ALANCO TECHNOLOGIES INC
Form S-3/A
March 04, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3/A
REGISTRATION STATEMENT
AMENDMENT NUMBER 2
UNDER
THE SECURITIES ACT OF 1933

ALANCO TECHNOLOGIES, INC.

(Exact name of registrant specified in charter)

Arizona 86-0220694

(State or other jurisdiction of (I.R.S. Employer

Incorporation or organization) Identification No.)

15575 North 83rd Way, Suite 3

Scottsdale, Arizona 85260

(480) 607-1010

(Address and telephone number of principal executive offices)

Robert R. Kauffman
Chief Executive Officer
Alanco Technologies, Inc.
15575 North 83rd Way, Suite 3
Scottsdale, Arizona 85260
(480) 607-1010
(Name, address and telephone number of agent for service)

With a Copy to:

Steven P. Oman, Esq.
10446 N. 74th Street, Suite 130
Scottsdale, Arizona 85258

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: FROM TIME TO TIME AFTER THE EFFECTIVENESS OF THIS REGISTRATION STATEMENT

IF THE ONLY SECURITIES BEING REGISTERED ON THIS FORM ARE BEING OFFERED PURSUANT TO DIVIDEND OR INTEREST REINVESTMENT PLANS, PLEASE CHECK THE FOLLOWING BOX. [ ]

IF ANY OF THE SECURITIES BEING REGISTERED ON THIS FORM ARE TO BE OFFERED ON A DELAYED OR CONTINUOUS BASIS PURSUANT TO RULE 415 UNDER THE SECURITIES ACT OF 1933, OTHER THAN SECURITIES OFFERED ONLY IN CONNECTION WITH DIVIDEND OR INTEREST REINVESTMENT PLANS, CHECK THE FOLLOWING BOX. [X]

IF THIS FORM IS FILED TO REGISTER ADDITIONAL SECURITIES FOR AN OFFERING PURSUANT TO RULE 462(b) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ]

IF THIS FORM IS A POST-EFFECTIVE AMENDMENT FILED PURSUANT TO RULE 462(c) UNDER THE SECURITIES ACT, CHECK THE FOLLOWING BOX AND LIST THE SECURITIES ACT REGISTRATION STATEMENT NUMBER OF THE EARLIER EFFECTIVE REGISTRATION STATEMENT FOR THE SAME OFFERING. [ ]

IF DELIVERY OF THE PROSPECTUS IS EXPECTED TO BE MADE PURSUANT TO RULE 434, PLEASE CHECK THE FOLLOWING BOX. [ ]

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be Registered	Proposed maximum aggregate offering price (1)	Amount of registration fee
Class A Common Stock	4,420,193	$0.78	$278.92

(1) Calculated for purposes of this offering under Rule 457(c) under the Securities Act of 1933 using the average of the high and low sales prices for the Company's Class A Common Stock on the NASDAQ SmallCap Market as of December 17, 2003.

(Footnote 2 deleted)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

SUBJECT TO COMPLETION, DATED MARCH 3, 2004

PROSPECTUS

ALANCO TECHNOLOGIES, INC.

4,420,193 Shares of Class A Common Stock

THE SHARES OFFERED IN THIS PROSPECTUS INVOLVE A HIGH DEGREE OF RISK. SEE "RISK FACTORS" ON PAGE 5 FOR INFORMATION THAT YOU SHOULD CONSIDER.

This prospectus is being used in connection with offerings from time to time by some of our stockholders. We issued the shares offered in this prospectus to the selling stockholders in connection with private placement financings completed in 2003, the establishment and extension of a line of credit agreement, and the grant of common shares in exchange for cancellation of put options. We expect that sales of shares of Class A Common Stock under this prospectus will be made

- in broker's transactions;
- in transactions directly with market makers; or
- in privately negotiated sales or otherwise.

The selling stockholders will determine when they will sell their shares, and in all cases they will sell their shares at the current market price or at negotiated prices at the time of the sale. We will pay the expenses incurred to register the shares for resale, but the selling stockholders will pay any underwriting discounts, concessions, or brokerage commissions associated with the sale of their shares of Class A Common Stock. The selling stockholders and the brokers and dealers that they utilize may be deemed to be "underwriters" within the meaning of the securities laws, and any commissions received and any profits realized by them on the sale of shares may be considered underwriting compensation. See "Plan of Distribution."

The selling stockholders beneficially own all 4,420,193 shares of Class A Common Stock. We will not receive any part of the proceeds from the sale of the shares. The registration of the shares on behalf of the selling stockholders, however, does not necessarily mean that any of the selling stockholders will offer or sell their shares under this registration statement, or at any time in the near future.

Our Class A Common Stock is listed on the NASDAQ SmallCap Market, or NASDAQ, under the symbol "ALAN." On December 17, 2003, the last sale price of our Class A Common Stock on NASDAQ was $0.78 per share.

You should read this prospectus and any prospectus supplements carefully before deciding to invest.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2004.

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SUMMARY

The following summary does not contain all of the information that may be important to purchasers of our Class A Common Stock. Prospective purchasers of Class A Common Stock should carefully review the detailed information and financial statements, including notes thereto, appearing elsewhere in or incorporated by reference into this prospectus.

The Company

Our company, Alanco Technologies, Inc., together with our subsidiaries, is a provider of advanced information technology solutions. Our operations at the end of fiscal 2003 (June 30, 2003) were diversified into two reporting business segments including: (i) design, production, marketing and distribution of RFID tracking technology, and (ii) manufacturing, marketing and distribution of data storage products.

Effective June, 2002, we acquired radio frequency identification (RFID) tracking technology through the acquisition of the operations of Technology Systems International, Inc., a Nevada corporation. We continue to participate in the data storage market through two wholly-owned subsidiaries: Arraid, Inc., a manufacturer of proprietary storage products to upgrade older "legacy" computer systems; and Excel/Meridian Data, Inc., a manufacturer of network attached storage systems for mid-range organizations.

Our principal executive offices are located at 15575 North 83rd Way, Suite 3, Scottsdale, AZ 85260, and our telephone number is (480) 607-1010.

The Offering

Securities offered by the Selling Shareholders.....	4,420,193 shares of Class A Common Stock
Class A Common Stock currently outstanding.....	18,040,365 shares (1)
Use of proceeds.....	We will not receive any of the proceeds of sales of Class A Common Stock by the Selling Shareholders. We may, however, receive proceeds from the exercise of certain rights held by some of the Selling Shareholders under stock options or warrants to purchase Class A Common Stock from us if that is the origin of shares sold by those Selling Shareholders.
Risk Factors.....	Prospective purchasers should carefully consider the factors discussed under "Risk Factors."
NASDAQ symbol.....	ALAN

(1) Excludes (i) 6,909,000 shares of Class A Common Stock reserved for issuance upon exercise of stock options outstanding as of March 1, 2004; (ii) 2,318,000 shares reserved for issuance upon the exercise of stock options that may be granted in the future under our stock option plans; (iii) 6,578,657 shares reserved for issuance upon exercise of outstanding warrants; (iv) 7,934,592 shares reserved for issuance upon conversion of the Series A Convertible Preferred Stock; and (v) 762,827 shares reserved for issuance upon conversion of the Series B Convertible Preferred Stock.

