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ALANCO Technologies, Inc. (NASDAQ:ALAN - \$0.69)

INITIATE COVERAGE - BUY RECOMMENDATION

12-Month Price Target = \$3.75

For Research Disclosures – See Page 10

ALANCO MAKES TRANSFORMING ACQUISITION

Alanco Technologies, Inc. (“Alanco”) has announced the acquisition of StarTrak, Inc. (“StarTrak” or the “Company”), a niche provider of wireless tracking and subscription data services that uses satellite and cellular networks for asset tracking, remote control and management of refrigerated transportation units. The acquisition establishes Alanco as a wireless tracking and data services company that dominates two attractive markets segments – one that serves the private sector and tracks transportation assets and one that serves state and local governments and tracks inmates in jails and prisons.

Statistical Data	
Shares outstanding	46.5 million
Float	32 million
Market Capitalization	\$31.1 million
Avg. Daily Volume (90 days)	190,000
52-Week Range	\$0.45 - \$1.07
FY 2007 EPS Est.	\$0.02
FY 2008 EPS Est.	\$0.15
P/E 2007 Est.	33.5x
P/E 2008 Est.	4.5x

www.alanco.com

MAJOR POSITIVE FINANCIAL IMPACT

StarTrak, which was privately held, will be Alanco’s largest and most profitable business segment, making an immediate and significant revenue and profitability contribution to this micro cap company. StarTrak’s revenue is currently running at about \$1 million per month and growing rapidly. Its sales backlog is approximately \$13 million, which indicates to us the potential for revenue of nearly \$20 million in Alanco’s next fiscal year which begins on July 1, 2006. Management reports that StarTrak achieved initial operating profitability in March of 2006 and projects the unit’s operating profitability to exceed \$2.0 million for FY 2007. Alanco’s cost for the StarTrak acquisition looks attractive, considering StarTrak’s operating status and its future growth prospects. The transaction is valued at approximately \$15 million, including 13.2 million Alanco common shares plus about \$5.0 million of assumed liabilities.

STARTRAK HAS UNIQUE COMPETITIVE ADVANTAGE

StarTrak essentially has 100% of the market for tracking, management and control of the refrigeration transport (“reefers”) market due to its comprehensive product offering and strategic arrangements with Thermo King and Carrier Transicold. Those arrangements allow the Company to link its equipment directly into the control micros of the reefers, giving shippers the ability to not only read, but to interact and readjust operating parameters controlled by the unit. Control variables may be remotely adjusted interactively by the customer over a web-enabled information system provided by StarTrak and linked into the customer’s legacy information control systems. *No other wireless solution system has the ability to provide direct interaction with this critical component of refrigerated shipping.*

INTEGRATED SERVICE PROVIDES HIGH LEVEL OF RECURRING REVENUE

The data monitored and the remote commands issued by the client pass through StarTrak’s data center which, using its own proprietary software, processes the signals and integrates them with the information systems of the client. StarTrak’s sells both equipment and on-going data subscription services providing customers with a strong return on investment (ROI) based on a variety of value elements, including improved equipment utilization, lower fuel use and better control of perishable freight. Subscription data service fees, which include satellite or cellular transmission costs, range from \$15 - \$45 per month. With over 10,000 units in service and a significant backlog for installation, a recurring revenue stream should provide growing profitability and cash flow.

ESTIMATES OF FINANCIAL RESULTS: (FY ends 6/30)	(Dollar amounts in Thousands – Except EPS)						
	Year E	Qtr E	Qtr E	Qtr E	Qtr E	Year E	Year E
	<u>2006</u>	<u>9/31/06</u>	<u>12/31/06</u>	<u>3/31/07</u>	<u>6/30/07</u>	<u>2007</u>	<u>2008</u>
Revenue	\$6,700	\$7,200	\$8,950	\$11,100	\$12,050	\$39,300	\$59,500
Net Income	(\$3,978)	\$ 215	\$ 374	\$ 780	\$ 1,008	\$ 2,377	\$ 9,410
Earnings/(Loss) Share	(\$0.16)	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.15

COMPANY BACKGROUND

Before the StarTrak acquisition Alanco conducted its business in two segments. Alanco's focus has been on the development of its RFID business for the corrections market, Alanco/TSI PRISM. This business was acquired in May of 2002. The development of this business has been slower than anticipated both by Alanco and its shareholders, but several states appear close to making major installations. TSI PRISM is a tracking technology sold into the corrections market. The second business segment for Alanco is data storage which is conducted through two wholly-owned subsidiaries: Arraid, Inc. ("Arraid") and Excel/Meridian Data, Inc. ("Excel").

