ALANCO TECHNOLOGIES INC
Form 10QSB
February 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

Quarterly Report Under Section 13 or 15(d) of
The Securities and Exchange Act of 1934

For the quarter ended . . . . December 31, 2002
Commission file number. 0-9347

ALANCO TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

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

15575 N. 83rd Way, Suite 3, Scottsdale, Arizona 85260
Address of principal executive offices) (Zip Code)

(408) 607-1010
(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

YES XX NO

As of February 12, 2003 there were 20,059,100 shares of common stock outstanding.

Forward-Looking Statements: Some of the statements in this Form 10-QSB Quarterly Report, as well as statements by the Company in periodic press releases, oral statements made by the Company's officials to analysts and shareholders in the course of presentations about the Company, constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words or phrases denoting the anticipated results of future events such as "anticipate," "believe," "estimate," "will likely," "are expected to," "will continue," "project," "trends" and similar expressions that denote uncertainty are intended to identify such forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among other things, (i) general economic and business conditions; (ii) changes in industries in which the Company does business; (iii) the loss of market share and increased competition in certain markets; (iv) governmental regulation including environmental laws; and (v) other factors over which the company has little or no control.

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ALANCO TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF

ASSETS

	Dec 31, 2002	June 30, 2002
CURRENT ASSETS	(unaudited)	
Cash	$ 238,900	$ 328,400
Accounts receivable, net	823,700	781,500
Costs and estimated earnings in excess of billings on uncompleted contracts	825,200	--
Inventories, net	1,324,200	1,256,400
Prepaid expenses and other	224,300	79,000

Total current assets	3,436,300	2,445,300
PROPERTY, PLANT AND EQUIPMENT, NET	431,300	500,100
OTHER ASSETS		
Goodwill, net	5,349,100	5,318,400
Patents, manufacturing and software development, net	1,021,700	1,131,700
Long-term notes receivable, net	190,900	194,200
Net assets held for sale	253,900	272,600
Total other assets	6,815,600	6,916,900
TOTAL ASSETS	$ 10,683,200	$ 9,862,300
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable and accruals	$ 2,239,400	$ 1,356,400
Credit line	500,000	500,000
Notes payable and capital leases, current	10,800	101,900
Billings and estimated earnings in excess of costs on uncompleted contracts	--	54,100
Deferred revenue, current	66,200	15,600
Total Current Liabilities	2,816,400	2,028,000
LONG TERM LIABILITIES		
Notes payable and capital leases, long term	705,100	1,205,100
Deferred revenue, long term	35,000	85,600
Total Long Term Liabilities	740,100	1,290,700
TOTAL LIABILITIES	3,556,500	3,318,700
Preferred Stock, 53,200 and 50,600 shares issued and outstanding, respectively	518,200	493,600
SHAREHOLDERS' EQUITY		
Common Stock, 20,559,100 and 17,515,600 shares issued and 20,059,100 and 17,015,600 shares outstanding, respectively	64,808,900	63,386,700
Treasury Stock, 500,000 shares at cost	(375,100)	(375,100)
Accumulated deficit	(57,825,300)	(56,961,600)
Total shareholders' equity	6,608,500	6,050,000
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	$ 10,683,200	$ 9,862,300

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS(Unaudited)
FOR THE THREE MONTHS ENDED DECEMBER 31,

	2002	2001
NET REVENUES	$ 2,915,600	$ 1,475,400
Cost of goods sold	1,889,800	938,800
GROSS PROFIT	1,025,800	536,600
Selling, general and administrative expense	1,377,600	1,341,100
OPERATING LOSS	(351,800)	(804,500)
OTHER INCOME & EXPENSES		
Interest expense, net	(26,700)	(12,900)
Other income, net	300	--
LOSS FROM CONTINUING OPERATIONS	(378,200)	(817,400)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(1,600)	12,000
LOSS FROM OPERATIONS	(379,800)	(805,400)
Preferred stock dividend	(12,000)	--
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (391,800)	$ (805,400)
LOSS PER SHARE - BASIC AND DILUTED		
- Continuing operations attributable to common shareholders	$ (0.02)	$ (0.09)
- Discontinued operations	$ (0.00)	$ 0.00
- Net loss	$ (0.02)	$ (0.09)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	17,605,500	8,738,700

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
FOR THE SIX MONTHS ENDED DECEMBER 31,