RISK FACTORS

An investment in Alanco involves a high degree of risk. In addition to the other information included in this prospectus, you should carefully consider the following risk factors in determining whether or not to purchase the shares of Class A Common Stock offered under this prospectus. These matters should be considered in conjunction with the other information included or incorporated by reference in this prospectus. This prospectus contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of

places in this prospectus and include statements regarding the intent, belief or current expectations of our management, directors or officers primarily with

respect to our future operating performance. Prospective purchasers of our securities are cautioned that these forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of various factors. The accompanying information contained in this prospectus, including the information set out below, identifies important factors that could cause such differences. See "Safe Harbor Statements Under the Private Securities Litigation Reform Act of 1995."

TSI acquisition. We acquired the business and assets of Technology Systems International, Inc. ("TSI") effective June 2002, creating the Company's RFID Technology segment. The following risks are relevant with respect to the acquisition:

- We must successfully integrate and operate the TSI business as contemplated by the acquisition. The process of integrating management operations, facilities, accounting, billing and collection systems, and other information systems requires continued investment of time and resources and can involve difficulties, which could have a material adverse effect on our business, financial condition, cash flows and results of operations.

- We are projecting significant revenue growth from sales of the TSI PRISM tracking system in the corrections market. We do not have experience in the corrections market, and there is no certainty that we will be able to capture the required market share for TSI to achieve its anticipated financial success. The TSI PRISM system is currently being marketed to the corrections market as an inmate management tool and officer safety system. Although there are other officer monitoring systems being marketed to the corrections industry, the TSI PRISM system is currently the only system, to the best of our knowledge, that is able to continuously (every two seconds) monitor the location of both officers and prisoners, both inside and outside of buildings. There is no certainty that the corrections industry will adopt this technology broadly enough for us to reach our marketing projections.

- We purchase sub-components for the TSI PRISM system technology from a limited number of subcontractors that have the required technology to produce the sub-components in the quantities required. We cannot be assured that required sub-components will be available in the quantities and at the prices and terms anticipated.

- Our TSI PRISM technology is reliant on key personnel who developed and understand the technology. The loss of the services of those key technology personnel could have an adverse effect on the business, operating results and financial condition of our company.

- See Legal Matters for a discussion of a legal suit filed in connection with our acquisition of the operations of TSI.

We are subject to the budget constraints of the governmental agencies purchasing TSI PRISM systems, which could result in a significant decrease in our anticipated revenues. We are subject to the budget constraints of the governmental agencies to whom we plan to sell the TSI PRISM system. We cannot assure you that such governmental agencies will have the necessary revenue to purchase the systems even though they may want to do so. The funds available to

governmental agencies are subject to various economic and political influences. Even though the TSI PRISM system may be recommended for purchase by corrections facility managers, the governmental agency responsible for the facility may not have sufficient budget resources to purchase the system. As of the date of this filing, the Company has no current TSI PRISM sales backlog as defined by unfulfilled signed contracts.

General economic conditions. Recent unfavorable economic conditions and reduced information technology spending by our customers have adversely affected our business in recent quarters. If the economic conditions worsen, or continue at their present level indefinitely, we may experience a material adverse impact on our business, operating results, and financial condition. Our data storage product division sells systems designed to upgrade and enhance older Legacy computer systems as well as network attached storage systems to mid-sized network users. The recent economic conditions have resulted in reduced spending by our customers for technology in general, including the data storage systems sold by us. We have reduced overhead to assist in offsetting our reduced sales volume; however, no assurance can be given that the current economic conditions will not worsen further exacerbating the sales slowdown. The TSI PRISM system sales are less dependent upon current economic conditions as most of the system purchasers are governmental agencies. However, the current economic conditions do have an impact on governmental budgets, thereby potentially impacting our sales. See the previous section discussing the budget constraints of our governmental purchasers.

Acts of domestic terrorism and war have impacted general economic conditions and may impact the industry and our ability to operate profitably. On September 11, 2001, acts of terrorism occurred in New York City and Washington, D.C. On

October 7, 2001, the United States launched military attacks on Afghanistan, and in 2003 launched military attacks on Iraq with ongoing operations in both areas. As a result of those terrorist acts and acts of war, there has been a disruption in general economic activity. The demand for our data storage products and services have declined as layoffs in industries affect the economy as a whole. There may be other consequences resulting from those acts of terrorism, and any others which may occur in the future, including civil disturbance, war, riot, epidemics, public demonstration, explosion, freight embargoes, governmental action, governmental delay, restraint or inaction, quarantine restrictions, unavailability of capital, equipment, personnel, which we may not be able to anticipate. These terrorist acts and acts of war may continue to cause a slowing of the economy, and in turn, reduce the demand of our data storage products and services, which would harm our ability to make a profit. Also, as federal dollars are redirected to military efforts, they may not be available for the purchase of new federal prison monitoring systems. We are unable to predict the long-term impact, if any, of these incidents or of any acts of war or terrorism in the United States or worldwide on the U.S. economy, on us or on the price of our stock.

Future capital and liquidity needs; Uncertainty of proceeds and additional financing. The Company incurred significant losses during fiscal year 2003 and has experienced significant losses in prior years. Although management cannot assure that future operations will be profitable or that additional debt and/or equity capital will be raised, we believe that, based on our fiscal 2004 operating plan, cash flow will be adequate to meet our anticipated future requirements for working capital expenditures, scheduled lease payments and scheduled payments of interest on our indebtedness. We will need to materially reduce expenses, or raise additional funds through public or private debt or equity financing, or both, if the revenue and cash flow elements of our 2004

operating plan are not met. If additional funds are raised through the issuance of equity securities, the percentage ownership of the then current shareholders of the company will be reduced, and such equity securities may have rights, preferences or privileges senior to those of the holders of Class A Common Stock. If we need to seek additional financing to meet working capital requirements, there can be no assurance that additional financing will be available on terms acceptable to us, or at all. If adequate funds are not available or are not available on acceptable terms, our business, operating results, financial condition and ability to continue operations will be materially adversely affected.

Recent losses; Fluctuations in operating results. We had a consolidated loss from operations of $2,601,800 for the fiscal year ending June 30, 2003, and a consolidated loss from operations of $6,011,200 for the fiscal year ending June 30, 2002. In addition, our quarterly operating results have fluctuated significantly in the past and could fluctuate significantly in the future. We anticipate our financial performance will be significantly impacted by our acquisition of the TSI RFID technology effective June 1, 2002. As a result, our past quarterly operating results should not be used to predict future performance.