BUSINESS

THE STARTRAK ACQUISITION

Background: StarTrak, based in Morris Plains, New Jersey, has been providing wireless tracking and data solutions to a variety of industries for many years. (StarTrak's origins in rail car monitoring can be traced to a predecessor company dating back to 1993.) Currently the company's focus is on delivering advanced monitoring and control solutions to the mobile refrigeration market. This focus takes advantage of its unique interactive tracking and control hardware and software and its strategic agreements with the world's two largest producers of mobile refrigeration units, Thermo King and Carrier Transicold. (These two companies provide over 80% of all refrigerated transport units in the world.) The company's integrated product and service package provides measurable ROI benefits to its customers through improved equipment utilization, less freight spoilage and better reporting of shipping conditions being required by regulatory authorities as well as customers.

StarTrak performs project management, engineering development, software and hardware engineering and applications delivery in-house using its own highly qualified, experienced technical team. Manufacturing operations are out-sourced, using high volume, ISO-compliant partners, which manufacture and test products to StarTrak specifications.

StarTrak has continuously upgraded its product and service offerings. In 2000, it released ReeferTrak™, an initial product based on the new-generation of low cost, low power satellite communicators. In 2001 and 2004, the Company upgraded its mobile refrigeration monitoring and control product, which has become the leading reefer monitoring solution in North America. StarTrak is the only mobile refrigeration applications supplier to provide fully integrated capability for virtually every model of refrigeration units manufactured by both Thermo King and Carrier. Further, StarTrak is the only supplier to provide full-authority control functionality. Today, StarTrak enjoys the largest market share of wireless monitoring and control equipment in the North American mobile refrigeration markets. .

