FULLER H B CO
Form DEF 14A
March 02, 2009
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant x

Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a

H.B Fuller Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Office:	1200 Willow Lake Boulevard St. Paul, Minnesota 55110-5101
Mail:	P.O. Box 64683 St. Paul, Minnesota 55164-0683
Phone:	(651) 236-5158

Dear Shareholder:

Our 2009 Annual Meeting of Shareholders will be held on Thursday, April 16, 2009, at the H.B. Fuller Company headquarters in St. Paul, Minnesota. The meeting will begin promptly at 2:00 p.m. Please join us. Parking at our headquarters building for attendance at the meeting is complimentary.

The Notice of Annual Meeting of Shareholders and the Proxy Statement that follow describe the business to be conducted at the meeting. Also enclosed is a copy of our 2008 Annual Report, including our Annual Report on Form 10-K. You can also view these materials on the Internet at www.hbfuller.com in the Investor Relations section.

Your vote is important, so please sign and return the enclosed proxy card in the postage-paid envelope or instruct us by telephone or via the Internet as to how you would like to vote your shares.

Sincerely,

MICHELE VOLPI
President and Chief Executive Officer

March 2, 2009

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St. Paul, Minnesota 55110-5101
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St. Paul, Minnesota 55164-0683
Phone: (651) 236-5158

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Date and Time:	Thursday, April 16, 2009, at 2:00 p.m. Central Time
Place:	H.B. Fuller Company 1200 Willow Lake Boulevard St. Paul, Minnesota
Items of Business:	The election of three directors named in the attached Proxy Statement for a three-year term. The ratification of the appointment of KPMG LLP as H.B. Fuller s independent registered public accounting firm for the fiscal year ending November 28, 2009. The approval of the H.B. Fuller Company 2009 Director Stock Incentive Plan. Any other business that may properly be considered at the meeting or any adjournment thereof.
Record Date:	You may vote at the meeting if you were a shareholder of record at the close of business on February 18, 2009.
Voting by Proxy:	Whether or not you plan to attend the meeting in person, please mark, date and sign the enclosed proxy card and mail it in the enclosed envelope. No postage is required if the proxy card is mailed in the United States. Instead of mailing the proxy card, you may enter voting instructions by telephone at 1-800-560-1965 or via the Internet at www.eproxy.com/ful.
Annual Report:	H.B. Fuller s 2008 Annual Report including our Annual Report on Form 10-K for the fiscal year ended November 29, 2008, which is not part of the proxy soliciting material, is enclosed.

By Order of the Board of Directors
Timothy J. Keenan
Vice President, General Counsel and Corporate Secretary

March 2, 2009

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PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

APRIL 16, 2009

The Board of Directors of H.B. Fuller Company is soliciting proxies to be used at the Annual Meeting of Shareholders to be held on April 16, 2009, and at any adjournment and reconvening of the meeting. We will begin mailing this Proxy Statement and the enclosed form of proxy on or about March 2, 2009.

QUESTIONS AND ANSWERS ABOUT THE MEETING

What is the purpose of the meeting?

At our annual meeting, shareholders will act upon the matters disclosed in the Notice of Annual Meeting of Shareholders that preceded this Proxy Statement. These include the election of three directors, ratification of the appointment of our independent registered public accounting firm and approval of the H.B. Fuller Company 2009 Director Stock Incentive Plan.

We will also consider any other business that may properly be presented at the meeting, and management will report on H.B. Fuller s performance during the last fiscal year and respond to questions from shareholders.

How does the Board recommend that I vote?

The Board of Directors recommends a vote FOR all of the nominees for director, FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending November 28, 2009 and FOR the approval of the H.B. Fuller Company 2009 Director Stock Incentive Plan.

Who is entitled to vote at the meeting?

If you were a shareholder of record at the close of business on February 18, 2009, you are entitled to vote at the meeting.

As of the record date, 48,585,777 shares of Common Stock were outstanding and eligible to vote.

What is the difference between a shareholder of record and a street name holder?

If your shares are registered directly in your name, you are considered the shareholder of record with respect to those shares.

If your shares are held in a stock brokerage account or by a bank or other nominee, such as the H.B. Fuller 401(k) Thrift Plan, you are considered the beneficial owner of those shares, and your shares are held in street name. If you are a street name holder you will receive a voting instructions card, which appears very similar to a proxy card. Please complete that card as directed in order to ensure your shares are voted at the meeting.

What are the voting rights of the shareholders?

Holders of Common Stock are entitled to one vote per share. Therefore, a total of 48,585,777 votes are entitled to be cast at the meeting. There is no cumulative voting for the election of directors.

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How many shares must be present to hold the meeting?

A quorum is necessary to hold the meeting and conduct business. The presence of shareholders who can direct the voting of at least a majority of the outstanding shares of Common Stock as of the record date is considered a quorum. A shareholder is counted as present at the meeting if the shareholder is present and votes in person at the meeting or the shareholder has properly submitted a proxy by mail, telephone or via the Internet.

How do I vote my shares?

If you are a shareholder of record, you can give a proxy to be voted at the meeting either:

- over the telephone by calling 1-800-560-1965;
- electronically, using the Internet at www.eproxy.com/ful; or
- by mailing the enclosed proxy card.

The telephone and Internet voting procedures have been set up for your convenience. The procedures have been designed to authenticate your identity, to allow you to give voting instructions, and to confirm that those instructions have been recorded properly. If you are a shareholder of record and you would like to vote by telephone or by using the Internet, please refer to the specific instructions on the enclosed proxy card. If you wish to vote using the paper proxy card, please return your signed proxy card to us before the meeting. You may also vote in person at the meeting.

If you hold your shares in street name, you must vote your shares following the procedures indicated to you by your broker or nominee on the enclosed voting instructions card.

What does it mean if I receive more than one proxy card or voting instructions card?

It means you hold shares of H.B. Fuller stock in more than one account. To ensure that all of your shares are voted, sign and return each proxy card or, if you vote by telephone or via the Internet, vote once for each proxy card you receive.

Can I vote my shares in person at the meeting?

Yes. If you are a shareholder of record, you may vote your shares at the meeting by completing a ballot at the meeting. However, even if you currently plan to attend the meeting, we recommend that you submit your proxy ahead of time so that your vote will be counted if, for whatever reason, you later decide to not attend the meeting.

If you hold your shares in street name, you may vote your shares in person at the meeting only if you obtain a signed proxy from your broker, bank or other nominee giving you the right to vote such shares at the meeting.

What vote is required for the proposals to be approved?

With respect to the election of directors, the three director nominees receiving the most votes for their election will be elected directors. With respect to approval of all other matters to come before the meeting, including the ratification of the appointment of KPMG LLP as our independent registered public accounting firm and the approval of the H.B. Fuller Company 2009 Director Stock Incentive Plan, the affirmative vote of a majority of the shares of Common Stock represented and entitled to vote on each matter is required, provided that the total number of shares of Common Stock that vote on each proposal represents more than 25% of the shares outstanding on the record date.