	2002	2001
NET REVENUES	$ 5,307,200	$ 3,614,000

Cost of goods sold	3,387,300	2,186,200
GROSS PROFIT	1,919,900	1,427,800
Selling, general and administrative expense	2,711,300	2,614,700
OPERATING LOSS	(791,400)	(1,186,900)
OTHER INCOME & EXPENSES		
Interest expense, net	(53,700)	(20,700)
Other income (expense), net	(1,500)	10,400
LOSS FROM CONTINUING OPERATIONS	(846,600)	(1,197,200)
INCOME FROM DISCONTINUED OPERATIONS	7,500	10,600
LOSS FROM OPERATIONS	(839,100)	(1,186,600)
Preferred stock dividend	(24,600)	--
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (863,700)	$ (1,186,600)
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED		
- Continuing operations attributable to common shareholders	$ (0.05)	$ (0.14)
- Discontinued operations	$ 0.00	$ 0.00
- Net loss	$ (0.05)	$ (0.14)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	17,319,200	8,738,733

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
FOR THE SIX MONTHS ENDED DECEMBER 31,

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (839,100)	$(1,186,600)
Income from discontinued operations	(7,500)	(10,600)
Net loss from continuing operations	(846,600)	(1,197,200)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	219,900	131,500
Stock and warrants issued for services	27,200	26,000
Other	--	2,900

Changes in:		
Accounts receivable,net	(42,200)	455,300
Costs and estimated earnings in excess of billings on uncompleted contracts	(825,200)	--
Inventories, net	(67,800)	(28,800)
Prepaid expenses and other current assets	(145,300)	(34,300)
Accounts payable and accrued expenses	883,000	542,600
Billings and estimated earnings in excess of costs on uncompleted contracts	(54,100)	--
Net cash used in continuing operations	(851,100)	(102,000)
Net cash from discontinued operations	26,200	20,300
Net cash used in operating activities	(824,900)	(81,700)
CASH FLOWS FROM INVESTING ACTIVITIES		
Collection of notes receivable	3,300	358,900
Purchase of property, plant and equipment	(41,100)	(122,200)
Goodwill, acquisition	(30,700)	(162,700)
Purchase of treasury stock	--	(24,000)
Net cash provided by (used in) investing activities	(68,500)	50,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on borrowings	1,366,000	1,215,000
Repayment on borrowings	(1,957,100)	(1,075,300)
Proceeds from sale of common stock, net	1,395,000	559,000
Net cash provided by (used in) financing activities	803,900	698,700
NET INCREASE (DECREASE) IN CASH	(89,500)	667,000
CASH AND CASH EQUIVALENTS, beginning of period	328,400	81,000
CASH AND CASH EQUIVALENTS, end of period	$ 238,900	$ 748,000

See accompanying notes to the consolidated financial statements

ALANCO TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED DECEMBER 31, 2002

Note A - Basis of Presentation

Alanco Technologies, Inc., an Arizona corporation ("Alanco" or "Company"), operates in two business segments: Data Storage Segment and RFID Tracking Segment.

The unaudited condensed consolidated balance sheet as of December 31, 2002 and the related unaudited condensed consolidated statements of operations for the three and six month periods ended December 31, 2002 and 2001, and unaudited condensed cash flows for the six months ended December 31, 2002 and 2001 presented herein have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and in accordance with the instructions to Form 10-QSB. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. In our opinion, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of such condensed consolidated financial statements. Such necessary adjustments consisted of normal recurring items and the elimination of all significant intercompany balances, transactions and stock holdings.

These interim condensed consolidated financial statements should be read in conjunction with the Company's June 30, 2002, Annual Report on Form 10-KSB. Interim results are not necessarily indicative of results for a full year.

Certain reclassifications have been made to conform prior period financials to the presentation in the current reporting period. The reclassifications had no effect on net loss.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Note B - Inventories

Inventories have been recorded at the lower of cost or market. The composition of inventories as of December 31, 2002, and June 30, 2002, are summarized as follows:

	Dec 31, 2002	June 30, 2002
	(unaudited)	
Finished goods	$ 665,300	$ 613,300
Work-in-process	321,400	111,400
Raw material	511,000	705,200
Total	1,497,700	1,429,900
Less - reserve for obsolescence	(173,500)	(173,500)
	$ 1,324,200	$ 1,256,400

