revenues reported for the quarter ended December 31, 2013 were \$69,600 versus \$43,800 for the quarter ended December 31, 2012, an increase of \$25,800, or 58.9%. While there is improvement for the comparative three month period, revenues continue to be inconsistent 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 impact water deliveries, and alternative uses of produced water, such as for fracking fluid that some 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 December 31, 2013 and 2012 were \$86,700 and \$93,900, respectively, a decrease of \$7,200 or 7.7% 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 was decreased during the first two months of the current quarter when compared to the same quarter of the prior year and is the primary reason for the modest decrease. The gross margin for the three months ended December 31, 2013 and 2012 were (24.6%) and (114.4%), respectively. The improvement is due to the increased revenues and reduced cost of revenues during the current three month period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended December 31, 2013 (consisting of corporate expenses, AES selling, general and administrative expense, and amortization of stock-based compensation) was \$264,100, a decrease of \$87,400, or 24.9%, compared to \$351,500 reported for the quarter ended December 31, 2012. Corporate expenses for the current quarter was \$78,300 and represented a decrease of \$55,900, or 41.7%, compared to corporate expenses of \$134,200 reported for the comparable quarter ended December 31, 2012. The decrease resulted primarily from increased allocation of corporate service cost to AES from \$91,000 for the three months ended December 31, 2012 to \$127,750 for the three months ended December 31, 2013 and reflects the increased activity performed by corporate for the AES operation. The decrease in corporate expense is also due to executive salary reductions which were effective during the quarter ended December 31, 2013. AES expense of \$185,800 for the quarter ended December 31, 2013 compared to \$183,200 for the quarter ended December 31, 2012 reflects a modest increase overall when comparing the two periods which included decreased management fees paid to TCO under the management agreement offset by increased corporation 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 \$34,100 for the quarter ended December 31, 2012. The decrease is reflective of no new stock options being issued during the current period.

Operating Loss

Operating Loss for the quarter ended December 31, 2013 was (\$281,200), a decrease of \$120,400, or 30%, compared to an Operating Loss of (\$401,600) reported for the same quarter of the prior year. The decreased operating loss resulted from a decrease to gross profit (loss) and a decrease to selling, general and administrative expenses 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 December 31, 2013 was \$8,300, an improvement of \$2,500, or 43.1%, when compared to interest income of \$5,800 for the quarter ended December 31, 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 December 31, 2013, the Company recorded net gains on the sale of marketable securities of \$403,900, resulting from the sale of approximately 140,713 shares of its ORBCOMM Common Stock at an average selling price of \$5.78 per share, compared to net gains on sale of marketable securities in the comparable quarter of the prior year of \$210,200, resulting from the sale of 200,027 shares of ORBCOMM Common Stock at an average selling price of \$3.96.

Net Income (Loss)

Net income for the quarter ended December 31, 2013 amounted to \$132,100, or \$.03 per share, compared to net loss of (\$185,600), or (\$.04) per share, in the comparable quarter of the prior year for reasons previously discussed.

Comprehensive Income (Loss)

Comprehensive Loss for the current quarter of (\$229,400) represents the unrealized change in market value of the Company's Marketable Securities held at December 31, 2013 compared to the same period of the prior fiscal year. Comprehensive income for the quarter ended December 31, 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 \$403,900; 2) an Unrealized Gain (Loss) on Marketable Securities of \$116,800 resulting from an increase in the market value of the shares held at December 31, 2013 compared to the value at June 30, 2013, and; 3) the net unrealized gain on marketable securities sold during the period of \$57,700. At December 31, 2013 the Company valued 106,180 shares (net of escrow shares) of ORBCOMM, Inc. Common Stock at \$6.34 per share for a total value of \$673,200.

(B) Six months ended December 31, 2013 versus six months ended December 31, 2012

Net Revenues

Net revenues reported for the six months ended December 31, 2013 were \$84,400 compared to \$145,000 for December 31, 2012, a decrease of \$60,600, or 41.8%. Revenues continue to be inconsistent 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, such as for fracking fluid that some 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 six months ended December 31, 2013 were \$155,500 as compared to \$158,400 for the same six month period of the prior year, a minimal decrease 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 for the six months ended December 31, 2013 and 2012 were (84.2%) and (9.2%), respectively. The decline in gross margin when comparing the periods is primarily due to the decreased revenues in the current six month period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended December 31, 2013 (consisting of corporate expenses, AES selling, general and administrative expense, amortization of stock-based compensation and depreciation expense) was \$574,200, a decrease of \$92,100, or 13.8%, compared to \$666,300 reported for the six