Intellectual property. Our primary business strategy is to develop the TSI business opportunity. The long-term success of this strategy depends in part upon the TSI intellectual property acquired. Third parties may hold United States or foreign patents which may be asserted in the future against the TSI technology, and there is no assurance that any license that might be required under such patents could be obtained on commercially reasonable terms, or otherwise. Our competitors may also independently develop technologies that are substantially equivalent or superior to our technology. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Despite our efforts to safeguard and maintain our proprietary rights both in the United States and abroad, there can be no assurance that we will be successful in doing so or that the steps taken by us in this regard will be adequate to deter infringement, misuse, misappropriation or independent third-party development of our technology or intellectual property rights or to prevent an unauthorized third party from copying or otherwise obtaining and using our products or technology. Litigation may also become necessary to defend or enforce our proprietary rights. Any of such events could have a material adverse effect on our business, operating results and financial condition.

Dependence on key personnel. Our performance is substantially dependent on the services and performance of our executive officers and key employees. The loss of the services of any of our executive officers or key employees could have a material adverse effect on our business, operating results and financial condition. Our future success will depend on our ability to attract, integrate, motivate and retain qualified technical, sales, operations and managerial personnel. None of our executive officers are bound by an employment agreement or covered by key-man insurance.

Competition. Although early in the market development cycle, the TSI PRISM business/technology has no current, identified direct competitors. However, it can be expected that if, and to the extent that, the demand for the TSI technology increases, the number of competitors will likely increase. Increasing competition could adversely affect the amount of new business we are able to attract, the rates we are able to charge for our services and/or products, or both.

Relative to our data storage businesses, we operate in a very competitive environment, competing against numerous other companies, many of whom have greater financial resources and market position than we do.

Possible exercise and issuance of options and warrants may dilute interest of shareholders. As of the date of this prospectus, options to purchase 6,909,000 shares of our Class A Common Stock were outstanding, and the weighted average exercise price of such options was $0.83. Additionally, warrants to purchase 6,578,657 shares of our Class A Common Stock were outstanding, and the weighted average exercise price of such warrants was $0.77. To the extent that any stock options currently outstanding or granted in the future are exercised, dilution to the interests of our shareholders may occur.

Possible de-listing of our stock on NASDAQ. Our Class A Common Stock currently trades on the NASDAQ SmallCap Market under the symbol "ALAN." However, there can be no assurance that an active trading market in our Class A Common Stock will be available at any particular future time.

We had previously received notice from NASDAQ that our stock price did not meet the NASDAQ listing eligibility requirement of a minimum closing bid price of $1.00. However, on December 4, 2003, we received notification from NASDAQ that our stock had demonstrated a closing bid price of at least $1.00 per share for ten consecutive trading days and was therefore determined to be in compliance with all of NASDAQ's listing requirements. The NASDAQ Listing Qualifications Panel determined to continue the listing of the Company's securities on the NASDAQ Small Cap Market and closed their hearing file.

On January 16, 2004, we again received notification from NASDAQ that the bid price of the Company's Common Stock had closed below the minimum $1.00 per share requirement for the previous 30 consecutive business days. NASDAQ has given the Company until July 14, 2004, to regain compliance with the minimum closing bid price of $1.00.

While the Company realizes that any future delisting action relating to a minimum bid price requirement may adversely affect the price and liquidity of our Common Stock, we received approval from our Shareholders at our Annual Meeting of Shareholders held on December 22, 2003, for a proposal authorizing a reverse split to be effected only if necessary to maintain our NASDAQ listing. This authorization, which remains in effect until December 31, 2006, will allow our Board of Directors to effect up to a one for ten reverse split if it becomes necessary to maintain our NASDAQ listing.

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

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

shares of common stock held by our stockholders.

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

- progress of our products through development and marketing;
- announcements of technological innovations or new products by us or our competitors;
- government regulatory action affecting our products or competitors products in both the United States and foreign countries;
- developments or disputes concerning patent or proprietary rights;
- actual or anticipated fluctuations in our operating results;
- the loss of key management or technical personnel;
- the loss of major customers or suppliers;
- the outcome of any future litigation;
- changes in our financial estimates by securities analysts;

- general market conditions for emerging growth and technology companies;
- broad market fluctuations;
- recovery from natural disasters; and
- economic conditions in the United States or abroad.

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

SAFE HARBOR STATEMENTS UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This prospectus includes "forward-looking statements" as that term is defined in the Private Securities Litigation Reform Act of 1995. The safe harbor provisions of the Securities Exchange Act of 1934 and the Securities Act of 1933 apply to forward-looking statements made by us. These statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should" or "anticipates" or the negatives or variations of these terms, and other comparable terminology. In addition, any statements discussing strategy that involve risks and uncertainties are forward-looking.

Forward-looking statements involve risks and uncertainties, including those risks and uncertainties identified in the section of this prospectus beginning on page 5 titled "Risk Factors" and those risks and uncertainties identified elsewhere in, or incorporated by reference into, this prospectus. Due to these risks and uncertainties, the actual results that we achieve may differ materially from these forward-looking statements. These forward-looking statements are based on current expectations. In preparing this prospectus, we have made a number of assumptions and projections about the future of our business. These assumptions and projections could be wrong for several reasons including, but not limited to, those factors identified in the "Risk Factors" section.

You are urged to carefully review and consider the various disclosures that we make in this prospectus, any subsequent prospectus supplements and in our other reports filed with the SEC. These disclosures attempt to advise interested parties of the risk factors that may affect our business.

ISSUANCE OF SECURITIES TO SELLING SHAREHOLDERS

The Class A common stock subject to this prospectus was issued by us to the selling shareholders pursuant to a number of separate transactions. We agreed in each these transactions to file a registration statement, of which this prospectus is a part, to register the resale of the securities issued by us in these transactions. All of the shares of Class A common stock covered by this prospectus were "restricted securities" under the Securities Act prior to this registration. The transactions under which the securities were issued are described in the following paragraphs.

The first transaction involved the issuance by us of 150,000 shares of Class A common stock to a single investor, Leslie W. Griffith, in August, 2003 in exchange for Mr. Griffith's cancellation of his option to put certain shares of common stock back to the Company.

The second transaction involved the issuance by us of Class A common stock and warrants to purchase additional shares of Class A common stock to private investors in November, 2003. The investors are Vertical Ventures, LLC, Cleveland Overseas, Ltd., and Omicron Master Trust. A total of 1,538,462 shares of common stock was issued in exchange for $1,000,000, or $0.65 per share. In addition, warrants to purchase 769,231 shares of our common stock at an exercise price of $0.75 per share were issued by us to the investors.

