ALANCO TECHNOLOGIES INC
Form 10-K
October 07, 2010

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

_ X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2010
Commission file number 0-9347

ALANCO TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

Arizona	86-0220694
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

15575 North 83rd Way, Suite 3, Scottsdale, AZ 85260
(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number: (480) 607-1010

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act

COMMON STOCK
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
___ Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
____ Yes X No

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 for the past 90 days. X 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).

X Yes ____No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X 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):

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company X
(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 X No

State the aggregate market value, based upon the closing price of the Common Stock as quoted on NASDAQ, of the voting stock held by non-affiliates of the registrant: $8,512,000 as of Company's second fiscal quarter ended December 31, 2009.

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

As of September 28, 2010 there were 5,208,300 shares, net of treasury shares, of common stock outstanding.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

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,” “ex 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; reduced demand for information technology equipment; competitive pricing and difficulty managing product costs; development of new technologies which make the Company's products obsolete; rapid industry changes; failure by the Company's suppliers to meet quality or delivery requirements; the inability to attract, hire and retain key personnel; failure of an acquired business to further the Company's strategies; the difficulty of integrating an acquired business; undetected problems in the Company's products; the failure of the Company's intellectual property to be adequately protected; unforeseen litigation; unfavorable result of current pending litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders and to remain in compliance with financial loan covenants and other requirements under current banking agreements; the ability to maintain satisfactory relationships with suppliers; federal and/or state regulatory and legislative actions; customer preferences and spending patterns; 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 Annual Report on Form 10-K.

PART I

ITEM 1. BUSINESS

GENERAL DEVELOPMENT OF BUSINESS

Alanco Technologies, Inc. was incorporated in 1969 under the laws of the State of Arizona. Unless otherwise noted, the "Company" or “Alanco” refers to Alanco Technologies, Inc. and its wholly owned subsidiaries. Alanco (Nasdaq: ALAN) is a provider of advanced information technology solutions with the Company’s operations for fiscal year ended June 30, 2010 divided into three business segments (two of which are classified as discontinued operations) including: (i) RFID Technology – incorporating design, production, marketing and distribution of RFID (Radio Frequency Identification) tracking technology, (ii) Wireless Asset Management – incorporating the design, production, marketing, distribution and monitoring of wireless asset management products, primarily for the transportation industry, and (iii) Data Storage – incorporating the manufacturing, marketing and distribution of data storage products. At June 30, 2009 the Company had classified its Data Storage segment as Assets Held for Sale and during FY 2010 the Company added the RFID Technology segment. At June 30, 2010, the Wireless Asset Management segment was the only segment classified as continuing operations as the RFID Technology segment and the Data Storage segment were classified as Assets Held for Sale. Operating results for both the Data Storage and RFID Technology segments are presented as discontinued operations.

The June 30, 2006 acquisition of StarTrak Systems, LLC ("StarTrak"), a Delaware LLC located in Morris Plains, New Jersey, added Wireless Asset Management, a business segment described as a provider of wireless cellular and GPS tracking and monitoring services, which are offered on a monthly subscription basis to various industry segments. StarTrak's primary focus is the refrigerated or "Reefer" segment of the transport industry, providing the dominant share of all wireless tracking, monitoring and control services to this market segment.

The Company acquired its RFID (Radio Frequency Identification) tracking technology known as the TSI PRISM system in May 2002 through the acquisition of the operations of Technology Systems International, Inc., a Nevada corporation ("TSIN"). The Company entered the data storage market through its acquisition of Excel/Meridian Data, Inc., a manufacturer of attached storage devices and other storage related products for mid-range organizations. Excel/Meridian Data, Inc. was sold in the third fiscal quarter ended March 31, 2010.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

RECENT BUSINESS DEVELOPMENTS

The Company announced on August 26, 2010 that the Board of Directors had elected to effect a 1 for 8 reverse split that was effective on Friday, August 27, 2010, when the Company's common stock began trading on a post split-adjusted basis under the interim trading symbol "ALAND" for a period of 20 days, after which the Company's trading symbol returned to "ALAN". (The Company again began trading under the trading symbol "ALAN" on September 27, 2010.) The Company had previously received authority from its shareholders to effect a reverse split at a ratio within a specified range, if and as determined by the Board of Directors, in order to maintain NASDAQ listing.

As a result of the reverse split, each eight (8) shares of the Company's Class A Common Stock outstanding at the time of the reverse split was automatically reclassified and changed into one share of common stock, and the total number of common shares outstanding were reduced from approximately 41.7 million shares to approximately 5.2 million shares post split. The reverse stock split resulted in the same adjustment to the Company's outstanding stock options and securities reserved for issuance under its current incentive plans. No fractional shares were issued in connection with the reverse stock split. Upon surrender of their stock certificates, shareholders have received, or will receive, cash in lieu of the fractional shares to which they would otherwise be entitled. All per share amounts and outstanding shares, including all common stock equivalents (stock options, warrants and convertible securities) have been restated in the Consolidated Financial Statements, the Notes to the Consolidated Financial Statements and the loss per share for all periods presented to reflect the reverse stock split.

On August 18, 2010, the Company announced the divestiture of Alanco/TSI PRISM, Inc. ("TSI") operations with the sale of assets and business of TSI to Black Creek Integrated Systems Corp., a private company located in Irondale, Alabama. The transaction, which closed on August 17, 2010, consisted of approximately $2 million in cash, and a potential earn-out, not valued in the transaction, that could approach five hundred thousand to one million dollars. With the previously announced (March 19, 2010) sale of the Company's data storage operation, the transaction marks the completion of the Company's asset divestiture program and redeployment of resources to focus upon growth of the Company's StarTrak wireless asset management business. The divestiture program significantly improved Alanco's financial position by reducing secured debt and eliminating the large operating losses associated with the divested businesses.

DESCRIPTION OF CONTINUING OPERATIONS

WIRELESS ASSET MANAGEMENT

The Company's Wireless Asset Management business segment was established by the acquisition, effective June 30, 2006, of StarTrak Systems, LLC ("StarTrak"), a privately held Delaware LLC located in Morris Plains, New Jersey. StarTrak is a leading provider of wireless cellular, satellite and GPS tracking and monitoring services which are offered on a monthly subscription basis to various transportation industry segments. The Company's primary focus is currently the refrigerated or "Reefer" segment of the transport industry. StarTrak provides the dominant share of all wireless tracking, monitoring and control services to this market segment.

Marketing – StarTrak markets its wireless tracking and subscription data services in the United States, both through dealers and the Company's direct sales representatives. The primary focus of the marketing effort has been directed at the domestic refrigerated transport market and the reefer equipment providers. The Company is also expanding international sales opportunities and expects that segment to grow as well.