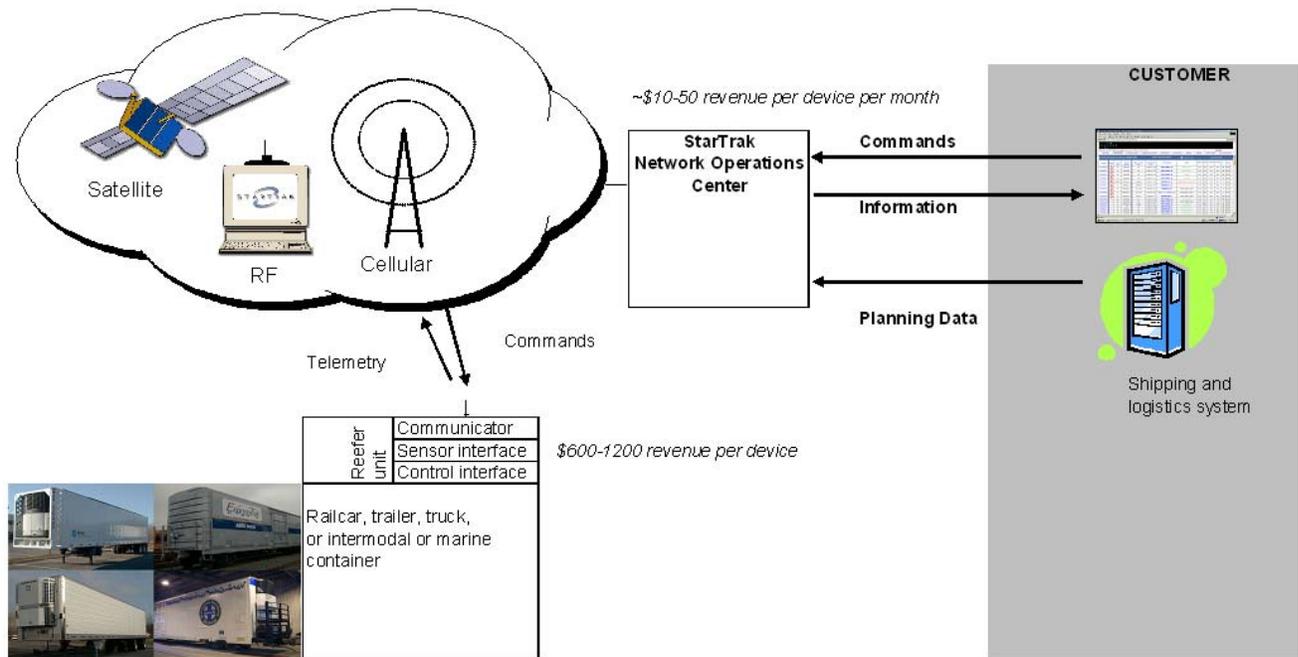
STARTRAK REEFER PRODUCTS/SERVICES

StarTrak's hardware device is attached to the asset which it is to track, monitor and control. Hardware costs may range from \$400.00 to \$1,800.00. The device is designed by StarTrak for the specific application and includes the Company's proprietary software. The hardware has an expected service life of approximately four years. Units are typically installed by Thermo King or Carrier dealers and are maintained at their repair facilities. The StarTrak hardware includes a GPS locator, processors, memory, interfaces to various reefer unit sensors (including temperature, fuel levels, battery load, etc.) power systems and one or several communicators. The unit provides frequent readings of various sensors, evaluates conditions, sends appropriate event notifications and receives commands over a wireless link.

StarTrak's ReeferTrak hardware and firmware is connected directly into the electronic control system of the reefer unit. It collects sensory data from the reefer microprocessor as well as other remote sensors, and executes commands through the microprocessor interfaces, making it the only solution that is able to both monitor and to control a reefer remotely. With this connection, StarTrak devices are able to remotely deliver information such as a discreet ID number, the reefer's location, current operational status, readings from discrete sensors such as temperature set point, actual temperature, fuel level, battery voltage, engine hours, dwell time at location, reefer state (on, off or standby) and multiple control parameters. StarTrak's solution can be retrofitted to reefer units up to ten years of age and is currently operating in North America, Australia, Europe and other locations.

At its data center, StarTrak processes the data received from units throughout the world with its proprietary systems and software and integrates it with other information streams, including shipper bill of lading, asset location, specific carrier or logistics company information, etc. and transmits the comprehensive information stream to the customer in a variety of formats. The customer can view its information in the manner which fits his normal operational requirements.

The complete StarTrak hardware, software and network solution consists of approximately 30 design elements. StarTrak’s intellectual property is protected through its knowledge and integration of the entire business process and its exclusive business and technical arrangements with Thermo King and Carrier and appropriate patents. A simple graphic of the system is as follows:



System branding for StarTrak products include:

ReeperTrak®: ReeferTrak is the most comprehensive set of monitoring, tracking, and control solutions available in refrigerated transport. ReeferTrak products include solutions for rail, truck, trailer, vehicle, container, and gensets. Most are available with satellite, cellular, RF, or multi-mode communications. ReeferTrak is the only product that provides direct full-authority communication with virtually all reefer microprocessors and is licensed by both Carrier Transicold and Thermo King. Full-authority means that the customer can, from his desk, operate almost any feature of any reefer unit in the fleet as if he were standing next to it.

GenTrak™: Wireless monitoring solution for gensets used to power reefers. This unique solution provides inventory visibility and EDI gate transaction reporting on the movement of gensets and their associated reefer including, as an option, reefer temperature reporting. The solution also provides all the standard vital sign reporting of all other StarTrak products such as fuel level/theft/re-fuelling, battery condition, switch positions, dwell time, etc

TankTrak®: A comprehensive, low powered monitoring system specifically designed for mobile equipment, which haul chemicals, fuels, time-sensitive and hazardous material shipments.

THE REEFER MARKET

StarTrak's interactive tracking capability can be used on multiple asset types. However, because of its relationship with the two North American reefer manufacturers, Thermo King, a unit of Ingersoll Rand Corp (NYSE:IR), and Carrier Transicold, a division of United Technologies Corporation (NYSE:UTX), StarTrak is focusing its technology solutions on the refrigerated transportation industry. These reefers are managed by an on-board electronics control system equipped with sensors and control systems that extend inside the storage space of the trailer, container or rail car. A microprocessor in the reefer unit controls and manages the temperature of the freight by interfacing with numerous sensors, generates alarms and stores relevant data. Typically a reefer unit is managed "locally" by a driver or yard worker who is physically present to manipulate the electronic controls manually.

We estimate that there are approximately 450,000 reefer units in service in North America. StarTrak capabilities can be retrofitted to almost any unit in service. Full subscription service to all of these units represents an annual market potential of nearly \$225 million (\$500/yr/unit). Installation of new StarTrak units, depending on penetration of the market could represent annual potential of \$45 million (10% of total market) to \$100 million (20% of total market).