The third series of transactions involves issuance by us of a warrant to purchase 100,000 shares of Class A common stock at an exercise price or $0.87 per share, which warrant was issued to the lender, The Anderson Family Trust, who established a revolving credit facility in the amount of $1,300,000 for us in June of 2002. This prospectus covers the resale of 100,000 shares of Class A common stock underlying the warrant. Also, upon the lender granting an extension of the credit line in April, 2003, and increasing the amount available thereunder to $1,800,000, the lender was granted a warrant to purchase an additional 250,000 shares of common stock at $0.40 per share and the right to convert up to $500,000 of the outstanding principal under the credit agreement into 1,000,000 shares of common stock. The lender has converted $250,000 of the outstanding principal into 500,000 shares of common stock. This prospectus covers the shares of common stock underlying the warrant, as well as the shares acquired or to be acquired by the lender upon conversion of a portion of the outstanding principal balance of the credit agreement. In addition, the lender, on July 31, 2003 agreed to certain further modifications to the credit line, including an extension thereof until July 1, 2005, and received an additional

warrant to purchase up to 50,000 shares of common stock at an exercise price of $0.50 per share. The shares of common stock underlying said warrant are covered by this prospectus.

The fourth transaction involved the issuance of 400,000 shares to a single private investor, Richard Vanek, in December, 2003 in exchange for $260,000.

The fifth transaction involves the issuance of shares or warrants to purchase shares of our Class A common stock to certain persons or companies in consideration for services provided to us as follows: 12,500 shares to Joe E. Blankenship, 50,000 shares to Ciro Didonna, and warrants to purchase 100,000 shares to Equity Communications, LLC.

(Paragraph deleted

USE OF PROCEEDS

All of the shares of Class A Common Stock being offered under this prospectus are offered by the selling shareholders, which term includes their transferees, pledgees or donees or other successors in interest. The proceeds from the sale of the Class A Common Stock are solely for the account of the selling shareholders. Accordingly, we will not receive any proceeds from the sale of Class A Common Stock by the selling shareholders. However, if shares to be sold by the selling shareholders are first to be acquired by them through exercise of warrants to purchase shares of Class A Common Stock as described in the previous section (See "Issuance of Securities to Selling Shareholders"), then we would have received the proceeds required for the exercise of the warrants previously, or contemporaneously to the selling shareholders' sale of such stock. Such proceeds, when and if received, would be utilized by the Company for general working capital.

PLAN OF DISTRIBUTION

The shares of Class A Common Stock covered by this prospectus and, if applicable, any prospectus supplements may be offered and sold from time to time in one or more transactions by the selling stockholders, which term includes their transferees, pledgees or donees or other successors in interest. These transactions may involve crosses or block transactions. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. The shares of Class A Common Stock may be sold by one or more of the following means of distribution:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;

- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under Rule 144 under the Securities Act, if available, rather than under this prospectus.

The selling stockholders may also engage in short sales against the box, puts and calls and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades.

Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Any profits on the resale of shares of common stock by a broker-dealer acting as principal might be deemed to be underwriting discounts or commissions under the Securities Act. Discounts, concessions, commissions and similar selling expenses, if any, attributable to the sale of shares will be borne by a selling stockholder. The selling stockholders may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares if liabilities are imposed on that person under the Securities Act.

The selling stockholders may from time to time pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus and may sell the shares of common stock from time to time under this prospectus after we have filed an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act of 1933 amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares of common stock may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares of common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act.

We are required to pay all fees and expenses incident to the registration of the shares of common stock. We have agreed to indemnify the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the Securities Act.

The selling stockholders have advised us that they have not entered into any agreements, understandings or arrangements with any underwriters or broker-dealers regarding the sale of their shares of common stock, nor is there

an underwriter or coordinating broker acting in connection with a proposed sale of shares of common stock by any selling stockholder. If we are notified by any selling stockholder that any material arrangement has been entered into with a broker-dealer for the sale of shares of common stock, if required, we will file a supplement to this prospectus. If the selling stockholders use this prospectus for any sale of the shares of common stock, they will be subject to the prospectus delivery requirements of the Securities Act.

The selling stockholders are subject to the applicable provisions of the Exchange Act and the rules and regulations thereunder, including Regulation M. This regulation may limit the timing of purchases and sales of any of the shares by the selling stockholders. The anti-manipulation rules under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. Furthermore, Regulation M may restrict the ability of any person engaged in the distribution of the shares to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before the distribution. These restrictions may affect the marketability of the shares and the ability of any person or entity to engage in market-making activities with respect to the

shares. In addition, under the securities laws of certain states, the shares of common stock may be sold in these states only through registered or licensed brokers or dealers.

We may suspend the effectiveness of the registration statement and, upon receipt of written notice from us, the selling stockholders shall cease using this prospectus if at any time we determine, in our reasonable judgment and in good faith, that sales of shares of common stock pursuant to the registration statement or this prospectus would require public disclosure by us of material nonpublic information that is not included in the registration statement and that immediate disclosure of such information would be detrimental to us.

If we suspend the effectiveness of the registration statement, we shall use our reasonable best efforts to amend the registration statement and/or amend or supplement the related prospectus if necessary and to take all other actions necessary to allow any proposed sales by the selling stockholders to take place as promptly as possible, subject, however, to our right to delay further sales of shares of common stock until the conditions or circumstances referred to above have ceased to exist or have been disclosed. We agreed with the selling stockholders that our right to delay sales of shares of common stock held by the selling stockholders will not be exercised by us more than twice in any twelve month period and will not exceed 60 days as to any single delay in any twelve month period.

We cannot assure you that the selling stockholders will sell all or any of the common stock offered under the registration statement or any amendment of it.

SELLING STOCKHOLDERS

The following table sets forth certain information, received through March 1, 2004, with respect to the number of shares of our Class A Common Stock beneficially owned by each selling stockholder. The information set forth below is based on information provided by or on behalf of the selling stockholders and, with regard to the beneficial holdings of the selling stockholders, is accurate only to the extent beneficial holdings information was disclosed to us by or on behalf of the selling stockholders. The selling stockholders and holders listed in any supplement to this prospectus, and any transferors, pledgees, donees or successors to these persons, may from time to time offer and

sell, pursuant to this prospectus and any subsequent prospectus supplement, any and all of these shares.

Except as otherwise described below, no selling stockholder, to our knowledge, held beneficially one percent or more of our outstanding Class A Common Stock as of the date of this prospectus. Because the selling stockholders may offer all, some or none of the shares of our Class A Common Stock listed below, no estimate can be given as to the amount or percentage of our Class A Common Stock that will be held by the selling stockholders upon termination of any of the sales.