Raw Materials – The Wireless Asset Management segment utilizes various domestic suppliers for materials, parts and assembly used to manufacture its hardware products and a number of suppliers for its air time purchases, both cellular and satellite, required to provide its data services. For fiscal year ended June 30, 2010, one provider of parts and assembly accounted for 26% of total segment purchases and one vendor who provides satellite air time accounted for 30% of total purchases. During fiscal 2009, one provider of parts and assembly accounted for 21% of total purchases and one vendor who provides satellite air time accounted for 27% of total purchases.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

The Company anticipates the Wireless Asset Management segment will utilize various domestic subcontractors in the future for materials and parts used to manufacture its products; however, certain vendors may represent more than 10% of total purchases. Additional suppliers are generally available at competitive pricing levels and we anticipate concentration of purchases will decrease as new products are introduced and volumes increase. The Company does not foresee any future significant shortages or substantial price increases that cannot be recovered from its customers.

Competitive Conditions - StarTrak is the dominant provider of wireless tracking and monitoring services that offers a subscription program targeted to the refrigerated or “Reefer” segment of the transport industry. There are other companies marketing tracking services to the general transport industry; however, to our knowledge, none have the capability of providing integration with the major manufacturers’ “Reefer” electronic systems that allows for the monitoring of various sensor data for control of such equipment on a real-time basis.

Employees - The Company’s Wireless Asset Management segment employed forty-three full-time and part-time employees as of June 30, 2010 and thirty-six full-time and part-time employees as of June 30, 2009.

Seasonality of Business - Location and tracking products have minimal seasonality. However, many of the products in this segment are marketed to commercial customers that are affected by annual budget schedules and economic conditions. Further, high asset utilization during the summer months can cause some seasonal effects on deployment of units.

Dependence Upon Key Customers – StarTrak has numerous end customers, many of which chose to purchase StarTrak products from two primary OEM refrigerator equipment suppliers. StarTrak is the only vendor currently providing the two OEMs with tracking and monitoring products for the refrigerated or Reefer segment of the transport industry. Additionally, the company delivered product and provided subscription services under a contract with a major customer that amounted to 26.2% and 30.0% of segment revenue for fiscal years ended 2010 and 2009, respectively.

Backlog Orders - The Company operates using order contracts that it considers to be firm. Under this method, the Company had unfulfilled contracts as of June 30, 2010 and 2009 of approximately $9.0 and $8.5 million, respectively.

Research & Development - The Company estimates it incurred approximately $300,000 in research and development expenditures, recorded as selling, general and administrative expenses, in both fiscal years 2010 and 2009.

ITEM 1A. RISK FACTORS

An investment in Alanco involves a high degree of risk. In addition to the other information included in this Form 10-K, you should carefully consider the following risk factors in determining whether or not to purchase shares of Alanco Class A Common Stock. These matters should be considered in conjunction with the other information included or incorporated by reference in this filing. This Form 10-K contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places and include statements regarding the intent, belief or current expectations of our management, directors or officers primarily with respect to our future operating performance. Prospective purchasers of our securities are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The information set out below, identifies important factors that could cause such differences. See “Safe Harbor Statements Under the Private Securities Litigation Reform Act of 1995.”

We may not be able to reach the sales goals anticipated from the StarTrak Systems acquisition. We acquired the operations of StarTrak Systems, LLC ("StarTrak") effective June 30, 2006. StarTrak is a leading provider of wireless tracking and subscription data services to the transportation industry, with a focus upon the refrigerated or "Reefer" segment of the transport industry. StarTrak provides wireless (including GPS, cellular and radio) tracking, monitoring and control services to this market. We are anticipating significant revenue growth from sales of StarTrak products in the transportation market. We do not have experience in the transportation market, and there is no certainty that we will be able to capture the required market share for StarTrak to achieve its anticipated financial success. The StarTrak system is currently being marketed to the transportation market as a tool to increase efficiency and reduce costs of the refrigerated supply chain by wireless monitoring and control of critical Reefer data, including GPS location, cargo temperatures and Reefer fuel levels. Although StarTrak is the dominant provider for tracking, management and control services of the refrigeration transport market and is currently the only tracking system, to the best of our knowledge, which is able to provide direct interaction with the customer allowing for remote adjustments of variables controlled by the unit, there are other tracking/monitoring systems being marketed to the refrigerated transport industry. There is no certainty that the transportation industry will adopt this technology broadly enough for us to reach our marketing projections.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

The loss of key StarTrak personnel would have a negative impact on our StarTrak business and technology development. Our StarTrak technology is reliant on key personnel who developed and understand the technology. We have short-term contracts with some key personnel, but have no assurance that such personnel will remain with the Company on a long-term basis. The loss of the services of those key technology personnel could have an adverse effect on the business, operating results and financial condition of our company.

Worsening general economic conditions may negatively affect our potential customers' ability and willingness to purchase the products sold by our Company. StarTrak relies on a strong economy to support technology spending by our customers. Previous deterioration in general economic conditions resulted in reduced spending by our customers for our products. We have the ability to reduce overhead to assist in offsetting reduced sales volume; however, if the economic conditions were to deteriorate, we could experience a material adverse impact on our business, operating results, and financial conditions.

Acts of domestic terrorism and war have impacted general economic conditions and may impact the industry and our ability to operate profitably. On September 11, 2001, acts of terrorism occurred in New York City and Washington, D.C. On October 7, 2001, the United States launched military actions on Afghanistan, and in 2003 launched military attacks on Iraq with ongoing operations in both areas. As a result of those terrorist acts and military actions, there has been a disruption in general economic activity. There may be other consequences resulting from those acts of terrorism, and any others which may occur in the future, including civil disturbance, war, riot, epidemics, public demonstration, explosion, freight embargoes, governmental action, governmental delay, restraint or inaction, quarantine restrictions, unavailability of capital, equipment, personnel, which we may not be able to anticipate. These terrorist acts and acts of war may continue to impact the economy, and in turn, reduce the demand for our products and services, which would harm our ability to make a profit.

The Company may not have sufficient capital to meet its liquidity needs if we are not able to carry out our fiscal year 2011 operating plan; Uncertainty of proceeds and additional financing. The Company incurred significant losses during fiscal year 2010 and fiscal year 2009 and has experienced significant losses in prior years. Although management cannot assure that future operations will be profitable or that additional debt and/or equity capital will be raised, we believe that, based on our fiscal 2011 operating plan, cash flow and additional funding sources will be adequate to meet our anticipated future requirements for working capital expenditures, scheduled lease payments and scheduled payments of principal and interest on our indebtedness. We will need to materially reduce expenses, or raise additional funds through public or private debt or equity financing, or both, if the revenue and cash flow elements of our 2011 operating plan are not met. If we need to seek additional financing to meet working capital requirements, there can be no assurance that additional financing will be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our business, operating results, financial condition and ability to continue operations will be materially adversely affected.