THE DEVELOPING MARKET FOR REMOTE MANAGEMENT OF ASSETS

We applaud StarTrak's focus on a market (reefers) where it has a demonstrable competitive advantage and substantial additional opportunity for penetration. In past market exploration and product demonstrations, StarTrak has made introductory inroads into such markets as natural gas compressor stations, stationary oil tanks and railcars for chemicals and hazardous materials. We believe that the opportunity for remote monitoring, coupled with off-site control of variables has hardly been tapped.

There appears to be potential market applications for the StarTrak hardware and software monitoring and control that could be several times the size of the reefer market. Asset types that have had StarTrak systems deployed, in addition to over-the-road reefers include:

Refrigerated Containers	Generator Sets	Pipelines
Refrigerated Boxcars	Automobile Carriers (Autoracks)	Box cars (Paper)
Intermodal Containers	Steel Gondolas	Barges
Military Containers	Locomotives	Tank Cars
Fixed-site tanks	Remote gas compression sets	

STARTRAK CUSTOMER AND APPLICATION EXAMPLE

An example of a recent successful application that has resulted in a significant order commitment is a program StarTrak is delivering for a large global container shipping company. To serve its customers across several continents, the shipping company has its own fleet of feeder trucks and dedicated trains that carry containers to and from port facilities to customer locations. The shipping company offers door-to-door transportation service to more than 100 countries for refrigerated products.

While aboard the container ships the refrigerated containers are powered by a connection to the ship's power. On land, the containers require a mobile, diesel powered, generator ("genset") that provides electrical power to the built-in container refrigeration unit. In the U. S. the gensets are not associated with a particular shipment and may travel anywhere in North America. As attached units the gensets are subject to costly inventory control, maintenance and operational problems.

By attaching a StarTrak GenTrak unit to each genset, the Company solves the problem of inventory control and associated container management. StarTrak's real-time system provides the relevant location, maintenance and operational data as well as container temperature information. As a genset is attached to a refrigerated container, the genset automatically connects to the microprocessors on the container and retrieves relevant information including the container ID. This allows both units to be tracked throughout North America. Through GPS and geofencing, StarTrak can deliver real-time entry and exit data from 200 truck and rail ramp facilities in North

America, validating the manual process that occurs in each yard of identifying truck, chassis, container and genset. By highlighting low fuel conditions, fuel theft and certain operational parameters, the Company eliminates the need for 100% inspection of gensets at all ramp facilities. Maintenance and refueling is focused on need, saving millions of dollars per year in equipment inspection and maintenance costs. Equipment utilization is improved by being able to better allocate available and fueled gensets to the nearest needed location.

The data monitoring of container atmospheric conditions allows the shipping company to assure its customers of shipment quality, reducing claims of shipper caused spoilage. Finally, all of the data about each genset, container and commodity is incorporated into the shipping company's bill-of-lading information system giving them familiar and critical monitoring from origin to destination.

Initially StarTrak delivered 220 of its units for integration and evaluation purposes. The Company has received an order for over 3,000 additional systems, worth over \$10 million, to be delivered over the next two years.

The value delivered to the shipping company from the StarTrak system is high; saving of several millions of dollars per year in maintenance and operational costs and yet unmeasured reductions in costs associated with customer claims of spoilage and un-measurable benefits of assurances in shipment conditions and quality.

Selected other Fortune 500 customers for StarTrak systems include:

- Tropicana - a unit of PepsiCo
- CR England – a refrigerated carrier
- Simplot – potatoes, sliced and diced
- McCain Foods
- Burlington, Northern and Santa Fe – refrigerated rail cars
- Union Pacific Railroad

CURRENT ALANCO BUSINESSES

ALANCO/TSI PRISM RFID TECHNOLOGY: In May of 2002, Alanco acquired the operations of Technology Systems International, Inc., the developer of the proprietary TSI PRISM^(TM) wireless RFID tracking technology. The TSI PRISM technology is utilized primarily in correctional facilities, security management and personnel monitoring. Recently, Alanco entered into a technology license agreement with a developer of RFID real-time location services utilizing 2.4 GHz wireless networking standards granting Alanco an exclusive five-year worldwide license to acquire, modify or combine the 2.4 GHz technology with Alanco's 900 MHz TSIPRISM technology for the corrections market. The Company believes the 2.4 GHz technology has certain application advantages over the 900 MHz technology in international markets.