Except as indicated below, none of the selling stockholders has held any position or office or had any other material relationship with us or any of our predecessors or affiliates within the past three years other than as a result of the ownership of our securities or the securities of our predecessors. We may amend or supplement this prospectus from time to time to update the disclosure set forth in it.

The shares of Class A Common Stock offered by this prospectus may be offered from time to time by the selling stockholders named below:

		SHARES OF CLASS A COMMON STOCK OFFERED BY THIS PROSPECTUS		
NAMES AND ADDRESSES OF THE PRIOR TO THE OFFERING (1) SELLING STOCKHOLDERS	SHARES OF CLASS A COMMON STOCK BENEFICIALLY OWNED PRIOR TO THE OFFERING	Shares	Shares Available By Exercise of Warrants and Conversions	Total Shares
Anderson Family Trust (2) FBO Donald E. and Rebecca E. Anderson 11804 N. Sundown Drive Scottsdale, AZ 85260	5,539,835	500,000	900,000	1,400,000

		SHARES OF CLASS A COMMON STOCK OFFERED BY THIS ROSPECTUS		
NAMES AND ADDRESSES OF THE PRIOR TO THE OFFERING (1) SELLING STOCKHOLDERS	SHARES OF CLASS A COMMON STOCK BENEFICIALLY OWNED PRIOR TO THE OFFERING	Shares	Shares Available By Exercise of Warrants and Conversions	Total Shares
Leslie W. Griffith(3) 12530 E. Meadow	400,000	150,000		150,000

Wichita, KS 67206				
Vertical Ventures, LLC (4) 641 Lexington Ave., 26th Floor New York, NY 10022	1,155,000	770,000	385,000	1,155,000
Cleveland Overseas, Ltd. (5) St. Makusgasse 19 P.O. Box 932,9490 Vaduz, Lichebstein	383,463	255,642	127,821	383,463
Omicron Master Trust (6) 810 7th Ave, 39th Floor New York, NY 10019	769,230	512,820	256,410	769,230
Richard Vanek (7) 2216 Creekview Carrollton, TX 75006	400,000	400,000		400,000
Joe E. Blankenship 13506 E. Onyx Court Scottsdale, AZ 85259	12,500	12,500		12,500
Ciro Didonna 21692 Wapford Way Boca Raton, FL 33486	50,000	50,000		50,000
Equity Communications, LLC(8) 1512 Grand Avenue, Suite 200 Santa Barbara, CA 93103	300,000		100,000	100,000
(Line item removed)				
TOTALS	2,650,962	1,769,231		4,420,193

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(1) The number of shares beneficially owned is determined in accordance with Rule 13d-3 of the Exchange Act and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the person has sole or shared voting power or investment power and also any shares which the person has the right to acquire within 60 days of the date set forth in the applicable footnote through the conversion of a security or the exercise of any stock option or other right. Percentage ownership indicated in the footnotes below is based on 18,040,365 shares of our Class A Common Stock outstanding as of March 1, 2004.

(2) Donald E. and Rebecca E Anderson have beneficial ownership of 24.2% of the Company. The shares shown include shares owned by the Anderson Family Trust, of which Donald E. and Rebecca E. Anderson are the sole trustees, and Programmed Land, Inc., which is 100% owned by the Anderson Family Trust. Mr. Anderson is a director of the Company.

(3) Leslie W. Griffith is the beneficial owner of 2.2% of the Company's Class A Common Stock

(4) Vertical Ventures, LLC is determined to be the beneficial owner of 6.3% of the Company's Class A Common Stock. However, per terms of the purchase agreement (filed as Exhibit B to the Company's Form 10-QSB/A filed on November 18, 2003), Vertical Ventures, LLC has a blocker, limiting the number of warrants that can be exercised in order that the aggregate beneficial ownership does not exceed 4.999%. Vertical Ventures, LLC does have the right to waive this limitation provision. The number of warrants shown above is inclusive of the warrants that may be waived by Vertical Ventures, LLC. As of the date of this Registration Statement, exercisable warrants considering the blocker would be limited to 138,966 warrants to avoid exceeding the 4.999% limitation. Joshua Silverman has voting control and investment decision over securities held by Vertical Ventures, LLC. Mr. Silverman disclaims beneficial ownership of the shares held by Vertical Ventures, LLC.

(5) Cleveland Overseas, Ltd. is the beneficial owner of 2.1% of the Company's Class A Common Stock. Mr. Ewald Vogt, the Director of GTF Global Trade and Finance S.A., the Manager of Cleveland Overseas Limited, has sole voting control and investment discretion over securities held by Cleveland Overseas Limited. Each of Mr. Ewald Vogt and GTF Global Trade and Finance S.A. disclaims beneficial ownership of the shares held by Cleveland Overseas Limited.

(6) Omicron Master Trust is the beneficial owner of 4.2% of the Company's Class A Common Stock. Omicron Capital, L.P., a Delaware limited partnership ("Omicron Capital"), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda ("Omicron"), Omicron Capital, Inc., a Delaware corporation ("OCI"), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited ("Winchester") serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over the shares of our common stock owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares of our common stock. Omicron Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the shares of common stock owned by Omicron and, as of April 21, 2003, Mr. Olivier H. Morali and Mr. Bruce T. Bernstein, officers of OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions of Omicron Capital with respect to the shares of common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the shares of our common stock owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not "affiliates" of one another, as that term is used for purposes of the Securities Exchange Act of 1934, as amended, or of any other person named in this prospectus as a selling stockholder. No person or "group" (as that term is used in Section 13(d) of the Securities

Exchange Act of 1934, as amended, or the SEC's Regulation 13D-G controls Omicron and Winchester.

(7) Richard Vanek is the beneficial owner of 2.2% of the Company's Class A Common Stock.

(8) Equity Communications, LLC, is the beneficial owner of 1.6% of the Company's Class A Common Stock. Ira Weingarten holds voting and dispositive powers over the shares of the Company's stock owned by Equity Communications, LLC.

(Footnote 9 deleted)

DESCRIPTION OF SECURITIES

Our authorized capital consists of 75,000,000 shares of Class A Common Stock, 25,000,000 shares of Class B Common Stock, and 25,000,000 shares of preferred stock. The preferred stock is issuable in series with such designation, preferences, voting rights, privileges, and other restrictions and qualifications as our Board of Directors may establish in accordance with Arizona law. There were 18,040,365 shares of Class A Common Stock outstanding, and no shares of Class B Common Stock issued and outstanding as of March 1, 2004. There were 2,644,864 shares of Series A Convertible Preferred Stock outstanding and 58,679 shares of Series B Convertible Preferred Stock outstanding as of March 1, 2004. There were no other shares of preferred stock outstanding at March 1, 2004. Shares of the Series A Convertible Preferred Stock are convertible into shares of Class A Common Stock at a rate of three shares of Class A Common Stock for every one share of Series A Convertible Preferred Stock. Shares of the Series B Convertible Preferred Stock are convertible into shares of Class A Common Stock at a rate of thirteen shares of Class A Common Stock for every one share of Series B Convertible Preferred Stock. As of March 1, 2004, options to purchase 6,909,000 shares of Class A Common Stock were outstanding, and the weighted average exercise price of such options was $0.83. In addition, as of March 1, 2004, the Company had 6,578,657 warrants to purchase Class A Common Stock outstanding, and the weighted average exercise price of such warrants was $0.77. Our Class A Common Stock is traded on the NASDAQ SmallCap Market under the symbol "ALAN". No other securities of the Company are currently traded on any market.