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How are votes counted?

Shareholders may either vote FOR or WITHHOLD authority to vote for each nominee for the Board of Directors. Shareholders may vote FOR, AGAINST or ABSTAIN on the ratification of the appointment of KPMG LLP. Shareholders may vote FOR, AGAINST ABSTAIN on the approval of the H.B. Fuller Company 2009 Director Stock Incentive Plan.

If you vote ABSTAIN or WITHHOLD, your shares will be counted as present at the meeting for the purposes of determining a quorum. If you ABSTAIN from voting on a proposal, your abstention has the same effect as a vote against that proposal. If you WITHHOLD authority to vote for one or more of the nominees for director, this will have no effect on the election of any director from whom votes are withheld.

If you hold your shares in street name and do not provide voting instructions to your broker or nominee, your shares will be considered to be broker non-votes and will not be voted on any proposal on which your broker or nominee does not have discretionary authority to vote under the rules of the New York Stock Exchange. Shares that constitute broker non-votes will be present at the meeting for the purpose of determining a quorum, but are not considered entitled to vote on the proposal in question, and, therefore, will not affect the outcome of the vote with respect to that proposal. Your broker or nominee has discretionary authority to vote your shares on the election of directors and the ratification of KPMG LLP as our independent registered public accounting firm even if your broker or nominee does not receive voting instructions from you. Your broker or nominee may not vote on management s proposal to approve the H.B. Fuller Company 2009 Director Stock Incentive Plan without instructions from you.

What if I do not specify how I want my shares voted?

If you do not specify on your returned proxy card (or when giving your proxy by telephone or via the Internet) how you want to vote your shares, we will vote them:

FOR all of the nominees for director;

FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2009 fiscal year;

FOR the approval of the H.B. Fuller Company 2009 Director Stock Incentive Plan; and

with respect to such other matters that may properly come before the meeting, in accordance with the judgment of the persons named as proxies in the enclosed proxy card or voting instructions card.

Can I change my vote?

Yes. If you are a shareholder of record, you may change your vote and revoke your proxy at any time before it is voted at the meeting in any of the following ways:

- by sending a written notice of revocation to our Corporate Secretary;
- by submitting another properly signed proxy card at a later date to our Corporate Secretary;
- by submitting another proxy by telephone or via the Internet at a later date; or
- by voting in person at the meeting.

If you are a street name holder, please consult your broker, trustee or nominee for instructions on how to change your vote.

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Who pays for the cost of proxy preparation and solicitation?

We pay for the cost of proxy preparation and solicitation, including the charges and expenses of brokerage firms or other nominees for forwarding proxy materials to beneficial owners of shares held in street name. We have retained The Proxy Advisory Group, LLC to assist in the solicitation of proxies for a fee of approximately $7,500 plus associated costs and expenses.

We are soliciting proxies primarily by mail. In addition, proxies may be solicited by telephone or facsimile, or personally by our directors, officers and regular employees. These individuals will receive no compensation (other than their regular salaries) for these services.

Are the proxy and related materials available electronically?

Yes.

Important Notice Regarding the Availability of Proxy Materials

for the Shareholder Meeting to be held on April 16, 2009

Our Proxy Statement and 2008 Annual Report, including our Annual Report on Form 10-K, are available on the H.B. Fuller Company website at www.hbfuller.com in the Financial section of the Investor Relations page (http://phx.corporate-ir.net/phoenix.zhtml?c=117108&p=irol-reportsannual).

Will the meeting consider any other business?

Our Bylaws provide that a shareholder may present a proposal at the annual meeting that is not included in this Proxy Statement only if proper written notice was received by us. No shareholder has given the timely notice required by our Bylaws in order to present a proposal at the Annual Meeting. Our Board of Directors does not intend to present any other matters for a vote at the Annual Meeting. If you wish to present a proposal at the 2010 Annual Meeting, please see *How can a shareholder present a proposal at the 2010 Annual Meeting?*

As of the date of this Proxy Statement, we do not know of any other business to be presented for consideration at the Annual Meeting. If any other business does properly come before the meeting, the persons named as proxies on the enclosed proxy card will vote in accordance with their best judgment as to the best interests of H.B. Fuller and its shareholders.

How can a shareholder present a proposal at the 2010 Annual Meeting?

In order for a shareholder proposal to be considered for inclusion in our Proxy Statement for the 2010 Annual Meeting, the written proposal must be received at our principal executive offices by the close of business on November 2, 2009. The proposal must comply with Securities and Exchange Commission (SEC) regulations regarding the inclusion of shareholder proposals in company-sponsored proxy materials and with the requirements set forth in our Bylaws. Please contact our Corporate Secretary for a copy of such regulations and for a description of the steps required by our Bylaws that must be taken to present such a proposal.

If a shareholder wishes to present a proposal at the 2010 Annual Meeting that would not be included in our Proxy Statement for such meeting, the shareholder must provide notice to us no later than January 18, 2010 and no earlier than December 17, 2009. Please contact the Corporate Secretary for a description of the steps to be taken to present such a proposal.

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How can a shareholder get a copy of the Company s 2008 Annual Report on Form 10-K?

Our 2008 Annual Report, including our Annual Report on Form 10-K, for the year ended November 29, 2008, accompanies this Proxy Statement. The 2008 Annual Report, including our Form 10-K, is also available in the Financial section of our Investor Relations page of our website, www.hbfuller.com. If requested, we will provide you copies of any exhibits to the Form 10-K upon payment of a fee covering our reasonable expenses in furnishing the exhibits. You can request exhibits to the Form 10-K by writing to the Corporate Secretary, H.B. Fuller Company, 1200 Willow Lake Boulevard, P.O. Box 64683, St. Paul, Minnesota 55164-0683.

Who is the Corporate Secretary?

The Corporate Secretary is Timothy J. Keenan. The mailing address is the Office of the Corporate Secretary, P.O. Box 64683, St. Paul, Minnesota 55164-0683.

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SECURITY OWNERSHIP

OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows how much H.B. Fuller Common Stock each director and executive officer listed in the Summary Compensation Table in this Proxy Statement beneficially owned as of January 30, 2009 (unless otherwise noted). The table also shows the beneficial ownership of H.B. Fuller Common Stock of all directors and executive officers of H.B. Fuller as a group. In general, beneficial ownership includes those shares of our Common Stock which a director or executive officer has the power to vote or transfer, as well as stock options that are exercisable currently or within 60 days and stock underlying phantom stock units that may be acquired, in certain circumstances, within 60 days. As of January 30, 2009, our current directors and executive officers beneficially owned 845,373 shares of Common Stock. This represents approximately 1.72% of our shares outstanding as of the same date. Shares outstanding for this purpose includes options exercisable within 60 days and stock underlying phantom stock units that may be acquired, in certain circumstances, within 60 days by such executive officers and directors. The detail of beneficial ownership is set forth in the following table. In addition, the table shows all shareholders known to us to be the beneficial owners of more than 5% of H.B. Fuller Common Stock.