Note C - Contracts In Process

Costs incurred, estimated earnings and billings in the RFID segment, related to contracts for the installation of TSI PRISM (TM) systems in process at December 31, 2002 and June 30, 2002 consist of the following:

	Dec 31, 2002	June 30, 2002

	(unaudited)	
Costs incurred on uncompleted contracts	$ 1,866,800	$ 147,700
Estimated gross profit earned to date	910,900	48,200
Revenue earned to date	2,777,700	195,900
Less: Billings to date	(1,952,500)	(250,000)
Costs and estimated earnings in excess of billings (billings in excess of costs and estimated earnings)	$ 825,200	$ (54,100)

Note D - Deferred Revenue

Deferred Revenues at December 31, 2002 and June 30, 2002 consist of the following:

	Dec 31, 2002	June 30, 2002
	(unaudited)	
Extended warranty revenue	$ 101,200	$ 101,200
Less - current portion	(66,200)	(15,600)
Deferred revenue - long term	$ 35,000	$ 85,600

Note E - Loss Per Share

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

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options and warrants that are freely exercisable into common stock at less than the prevailing market price. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share.

Note F - Sale of Common Shares

During the quarter ended December 31, 2002, the company raised a total of $1,500,000 from accredited investors through the sale of units consisting of two shares of Class A common stock and a warrant to purchase one Class A common share. The units were sold at a price of $1.00 per unit. Expenses related to the stock issuance amounted to $105,000 resulting in net proceeds received during the quarter from the sale of common stock of $1,395,000. The Company issued, with respect to the fund raising, three- year warrants to purchase 1,500,000 shares of the Company's common stock with a strike price of $1.00 per share.

Note G - Industry Segment Data

Information concerning operations by industry segment follows (unaudited):

	Six Months Ended December 31,		Three Months Ended December 31,	
	2002	2001	2002	2001
Revenue				

Data Storage	$ 2,092,400	$ 3,614,000	$ 1,183,300	$ 1,475,400
RFID Technology	3,214,800	--	1,732,300	--
Total	5,307,200	3,614,000	2,915,600	1,475,400
Gross Profit				
Data Storage	894,500	1,427,800	494,600	536,600
RFID Tchnology	1,025,400	--	531,200	--
Total	1,919,900	1,427,800	1,025,800	536,600
Operating Loss				
Data Storage	(221,100)	(833,800)	(52,000)	(644,900)
RFID Technology	(111,900)	--	(68,500)	--
Total	(333,000)	(833,800)	(120,500)	(644,900)
Corporate Expense	(458,400)	(342,700)	(231,400)	(159,500)
Interest Expense, Net	(53,800)	(20,700)	(26,700)	(12,900)
Other	6,100	10,600	(1,200)	11,900
Total Loss from Operations	$ (839,100)	$(1,186,600)	$ (379,800)	$ (805,400)
Depreciation and Amortization				
Data Storage	64,100	122,100	27,900	62,200
RFID Technology	151,000	--	76,400	--
Corporate	4,800	8,400	2,100	4,200
Total	$ 219,900	$ 130,500	$ 106,400	$ 66,400

Note H - Litigation

The only material litigation in which the Company is a party to is a derivative suit, filed on January 30, 2003, by Richard C. Jones on behalf of Technology Systems International, Inc., a Nevada corporation ("TSIN") versus the Company, its wholly owned subsidiary, Technology Systems International, Inc., an Arizona corporation ("TSIA"), and all of the directors of TSIN. The venue for the action is the Arizona Superior Court in and for Maricopa County, Arizona, as case number CV2003-001937. The complaint sets forth various allegations and seeks equitable remedies and damages arising out of the Company's acquisition of substantially all of the assets of TSIN. As stated in previous periodic reports filed by the Company with the SEC concerning this matter, the Company's management, in consultatation with legal counsel, believes the plaintiff's claims are without merit and the Company will aggressively defend the action.

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

Except for historical information, the statements contained herein are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. All such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements. These risks and uncertainties include, but are not limited to, the following factors: general economic and market conditions; reduced demand for information technology equipment; competitive pricing and difficulty managing product costs; development of new technologies which make the Company's products obsolete; rapid industry changes; failure by the Company's suppliers to meet quality or delivery requirements; the inability to attract, hire and retain key personnel; failure of an acquired business to further the Company's strategies; the difficulty of integrating an acquired business; undetected problems in the Company's products; the failure of the Company's intellectual property to be adequately protected; unforeseen litigation; the ability to maintain sufficient liquidity in order to support operations; the ability to maintain satisfactory relationships with lenders and to remain in compliance with financial loan covenants and other requirements under current banking agreements; and the ability to maintain satisfactory relationships with suppliers and customers.