Common Stock

Holders of shares of our Class A Common Stock are entitled to one vote per share on all matters to be voted on by our shareholders. Holders of shares of Class B Common Stock are entitled to one-one hundredth of one vote per share of Class B Common Stock on all matters to be voted on by our shareholders. Our Class A Common Stock and our Class B Common Stock have cumulative voting rights with respect to the election of directors. Our bylaws require that only a majority of the issued and outstanding voting shares of common stock need be represented to constitute a quorum and to transact business at a shareholders' meeting.

Subject to the dividend rights of the holders of preferred stock, if applicable, holders of shares of common stock are entitled to share, on a ratable basis, such dividends as may be declared by the Board of Directors out of funds legally available.

Upon our liquidation, dissolution or winding up, after payment of creditors and

holders of any of our senior securities, including preferred stock, our assets will be divided pro rata on a per share basis among the holders of the shares of common stock. Our common stock has no preemptive or other subscription rights, and there are no conversion rights or redemption or sinking fund provisions. All outstanding shares of common stock are fully paid and non-assessable.

Preferred Stock

Our Board of Directors is authorized to issue preferred stock in one or more series and denominations and to fix the rights, preferences, privileges, and restrictions, including dividend, conversion, voting, redemption, liquidation rights or preferences, and the number of shares constituting any series and the designation of such series, without any further vote or action by our shareholders. The issuance of preferred stock may have the effect of delaying, deferring, or preventing a change of control of our company without further action by the shareholders. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock.

Our Board of Directors has previously authorized the issuance of a series of preferred stock referred to as Series B Convertible Preferred Stock. Without the affirmative vote of a majority of the holders of the Series B Preferred Stock,

we may not amend, alter or repeal any of the provisions of our articles of incorporation or articles of designation for the Series B Convertible Preferred Stock. We also need the affirmative vote of a majority of the holders of the Series B Convertible Preferred Stock if we want to authorize any reclassification of the Series B Convertible Preferred Stock that would adversely affect the preferences, special rights or privileges or voting power of the Series B Convertible Preferred Stock. We may not create or issue any class of stock ranking prior to the Series B Convertible Preferred Stock as to dividends or distribution of assets, or create or issue any shares of any series of the authorized preferred stock ranking prior to the Series B Convertible Preferred Stock's rights to dividends or distribution on liquidation. The Series B Convertible Preferred Stock shall have voting rights as if converted into Class A Common Stock.

Our Board of Directors has also authorized the issuance of a series of preferred stock referred to as Series A Convertible Preferred Stock. Without the affirmative vote of a majority of the holders of the Series A Preferred Stock, we may not amend, alter or repeal any of the provisions of our articles of incorporation or articles of designation for the Series A Convertible Preferred Stock. We also need the affirmative vote of a majority of the holders of the Series A Convertible Preferred Stock if we want to authorize any reclassification of the Series A Convertible Preferred Stock that would adversely affect the preferences, special rights or privileges or voting power of the Series A Convertible Preferred Stock. We may not create or issue any class of stock ranking prior to the Series A Convertible Preferred Stock (other than the existing Series B Convertible Preferred Stock) as to dividends or distribution of assets, or create or issue any shares of any series of the authorized preferred stock ranking prior to the Series A Convertible Preferred Stock's rights to dividends or distribution on liquidation. The Series A Convertible Preferred Stock shall have voting rights as if converted into Class A Common Stock.

Arizona Corporate Takeover Act and Certain Charter Provisions

We are subject to the provisions of the Arizona Corporate Takeover Act. The

Arizona Corporate Takeover Act and certain provisions of our articles of incorporation and bylaws, as summarized in the following paragraphs, may have the effect of discouraging, delaying, or preventing hostile takeovers (including those that might result in a premium over the market price of our common stock), or discouraging, delaying, or preventing changes in control or management of our company.

Arizona Corporate Takeover Act

Article 1 of the Arizona Corporate Takeover Act is intended to restrict "greenmail" attempts by prohibiting us from purchasing any shares of our capital stock from any beneficial owner of more than 5% of the voting power of our company at a per share price in excess of the average market price during the 30 trading days prior to the purchase, unless

- the 5% owner has beneficially owned the shares to be purchased for a period of at least three years prior to the purchase;
- a majority of our shareholders (excluding the 5% owner, its affiliates or associates, and any officer or director of our company) approves the purchase; or
- we make the offer available to all holders of shares of our capital stock.

Article 2 of the Arizona Corporate Takeover Act is intended to discourage the direct or indirect acquisition by any person of beneficial ownership of our shares (other than an acquisition of shares from us) that would constitute a control share acquisition. A "control share acquisition" is defined as an acquisition of shares by any person, when added to other shares of our company beneficially owned by such person, immediately after the acquisition entitles such person to exercise or direct the exercise of

- at least 20% but less than 33 1/3%;
- at least 33 1/3% but less than or equal to 50%; or
- more than 50% of the voting power of our capital stock.

The Arizona Corporate Takeover Act (1) gives our shareholders other than any person that makes or proposes to make a control share acquisition or our company's directors and officers the right to limit the voting power of the shares acquired by the acquiring person that exceed the threshold voting ranges described above, other than in the election of directors, and (2) gives us the right to redeem such shares from the acquiring person at a price equal to their fair market value under certain circumstances.

Article 3 of the Arizona Corporate Takeover Act is intended to discourage us from entering into certain mergers, consolidations, share exchanges, sales or other dispositions of our assets, liquidation or dissolution of our company, reclassification of securities, stock dividends, stock splits, or other distribution of shares, and certain other transactions with any interested shareholder (as defined in the takeover act) or any of the interested shareholder's affiliates for a period of three years after the date that the interested shareholder first acquired the shares of common stock that qualify such person as an interested shareholder, unless either the business combination or the interested shareholder's acquisition of shares is approved by a committee of our Board of Directors (comprised of disinterested directors or other persons) prior to the date on which the interested shareholder first acquired

the shares that qualify such person as an interested shareholder. In addition, Article 3 prohibits us from engaging in any business combination with an interested shareholder or any of the interested shareholder's affiliates after such three-year period unless:

- the business combination or acquisition of shares by the interested shareholder was approved by our Board of Directors prior to the date on which the interested shareholder acquired the shares that qualified such person as an interested shareholder;

- the business combination is approved by our shareholders (excluding the interested person or any of its affiliates) at a meeting called after such three-year period; or

- the business combination satisfies each of certain statutory requirements.