If we raise additional funds through the sale of stock, our existing Alanco shareholders will experience dilution and may be subject to newly issued senior securities. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then current shareholders of the Company will be reduced, and such equity securities may have rights, preferences or privileges senior to those of the holders of Class A Common Stock.

Our StarTrak intellectual property protection may not be sufficient to maintain the value of such property rights. Our primary business strategy is to develop StarTrak business opportunities. The long-term success of this strategy depends in part upon StarTrak's intellectual property. Although we are not currently aware of any conflicting technology rights that we deem a material issue, third parties may hold United States or foreign patents which may be asserted in the future against StarTrak, and there is no assurance that any license that might be required under such patents could be obtained on commercially reasonable terms, or otherwise. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Our efforts to prohibit others from infringing upon StarTrak's intellectual property may not be adequate. Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, there can be no assurance that we will be successful in doing so or that the steps taken by us in this regard will be adequate to deter infringement, misuse, misappropriation or independent third-party development of our technology or intellectual property rights or to prevent an unauthorized third party from copying or otherwise obtaining and using our products or technology. Litigation may also become necessary to defend or enforce our proprietary rights. Any of such events could have a negative impact on our competitive position in the markets we serve.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

The loss of key corporate or subsidiary executives would have a negative effect on our Company. Our performance is substantially dependent on the services and performance of our executive officers and key employees. The loss of the services of any of our executive officers or key employees could have a material adverse effect on our business, operating results and financial condition due to their extensive industry specific knowledge and comprehensive operating plans for the Company. Our future success will depend on our ability to attract, integrate, motivate and retain qualified technical, sales, operations and managerial personnel. At June 30, 2010, none of our executive officers are bound by an employment agreement, and none are covered by key-man insurance.

Additional competitors to StarTrak may arise that could affect the future projected StarTrak business. Although StarTrak currently is the dominant provider of tracking, management and control services of refrigeration transport Reefer units, it can be expected that if, and to the extent that, the demand for the StarTrak technology increases, the number of competitors will likely increase. Increasing competition could adversely affect the amount of new business we are able to attract, the rates we are able to charge for our services and/or products, or both.

We may not be able to maintain NASDAQ listing if we are unable to keep our stock price above the minimum $1.00 bid price per share. Our Class A Common Stock at June 30, 2010 traded on the NASDAQ Capital Market under the symbol “ALAN.” However, there can be no assurance that an active trading market in our Class A Common Stock will be available at any particular future time.

The Company was notified by NASDAQ on September 15, 2009 that the Company failed to comply with the minimum bid price of $1.00 per share requirement for continued listing as set forth in NASDAQ Marketplace Rule 4310 (c) (4) (the “Rule”). Therefore in accordance with the Rule, the Company was provided 180 calendar days or until March 15, 2010, to regain compliance.

On March 19, 2010, the Company announced that it had received a Staff Determination letter from NASDAQ indicating that the Company had not complied with the minimum bid price requirements for continued listing as set forth in NASDAQ Listing Rule 55509(a)(2) (the “Rule”), and that its securities may be subject to delisting from the NASDAQ Capital Market. Under the Rule, the Company appealed the Staff determination and requested a hearing before the NASDAQ Hearing Panel (the “Panel”). Under NASDAQ Listing Rules, a request for a hearing stays the delisting action pending the issuance of a written determination by the Panel. As a result of the appeal, the NASDAQ Hearing Panel determined the Company was in full compliance with all other NASDAQ continuing listing requirements and granted an extension until September 13, 2010 to regain the minimum NASDAQ bid price requirements of $1.00 per share.

The Company announced on August 26, 2010 that its Board of Directors had elected to effect a 1 for 8 reverse stock split that became effective on Friday, August 27, 2010, when the Company’s common stock began trading on a post split-adjusted basis under the interim trading symbol “ALAND” for a period of 20 days, after which the Company’s trading symbol returned to “ALAN”. The Company had previously received authority from its shareholders to affect a reverse split at a ratio within a specified range to maintain its NASDAQ listing.

On September 15, 2010, the Company announced that it had received notification from NASDAQ that the Company has regained compliance with the minimum $1.00 per share bid price requirement for continued listing, and further, that the Company complies with all other applicable standards for continuing listing of its securities on the NASDAQ Stock Market.

There can be no assurance that the Company’s stock will continue to trade above the minimum NASDAQ $1.00 per share bid requirement, or that the Company will be able to maintain listing requirements in the future, resulting in additional notifications that delisting may occur.

The Company does not anticipate payment of dividends on Common Stock. We do not anticipate that we will pay cash dividends on our Class A Common Stock in the foreseeable future. The payment of dividends by us will depend on our earnings, financial condition, and such other factors, as our Board of Directors may consider relevant. We currently plan to retain earnings to provide for the development of our business.

Our articles of incorporation and Arizona law may have the effect of making it more expensive or more difficult for a third party to acquire, or to acquire control of, us. Our articles of incorporation make it possible for our Board of Directors to issue preferred stock with voting or other rights that could impede the success of any attempt to change control of us. Arizona law prohibits a publicly held Arizona corporation from engaging in certain business combinations with certain persons, who acquire our securities with the intent of engaging in a business combination, unless the proposed transaction is approved in a prescribed manner. This provision has the effect of discouraging transactions not approved by our Board of Directors as required by the statute which may discourage third parties from attempting to acquire us or to acquire control of us even if the attempt would result in a premium over market price for the shares of common stock held by our stockholders.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Certain provisions in our Alanco shareholder rights plan may discourage a takeover attempt. We have implemented a shareholder rights plan which could make an unsolicited takeover of our company more difficult. As a result, shareholders holding a controlling block of shares may be deprived of the opportunity to sell their shares to potential acquirers at a premium over prevailing market prices. This potential inability to obtain a premium could reduce the market price of our common stock.

The market price of Alanco Class A Common Stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- progress of our products through development and marketing;
- announcements of technological innovations or new products by us or our competitors;
- government regulatory action affecting our products or competitors' products in both the United States and foreign countries;
- developments or disputes concerning patent or proprietary rights;
- actual or anticipated fluctuations in our operating results;
- loss of a major lender;
- the loss of key management or technical personnel;
- the loss of major customers or suppliers;
- the outcome of any future litigation;
- changes in our financial estimates by securities analysts;
- general market conditions for emerging growth and technology companies;
- broad market fluctuations;
- recovery from natural disasters; and
- economic conditions in the United States or abroad.