Unless otherwise noted, the shareholders listed in the table have sole voting and investment powers with respect to the shares of Common Stock owned by them, and such shares are not subject to any pledge.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Common Stock Outstanding
FMR LLC.	6,595,489(1)	13.58%
Mairs and Power, Inc.	4,059,198(2)	8.36%
Barclays Global Investors and Fund Advisors	3,293,967(3)	6.78%
Juliana L. Chugg	5,146(4)(5)	*
Knut Kleedehn	33,728(4)	*
J. Michael Losh	49,433(4)	*
Richard L. Marcantonio	6,947(4)	*
Lee R. Mitau	81,585(4)(5)	*
Alfredo L. Rovira	17,355(4)	*
John C. van Roden, Jr.	16,673(4)	*
R. William Van Sant	22,285(4)	*
Michele Volpi	238,376(6)	*
James R. Giertz	27,761(7)	*
James C. McCreary, Jr.	113,962(8)	*
Ann B. Parriott	42,978(9)	*
James J. Owens	19,031(10)	*
Timothy J. Keenan	57,321(11)	*
All directors and executive officers as a group (19 people)	845,373 (12)	1.72%

* Indicates less than 1%.

(1) This information is based on a Schedule 13G/A filed by the holder with the SEC on February 17, 2009 reporting beneficial ownership as of December 31, 2008. The holder reported that, FMR LLC, a parent holding company, has sole voting power over 70,100 shares and dispositive power over all of the shares. Fidelity Management & Research Company (Fidelity), a wholly-owned subsidiary of FMR LLC and an investment adviser under the Investment Advisers Act of 1940, is the beneficial owner of 6,525,389 shares as a result of acting as investment adviser to various

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investment companies. Edward C. Johnson 3d and FMR LLC, through its control of Fidelity, and the funds each has sole power to dispose of the 6,525,389 shares owned by the Funds. Members of the family of Edward C. Johnson 3d, the Chairman of FMR LLC, are the predominant owners directly or through trusts of Series B voting common shares of FMR LLC, representing 49% of the voting power of FMR LLC. Through their ownership of voting common shares and the execution of a shareholders voting agreement, members of the Johnson family may be deemed to form a controlling group with respect to FMR LLC. Neither FMR LLC nor Edward C. Johnson 3d has the sole power to vote or direct the voting of the shares owned by the Fidelity Funds. Fidelity carries out the voting of the shares under written guidelines established by the Funds Boards of Trustees. Pyramis Global Advisors Trust Company (PGATC), an indirect wholly-owned bank subsidiary of FMR LLC, beneficially owns 70,100 shares as a result of serving as investment manager of institutional accounts owning such shares. Edward C. Johnson 3d and FMR LLC, through its control of PGATC, each has sole dispositive power over 70,100 shares and sole power to vote or to direct the voting of 70,100 shares owned by the institutional accounts managed by PGATC. The holder s address is 82 Devonshire Street, Boston, Massachusetts 02109.

(2) This information is based on a Schedule 13G/A filed by the holder with the SEC on February 13, 2009 reporting beneficial ownership as of December 31, 2008. The holder reported that, as an investment adviser under the Investment Advisers Act of 1940, it furnishes investment advice to two investment companies and serves as an investment manager to certain other commingled group trusts and separate accounts. In this capacity, the holder has sole voting power over 3,553,400 shares and dispositive power over all of the shares. In addition, the holder disclaims beneficial ownership of all of the shares. Also, the interest of one person, Mairs and Power Growth Fund, Inc., an investment company registered under the Investment Company Act of 1940, in the Common Stock of H.B. Fuller Company, amounted to 3,100,000 shares at December 31, 2008. The holder s address is W-1520 First National Bank Building, 332 Minnesota Street, Saint Paul, Minnesota 55101.

(3) This information is based on a Schedule 13G filed with the SEC on February 5, 2009 by the holder as a group including Barclays Global Investors, NA, Barclays Global Fund Advisors and Barclays Global Investors, Ltd. reporting beneficial ownership as of December 31, 2008. The holder reported that the shares are held in trust accounts for the economic benefit of the beneficiaries of those accounts. In this capacity, the holder has sole voting power over 2,536,845 shares and sole dispositive power over all of the shares. The holder s address is 400 Howard Street, San Francisco, California, 94105.

(4) Includes phantom stock units credited to the accounts of directors who participate in the Directors Deferred Compensation Plan, described under the heading Director Compensation that may be acquired, in certain circumstances, within 60 days. The number of units credited to each director participating in this plan that may be acquired within 60 days is as follows:

Juliana Chugg	3,820	Lee R. Mitau	39,402
Knut Kleedehn	22,790	Alfredo L. Rovira	15,416
J. Michael Losh	45,659	John C. van Roden, Jr.	1,712
Richard L. Marcantonio	4,214	R. William Van Sant	6,645

Excludes phantom stock units credited to the accounts of directors who participate in the Directors Deferred Compensation Plan, described under the heading Director Compensation that are not able to be acquired within 60 days. The number of units credited to each director participating in this plan is as follows:

Richard L. Marcantonio	16,857	John C. van Roden, Jr.	2,541
Lee R. Mitau	31,089	William R. Van Sant	30,137

None of the phantom stock units are entitled to vote at the meeting.

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(5) Includes the following shares of restricted Common Stock awarded under the 1998 Directors Stock Incentive Plan, including shares acquired upon reinvestment of dividends:

Juliana Chugg	1,326	Lee R. Mitau	16,107

(6) Includes 80,631 shares of restricted Common Stock subject to forfeiture, 3,055 shares held in trust under H.B. Fuller s 401(k) Thrift Plan, 125,135 shares that could be issued pursuant to stock options which are currently exercisable and 754 phantom stock units credited to Mr. Volpi s H.B. Fuller Common Stock account under the Key Employee Deferred Compensation Plan described in the narrative accompanying the Nonqualified Deferred Compensation Table in this Proxy Statement that may be acquired, in certain circumstances, within 60 days. Excludes 3,080 phantom stock units credited to Mr. Volpi s H.B. Fuller Common Stock account under the Key Employee Deferred Compensation Plan. None of the phantom stock units are entitled to vote at the meeting.

(7) Includes 17,035 shares of restricted Common Stock subject to forfeiture and 726 shares held in trust under H.B. Fuller s 401(k) Thrift Plan.