Alanco/TSI PRISM ("ATSI") provides real-time location and tracking technology specifically tailored for the stringent requirements of the correctional facilities market. Alanco's product is the most widely used in the industry and has been continuously in use in state prison facilities since August of 2000. Benefits of the ATSI system include improved security and safety by providing real-time identification and tracking of inmates and staff at two-second intervals. The software provides graphic tracking and positioning depicting where a subject is, anywhere in the facility. The system components include the following elements:

- A tamper-proof radio transmitter with a unique identification code for each person, attached at the wrist of inmates and on the utility belts of officers.
- A strategically placed array of receiving antenna that triangulate exact positions of inmates and officers every two seconds.
- A network of computers that accumulate and graphically display the location of inmates and officers at all times and store the data for later retrieval if needed as evidence.

The features of inmate tracking and evidence retention that can show specific person proximity, movement around the facility and provide duress alarms, with specific location, provides the benefits of lower inmate-on-inmate

violence, fewer inmate-officer altercations and evidence for prosecution of inmate crimes. The improved control, lower violence and heretofore not available evidence chain has demonstrable cost benefits to correctional institutions.

Initially, ATSI was marketed primarily to the state and federal correctional market. However, increased violence in city and county jails has caused several cities and counties to request design of ATSI systems for their more densely populated facilities. One of the jail design contracts was for Los Angeles County. The Company expects to complete a pilot project for LA County that could lead to a contract that would provide identification and tracking of LA County's 18,000 jail inmates. The Company is in discussion with several other large city and county jail systems that could be as large as LA County.

To improve marketing effectiveness, ATSI has added a network of lobbyist in addition to its direct sales representatives. The addition of 2.4 gigahertz capability has also allowed the Company to provide technology for the corrections market in Europe

DATA STORAGE SEGMENT: Arraid, based in Phoenix, AZ, designs and manufactures proprietary data storage subsystems called "emulators" that serve as translators between older "legacy" computers and state-of-the-art storage devices and provides unique, cost-effective storage system solutions. Arraid's unique products are targeted at users of special application legacy computers, such as airplane flight simulators, nuclear power control systems, missile tracking computer systems, etc. Arraid markets its legacy storage products nationally and internationally through company sales representatives and independent sales representatives and distributors. Arraid was acquired in October of 1999.

Excel, based in Dallas, TX is a manufacturer and marketer of data storage networking products and is recognized as a leading provider of optical storage devices, such as CD/DVD-ROM servers. Excel also markets a Network Attached Storage ("NAS") product line and other storage products incorporating state-of-the-art software technology. Excel markets its optical storage and NAS products, primarily in the United States, through national advertising, telemarketing and company sales representatives. Excel was acquired in June of 2000.

MANAGEMENT

Robert R. Kauffman: Mr. Kauffman was appointed as Chief Executive Officer and Chairman of the Board of Alanco, effective July 1, 1998. Mr. Kauffman was formerly President and Chief Executive Officer of NASDAQ-listed Photocomm, Inc., from 1988 until 1997 (since renamed Kyocera Solar, Inc.). Photocomm was the nation's largest publicly owned manufacturer and marketer of wireless solar electric power systems with annual revenues in excess of \$35 million. Prior to Photocomm, Mr. Kauffman was a senior executive of the Atlantic Richfield Company (ARCO). At ARCO his responsibilities included Senior Vice President of ARCO Solar, Inc., President of ARCO Plastics Company and Vice President of ARCO Chemical Company. Mr. Kauffman holds a B.S. in Chemical Engineering from Lafayette College, Easton, Pennsylvania and earned an M.B.A. in Finance at the Wharton School of the University of Pennsylvania.

John A. Carlson: Executive Vice President and Chief Financial Officer of Alanco. Mr. Carlson joined the company in September 1998. Mr. Carlson started his career with Price Waterhouse & Co. in Chicago, Illinois. He has over twenty-five years of public and private financial and operational management experience, including over twelve years as Chief Financial Officer of a Fortune 1000 printing and publishing company. He earned his Bachelor of Science degree in Business Administration at the University of South Dakota, and is a Certified Public Accountant.