Future sales of Alanco Class A Common Stock in the public market could adversely affect our stock price and our ability to raise funds in new equity offerings. We cannot predict the effect, if any, those future sales of shares of our common stock or the availability for future sale of shares of our common stock or securities convertible into or exercisable for our common stock will have on the market price of our common stock prevailing from time to time. For example, the availability of the shares covered by S-3 registration statements for sale, or of common stock by our existing stockholders under Rule 144, or the perception that such sales could occur, could adversely affect prevailing market prices for our common stock and could materially impair our future ability to raise capital through an offering of equity securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

At June 30, 2010, the Company's corporate office and the ATSI operation were located in an approximate 9,300 square foot leased facility in Scottsdale, Arizona. On May 25, 2010, Alanco/TSI executed an extension of the current lease through July 31, 2011. The extension allowed TSI to defer a portion of the rent and CAM charges currently due and to reduce the square footage by 3,428 square feet to 5,864 effective August 1, 2010. As a result, the monthly base rent, CAM and taxes were reduced effective August 1, 2010 from $14,924 per month to $5,755 per month, excluding any deferred amounts. In addition, TSI shall have the right to terminate the lease after July 31, 2010 in the event that TSI is sold or the technology is licensed to a non-related third party, provided that TSI gives the landlord written notice of its intent to terminate the lease no less than three (3) months prior to the optional termination date.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

Startrak Systems, LLC, is currently occupying approximately 14,000 square feet of an office/manufacturing facility located in Morris Plains, New Jersey. StarTrak signed the new lease in February 2008 and moved into the new facility in November 2008. The lease will expire on October 31, 2018.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings - The Company's subsidiary, StarTrak Systems, has recently been made a defendant concerning certain patent infringement claims as follows:

Arrivalstar S.A, et all. v. StarTrak Systems, LLC, et al. Case No.: 4:10-CV-0033. This action is a patent infringement action venued in the United States District Court for the Northern District of Indiana. StarTrak believes that the plaintiff's patents are invalid due to prior art, based, in part, upon the substantial commercial activity concerning the patent claims long before the patents were applied for or issued. StarTrak is represented in this matter by the firm Holland & Knight, 131 South Dearborn Street, 30th Floor, Chicago, IL 60603.

Innovative Global Systems LLC v. StarTrak Systems, LLC, et al. Case No.: 6:10-CV-00327. This action is another patent infringement action venued in the United States District Court for the Eastern District of Texas. Again, StarTrak believes that the plaintiff's patents are invalid due to prior art, based, in part, upon the substantial commercial activity concerning the patent claims long before the patents were applied for or issued. StarTrak is represented in this matter by the firm Novak Druce & Quigg, LLP, 1000 Louisiana Street, Fifty Third Floor, Houston, Texas 77002.

Both of these lawsuits are quite early in the discovery stage and StarTrak's counsel have not had the opportunity to form an opinion concerning the likely outcome. However, the Company's management believes that the suits are without merit and the Company will vigorously defend itself in the matters.

The Company may also, from time to time, be involved in litigation arising from the normal course of business. As of June 30, 2010 there was no such litigation pending deemed material by the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Shareholders during the fourth quarter of fiscal year ended June 30, 2010.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUERS PURCHASES OF EQUITY SECURITIES

Alanco's common stock is traded on the Nasdaq Capital Market under the symbol "ALAN."

The following table sets forth high and low sale prices adjusted for the reverse stock split for each fiscal quarter for the last two fiscal years. Such quotations represent inter-dealer prices without retail mark-ups, markdowns, or commissions and, accordingly, may not represent actual transactions.

	Fiscal 2010		Fiscal 2009	
Quarter Ended	High	Low	High	Low

September 30	$ 4.58	$ 2.80	$ 11.76	$8.00
December 31	$ 5.12	$ 2.24	$ 8.96	$2.72
March 31	$ 2.96	$ 1.84	$ 5.76	$1.28
June 30	$ 4.72	$ 1.60	$ 10.04	$2.24

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

As of June 30, 2010 and 2009 Alanco had approximately 1,000 holders of record of its Class A Common Stock. This does not include beneficial owners holding shares in street name.

The Company issued a total of 104,500 shares of its Class A Common Stock during fiscal year ended June 30, 2009. Of those shares, 31,400 shares were issued in connection with the exercise of employee stock options and warrants, 32,600 were issued as payment of Series D Preferred Stock dividends, 15,000 shares were issued for the acquisition of certain assets and liabilities of MicroLogic, Inc. and 25,500 shares were issued for services.

During the fiscal year ended June 30, 2010, the Company issued 609,500 shares of its Class A Common Stock, including 376,900 issued for payment on notes, 45,500 as payment of Series D Preferred Stock dividends, 8,700 shares issued for services and 178,400 shares issued in a Private Offering.

Alanco has paid no Common Stock cash dividends and has no current plans to do so. During fiscal year ended June 30, 2010, holders of Series B Convertible Preferred Stock received “paid-in-kind” dividends during fiscal year ended June 30, 2010 of 10,500 shares, valued at $104,000. Holders of Series D Convertible Preferred Stock received, in addition to the 45,500 shares of common stock discussed above, “paid-in-kind” dividends of 17,800 shares valued at $178,500 and holders of Series E Convertible Preferred received $30,700 in cash dividends during fiscal year ended June 30, 2010.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” discusses our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 judgments, including those related to revenue recognition, valuation allowances for inventory and receivables, estimated fair value of stock based compensation, warranty reserves, percentage of completion method of accounting, income and expense recognition, realization of deferred tax assets and investments, and impairment of long-lived and intangible assets. 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 differ from these estimates under different assumptions or conditions.

The SEC suggests that all registrants list their most “critical accounting policies” in Management’s Discussion and Analysis. A critical accounting policy is one which is both important to the portrayal of the Company’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Management has identified the critical accounting policies presented below as those accounting policies that affect its more significant judgments and estimates in the preparation of its consolidated financial statements. The Company’s Audit Committee has reviewed and approved the critical accounting policies identified.

These policies include, but are not limited to, revenue recognition, the carrying value of goodwill and other intangible assets, estimates related to the valuation of inventory and receivables and the ultimate resolution of the current StarTrak litigation that is more fully discussed in Item 3, Legal Proceedings.