(8) Includes 8,589 shares of restricted Common Stock subject to forfeiture, 4,996 shares held in trust under H.B. Fuller s 401(k) Thrift Plan, 82,539 shares that could be issued pursuant to stock options which are currently exercisable and 654 phantom stock units credited to Mr. McCreary s H.B. Fuller Common Stock account under the Key Employee Deferred Compensation Plan that may be acquired, in certain circumstances, within 60 days. Excludes 4,597 phantom stock units credited to Mr. McCreary s H.B. Fuller Common Stock account under the Key Employee Deferred Compensation Plan. None of the phantom stock units are entitled to vote at the meeting.

(9) Includes 15,606 shares of restricted Common Stock subject to forfeiture, 842 shares held in trust under H.B. Fuller s 401(k) Thrift Plan and 21,517 shares that could be issued pursuant to stock options which are currently exercisable. Excludes 478 phantom stock units credited to Ms. Parriott s H.B. Fuller Common Stock account under the Key Employee Deferred Compensation Plan. These phantom stock units are not entitled to vote at the meeting.

(10) Includes 12,831 shares of restricted Common Stock subject to forfeiture.

(11) Includes 14,315 shares of restricted Common Stock subject to forfeiture, 1,701 shares held in trust under H.B. Fuller s 401(k) Thrift Plan and 36,402 shares that could be issued pursuant to stock options which are currently exercisable. Excludes 2,203 phantom stock units credited to Mr. Keenan s H.B. Fuller Common Stock account under the Key Employee Deferred Compensation Plan. These phantom stock units are not entitled to vote at the meeting.

(12) Includes 172,770 shares of restricted Common Stock subject to forfeiture, 17,231 shares held in trust under H.B. Fuller s 401(k) Thrift Plan, 339,164 shares that could be issued pursuant to stock options which are currently exercisable and 141,066 phantom stock units credited to executive officers and directors individual H.B. Fuller Common Stock accounts under the Key Employee Deferred Compensation Plan and the Directors Deferred Compensation Plan that may be acquired, in certain circumstances, within 60 days. Excludes 91,264 phantom stock units credited to the individual accounts under the Directors Deferred Compensation Plan and the Key Employee Deferred Compensation Plan. Excludes 38,663 restricted stock units which are subject to forfeiture. Neither the restricted stock units nor any of the phantom stock units are entitled to vote at the meeting.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s directors and executive officers to file initial reports of ownership and reports of changes in ownership of H.B. Fuller s securities with the SEC. These reports are available for review on our website: www.hbfuller.com, in the Financial section of the Investor Relations page. Directors and executive officers are required to furnish us with copies of these reports. Based solely on a review of these reports and written representations from the directors and executive officers, we believe that all directors and executive officers complied with all Section 16(a) filing requirements for fiscal year 2008, except for: (i) Ann B. Parriott, who filed one late report in December 2007 reporting the sale of Common Stock in her H.B. Fuller Company Thrift (401k) Plan account; (ii) John C. van Roden, who filed one late report in January 2008 reporting a distribution of deferred compensation under the Directors Deferred Compensation Plan into Common Stock; (iii) R. William Van Sant, who filed one late report in August 2008 reporting a distribution of deferred compensation under the Directors Deferred Compensation Plan into Common Stock; (iv) J. Michael Losh, who filed one late report in September 2008 reporting the deferral of directors fees under the Directors Deferred Compensation Plan; (v) Barry S. Snyder who filed an amended Form 3 to report shares of Common Stock purchased prior to his employment with the Company; and (vi) James J. Owens, who filed an amended Form 4 to correct the inadvertent use of incorrect award numbers for a stock option and restricted stock grant.

PROPOSAL 1 ELECTION OF DIRECTORS

Proposal

The Board of Directors is currently composed of nine directors and divided into three classes. Each year one class of directors stands for election for a three-year term. The term of office for Class I directors, consisting of Juliana L. Chugg, Richard L. Marcantonio and Alfredo L. Rovira, will expire at the annual meeting.

At the annual meeting, three persons are to be elected as Class I directors to hold a three-year term of office from the date of their election until the 2012 annual meeting and until their successors are duly elected and qualified. The three nominees for election as Class I directors are Juliana L. Chugg, Richard L. Marcantonio and Alfredo L. Rovira, all of whom are currently directors. All of the nominees have agreed to serve as a director if elected. Following the annual meeting, the Board will be comprised of nine directors. Pursuant to our Company s Bylaws, no more than 15 persons may serve on the Board. For information on how a shareholder may suggest a person to be a nominee to the Board, see *How can a shareholder suggest a candidate for election to the Board?*

Unless earlier terminated due to retirement or resignation, the term of office for Class II directors, consisting of Knut Kleedehn, John C. van Roden, Jr. and Michele Volpi will expire at the annual meeting in 2010, and the term of office for Class III directors, consisting of J. Michael Losh, Lee R. Mitau and R. William Van Sant, will expire at the annual meeting in 2011. All of the directors were elected to the Board of Directors by the shareholders, except Ms. Chugg who was appointed to the Board of Directors effective April 2007. Ms. Chugg was initially brought to the attention of the Corporate Governance and Nominating Committee by our then-current Chief Executive Officer, and upon completion of the review process established by the Committee, was recommended by the Committee to the full Board of Directors for approval.

We will vote your shares as you specify when providing your proxy. You may either vote FOR or WITHHOLD authority to vote for each nominee for the Board of Directors. If you submit your proxy without voting instructions, we will vote your shares FOR the election of the three nominees. If, for any

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reason, any nominee becomes unable to serve before the election, we will vote your shares for a substitute nominee selected by the Board of Directors. Alternatively, the Board of Directors, at its option, may reduce the number of directors constituting Class I directors.

The three director nominees receiving the most votes for their election will be elected directors.

The Board of Directors recommends a vote FOR election of each of the nominees.

Who are the nominees?

The nominees provided the following information about themselves as of January 31, 2009.

Class I (Term Ending in 2009)

Juliana L. Chugg	
Age:	41
Director Since:	2007
Principal Occupation:	Senior Vice President, President Pillsbury USA, General Mills, Inc., a manufacturer and marketer of consumer food products, located in Minneapolis, Minnesota.
Business Experience:	Ms. Chugg has been with General Mills, Inc. since September 1996. Prior to her appointment as Senior Vice President and President, Pillsbury USA in 2006, she served as Vice President, President of Baking Division from August 2004 to June 2006. Prior to that appointment she served in Australia as the Managing Director of General Mills from June 1999 to August 2004. Prior to that appointment she served as the Marketing Director.
Richard L. Marcantonio	
Age:	58
Director Since:	2004
Principal Occupation:	Chairman and Chief Executive Officer of G&K Services, Inc., a provider of uniform rental services, located in Minnetonka, Minnesota.
Business Experience:	Mr. Marcantonio has served as a director of G&K Services, Inc. since November 2003, and as Chairman and Chief Executive Officer since November 2005, prior to which he served as President and Chief Executive Officer from January 2004 to November 2005 and President and Chief Operating Officer from July 2002 to January 2004. From March 2002 until July 2002, Mr. Marcantonio served as President of the Industrial and Service Sectors at Ecolab, Inc., a leading global developer and marketer of cleaning and maintenance products. Mr. Marcantonio served as Executive Vice President of Ecolab s Industrial and Service Sectors from January 2001 until March 2002.
Other Directorships:	Mr. Marcantonio is a director of G&K Services, Inc.