Article 3 defines an "interested shareholder" as any person (other than us and our subsidiaries) that either (a) beneficially owns 10% or more of the voting power of our outstanding shares, or (b) is an affiliate or associate of our company and who, at any time within the three-year period preceding the transaction, was the beneficial owner of 10% or more of the voting power of our outstanding shares.

Certain Charter Provisions

In addition to the provisions of the Arizona Corporate Takeover Act described above, our articles of incorporation and bylaws contain a number of provisions relating to corporate governance and the rights of shareholders. These provisions include the following:

- the authority of our Board of Directors to fill vacancies on the Board of Directors;

- the authority of our Board of Directors to issue preferred stock in series with such voting rights and other powers as our Board of Directors may determine;

- a provision that, unless otherwise prohibited by law, special meetings of the shareholders may be called only by our Board of Directors, or by holders of not fewer than 10% of all shares entitled to vote at the meeting; and

- a provision for cumulative voting in the election of directors, pursuant to Arizona law.

Transfer Agent and Registrar

The transfer agent and registrar for our Class A Common Stock is Computershare Trust Company, 350 Indiana Street, Suite 800, Golden, Colorado 80401.

LEGAL MATTERS

Certain legal matters with respect to the validity of the issuance of the Class A Common Stock offered hereby will be passed upon by The Law Office of Steven P. Oman, P.C., Scottsdale, Arizona. Said firm, and Steven P. Oman, owned, as of the date of this prospectus, an aggregate of 205,000 shares of our Class A Common Stock on an as-converted basis. Additionally, Steven P. Oman, Esq. is a director of our company and serves as our general counsel.

Lawyers and employees of The Law Office of Steven P. Oman, P.C. and entities

controlled by lawyers at The Law Office of Steven P. Oman, P.C. may engage in transactions in the open market or otherwise to purchase or sell our securities from time to time.

The Company is a party to litigation that relates to the acquisition in May 2002 of substantially all of the assets of Technology Systems International, Inc. and to litigation arising from an expired property lease between the Company's subsidiary, Arraid, Inc., and Arraid Property L.L.C. The actions are more fully described below:

On January 30, 2003, a suit was filed by Technology Systems International, Inc., a Nevada corporation ("TSIN") versus the Company, its wholly owned subsidiary, Technology Systems International, Inc., an Arizona corporation ("TSI"), and two of the directors of TSIN, including Robert Kauffman who is also the Chief Executive Officer of the Company. The venue for the action is the Arizona Superior Court in and for Maricopa County, Arizona, as case number CV2003-001937. The complaint sets forth various allegations and seeks equitable remedies and damages arising out of the Company's acquisition of substantially all of the assets of TSIN. As stated in previous periodic reports filed by the Company with the SEC concerning this matter, the Company's management, in consultation with legal counsel, believes the plaintiff's claims are without merit and the Company will aggressively defend the action.

On July 18, 2003, Arraid Property L.L.C., an Arizona Limited Liability Company ("Arraid LLC"), filed a complaint in Superior Court, Arizona (case number CV 2003-13999) against the Company and its wholly owned subsidiary, Arraid, Inc., an Arizona corporation ("Arraid"), alleging breach of lease and unjust enrichment and seeking monetary damages. The suit relates to an expired lease agreement for property previously leased by Arraid. The Company has filed a counterclaim against Arraid LLC, and a third party complaint against John Dahl, Frank Meijers and Keith Blaich (all owners of Arraid LLC and previous employees of the Company) seeking monetary damages and alleging, among other things, excess billing and unjust enrichment. The Company's management, in consultation with legal counsel, believes the plaintiff's claims are without merit and the Company will aggressively defend the action and pursue the counterclaims and third party claims specified.

SUBSEQUENT EVENT

During January 2004, the Company entered into an agreement with EMS Technologies, Inc.("EMS"), whereby TSI purchased various inventory and tooling from EMS, resolved various obligations of both EMS and TSI, and converted certain accounts payable and a note payable due EMS into equity through the issuance of Alanco common stock. Since SEC regulations prohibit certain stock transactions of this type between the filing of a Form S-3 and its effective date, the parties have mutually agreed to rescind that agreement and will address the issues after the effective date of the filed Form S-3.

EXPERTS

The consolidated financial statements and related financial statement schedule incorporated in this prospectus by reference from our Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003 have been audited by Semple & Cooper, LLP, independent auditors, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a registration statement on Form S-3 which was filed with the Securities and Exchange Commission. This prospectus and any subsequent prospectus supplements do not contain all of the information in the registration statement. We have omitted from this prospectus some parts of the registration statement as permitted by the rules and regulations of the SEC. In addition, we file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any documents that we have filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC also maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to "incorporate by reference" information into this prospectus and any subsequent prospectus supplements, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. This prospectus incorporates by reference documents which are not presented in this prospectus or delivered to you with it. The information incorporated by reference is an important part of this prospectus and any subsequent prospectus supplements. Information that we file subsequently with the SEC, but prior to the termination of this offering, will automatically update this prospectus and any outstanding prospectus supplements and supersede this information. We incorporate by reference the documents listed below and amendments to them. These documents and their amendments were previously filed with the SEC.

The following documents filed by us with the SEC are incorporated by reference in this prospectus:

1. Our annual report on Form 10-KSB for the fiscal year ended June 30, 2003, including our audited consolidated financial statements for the fiscal year ended June 30, 2003 attached thereto, filed with the SEC on September 29, 2003, with an amended filing on September 30, 2003.

2. The description of our Class A Common Stock set forth in our registration statement on Form 10/A filed with the SEC on March 27, 1981, and any subsequent amendment or report filed for the purpose of updating this description.

3. Our Proxy Statement for our Annual Meeting of Shareholders to be held on December 22, 2003, filed with the SEC on November 7, 2003.

4. Our quarterly report on Form 10-QSB for the quarter ended September 30, 2003, filed with the SEC on November 14, 2003, with an amended filing on November 18, 2003.

5. Our Form S-3 Registration Statement filed with the SEC on November 27, 2002.

6. Our Form S-8 Registration Statement filed with the SEC on January 22, 2003.

7. Our Form S-3 Registration Statement filed with the SEC on February 25, 2003.

8. Our Form S-3 Registration Statement filed with the SEC on November 7, 2003, with amended filings on December 3, 2003 and December 9, 2003.

9. Our quarterly report on Form 10-QSB for the quarter ended December 31, 2003,

filed with the SEC on February 17, 2004.