Results of Operations

In accordance with accounting principles generally accepted in the United States of America, the Company is reporting revenues for fiscal years ended June 30, 2010 and 2009 from StarTrak Systems, LLC, its Wireless Asset Management segment. The RFID Technology and Data Storage segments, reported as operating segments in prior years, are reported as discontinued operations on the accompanying financial statements.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

The following table is a summary of the results of operations and other financial information by major segment:

	Wireless Asset Management	DISCONTINUED OPERATIONS RFID Technology	Data Storage	Total
Fiscal year 2010				
Sales	$ 14,632,400	$ 829,400	$ 974,100	$ 1,803,500
Cost of Goods Sold	8,664,400	756,300	653,100	1,409,400
Gross Profit	5,968,000	73,100	321,000	394,100
Gross Margin	40.8 %	8.8 %	33.0 %	21.9 %
Selling, General & Administrative	5,779,500	1,574,900	388,600	1,963,500
Corporate Expense	946,300	-	-	-
Impairment charge	-	4,500,000	373,700	4,873,700
Stock based compensation expense	400,300	35,700	3,600	39,300
Depreciation and Amortization	534,900	68,000	18,200	86,200
Total Selling, General & Administrative	7,661,000	6,178,600	784,100	6,962,700
Operating Income (Loss)	$ (1,693,000)	$ (6,105,500)	$ (463,100)	$ (6,568,600)
Fiscal year 2009				
Sales	$ 13,633,600	$ 5,468,400	$ 2,157,100	$ 7,625,500
Cost of Goods Sold	9,686,100	3,540,200	1,571,600	5,111,800
Gross Profit	3,947,500	1,928,200	585,500	2,513,700
Gross Margin	29.0 %	35.3 %	27.1 %	33.0 %
Selling, General & Administrative	5,171,700	1,545,600	947,400	2,493,000
Corporate Expense	915,800	-	-	-
Stock based compensation expense	1,412,400	58,900	9,300	68,200
Depreciation and Amortization	500,400	84,400	20,200	104,600
	8,000,300	1,688,900	976,900	2,665,800
Operating Income (Loss)	$ (4,052,800)	$ 239,300	$ (391,400)	$ (152,100)

Sales

Reported net sales from continuing operations for fiscal year 2010 were $14,632,400, a 7.3% increase when compared to $13,633,600 reported for fiscal year 2009. The sales increase for the year resulted primarily from increased product demand in the refrigerated truck/trailer market and increases in the data services revenue as more units are monitored under monitoring contracts.

Sales for the fourth quarter of fiscal year 2010 amounted to $4,202,500, a 32.4% increase when compared to $3,173,300 reported for the comparable quarter of the prior fiscal year. Although revenues on a quarter to quarter comparison may fluctuate, management believes that increases in hardware sales and monitoring revenues will continue to increase in fiscal year ended June 30, 2011 through new product introductions and increased market penetration.

If the RFID Technology and Data Storage segments had been included in the consolidated operating results, consolidated sales for the year ended June 30, 2010 would have been $16,435,900 compared to $21,259,100 for fiscal year ended June 30, 2009, a decrease of $4,823,200, or 22.7%.

Gross Profit

The Company reported gross profit for fiscal year 2010 of $5,968,000 (40.8% of sales), an increase of $2,020,500 or 51.2%, when compared to $3,947,500 (29.0% of sales) for the prior year. The improvement in gross margin resulted from improved margins in sales for both hardware products and monitoring services. The increase in both gross profit and gross margin was due primarily to reduced warranty costs related to an early version of ReeferTrak product shipments that negatively affected margins, and the completion of low margin hardware sales in the prior year required to convert several major customers from analog to digital products. Gross margin can be impacted by economic conditions and specific market pressures. As a result, the change in gross margin reported for the current period is not considered to be a trend. Management does expect fiscal year gross margins will continue to improve compared to the same periods in the prior year, although the gross margin improvement may not be as significant as was reported for the year ended June 30, 2010.

If the RFID Technology and Data Storage segments had been included in consolidated operating results, consolidated gross profit for the year ended June 30, 2010 would have increased to $6,362,100 (38.7% of sales), a decrease of $99,100, or 1.5%, compared to $6,461,200 that would have been reported for the same period of the prior year.

Selling, General & Administrative Expense

Fiscal year 2010 total Selling, general and administrative (SG&A) expense, including stock based compensation expense and depreciation and amortization decreased to $7,661,000, a decrease of $339,300, or 4.2%, when compared to $8,000,300 reported for fiscal year 2009. The decrease resulted primarily from a decrease in reported stock based compensation from $1,412,400 in fiscal year 2009 to $400,300 in the current fiscal year due to the FYE 2009 election to change certain amortization assumptions ($135,000), change stock option vesting for Company directors and officers ($700,000) and to reprice certain employee stock options ($166,900) for a total cost of approximately $1 million.

SG&A expense, excluding corporate expense, stock based compensation and depreciation and amortization actually increased by $607,800, or 11.8%, to $5,779,500 from $5,171,700 reported for fiscal year ended June 30, 2009 due to increases in sales and marketing, engineering and administrative expenses. Corporate expenses increased to $946,300, an increase of $30,500, or 3.3%, compared to $915,800 reported for fiscal year ended June 30, 2009. Stock based compensation for the year ended June 30, 2010 decreased significantly to $400,300, a decrease of $1,012,100, or 71.7% from $1,412,400 for the year ended June 30, 2009 as discussed above, and depreciation and amortization increased slightly to $534,900, a 6.9% increase from the $500,400 reported in the previous year.

If the discontinued operations had been included in consolidated operating results, total SG&A expenses for the year ended June 30, 2010 would have been $14,623,700, an increase of $3,957,600, or 37.1% when compared to $10,666,100 that would have been reported in fiscal year 2009. The increase resulted from $4,873,700 in impairment charges recorded during the current fiscal year to reduce the value of Assets Held for Sale. Excluding the impairment charges, total SG&A expense for the current fiscal year would have decreased $916,100 from $10,666,100 reported in fiscal year ended June 30, 2009 to $9,750,000 reported in the fiscal year ended June 30, 2010.

Operating Loss

The operating loss for fiscal year ended June 30, 2010 was ($1,693,000), a $2,359,800, or 58%, improvement when compared to the operating loss for the prior fiscal year of ($4,052,800). The significant improvement in operating loss was due primarily to improved gross profit margins on both hardware product sales and monitoring services revenue. If the discontinued operations had been included in the consolidated operating results, consolidated operating loss for the year ended June 30, 2010 would have been ($8,261,600), an increase of ($4,056,700), a 96% increase when compared to the operating loss (including discontinued operations) of ($4,204,900), primarily due to the previously discussed impairment charges of $4,873,700 recorded in fiscal year ended June 30, 2010.

Loss From Continuing Operations

The loss from continuing operations for the fiscal year ended June 30, 2010 was ($2,558,800), a $2,737,600 improvement when compared to the loss from continuing operations of ($5,296,400) reported for fiscal year ended June 30, 2009. The decrease in loss from continuing operations resulted from the improvement in reported operating loss for the current fiscal year discussed above, a decrease in interest expense from $900,700 in fiscal year 2009 to $862,300 in the current fiscal year due to a fiscal year 2009 interest charge of $216,000 related to a prepayment on the ComVest term loan, and the reduction of other expense of $339,400, from ($342,900) in fiscal year 2009 to ($3,500) in the current fiscal year, due to a $345,100 charge recorded during fiscal year 2009 to reduce the estimated value of the Company’s investment in TSIN.