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Alfredo L. Rovira

Age:	63
Director Since:	2003
Principal Occupation:	Managing partner of the law firm of Brons & Salas, and Co-Chairman of the Corporate Law Department of that firm, located in Buenos Aires, Argentina.
Business Experience:	Mr. Rovira has been associated with Brons & Salas since 1970, has served as managing partner since April 1992, and has served, first as Chairman since 1984 and later as Co-Chairman of the Corporate Law Department, since April 1992. At Brons & Salas, Mr. Rovira has had extensive experience as an arbitrator involving both domestic and multinational companies. He has also written and taught extensively on legal topics.

How can a shareholder suggest a candidate for election to the Board?

The Corporate Governance and Nominating Committee of the Board nominates all candidates for election to the Board. Generally, current directors or third party search firms engaged by the Corporate Governance and Nominating Committee identify candidates for consideration by the Committee. The Corporate Governance and Nominating Committee will review all nominees to the Board of Directors, including an assessment of a nominee s judgment, experience, independence and such other factors as the Corporate Governance and Nominating Committee concludes are pertinent in light of the Board s needs. The Board of Directors believes that its membership should reflect a diversity of experience, skills, geography, gender and ethnicity. The Corporate Governance and Nominating Committee will select qualified nominees and review its recommendations with the Board, which will decide whether to invite any nominee to join or stand for re-election to the Board. If appropriate in the future, the Committee may engage a third party search firm for a fee to assist in the process of identifying potential nominees. The Committee also will consider candidates recommended by any shareholder using the same criteria set forth above. No shareholder identified any candidate during fiscal year 2008.

Who are the remaining directors?

The directors not standing for election at the meeting and whose service will continue until the end of their respective terms also provided the following information about themselves as of January 31, 2009.

Class II (Term Ending in 2010)

Knut Kleedehn

Age:	71
Director Since:	2001
Principal Occupation:	Private Investor
Business Experience:	Mr. Kleedehn was with Bayer AG, a global health care, nutrition and high tech materials company, from 1960 to 2001. At Bayer, he served in a series of senior management roles as President and Senior Country Representative of Bayer for Japan and Korea, co-chair of Bayer do Brasil, General Manager of Bayer s Pigments and Ceramics Division, and CEO of three Bayer chemical divisions and several subsidiaries.

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John C. van Roden, Jr.

Age:	59
Director Since:	2003
Principal Occupation:	Private Investor
Business Experience:	Mr. van Roden was appointed Executive Vice President and Chief Financial Officer of Glatfelter, Inc. in February 2005 and served in that capacity until January 2007, at which time he became a consultant. From 2003 to February 2005 he served as Senior Vice President and Chief Financial Officer of Glatfelter, Inc. He served as Senior Vice President and Chief Financial Officer at Conectiv, an energy company located in Wilmington, Delaware, from 1998 to 2003 and at Lukens, Inc., a specialty steel producer located in Coatesville, Pennsylvania, from 1982 to 1998.
Other Directorships:	Mr. van Roden is a director of Airgas, Inc., Penn Virginia GP Holdings, L.P. and Horsehead Corporation.

Michele Volpi

Age:	44
Director Since:	2006
Principal Occupation:	President and Chief Executive Officer, H.B. Fuller Company.
Business Experience:	Mr. Volpi was appointed President and Chief Executive Officer of H.B. Fuller Company in December 2006. He was Group President, General Manager of the Global Adhesives Division of H.B. Fuller Company from December 2004 to December 2006. Prior to that position, he served as Global Strategic Business Unit Manager, Assembly for H.B. Fuller Company from June 2002 to December 2004. From 1999 to June 2002, Mr. Volpi served as General Manager, Marketing for General Electric Company.

Class III (Term Ending in 2011)

J. Michael Losh

Age:	62
Director Since:	2001
Principal Occupation:	Private Investor
Business Experience:	Mr. Losh was the interim Chief Financial Officer of Cardinal Health, Inc., a provider of products and services for the health care market, located in Dublin, Ohio, from July 2004 to May 2005. He was the Chairman of Metaldyne Corporation (now a wholly-owned subsidiary of Asahi Tec Corporation), a global designer and supplier of high quality, metal-formed components, assemblies and modules for the transportation industry headquartered in Plymouth, Michigan, from 2000 to 2002. Prior to that position, Mr. Losh was employed by General Motors Corporation from 1964 to 2000. At General Motors he served in a variety of operating and financial posts in the U.S., Mexico and Brazil, including general manager of both the Pontiac and Oldsmobile divisions. From 1994 to 2000, Mr. Losh was Chief Financial Officer of General Motors. The Board of Directors has determined that Mr. Losh is an audit committee financial expert as that term is defined under the rules of the SEC.

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Other Directorships:	AON Corporation, AMB Property Corp., Cardinal Health, Inc., MASCO Corporation, and TRW Automotive Holdings Corporation.
	In addition to H.B. Fuller, Mr. Losh serves on the audit committees of AMB Property Corp., Cardinal Health, Inc., MASCO Corp. and TRW Automotive Holdings Corp. The Board of Directors of H.B. Fuller has determined that such simultaneous service does not impair Mr. Losh s ability to effectively serve on our Audit Committee. This determination reflects Mr. Losh s experience and understanding of financial statements, accounting principles and controls and audit committee functions gained throughout his professional career, and his availability to devote time and attention to his service on each committee.
Lee R. Mitau	
Age:	60
Director Since:	1996, Chairman of the Board since December 2006.
Principal Occupation:	Executive Vice President and General Counsel, U.S. Bancorp, a bank holding company headquartered in Minneapolis, Minnesota.
Business Experience:	Mr. Mitau has been Executive Vice President and General Counsel of U.S. Bancorp since 1995.
Other Directorships:	Mr. Mitau is Chairman of the Board of Graco Inc.
R. William Van Sant	
Age:	70
Director Since:	2001
Principal Occupation:	Operating Partner, Stone Arch Capital, LLC, a private equity fund based in Minneapolis, Minnesota.
Business Experience:	Mr. Van Sant joined Stone Arch Capital, LLC as an Operating Partner in January 2008. He served as President and Chief Executive Officer of Paladin (a Dover Company), a manufacturer of heavy-duty construction products headquartered in Cedar Rapids, Iowa, from August 2006 to December 2007. He previously served as Chairman at Paladin from July 2005 to August 2006 and as Chairman and Chief Executive Officer of Paladin from October 2003 to July 2005. Mr. Van Sant was also an Operating Partner of Norwest Equity Partners, a leveraged buyout capital firm headquartered in Minneapolis, Minnesota, from 2001 to August 2006. He was Chairman, Director and Chief Executive Officer of Nortrax, Inc., a distributor of John Deere construction equipment in Minneapolis, Minnesota, from 1999 to March 2001.
Other Directorships:	Mr. Van Sant is a director of Graco Inc.