Timothy Slifkin: Co-founder and President and CEO of StarTrak. Mr. Slifkin created the initial products in rail and refrigeration management for the Company. His current focus is the development of the Company's product offering and its future technology strategy. Mr. Slifkin has been developing remote monitoring systems since 1986 and has been developing and deploying wireless systems (satellite and terrestrial) since 1988. Mr. Slifkin has numerous patents issued or pending on related technology which are owned by StarTrak. He has developed leading edge solutions in diverse fields including, wireless mobile asset monitoring, railcar dynamics and ride quality measurement, very low power sensors, very low-bandwidth full-authority control systems, web based control systems and complex solutions based on convergent technologies. Prior to founding StarTrak, Mr. Slifkin has worked for Hewlett Packard, Johanson Manufacturing, American Microsystems, Beckman Instruments and Jet Propulsion Laboratories. He holds a Bachelors Degree in Engineering from Harvey Mudd College.

Thomas Robinson: Co-founder and Executive Vice President, of StarTrak. Mr. Robinson has been responsible for major program deliveries at StarTrak since 1999 and today oversees the Company's commercial activities, including sales and marketing and the Company's key OEM relationships. Prior to joining StarTrak, Mr. Robinson was responsible for Mergers and Acquisitions at Varlen Corporation (acquired by Amsted Industries in 1999 for \$750 million). From 1994 to 1996, Mr. Robinson was a principal at a leveraged buy-out firm, raising funds for consolidation of system integration companies. From 1987 to 1994, Mr. Robinson was a Program Manager at Hughes Aircraft responsible for the sale, development and installation of aircraft traffic control systems in Europe. Mr. Robinson received Bachelors and Masters Degrees in Engineering from Case Western Reserve University and a MBA from the Wharton School of Business.

Greg Oester: President - Alanco/TSI PRISM, Inc. Mr. Oester has been president of TSI since 2000. Prior to TSI, he practiced international business law for 12 years with a firm that he had founded in Los Angeles, CA. He co-founded North American Enterprises, Inc. in 1989. Mr. Oester was admitted to practice before the U.S. Customs Court, the Court of International Trade and numerous State and Federal venues. He holds Bachelor of Arts degrees in Political Science and Economics from the University of Arizona and also a Juris Doctor Degree from the University of Laverne.

FINANCIAL PROJECTIONS

Our financial projections for Alanco/TSI PRISM and the data storage segments are based on a history of results for those businesses. We have assumed that the active order placement by various states will result in a significant revenue increase for the ATSI services over the next two years. Our estimates for the StarTrak operating parameters are from Alanco's press release and our interpretation of business levels from the StarTrak web site.

Management indicates that the StarTrak business is currently profitable. The Data Storage segment has been generating operating income for the last several quarters. Our projections assume that the ATSI business begins to develop significantly in FY2007. This is based on the announcement of several contracts with states and counties that have been in evaluation for months and/or years. Our estimate of a break-even for the Company in the first quarter of FY07 is predicated on billings of approximately \$900,000 in the ATSI business.

Alanco has issued both preferred and common shares over the past quarters to fund its operating deficits. These share increases have been from private placements and warrant exercise. Our FY07 share count is based on an estimated 33.5 million shares outstanding at 6/30/06, plus the addition of 13.0 million shares for the acquisition. Additionally, we feel the Company will need to raise funds for the expansion of both StarTrak and TSI PRISM, therefore we have added another 5.0 million shares for financing in the second quarter of FY07. For FY07 our estimate continues the paid-in-kind preferred dividend, which is automatically converted when the common stock trades at or above \$2.00 per share for 20 consecutive days. The FY2008 share count assumes an additional 10 million shares for the conversion of preferred.

Alanco Technologies, Inc.

Fiscal Year ending June 30,

(NASDAQ:ALAN)