General

Information on industry segments is incorporated by reference from Note G to the Condensed Consolidated Financial Statements.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. On an ongoing basis, estimates are revalued, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. These areas include allowances for doubtful accounts, inventory valuations, estimated profit on uncompleted RFID contracts in process, income and expense recognition, income taxes and commitments and contingencies. Our estimates are based upon historical experience, observance of trends in particular areas, information and/or

valuations available from outside sources and on various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual amounts may differ from these estimates under different assumptions and conditions.

Accounting policies are considered critical when they are significant and involve difficult, subjective or complex judgments or estimates. We considered the following to be critical accounting policies:

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

Revenue recognition - The Company recognizes revenue from the Data Storage Segment, net of anticipated returns, at the time products are shipped to customers, or at the time services are provided. Revenue from material long-term contracts (in excess of $250,000 and over a 90-day completion period) in both the Data Storage Segment and the RFID Tracking Segment are recognized on the percentage-of-completion method for individual contracts, commencing when significant costs are incurred and adequate estimates are verified for substantial portions of the contract to where experience is sufficient to estimate final results with reasonable accuracy. Revenues are recognized in the ratio that costs incurred bear to total estimated costs. Changes in job performance, estimated profitability and final contract settlements would result in revisions to cost and income, and are recognized in the period in which the revisions were determined. Contract costs include all direct materials, subcontracts, labor costs and those direct and indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

Long-lived assets and intangible assets - We review carrying values at least annually or whenever events or circumstances indicate the carrying values may not be recoverable through projected discounted cash flows.

Results of Operations

(A) Three months ended 12/31/2002 versus 12/31/2001

Consolidated revenue for the quarter ended December 31, 2002 was $2,915,600 compared to $1,475,400 for the comparable quarter of the previous year, an increase of $1,440,200, or 97.6%. The increase in revenue is attributed to the acquisition of the RFID tracking technology, effective June 1, 2002, a new business segment for the Company that reported revenues during the quarter of $1,732,300. Excluding the RFID Tracking Segment, revenue for the Data Storage Segment decreased $292,100, or 19.8%, to $1,183,300, compared to $1,475,400 for the comparable quarter of the prior year. The decrease in Data Storage Segment revenues resulted from the closure of the Company's SanOne SAN (Storage Area Network) operation and reduced demand for data storage products in the remaining data storage operations.

Loss from Operations for the quarter was $379,800, compared to a loss of $805,400 for the same quarter of the prior year. The decrease in Loss from Operations was due to significant improvement in the Data Storage segment operations, offset by losses in the RFID Tracking Segment, increases in interest expense and increases in corporate expenses. During the quarter the Company issued a preferred stock dividend of $12,000, resulting in the Net Loss Attributable to Common Stockholders of $391,800, or $.02 per share, compared to $805,400, or $.09 per share, in the comparable quarter. Although the Company has initiated cost control measures that have significantly impacted the current quarter, the operating results have continued to be affected by unfavorable economic conditions and reduced capital spending that have adversely affected

Alanco's business in recent quarters. If the economic conditions in the United States worsen or if a wider or global economic slowdown occurs, Alanco may experience a material adverse impact on its operating results and business conditions.

Operating results for the quarter reflected loss from discontinued operations of $1,600, compared to income from discontinued operations of $ 12,000 for the comparable quarter in 2001.

Selling, general and administrative expenses for the current quarter increased to $1,377,600, compared to $1,341,100 incurred in the comparable quarter of 2001. The increase was attributable to the additional selling, general and administrative expenses of the new RFID Tracking Segment operations, offset by reduction of sales commissions and the elimination of selling, general and administrative costs associated with the SanOne SAN subsidiary that had ceased operation during the prior year quarter.

(B) Six months ended 12/31/2002 versus 12/31/2001

Consolidated revenue for the six months ended December 31, 2002 was $5,307,200, compared to $3,614,000 for the comparable six-month period of the previous year, an increase of $1,693,200, or 46.9%. The increase in revenue is attributed to the acquisition of the RFID tracking technology, effective June 1, 2002, a new business segment for the Company that reported revenues during the period of $3,214,800. Excluding the RFID Tracking Segment, revenue for the Data Storage Segment decreased to $2,092,400, compared to $3,614,000 for the comparable six month period, a decrease of $1,521,600, or 42.1%. The decrease in Data Storage Segment revenues resulted from the closure of the Company's SanOne SAN (Storage Area Network) operation and reduced demand for data storage products in the remaining data storage operations.