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CORPORATE GOVERNANCE

Corporate Governance Guidelines

OPERATING LOSS	(364,000)	(278,100)
OTHER INCOME & EXPENSES		
Interest income (expense), net	7,800	6,200
Gain on sale of Symbius investment	-	86,800
Gain on sale of marketable securities	204,800	280,800
Other income (expense), net	200	200
NET INCOME (LOSS)	$ (151,200)	$ 95,900
NET INCOME (LOSS) PER SHARE - BASIC AND DILUTED		

Net income (loss) attributable to common shareholders	$ (0.03)	$ 0.02
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	4,944,300	5,010,300

See accompanying notes to the condensed consolidated financial statements

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ALANCO TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED SEPTEMBER 30, (unaudited)

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

See accompanying notes to the condensed consolidated financial statements

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ALANCO TECHNOLOGIES, INC.

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

	COMMON STOCK		TREASURY STOCK		ACCUMULATED OTHER COMPREHENSIVE	ACCUMULATED	
	SHARES	AMOUNT	SHARES	AMOUNT	INCOME	DEFICIT	TOTAL
alances, une 30, 013	4,989,300 $	109,121,200	- $	- $	549,900 $	(104,246,700) $	5,424,40
Shares of Alanco common stock repurchased	-	-	50,000	22,900	-	-	22,90
Treasury shares retired	(50,000)	(22,900)	(50,000)	(22,900)	-	-	(45,800
Unrealized gain on marketable securities, net of tax	-	-	-	-	25,400	-	25,40
Net loss	-	-	-	-	-	(151,200)	(151,200
alances, eptember 0, 2013	4,939,300 $	109,098,300	- $	- $	575,300 $	(104,397,900) $	5,275,70

See accompanying notes to the condensed consolidated financial statements

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ALANCO TECHNOLOGIES, INC.

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

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

Purchase of treasury shares		(22,900)		-
Net cash used in financing activities		(22,900)		-
NET INCREASE IN CASH AND CASH EQUIVALENTS		166,900		387,000
CASH AND CASH EQUIVALENTS, beginning of period		696,400		284,300
CASH AND CASH EQUIVALENTS, end of period	$	863,300	$	671,300
SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION				
Non-cash investing & financing activities:				
Unrealized gain on marketable securities	$	25,400	$	191,600

See accompanying notes to the condensed consolidated financial statements

ALANCO TECHNOLOGIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Recent Business Development

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

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

Related to the treatment and disposal facilities, in fiscal year 2012 AES entered into a management agreement with TCO to manage the project for a monthly management fee of $10,000 initially and $20,000 after final permits for the Deer Creek operation are obtained. The management agreement expired in January 2013 and is continuing on a month to month basis. During the quarter ended September 30, 2013, the Company paid TCO $63,000 under the management agreement. Refer to the Company’s Form 10-K for the fiscal year ended June 30, 2013 for additional discussion about the TCO management agreement.

Basis of Presentation

The unaudited condensed consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. In our opinion, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of such condensed consolidated financial statements. Such necessary adjustments consist of normal recurring items and the elimination of all significant intercompany balances and transactions.

These interim condensed consolidated financial statements should be read in conjunction with the Company's June 30, 2013 Annual Report filed on Form 10-K. Interim results are not necessarily indicative of results for a full year.

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ALANCO TECHNOLOGIES, INC.

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

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

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

The following are the classes of assets and liabilities measured at fair value on a recurring basis at September 30, 2013, using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3):

	Level 1: Quoted Prices in active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total at September 30, 2013
Marketable Securities - Restricted	$ -	$ 1,293,700	$ -	$ 1,293,700
Asset Retirement Obligation	-	-	417,400	417,400
Contingent Land Payment	-	-	646,100	646,100
Contingent Purchase Price	-	-	516,900	516,900
	$ -	$ 1,293,700	$ 1,580,400	$ 2,874,100

Fair Value of Marketable Securities - Restricted – The estimated fair values of Marketable Securities - Restricted are determined at discrete points in time based on relevant market information. The Marketable Securities – Restricted is comprised entirely of ORBCOMM Inc. (“ORBCOMM”) common shares (NASDAQ: ORBC) registered under a currently effective ORBCOMM Form S-3 registration statement. Under the terms of the Agreement, the Company is limited to selling up to 279,600 shares per month. The sale restriction above is why the fair value measurement at September 30, 2013 of ORBCOMM’s Stock is based on quoted prices for similar assets in active markets that are directly observable and thus represent a Level 2 fair value measurement. However, management does not believe the restriction will interfere with any plans to market their stock holdings. As such, the trading price is used as fair value with no further adjustment. The remaining shares will be revalued at the end of each reporting period with per share market value fluctuations reported as Comprehensive Income (Loss) for the period.

ALANCO TECHNOLOGIES, INC.

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

Asset Retirement Obligation – The Deer Creek asset retirement obligation is the estimated cost to close the Deer Creek facility under terms of the lease, meeting environmental and State of Colorado regulatory requirements. The estimate is determined at discrete points in time based upon significant unobservable inputs in which little or no market activity exists that is significant to the fair value of the liability, therefore requiring the Company to develop its own assumptions. Management's estimate of the asset retirement obligation is based upon a cost estimate developed by a consultant knowledgeable of government closure requirements and costs incurred at similar water disposal facility operations. The process used was to identify each activity in the closure process, obtaining vendor estimated costs, in current dollars, to perform the closure activity and accumulating the various vendor estimates to determine the asset retirement obligation. A present value discount has not been taken as the estimated closure costs, excluding regulatory changes and inflation adjustments, are anticipated to remain fairly consistent over the operational life of the facility. The lack of an active market to validate the estimated asset retirement obligation results in the fair value of asset retirement obligation to be a Level 3 fair value measurement. ASC Topic 410-20: Asset Retirement Obligations requires the Company to review the asset retirement obligation on a recurring basis and record changes in the period incurred.

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

New Accounting Policies

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

Recent Accounting Pronouncements

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

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

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

ALANCO TECHNOLOGIES, INC.

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

Note B – Stock-Based Compensation and Warrants

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

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

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

- Expected volatility of award grants made under the Company's plans is measured using the historical daily changes in the market price of the Company's common stock over the expected term of the award and contemplation of future activity;

- Risk-free interest rate is the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards; and,

- Forfeitures are based on the history of cancellations of awards granted by the Company and management's analysis of potential future forfeitures.