Operating Summary

Dollars in thousands - except earnings per share

	Year E 6/30/06	Qtr E 9/30/06	Qtr E 12/31/06	Qtr E 3/31/07	Qtr E 6/30/07	Year E 6/30/07	Year E 6/30/08
Revenue							
Data Storage	\$ 6,200	\$ 1,700	\$ 1,850	\$ 2,000	\$ 2,150	\$ 7,700	\$ 8,500
TSI RFID	500	900	2,400	4,300	4,800	12,400	21,000
Startrak	-	4,600	4,700	4,800	5,100	19,200	30,000
Total Revenue	<u>\$ 6,700</u>	<u>\$ 7,200</u>	<u>\$ 8,950</u>	<u>\$ 11,100</u>	<u>\$ 12,050</u>	<u>\$ 39,300</u>	<u>\$ 59,500</u>
Cost of Revenue							
Data Storage	3,982	986	1,110	1,240	1,355	4,691	5,355
TSI RFID	330	585	1,584	2,795	3,168	8,132	13,650
Startrak	-	2,576	2,585	2,592	2,754	10,507	17,400
Cost sales	<u>4,312</u>	<u>4,147</u>	<u>5,279</u>	<u>6,627</u>	<u>7,277</u>	<u>23,330</u>	<u>36,405</u>
Gross Profit	2,388	3,053	3,671	4,473	4,774	15,971	23,095
Selling, Gen & Administrative	6,297	2,808	3,267	3,663	3,736	13,473	13,685
Total operating expenses	6,297	2,808	3,267	3,663	3,736	13,473	13,685
Operating income	(3,909)	245	404	810	1,038	2,497	9,410
Interest Expense net	87	30	30	30	30	120	-
Other Expenses	(91)	-	-	-	-	-	-
Earnings before taxes	<u>(3,905)</u>	<u>215</u>	<u>374</u>	<u>780</u>	<u>1,008</u>	<u>2,377</u>	<u>9,410</u>
Provision for income taxes	-	-	-	-	-	-	-
Net income	<u>\$ (3,905)</u>	<u>\$ 215</u>	<u>\$ 374</u>	<u>\$ 780</u>	<u>\$ 1,008</u>	<u>\$ 2,377</u>	<u>\$ 9,410</u>
Preferred Stock Dividend	(848)	(290)	(295)	(300)	(305)	(1,190)	-
Earnings Available to Common Stock	<u>\$ (4,753)</u>	<u>\$ (75)</u>	<u>\$ 79</u>	<u>\$ 480</u>	<u>\$ 703</u>	<u>\$ 1,187</u>	<u>\$ 9,410</u>
Earnings per share - diluted	<u>\$ (0.16)</u>	<u>\$ (0.00)</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.15</u>
Weighted share outstanding - diluted	29,400	46,500	51,500	51,500	51,500	50,250	61,500
Margin analysis							
Cost of Revenue - Data Storage	64.2%	58.0%	60.0%	62.0%	63.0%	60.9%	63.0%
Cost of Revenue - TSI RFID	66.0%	65.0%	66.0%	65.0%	66.0%	65.6%	65.0%
Cost of Revenue - Startrak	-	56.0%	55.0%	54.0%	54.0%	54.7%	58.0%
Gross margin	35.6%	42.4%	41.0%	40.3%	39.6%	40.6%	38.8%
Admin/Marketing	94.0%	39.0%	36.5%	33.0%	31.0%	34.3%	23.0%
Operating income	-58.3%	3.4%	4.5%	7.3%	8.6%	6.4%	15.8%
Net income	(58.3%)	3.0%	4.2%	7.0%	8.4%	6.0%	15.8%

VALUATION

Our valuation is based on companies that are in businesses similar to Alanco. Three of the companies below participate in RFID technology or long distance asset tracking. @Road's long distance asset tracking is most comparable to StarTrak's without the proprietary technology advantage held by StarTrak. LoJack does satellite location of stolen vehicles. Checkpoint does RFID protection for smaller assets generally in retail operations. Geo Group is added because its business is in the same sector as TSI PRISM, corrections and security management, again without the proprietary technology advantage in the TSI RFID system. However, the advantage all of these companies have is the momentum from ongoing operations.

<u>Company</u>	<u>Symbol</u>	<u>6/27 Price</u>	<u>Mkt Cap Millions</u>	<u>EPS E 2006</u>	<u>EPS E 2007</u>	<u>P/E 2006 E</u>	<u>P/E 2007 E</u>
@ Road, Inc	ARDI	\$ 5.50	\$339	\$0.12	\$0.22	45.8x	25.0x
LoJack	LOJN	\$17.52	\$356	\$1.05	\$1.25	16.7x	14.0x
Checkpoint	CKP	\$20.20	\$791	\$1.37	\$1.67	14.7x	12.1x
Geo Group	GGI	\$32.43	\$316	\$2.01	\$2.38	<u>16.1x</u>	<u>13.6x</u>
				Average P/E		23.3x	16.2x
Alanco	ALAN	\$0.69	\$31.1	\$0.02	\$0.15	33.5x	4.5x

Alanco has significantly changed its financial outlook its acquisition of StarTrak. That acquisition offers the potential of expanding its revenue from \$6.0 million in FY06 to over \$60 million by FY08, given the development of Alanco/TSI PRISM. The expansion of the StarTrak units under management will provide a growing and fairly predictable high margin recurring revenue source from its data center.