The Loss from Operations for the six-month period was $839,100, compared to a loss of $1,186,600 for the same period of the prior year. The decrease in loss from Operations was due to significant reductions in losses related to the Data Storage segment, offset by losses in the RFID Tracking Segment, increases in interest expense and increases in corporate expenses. During the period the Company issued a preferred stock dividend of $24,600, resulting in the Net Loss Attributable to Common Stockholders of $863,700, or $.05 per share, compared to $1,186,600, or $.14 per share, in the comparable period.

Operating results for the period reflected income from discontinued operations of $7,500, compared to income from discontinued operations of $10,600 for the comparable period in 2001.

Selling, general and administrative expenses for the six month period increased to $2,711,300, compared to $2,614,700 incurred in the comparable quarter of 2001. The increase was attributable primarily to the additional selling, general and administrative expenses of the new RFID Tracking Segment operations, offset by reduction of sales commissions and the elimination of selling, general and administrative costs associated with the SanOne SAN subsidiary that had ceased operations during the prior year period.

Liquidity and Capital Resources

The Company's current assets at December 31, 2002 exceeded current liabilities by $619,900, or a current ratio of 1.22 to 1, compared to a current ratio of 1.21 to 1 at fiscal year end June 30, 2002. Accounts receivable of $823,700 at December 31, 2002, reflects an increase of $42,200, or 5.4% from the $781,500 reported as consolidated accounts receivables at the end of fiscal year 2002. The Data Storage Segment accounts receivable balance of $650,700 at December 31, 2002 represented forty days' sales in receivables compared to forty-one days' sales at June 30, 2002.

Costs and estimated earnings in excess of billings on uncompleted contracts at December 31, 2002 increased to $825,200 from a $54,100 credit balance classified at June 30, 2002 as billings in excess of costs and estimated earnings. The increase resulted from billing deferrals on current contracts attributable to contract change orders that delayed required trenching and cold weather encountered at the installation site. The billing deferrals were also the result of delays in delivery of required electronic components. The problems have been resolved and the contracts are anticipated to be completed in the current quarter ending March 31, 2003.

Consolidated inventories at December 31, 2002 amounted to $1,324,200, compared to $1,256,400 at June 30, 2002. The increase resulted from increases in inventories required for existing contracts for the RFID Tracking Segment that reported $354,400 in inventory at December 31, 2002, compared to $257,200 at fiscal year end. The decrease in Data Storage Segment inventory was not proportionate with the decrease in Data Storage Segment sales and reflects the segment's inability to proportionately reduce inventory balance during the year as revenues decreased from prior levels.

The Company has a $1.3 million formula-based revolving bank line of credit agreement with interest calculated at prime plus 4%. The line of credit agreement formula is based upon current asset values and is used to finance working capital. At December 31, 2002, the Company had drawn $500,000 under the line of credit, which expires December 31, 2003. Under the line of credit agreement, the Company must maintain a minimum balance due of at least $500,000 through December 31, 2003. Due to the $500,000 balance requirement and the December 2003 expiration date, the $500,000 minimum balance is presented at June 30, 2002 as long-term notes payable - bank. At December 31, 2002, the minimum balance was appropriately reclassified to current liabilities and $800,000 was available under the line of credit agreement.

Cash used in operations for the quarter was $824,900, an increase of $743,200 when compared to cash used in operations of $81,700 for the comparable period ended December 31, 2001. The increase in cash used in operations was due primarily to increases in costs & estimated earnings in excess of billings on uncompleted contracts at December 31, 2002, an amount that will be reduced as billings under current contracts are completed.

During the six month period ended December 31, 2002, the Company purchased approximately $41,100 of additional equipment compared to $122,200 purchased in the comparable period of the prior year. Acquisition of goodwill (additional costs incurred related to the acquisition of RFID tracking technology) amounted to $30,700. Repayment on borrowings during the period amounted to $1,956,900, while advances from borrowing amounted to $1,366,000.