The Company has several employee stock option and officer and director stock option plans that have been approved by the shareholders of the Company. The plans require that options be granted at a price not less than market on the date of grant and are more fully discussed in our Form 10-K for the year ended June 30, 2013.

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

ALANCO TECHNOLOGIES, INC.

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

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (1)	Aggregate Fair Value (3)	Aggregate Instrinsic Value (2)
Outstanding July 1, 2013	1,084,100	$0.67	4.18	$ 296,100	$ -
Granted	-	-	-	-	-
Exercised	-	-	-	-	-
Forfeited or expired	(7,500)	$1.50	-	(4,000)	-
Outstanding September 30, 2013	1,076,600	$0.66	3.96	$ 292,100	$ -
Exercisable September 30, 2013	1,076,600	$0.66	3.96	$ 292,100	$ -

(1) Remaining contractual term presented in years.
(2) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing price of the Company's common stock as of September 30, 2013, for those awards that have an exercise price currently below the closing price as of September 30, 2013 of $.50.
(3) Aggregate Fair Value is calculated using the Black Scholes option pricing model to estimate fair value of stock-based compensation.

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

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

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

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

Note C – Marketable Securities – Restricted

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

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

ALANCO TECHNOLOGIES, INC.

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

The shares held are revalued at the end of each reporting period with per share market value fluctuations reported as Comprehensive Income (Loss) for the period. Based upon the change in market value of $4.49 per share at June 30, 2013 to $5.24 per share at September 30, 2013, the Company recorded an unrealized gain on marketable securities held at September 30, 2013 (presented in the Condensed Consolidated Statements of Comprehensive Income (Loss)), of $185,200. The actual gain or loss on securities sold is reported in the Condensed Consolidated Statements of Operations. At September 30, 2013, the Accumulated Other Comprehensive Income of $575,300 was presented in the Shareholders' Equity section of the Condensed Consolidated Balance Sheet.

The Company reviews its marketable equity holdings in ORBCOMM on a regular basis to determine if its investment has experienced an other-than-temporary decline in fair value. The Company considers ORBCOMM's cash position, earnings and revenue outlook, stock price performance, liquidity and management ownership, among other factors, in its review. If it is determined that an other-than-temporary decline exists, the Company writes down the investment to its market value and records the related impairment as an investment loss in its Statement of Operations. As of close of market on November 5, 2013, the per share value of the ORBCOMM Common Stock was $6.11, $3.20 per share above the cost basis of $2.91 per share and above the June 30, 2013 valuation of $4.49 per share as presented on the attached balance sheet.

The Company sold a total of 101,118 shares of ORBCOMM, Inc. Common Stock during the three months ended September 30, 2013 for total proceeds of $499,100, and an average selling price of approximately $4.94 per share, resulting in a net gain of $204,800. The remaining net shares at September 30, 2013 of 246,893 include approximately 83,300 shares that are still held in escrow.

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

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

Note D – Note Receivable

Note receivable of $400,000 and $375,000 at September 30, 2013 and June 30, 2013 respectively, represents a note due from American Citizenship Center, LLC ("ACC"), a related party. The $400,000 balance at September 30, 2013 represents the outstanding amount drawn on a $400,000 credit line. The note is secured by all assets of ACC and bears interest at the rate of 7.5% per annum. ACC must make payments on the note to reduce its outstanding balance to at least $300,000 as of December 31, 2013. The outstanding principal balance shall be reduced to at least $100,000 on or before March 31, 2014 with the remaining unpaid balance of the note due by June 30, 2014. Refer to the Company's Form 10-K for the fiscal year ended June 30, 2013 for additional discussion on the Company's investment in ACC.

ALANCO TECHNOLOGIES, INC.

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

Note E – Land, Property and Equipment

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

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

Note F – Earnings Per Share

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

Diluted earnings per share are computed based on the weighted average number of shares of common stock and dilutive securities outstanding during the period. Dilutive securities are options, warrants, convertible debt, and preferred stock that are freely exercisable into common stock at less than the prevailing market price. Dilutive securities are not included in the weighted average number of shares when inclusion would increase the earnings per share or decrease the loss per share. As of September 30, 2013 and 2012, there were no dilutive securities included in the loss per share calculation as the effect would be antidilutive. Considering all holders' rights, total common stock equivalents issuable under these potentially dilutive securities are approximately 1,076,600 and 830,500 at September 30, 2013 and 2012, respectively.

Note G – Equity

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

During the three months ended September 30, 2013, the Company recognized a comprehensive unrealized gain on marketable securities held in the amount of $25,400, reported in the Condensed Consolidated Statement of Changes in Shareholders' Equity, to reflect the increase in value of Marketable Securities – Restricted held at September 30, 2013. See Note A – Basis of Presentation and Recent Accounting Policies and Pronouncements for additional discussion of fair value of financial instruments and marketable securities.

In December 2011, the Company announced that its board of directors had authorized a stock repurchase program whereby the Company could repurchase up to 2 million shares of its outstanding common stock over the next 12 months. The stock repurchase program was extended, under the same limitation, through December 31, 2013. For the three months ended September 30, 2013, the Company had repurchases under the program for a total of 50,000 shares at a cost of approximately $22,900, or $.46 per share.

ALANCO TECHNOLOGIES, INC.

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

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

Note H - Contingent Payments

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

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

Contingent land payment of $646,100 at September 30, 2013 represents the net present value of $800,000 of estimated contingent land payments due under an agreement whereby Alanco Energy Services, Inc. ("AES") acquired 160 acres of land known as Indian Mesa. The payment is based upon 10% of any quarterly income (defined as gross revenues less operating expenses up to a maximum of $200,000 per quarter and $800,000 cumulative) for activity at both the Deer Creek and the Indian Mesa locations. The payments were projected considering current operating plans as approved by the Alanco Board of Directors, with the payments discounted at a rate of 3% per annum. Accretion expense is being imputed at 3% per annum, increasing the fair value of the contingent land payment during the three months ended September 30, 2013 by $4,700.

Contingent purchase price of $516,900 at September 30, 2013 represents the net present value of projected payments to be made to TC Operating, LLC ("TCO") pursuant to an Asset Purchase Agreement under which TC Operating transferred a land lease for approximately 24 acres of land known as Deer Creek and all related tangible and intangible assets. Per the agreement, the contingent payments are determined as 28% of the Cumulative EBITDA in excess of all of AES's capital investment for the ten (10) year period commencing on the earlier of (i) the recovery of AES's capital investment, or (ii) January 1, 2014. AES's Capital investment shall mean the aggregate amount incurred by AES in acquiring the Assets, the Indian Mesa Facility, and or improving either the Deer Creek Facility or the Indian Mesa Facility. Payments of said Contingent Purchase Price shall be payable quarterly. The projected payments consider current operating plans as approved by the Alanco Board of Directors, with payments discounted at a rate of 3% per annum to determine net present value. Accretion expense is being imputed at 3% per annum, increasing the fair value of the contingent land payment during the three months ended September 30, 2013 by $3,700.