months ended December 31, 2012. Corporate expenses for the six month period was \$155,500 and represented a decrease of \$174,800, or 52.9%, compared to corporate expenses of \$330,300 reported for the comparable six months ended December 31, 2012. The decrease resulted primarily from increased allocation of corporate service cost to AES from \$98,000 for the six months ended December 31, 2012 to \$268,750 for the six months ended December 31, 2013 and reflects the increased activity performed by corporate for the AES operation. The decrease in corporate expenses was also due to executive salary reductions which were effective during the current period. AES operating expense was \$418,700 for the six months ended December 31, 2013 as compared to \$267,700 for the same six month period of the prior year, an increase of \$151,000, or 56.4%. The primary reason for the increase is the increased allocation of corporate service cost to AES as described above. In addition, the Deer Creek Water Disposal facility initiated operation during August 2012 resulting in the prior year six months not being a full six months of expense. There was no amortization of stock-based compensation during the current quarter versus \$68,300 for the six months ended December 31, 2012. The decrease is reflective of no new stock options being issued during the current period.

ALANCO TECHNOLOGIES, INC.

Operating Loss

Operating Loss for the six months ended December 31, 2013 was (\$645,300), a decrease of \$34,400, or 5.1%, compared to an Operating Loss of (\$679,700) reported for the same period of the prior year. The decreased operating loss resulted from decreased selling, general and administrative expenses.

Other Income and Expense

Net interest income for the six months ended December 31, 2013 was \$16,100, an improvement of \$4,100, or 34.2%, when compared to interest income of \$12,000 for the same period ended December 31, 2012. The increase in interest income related primarily to an increase in the average outstanding balance of the ACC note receivable.

During the six months ended December 31, 2012, the Company recorded net gains on the sale of its Symbius investment of \$86,800. During the six months ended December 31, 2013, the Company recorded a gain of \$608,700 on the sale of 241,831 shares of its ORBCOMM Common Stock at an average selling price of \$5.43 per share, compared to net gains on sale of marketable securities of \$491,000, resulting from the sale of 602,915 shares of its ORBCOMM Common Stock at an average selling price of \$3.72 per share.

The Company had other income during the quarter ended December 31, 2013 of \$1,300 as compared to other income in the same period of the prior year of \$200. The increase is primarily due to the sale of miscellaneous assets.

Net Loss

Net Loss for the six months ended December 31, 2013 amounted to (\$19,200), or (\$0.00) per share, compared to a net loss of (\$89,700), or (\$.02) per share, in the comparable period of the prior year for reasons previously discussed.

Comprehensive Income (Loss)

Comprehensive loss for the six month period ended December 31, 2013 of \$185,600 represents the unrealized change in market value of the Company's Marketable Securities held compared to the same period of the prior fiscal year. Comprehensive income for the six months ended December 31, 2013 consisted of the net value of three items: 1) the six months ending market value reclassification adjustment for gain included in Net Income (Loss) of \$608,700; 2) an Unrealized Gain on Marketable Securities of \$196,500 resulting from an increase in the market value of the shares held December 31, 2013 compared to the value at June 30, 2013, and; 3) the net unrealized gain on marketable securities sold during the period of \$226,600. At December 31, 2013 the Company valued 106,180 shares (net of escrow shares) of ORBCOMM, Inc. Common Stock at \$6.34 per share for a total value of \$673,200.

Liquidity and Capital Resources

The Company's current assets at December 31, 2013 exceeded current liabilities by \$2,333,500, resulting in a current ratio of 8.8 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 December 31, 2013 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.

ALANCO TECHNOLOGIES, INC.

Accounts receivable of \$62,900 represents the outstanding billings at December 31, 2013 of the AES water disposal operation that initiated operations during August 2012. Other receivables totaling \$22,600 represents billings to ACC for accounting services of \$15,000 and interest of \$7,600.

Cash used in operations for the six month period ended December 31, 2013 was (\$531,300), a decrease of (\$471,000), or 47% compared to the (\$1,002,300) reported for the same period of the prior year. The decrease in net cash used in operations for the six months ended December 31, 2013 was due primarily to decreases in operating losses for the six months ended December 31, 2013 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 six month period ended December 31, 2013 was \$1,232,000, a decrease of \$501,200, or 28.9% compared to the \$1,733,200 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, offset by a reduction in the purchases of land, property, and equipment.

Cash used by financing activities for the six month period ended December 31, 2013 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.

### 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 December 31, 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.



ALANCO TECHNOLOGIES, INC.

(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 December 31, 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 six months ended December 31, 2013, no shares of Company stock were issued.

Item 6. EXHIBITS

- 4.1 Rights Agreement
- 4.2 Rights Agreement  
Exh A - Series C  
Description
- 4.3 Rights Agreement  
Exh B - Form of  
Rights Certificate
- 4.4 Rights Agreement  
Exh C - Summary  
of Rights to  
Purchase Preferred  
Shares
- 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.LABXBRL 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 .  
C a r l s o n  
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 .