The operations of TSI were acquired in May of 2002 by the issuance of 2.4 million (post October 16, 2006 reverse split) shares of the Company’s Class A Common Stock and the assumptions of certain specific liabilities. In anticipation of the transaction, the Company had acquired approximately 8.9% of the then outstanding shares of TSIN. TSIN had stated it was its intent to liquidate enough shares of the Alanco stock to pay off all TSIN liabilities and to distribute the remaining Alanco shares to the TSIN stockholders. To reflect the 8.9% investment in TSIN subsequent to the acquisition, the Company estimated that approximately 2.25 million shares would be remaining after payment of all TSIN liabilities and that an 8.9% ownership would receive approximately 200,000 shares upon distribution. Therefore, the Company recorded 200,000 treasury shares valued at market price on the transaction date.

On January 30, 2003, a shareholder of TSIN filed suit naming as defendants the Company and its wholly owned subsidiary, ATSI. The complaint set forth various allegations and sought damages arising out of the Company's acquisition of substantially all of the assets of TSIN. Eventually, the lawsuit was transferred to TSIN who became the plaintiff and continued the legal process until September 2007 when the parties to the lawsuit entered into a Settlement Agreement. From 2003 through September 2007, TSIN incurred significant legal expenses associated with the lawsuit, forcing TSIN to sell a significant portion of the Alanco shares held, thereby reducing the number of Alanco shares available to TSIN shareholders upon distribution. To reflect that reduction in investment value of the Company’s 8.9% ownership in TSIN, the Company, during fiscal year ended June 30, 2009, reduced the estimated number of treasury shares to be acquired upon distribution from 200,000 shares to 16,000 shares and recorded a charge to other expenses of $345,100.

Loss From Discontinued Operations

The loss from discontinued operations represents the operating results for the Data Storage and RFID Technology segments which have been classified as Assets Held for Sale. The Data Storage operations were sold in the third quarter ended March 31, 2010 and the RFID Technology segment was sold subsequent to June 30, 2010 in the first quarter of fiscal year ended June 30, 2011. For the fiscal year ended June 30, 2010 the loss from discontinued operations was ($6,568,600) or ($1.53) per share compared to a loss from discontinued operations of ($152,100), or ($.04) per share. $4,873,700, or ($1.13) per share of the increased loss from discontinued operations related to impairment charges recorded in fiscal year ended June 30, 2010.

EBITDAS

The Company believes that (loss) earnings before net interest expense, income taxes, depreciation and amortization of intangible assets and stock-based compensation (EBITDAS), is an important measure used by management to measure performance. EBITDAS may also be used by certain investors to compare and analyze our operating results between accounting periods. However, EBITDAS should not be considered in isolation or as a substitute for net income, cash flows or other financial statement data prepared in accordance with GAAP, or as a measure of our performance or liquidity. EBITDAS for Alanco's fiscal year 2010 represents a loss of ($761,300) compared to a loss of ($2,482,800) for the same period of the prior year. EBITDA before stock-based compensation decreased to ($1,161,600) compared to ($3,895,300) reported in the prior period an improvement of $2,733,700 or 70%. Reconciliation between EBITDAS and Loss From Continuing Operations is presented below:

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

EBITDA RECONCILIATION TO LOSS FROM CONTINUING OPERATIONS

	Fiscal Years Ended June 30, 2010	Fiscal Years Ended June 30, 2009
EBITDA before Stock-based compensation	$ (761,300)	$ (2,482,800)
Stock-based compensation	(400,300)	(1,412,500)
EBITDA	$ (1,161,600)	$ (3,895,300)
Net interest expense	(862,300)	(900,700)
Depreciation and amortization	(534,900)	(500,400)
LOSS FROM CONTINUING OPERATIONS	$ (2,558,800)	$ (5,296,400)

Dividends

Preferred Stock dividends expensed during fiscal year 2010 amounted to $385,300, including preferred stock dividends of $200,000 paid in-kind, $81,000 paid in Class A Common Stock, $17,200 paid by note payable, $30,700 paid in cash and $56,400 accrued but unpaid at June 30, 2010. The $385,300 in preferred dividend expense was a significant decrease compared to Preferred Stock dividends of $478,200 paid in the prior year. The decrease is due to the conversion of approximately $1.7 million of Series D into Notes Payable in November 2009 and therefore the elimination of associated dividends. See Note 12 – Shareholders' Equity for additional discussion of Preferred Stock transactions.

Net Loss Attributable to Common Stockholders

Consolidated net loss attributable to Common stockholders for fiscal year ended June 30, 2010 was ($9,512,700), or ($2.22) per share, an increase of 60.5% when compared to a net loss attributable to Common stockholders of ($5,926,700), or ($1.49) per share, for the prior year.

Any new FASB Accounting Standards Codification updates affecting the Company are disclosed in the "Notes to Consolidated Financial Statements" included under Item 8 to this Form 10-K.

Liquidity and Capital Resources

The Company's current liabilities exceeded its current assets by $3,388,900 at June 30, 2010, representing a current ratio of .67 to 1. At June 30, 2009 the Company's current assets exceeded current liabilities by $5,209,500 and reflected a current ratio of 1.74 to 1. The deterioration in current ratio at June 30, 2010 versus June 30, 2009 resulted from Operating Losses during the twelve-month period, including $4,873,700 in impairment charges, and the recording of all notes payable at June 30, 2010 as current due to the January 1, 2011 maturity date of the line of credit agreement with a balance at June 30, 2010 of $5.7 million with the Anderson Trust. The Company is committed to either retire the balance or extend the due date of the loan.

Net cash used in operating activities for the fiscal year ended June 30, 2010 was ($3,686,700) compared with net cash used in operating activities for the prior fiscal year of ($1,476,500). The increase of ($2,210,200) resulted primarily from an increase in accounts receivable of $190,900 during the current fiscal year (compared to a accounts receivable decrease of $487,600 in the prior period), an increase of $304,400 in inventories in fiscal year 2010 compared to a $1.9 million increase in the prior year and an approximate $1.5 million reduction in accounts payable and accrued liabilities compared to an increase in the prior year of $117,800. See "Liquidity and Capital Resources" below for management's discussion of major items affecting the Consolidated Statement of Cash Flows.

Consolidated accounts receivable at June 30, 2010 of $2,493,900, fifty-five days' sales in receivables, reflects an increase of $190,900, or 8.3%, compared to the $2,303,000, forty days' sales in receivables, reported at the end of fiscal year 2009. The increase in days' sales was reported in all segments.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

The Wireless Asset Management segment reported an Accounts Receivable balance at June 30, 2010 of $2,289,000, or 91.8% of the current fiscal year end consolidated balance, compared to 64.5% of the consolidated balance at the prior fiscal year end. The $2,289,000 June 30, 2010 balance for the Wireless Asset Management segment represented fifty-seven days' sales compared to an accounts receivable balance at June 30, 2009 of $1,484,600, representing forty days' sales. The increase in days' sales resulted from an increase in Accounts Receivable resulting from a 32.4% increase in the fourth quarter sales as compared to the same quarter in the prior fiscal year.