Note I – Asset Retirement Obligation

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

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

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

The laws of the State of Colorado require companies to meet environmental and asset retirement obligations by selecting an approved payment method. The Company has elected to meet its obligation by making quarterly payments of approximately $4,700 into a trust that over the expected lease period will build liquid assets to meet the asset retirement obligation. During the quarter ended September 30, 2013, the Company made the required quarterly payment. The balances in the trust account for the asset retirement obligation as of September 30, 2013 and June 30, 2013 were $34,700 and $30,000, respectively.

Note J – Commitments and Contingencies

Sale of StarTrak Systems, LLC

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

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

ORBCOMM delivered to Alanco on August 12, 2011, a written statement of the Current Assets, Current Liabilities and Net Working Capital Amount pursuant to the terms of the Agreement reflecting a working capital adjustment in favor of ORBCOMM of approximately $700,000. Under terms of the Agreement, Alanco submitted a “Notice of Disagreement” of the Net Working Capital Amount submitted by ORBCOMM. The Agreement stipulates third party arbitration to resolve disagreements over the working capital adjustment. In an attempt to avoid the expense of submitting the disagreement to arbitration prematurely, and in consideration of mutual desires to resolve the issue, the parties are working to resolve the issue. The Company has recorded a reserve in excess of $100,000 for this contingent liability as of September 30, 2013. However, based upon the limited documentation received from ORBCOMM to date, we cannot reasonably estimate the likelihood of additional liability. Although we believe our reserve to be adequate, the ultimate liability may be materially revised as we continue to work to resolve the matter. As of the filing of this Form 10-Q, the parties were reviewing the working capital calculations and no resolution had been reached.

ALANCO TECHNOLOGIES, INC.

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

Product Warranty Escrow - The APA required a Product Warranty Escrow account in the amount of 166,611 shares of ORBCOMM common stock be established to provide for the availability of ORBCOMM shares to pay for half of certain product warranty costs incurred during the period March 1, 2011 to April 30, 2012, but only to the extent total warranty costs during the period exceed $600,000. Under the escrow agreement, shares returned to ORBCOMM in payment of those warranty costs would again be valued at $3.001 per share. Upon distribution of the shares to ORBCOMM from the escrow account, the remaining shares would be distributed to Alanco. To recognize at September 30, 2013 and June 30, 2013 the potential return of ORBCOMM shares under this agreement, Alanco has reduced the balance of the Marketable Securities – Restricted by the value of 83,306 shares. The 83,306 shares reduction is based on management's best estimate of the warranty costs at September 30, 2013 and June 30, 2013. The ultimate number of shares of ORBCOMM Common Stock to be returned to ORBCOMM in the final settlement is currently undeterminable and may be in excess of the 83,306 shares currently estimated by the Company. The parties are currently in discussion with the objective of resolving the final distribution under this escrow agreement.

Legal Proceedings

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

Note K – Related Party Transactions

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

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

Note L – Subsequent Events

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

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

Note M - Liquidity

During the three months ended September 30, 2013, the Company reported a net loss of ($151,200) and for fiscal year ended June 30, 2013, the Company reported a net loss of ($683,000). During fiscal 2014, the Company expects to meet its working capital and other cash requirements with its current operations, cash reserves and sales of marketable securities as required. However, if for any reason, the Company does require additional working capital to complete its business plan, there can be no assurance that the Company's efforts to acquire the required additional working capital will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations, identify profitable acquisition/merger candidates and/or successfully invest its capital.

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

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

Critical Accounting Policies and Estimates

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

2014.

ALANCO TECHNOLOGIES, INC.

Results of Operations

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

(A) Three months ended September 30, 2013 versus three months ended September 30, 2012

Net Revenues
Net revenues reported for the quarter ended September 30, 2013 were $14,800, a decrease of $86,400, or 85.4% as compared to $101,200 reported for the quarter ended September 30, 2012. Revenues continue to be at a low level as water disposal operations remain in a startup mode and the Company develops relationships with potential customers in the region. Water deliveries are also impacted by the prices of oil and gas which drives drilling activities in the region, the restriction on drilling during winter months which negatively impacts water deliveries, and alternative uses of produced water that some potential customers are utilizing. As additional customers are expected to recognize the savings of using a local water disposal company and as additional relationships develop, we expect revenues to increase.

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

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

Operating Loss

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

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

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

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

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

Liquidity and Capital Resources

The Company's current assets at September 30, 2013 exceeded current liabilities by $2,409,500, resulting in a current ratio of 9.5 to 1. At June 30, 2013, current assets exceeded current liabilities by $2,526,500 reflecting a current ratio of 10.3 to 1. The reduction in net current assets at September 30, 2013 versus June 30, 2013 was due primarily to the sale of marketable securities – restricted during the current quarter, a reduction in accounts and other receivables, offset by an increase in notes receivable.

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

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

Cash provided by investing activities for the three months ended September 30, 2013 was $459,200, a decrease of $468,900 or 50.5% compared to the $928,100 provided for the same period of the prior year. The decrease was primarily due to decreases in cash proceeds in the quarter ended September 30, 2013 from the sale of marketable securities compared to the same period of the prior year, and the cash proceeds provided in the quarter ended September 30, 2012 from the repayment of the Symbius note and the sale of the Symbius investment, all offset by a reduction in purchases of land, property and equipment.

ALANCO TECHNOLOGIES, INC.

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

During fiscal 2014, the Company expects to meet its working capital and other cash requirements with its operations, current cash reserves and sales of marketable securities as required. However, the Company may require additional working capital for future operations. While the Company believes that it will succeed in attracting additional required capital and will generate capital from future operations, there can be no assurance that the Company's efforts will be successful. The Company's continued existence is dependent upon its ability to achieve and maintain profitable operations, identify profitable acquisition/merger candidates and/or successfully invest its capital.

Item 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting company.

Item 4 - CONTROLS AND PROCEDURES

(a) EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended). Based on their evaluation, the Company's Chief Executive Officer and its Chief Financial Officer concluded that, as of September 30, 2013, the Company's disclosure controls and procedures were effective. Management has concluded that the condensed consolidated financial statements in this Form 10-Q fairly present, in all material respects, the Company's financial position, results of operations, comprehensive income (loss) and cash flows for the periods and dates presented.

(b) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

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

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

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

ALANCO TECHNOLOGIES, INC.

Item 6. EXHIBITS

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

SIGNATURE

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

ALANCO TECHNOLOGIES, INC.

(Registrant)
/s/ John A. Carlson
John A. Carlson
Chief Financial Officer

Alanco Technologies, Inc.