We are establishing our initial price target based on our EPS estimate for FY2008 and a price earnings ratio of 25x, similar to @Road above. We believe the exclusive relationships with Thermo King and Carrier as well as the low penetration in a market that exceeds \$100 million per year will offer a long period of above average growth. The PE or 25x and the \$0.15 estimate yields a 12-month price target of \$3.75.

12-month Price Target = \$3.75

INVESTMENT RISKS

Alanco/TSI PRISM revenue: We have been rather aggressive in our assumptions about revenue for Alanco/TSI PRISM system sales, given the design and installation contracts announced by Alanco. Should these contracts not develop within the period of our estimates, the revenue and EPS levels in our estimates may not be achieved.

Financing: In our estimation, Alanco will need to raise money for working capital to expand the StarTrak business, as well as for any expanded revenue from Alanco/TSI PRISM. This financing will have to occur shortly after the consummation of the acquisition of StarTrak. Should financing not be available, or not be available at favorable terms, the business development may be slowed or more shares may be issues that we have anticipated.

Management: Any acquisition means a merging of management styles and organizational cultures. StarTrak management have indicated their enthusiasm for working with a more entrepreneurial organization like Alanco. The management have three year employment contracts as well as substantial equity interest in Alanco that should provide the incentive and continuity to achieve the Company's long range objectives.

NASDAQ Listing: Because of its share price, Alanco does not currently meet the listing requirements of NASDAQ Capital Market. The stock must trade at or above \$1.00 per share for ten consecutive days prior to July 31, 2006 for the Company to maintain its NASDAQ listing. Should the shares drop to the Bulletin Board for trading, share price might be impacted by the inability of some funds and/or asset managers to own the shares. Alanco management has the shareholders and Board's authorization to do a reverse split if necessary to maintain the listing.

RESEARCH DISCLOSURES FOR ALANCO TECHNOLOGIES, INC. (ALAN)

The Analyst certifies that the views expressed in this report are his own, without undue influence by Source Capital, the subject Company or the future prospects of business between Source Capital and the Company.

Source Capital has not provided investment banking services for the Company. The Analyst has not received any compensation, either directly or indirectly, from investment banking services provided to the Company by Source Capital and does not expect to receive any compensation from such services in the next three months. To the degree that the analyst receives direct or indirect compensation, it may affect the views expressed in this report.

Source Capital has provided non-investment banking services to the Company in the past, including appraisal services under Financial Standards Board Statement of Financial Standards 142, Goodwill and other Intangible Assets (SFAS 142).

Source Capital and its brokers and investment advisors offer individual account management and 401(k) advisory services for which they solicit the Company, its management and its board of directors as clients. The Analyst may receive compensation in the form of commissions or investment advisor fees from his role as broker or investment advisor to the Company, its management or members of its board of directors. The amount and timing of any indirect compensation received by the Analyst in the form of commissions and/or investment advisory fees cannot be determined at this time.

The Analyst manages private accounts for investors that currently own shares of the subject-Company which was purchased more than 90days prior to the publication of this report.

Source Capital is not a Market Maker in shares for the subject Company. Source Capital will solicit the subject Company for investment-banking services and may receive compensation for such services over the next 12-months.

Meanings of Ratings:

The ratings used by Source Capital in its Research Reports have the following meaning:

BUY: The Analyst expects the stock price of the subject company to exceed the performance of the major market indices (Standard & Poor's 500 or Dow Jones Industrials) by 20% or more over the coming 12-18 months.

NEUTRAL: The Analyst expects the stock price of the subject company to perform at or near (plus 5% to minus 5%) of the major market averages over the coming 12-18 months.

SELL: The Analyst expects the stock of the subject company to decline or perform worse than the major market averages by 10% or more over the coming 12-18 months.

Rating Distribution:	<u>BUY</u>	<u>NEUTRAL</u>	<u>SELL</u>
Percentage of covered companies assigned this rating	75%	25%	
Percentage of covered companies for which Source Capital has Provided investment banking services during the past 12 months.	33%	(Two of six companies.)	