Receivables for the Data Storage segment decreased by $11,500, or 14.1%, and RFID Technology segment decreased by $601,900, or 81.7%. The Data Storage segment accounts receivable balance at June 30, 2010 of $70,000 represented twenty-six days' sales in receivables compared to $81,500 or fourteen days, at fiscal year end 2009. The increase in days' sales in receivables for the Data Storage segment is due to the balance due by the purchaser of the Data Storage segment. Days' sales for the RFID Technology segment, fifty-nine days at June 30, 2010 is higher than the forty-nine days at June 30, 2009 and is primarily due to contract holdback which was received subsequent to year end.

Consolidated inventories at June 30, 2010, excluding inventory presented as "Assets Held for Sale," amounted to $1,222,500, an increase of $132,200, or 9.8%, when compared to $1,354,700 at June 30, 2009. The Wireless Asset Management segment inventory of $1,222,500 at June 30, 2010 represents an inventory turnover of 7.1 as compared to 7.0 for the prior fiscal year end. If the RFID Technology and Data Storage segments were included in consolidated inventories, the inventory at June 30, 2010 would amount to $2,133,400, a decrease of $728,600, or 25.5% as compared to $2,862,000 as of June 30, 2009. The RFID Technology segment inventory decreased to $860,900 at June 30, 2010, a decrease of $119,100, or 12.2% when compared to $980,000 in the prior year. The decrease reflects shipments on contracts in progress during the fiscal year. The Data Storage inventory at June 30, 2010 amounted to $50,000, a decrease of $477,200, or 90.5% when compared to inventory at June 30, 2009 of $527,200. The decrease is reflective of the sale of Data Storage segment assets during the quarter ended March 31, 2010.

Net cash provided from investing activities during the current year was $24,300 compared to net cash used in investing activities in fiscal 2009 of ($325,700), a decrease in net cash used in investing activities of $350,000. The current year decrease was due primarily to leasehold improvements, equipment and furniture and fixtures purchased for the new StarTrak office/production facilities in Morris Plains, NJ during the fiscal year 2009.

Net cash provided by financing activities during fiscal year ended June 30, 2010 amounted to $3,649,400, an increase of $2,160,800 compared to $1,488,600 for the fiscal year ended June 30, 2009. During fiscal year 2010, the Company raised over $3.1 million through the sale of preferred stock, an increase of $1,346,900 compared to approximate $1.8 million in net proceeds from the sale of preferred stock during the fiscal year ended June 30, 2009. In addition, during fiscal 2010 the Company increased its borrowings, net of repayments, by $264,400 compared to 2009 when the Company's repayments, net of borrowing, amounted to $377,700, resulting in a total change in Net cash provided by financing activities of $642,100.

At June 30, 2010, the Company had a $5.7 million line of credit balance under a $5.7 million line of credit agreement with a private trust controlled by Mr. Donald Anderson, owner of approximately 8.6% of the Company's Class A Common Stock and a member of the Company's Board of Directors, that was last amended in November 2009. Under the amended agreement, which matures on January 1, 2011, the Company must maintain a minimum outstanding balance under the line of $2.5 million and pay interest at prime plus 3% (6.25% at June 30, 2010) on the outstanding balance up to $2 million and 12% on any balance in excess of $2 million. Under the Agreement, the lender has the unilateral right to reduce the line of credit to any amounts equal to or in excess of $1,500,000 upon ninety (90) days written notice to the Company. The credit limit under the Agreement shall be reduced to $4.7 million upon the sale by the Company of any material portion of its assets. In addition, $1,000,000 of the outstanding balance is convertible into Class A Common Stock of the Company at a price of $10.00 per share. Interest payments made under the Agreement amount to $439,200 and $220,800 in fiscal years ended June 30, 2010 and 2009, respectively. The Anderson Trust was also paid $18,700 in interest under a separate $500,000 note payable that was transferred to the line of credit agreement during the year. The Company is committed to either retire the balance or extend the due date of the loan. See Note 7 - Line of Credit and Notes Payable to the consolidated financial statements for additional discussion on the line of credit agreement.

Although management cannot assure that future operations will achieve projections, or that additional debt and/or equity will not be required, we believe our cash balances at year end, operating projections, and working capital that we plan on raising during the year, may provide adequate capital resources to maintain operations for the next year. If additional working capital is required during fiscal 2011 and not obtained through additional long-term debt, equity capital or operations, it could adversely affect future operations. Management has historically been successful in obtaining financing and has demonstrated the ability to implement a number of cost-cutting initiatives to reduce working capital needs. Accordingly, the accompanying consolidated financial statements have been prepared assuming the Company will continue to operate and do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. As a result, the Company's independent registered public accounting firm has included an explanatory paragraph in their audit opinion on the consolidated financial statements of the Company for the fiscal year ended June 30, 2010 discussing the substantial doubt of the Company's ability to continue as a going concern.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Product and Environmental Contingencies

The Company is not aware of any material liabilities, either product or environmental related.

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Consolidated Financial Statements.
Index to Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Alanco Technologies, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Alanco Technologies, Inc. and Subsidiaries as of June 30, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alanco Technologies, Inc. and Subsidiaries as of June 30, 2010 and 2009 and the results of its operations, changes in shareholders' equity, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has suffered recurring losses from operations, anticipates additional losses in the next year, and has insufficient working capital as of June 30, 2010 to fund the anticipated losses. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Semple, Marchal & Cooper, LLP
Certified Public Accountants

Phoenix, Arizona
October 6, 2010

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30,

ASSETS		2010		2009
CURRENT ASSETS				
Cash and cash equivalents	$	400,500	$	413,500
Accounts receivable, net		2,493,900		2,303,000
Inventories, net		1,222,500		1,354,800
Assets held for sale		1,971,000		7,574,100
Prepaid expenses and other current assets		654,700		631,100
Total current assets		6,742,600		12,276,500
PROPERTY, PLANT AND EQUIPMENT, NET		233,800		320,900
OTHER ASSETS				
Goodwill		12,575,400		12,575,400
Other intangible assets, net		770,200		1,201,100
Other assets		174,200		344,900
Total other assets		13,519,800		14,121,400
TOTAL ASSETS	$	20,496,200	$	26,718,800
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	1,917,100	$	2,539,300
Dividends payable		56,400		106,500
Notes payable, current		6,328,000		1,716,500
Capital leases, current		18,100		15,100
Customer advances		4,500		192,900
Liabilities related to assets held for sale		1,498,100		2,248,400
Deferred revenue, current		309,300		248,300
Total current liabilities		10,131,500		7,067,000
LONG-TERM LIABILITIES				
Notes payable, long-term		-		3,394,700
Deferred reveue, long-term		375,500		256,000
Capital leases, long-term		5,000		23,200
TOTAL LIABILITIES		10,512,000		10,740,900
Preferred Stock - Series B Convertible - 500,000 shares authorized, 111,200 and 100,700 issued and outstanding, respectively		1,098,500		994,500
SHAREHOLDERS' EQUITY				
Preferred Stock				