The Company believes that additional cash resources may be required for working capital to achieve planned operating results for fiscal year 2003 and, if working capital requirements exceed current availability, the Company anticipates raising capital through additional borrowing or sale of stock. The additional capital would supplement the projected cash flows from operations and the line of credit agreement in place at December 31, 2002. If the Company were unable to raise the required additional capital, it may materially affect the ability of the Company to achieve its financial plan.

CONTROL AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the Securities and Exchange Commission (SEC), and to

process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on various evaluations of the Company's disclosure controls and procedures, some of which occurred during the 90 days prior to the filing date of this report, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that the Company is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required periods.

The Company also maintains a system of internal controls designed to provide reasonable assurance that: transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary (1) to permit preparation of financial statements in conformity with generally accepted accounting principles, and (2) to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization; and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Since the date of the most recent evaluation of the Company's internal controls by the Chief Executive and Chief Financial Officers, there have been no significant changes in such controls or in other factors that could have significantly affected those controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1 - LEGAL PROCEEDINGS

The only material litigation in which the Company is a party to is a derivative suit, filed on January 30, 2003, by Richard C. Jones on behalf of Technology Systems International, Inc., a Nevada corporation ("TSIN") versus the Company, its wholly owned subsidiary, Technology Systems International, Inc., an Arizona corporation ("TSIA"), and all of the directors of TSIN. The venue for the action is the Arizona Superior Court in and for Maricopa County, Arizona, as case number CV2003-001937. The complaint sets forth various allegations and seeks equitable remedies and damages arising out of the Company's acquisition of substantially all of the assets of TSIN. As stated in previous periodic reports filed by the Company with the SEC concerning this matter, the Company's management, in consultant with legal counsel, believes the plaintiff's claims are without merit and the Company will aggressively defend the action.

Item 2 - CHANGES IN SECURITIES

During the six months ended December 31, 2002, the Company issued 3 million shares of Common Stock related to the Sale of Common Shares more fully discussed in Note F and 43,500 shares of Common Stock for services rendered.

Item 6. EXHIBITS 99.1

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

ALANCO TECHNOLOGIES, INC.
(Registrant)

/s/ John A. Carlson
John A. Carlson
Chief Financial Officer

Date: February 14, 2003

CERTIFICATION

I, Robert R. Kauffman, President and Chief Executive Officer of Alanco Technologies, Inc. (the "Company"), certify that:

(1) I have reviewed the Quarterly Report on Form 10-QSB for the quarter-ended December 31, 2002 (the "Report");

(2) Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state material facts necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

(3) Based on my knowledge, the financial statements, and other financial information included in the Report, fairly present in all material respects the financial condition and results of operations of the Company as of, and for, the periods represented in the Report.

(4) The registrant's other certifying officer and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.

b) Evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's Board of Directors:

a) all significant deficiencies in the design or operations of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were any significant changes in internal control or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: February 14, 2003

By /s/ Robert R. Kauffman
President and Chief Executive Officer

I, John A. Carlson, Chief Financial Officer of Alanco Technologies, Inc. (the "Company"), certify that:

(1) I have reviewed the Quarterly Report on Form 10-QSB for the quarter ended December 31, 2002 (the "Report");

(2) Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state material facts necessary in order to make the statements made, in light of the circumstances under which such statements were made, not misleading; and

(3) Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition and results of operations of the Company as of, and for, the periods represented in the Report.

(4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared.

b) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

(5) The Company's other certifying officer and I have disclosed, based on our most recent evaluation, to the Company's auditors and the audit committee of the Company's Board of Directors:

a) all significant deficiencies in the design or operations of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the Company's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls; and

(6) The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were any significant changes in internal control or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: February 14, 2003

By /s/ John A. Carlson
Chief Financial Officer

Exhibit 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Robert R. Kauffman, Chairman and Chief Executive Officer of Alanco Technologies, Inc., certify that:

1. The Quarterly Report of Alanco Technologies, Inc. on Form 10-QSB for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Alanco Technologies, Inc.

/s/ Robert R. Kauffman

Robert R. Kauffman
Chairman and Chief Executive Officer
February 14, 2003

Exhibit 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John A. Carlson, Executive Vice President and Chief Financial Officer of Alanco Technologies, Inc., certify that:

1. The Quarterly Report of Alanco Technologies, Inc. on Form 10-QSB for the quarter ended December 31, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Alanco Technologies, Inc.

/s/ John A. Carlson
John A. Carlson
Executive Vice President & Chief Financial Officer
February 14, 2003