Preferred Stock - Series D Convertible, 500,000 shares authorized 134,200 and 285,500 issued and outstanding, respectively		1,333,800		2,847,700
Preferred Stock - Series E Convertible - 750,000 shares authorized, 735,000 and 15,000 shares issued and outstanding at June 30, 2010 and 2009, respectively		3,210,900		67,500
Common Stock				
Class A - 75,000,000 shares authorized, 4,665,500 and 4,056,000 shares, net of 2,000 treasury shares at a cost of $30,000, outstanding at June 30, 2010 and 2009, respectively.		107,355,700		105,570,200
Class B - 25,000,000 shares authorized and 0 shares issued and outstanding		-		-
Accumulated deficit		(103,014,700)		(93,502,000)
Total shareholders' equity		8,885,700		14,983,400
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$	20,496,200	$	26,718,800

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED JUNE 30,

		2010		2009
NET SALES	$	14,632,400	$	13,633,600
Cost of goods sold		8,664,400		9,686,100
GROSS PROFIT		5,968,000		3,947,500
Selling, general and administrative expenses		5,779,500		5,171,700
Corporate expense		946,300		915,800
Amortization of stock-based compensation		400,300		1,412,400
Depreciation and amortization		534,900		500,400
OPERATING LOSS		(1,693,000)		(4,052,800)
OTHER INCOME & EXPENSES				
Interest expense, net		(862,300)		(900,700)
Other income (expense), net		(3,500)		(342,900)
LOSS FROM CONTINUING OPERATIONS		(2,558,800)		(5,296,400)
DISCONTINUED OPERATIONS				
Impairment charge		(4,873,700)		-
Loss from discontinued operations		(1,694,900)		(152,100)
LOSS FROM DISCONTINUED OPERATIONS		(6,568,600)		(152,100)
NET LOSS		(9,127,400)		(5,448,500)
Preferred stock dividends		(385,300)		(478,200)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$	(9,512,700)	$	(5,926,700)
NET LOSS PER SHARE - BASIC AND DILUTED				
Continuing operations	$	(0.60)	$	(1.33)
Discontinued operations	$	(1.53)	$	(0.04)
Preferred stock dividends	$	(0.09)	$	(0.12)
Net loss attributable to common stockholders	$	(2.22)	$	(1.49)
		4,295,100		3,973,700

WEIGHTED AVERAGE COMMON
SHARES OUTSTANDING

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	COMMON STOCK		TREASURY STOCK		CONVERTIBLE PREFERRED STOCK SERIES D		CONVERTIBLE PREFERRED STOCK SERIES E		ACCUMULA
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	DEFICIT
Balances, June 30, 2008	3,953,500	$103,588,100	25,000	$(375,100)	100,000	$997,100	-	$ -	$(85,575,300
Options and warrants exercised	31,400	257,200	-	-	-	-	-	-	-
Shares issued for services	25,500	85,300	-	-	-	-	15,000	67,500	-
Shares issued for acquisition	15,000	78,700	-	-	-	-	-	-	-
Private Offerings, net	-	-	-	-	180,000	1,795,200	-	-	-
Value of stock based compensation	-	1,480,600	-	-	-	-	-	-	-
Value of warrants issued for loan fees	-	62,400	-	-	-	-	-	-	-
Reduce value of treasury shares	-	-	(23,000)	345,100	-	-	-	-	-
Preferred Dividends, paid in kind	-	-	-	-	5,500	55,400	-	-	(149,500
Preferred Dividend, Series D, paid in Common Stock	32,600	97,200	-	-	-	-	-	-	(97,200
Preferred Dividends, Series D, cash	-	-	-	-	-	-	-	-	(125,000

Preferred Dividends, Series D, accrued at June 30, 2009	-	-	-	-	-	-	-	-	(106,500
NASDAQ listing of additional shares fee	-	(49,300	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	(5,448,500
Balances, June 30, 2009	4,058,000	$105,600,200	2,000	$(30,000)	285,500	$2,847,700	15,000	$67,500	$(93,502,000)
Shares issued for services	8,700	25,700	-	-	-	-	-	-	-
Shares isued for payment on notes	376,900	937,300	-	-	-	-	-	-	-
Private Offerings, net	178,400	301,600	-	-	-	(1,300)	720,000	3,143,400	-
Value of stock based compensation	-	439,500	-	-	-	-	-	-	-
Preferred Dividend, paid as indicated	45,500	122,100	-	-	17,800	178,500	-	-	-
Series B preferred dividends, paid in kind	-	-	-	-	-	-	-	-	(104,000
Series D preferred dividend, paid or accrued	-	-	-	-	-	-	-	-	(210,900
Series E preferred dividends, paid or accrued	-	-	-	-	-	-	-	-	(70,400
Series D preferred stock, converted to debt	-	-	-	-	(169,100)	(1,691,100)	-	-	-
NASDAQ listing of additional shares fee	-	(40,700	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	(9,127,400

Balances, June 30, 2010	4,667,500	$107,385,700	2,000	$(30,000)	134,200	$1,333,800	735,000	$ 3,210,900	$(103,014,70

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,

		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss	$	(9,127,400)	$	(5,448,500)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		620,700		605,000
Stock and warrants issued for services		25,700		152,800
Stock-based compensation		439,500		1,480,600
Treasury share adjustment related to TSIN acquisition		-		345,100
Impairment charge		4,873,700		-
Notes payable/receivable write-off associated with TSIN		-		(284,500)
Interest converted to equity		62,500		-
Fees and interest paid with debt		108,100		-
Changes in operating assets and liabilities:				
Accounts receivable, net		(190,900)		487,600
Inventories, net		304,400		1,929,000
Prepaid expenses and other current assets		2,500		(570,100)
Accounts payable and accrued expenses		(1,497,900)		117,800
Deferred revenue		7,400		(108,700)
Costs and estimated earnings in excess of billings on uncompleted contracts		77,300		(172,500)
Billings in excess of costs and estimated earnings on uncompleted contracts		(146,800)		(422,400)
Customer advances		561,600		139,600
Other assets		192,900		272,700
Net cash used in continuing operations		(3,686,700)		(1,476,500)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(37,200)		(313,000)
Cash received for sale of net data storage assets		61,500		-
Patent renewal and other		-		(12,500)
Net cash provided by (used in) investing activities		24,300		(325,500)

CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	800,800	1,250,000
Repayment on borrowings	(536,400)	(1,627,700)
Repayment on capital leases	(15,200)	(11,700)
Net proceeds from sale of preferred stock	3,142,100	1,795,200
Cash dividends paid	(18,500)	(125,100)
Net proceeds from sale of common stock	276,600	207,900