We also are incorporating by reference in this prospectus and any subsequent prospectus supplements all reports and other documents that we file pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and prior to the termination of this offering of common stock. These reports and documents will be incorporated by reference in and considered to be a part of this prospectus and any subsequent prospectus supplements as of the date of filing of such reports and documents.

Upon request, whether written or oral, we will provide without charge to each person to whom a copy of this prospectus is delivered, including any beneficial owner, a copy of any or all of the information that has been or may be incorporated by reference in this prospectus or any prospectus supplements but not delivered with the prospectus or any subsequent prospectus supplements. You should direct any requests for this information to the office of the Secretary, at our principal executive offices, located at 15575 North 83rd Way, Suite 3, Scottsdale, AZ 85260. The telephone number at that address is (480) 607-1010.

Any statement contained in a document which is incorporated by reference in this prospectus or in any subsequent prospectus supplements will be modified or superseded for purposes of this prospectus or any subsequent prospectus supplements to the extent that a statement contained in this prospectus or incorporated by reference in this prospectus or in any prospectus supplements or in any document that we file after the date of this prospectus that also is incorporated by reference in this prospectus or in any subsequent prospectus supplements modifies or supersedes the prior statement. Any modified or superseded statement shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus or any subsequent prospectus supplements. Subject to the foregoing, all information appearing in this prospectus is qualified in its entirety by the information appearing in the documents incorporated by reference in this prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus or any applicable prospectus supplement. We have not authorized anyone to provide you with any other information. The securities offered in this prospectus may only be offered in states where the offer is permitted, and we and the selling stockholders are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any applicable prospectus supplement is accurate as of any date other than the dates on the front of these documents.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following is an itemization of all expenses (subject to future contingencies) incurred or to be incurred by us in connection with the issuance and distribution of the securities being registered. None of the following expenses will be borne by the selling stockholders unless specifically indicated below.

Registration fee	$ 279
Printing expenses*	$ 200
Accounting fees and expenses*	$ 1,000
Legal fees and expenses*	$ 1,000
Miscellaneous*	$ 500
Total*	$ 2,979

* Estimated

Item 15. Indemnification of Directors and Officers.

The General Corporation Law of the State of Arizona allows corporations to indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, partner, trustee, or agent of another corporation, partnership, joint venture, trust, other enterprise or employee benefit plan, unless it is established that:

- the act or omission was material to the matter giving rise to the proceeding and either was committed in bad faith or was the result of active and deliberate dishonesty;
- the person actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the person had reasonable cause to believe that the act or omission was unlawful.

Under Arizona law, indemnification may be provided against judgments, penalties, fines, settlements and reasonable expenses actually incurred by the person in connection with the proceeding. The indemnification may be provided, however, only if authorized for a specific proceeding after a determination has been made that indemnification is permissible under the circumstances because the person met the applicable standard of conduct. This determination is required to be made:

- by the Board of Directors by a majority vote of a quorum consisting of directors not, at the o time, parties to the proceeding or, if a quorum cannot be obtained, then by a majority vote of a committee of the board consisting solely of two or more directors not, at the time, parties to the proceeding and who a majority of the Board of Directors designated to act in the matter;
- by special legal counsel selected by the board or board committee by the vote set forth above, o or, if such vote cannot be obtained, by

a majority of the entire board; or

- by the stockholders.

If the proceeding is one by or in the right of the corporation, indemnification may not be provided as to any proceeding in which the person is found liable to the corporation.

An Arizona corporation may pay, before final disposition, the expenses, including attorneys' fees, incurred by a director, officer, employee or agent in defending a proceeding. Under Arizona law, expenses may be advanced to a director or officer when the director or officer gives a written affirmation of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification and a written undertaking to the corporation to repay the amounts advanced if it is ultimately determined that he or she is not entitled to indemnification. Arizona law does not require that the undertaking be secured, and the undertaking may be accepted without reference to the financial ability of the director or officer to repay the advance. An Arizona corporation is required to indemnify any director who has been successful, on the merits or otherwise, in defense of a proceeding for reasonable expenses. The determination as to reasonableness of expenses is required to be made in the same manner as required for indemnification.

Under Arizona law, the indemnification and advancement of expenses provided by statute are not exclusive of any other rights to which a person who is not a director seeking indemnification or advancement of expenses may be entitled under any articles of incorporation, bylaw, agreement, vote of stockholders, vote of directors or otherwise.

Our bylaws provide that we shall indemnify each director, officer or employee

- to the fullest extent permitted by the General Corporation Law of the State of Arizona, or any similar provision or provisions of applicable law at the time in effect, in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was at any time serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, other enterprise or employee benefit plan; and

- to the fullest extent permitted by the common law and by any statutory provision other than the General Corporation Law of the State of Arizona in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was at any time a director, officer or employee of the corporation, or is or was at any time serving at the request of the corporation as a director, officer, or employee of another corporation, partnership, joint venture, trust, other enterprise or employee benefit plan.

Reasonable expenses incurred in defending any action, suit or proceeding described above shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director, officer or employee to repay such amount to the corporation if it shall ultimately be determined that he is not entitled to be indemnified by us.

In addition to the general indemnification described above, Arizona law permits corporations to include any provision expanding or limiting the liability of its directors and officers to the corporation or its stockholders for money damages, but may not include any provision that restricts or limits the liability of its directors or officers to the corporation or its stockholders:

- to the extent that it is proved that the person actually received an improper benefit or profit in money, property, or services for the amount of the benefit or profit in money, property or services actually received; or

- to the extent that a judgment or other final adjudication adverse to the person is entered in a proceeding based on a finding in the proceeding that the person's action, or failure to act, was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

We have adopted, in our articles of incorporation, a provision that eliminates and limits the personal liability of each of our directors and officers to the full extent permitted by the laws of the State of Arizona.

Item 16. Exhibits.

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
4.1	Second Restated Articles of Incorporation. Exhibit 3.1 to the quarterly report on Form 10-QSB for Alanco Technologies, Inc. for the quarter ended September 30, 2002 filed with the SEC on November 14, 2002 is incorporated by reference herein.
4.2	Amended and Restated Bylaws. Exhibit 3.2 to the annual report on Form 10-KSB for Alanco Technologies, Inc. for the fiscal year ended June 30, 2002 filed with the SEC on September 30, 2002 is incorporated by reference herein.
5	Opinion of Law Office of Steven P. Oman, P.C.
23.1	Consent of Law Office of Steven P.Oman, P.C.(included in Exhibit 5).
23.2	Consent of Semple & Cooper, LLP, Independent Auditors.
24.1	Power of Attorney. Located following signature page of this Registration Statement.

Item 17. Undertakings.

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(A) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(B) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(C) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

provided, however, that paragraphs (1)(A) and (1)(B) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the registrant pursuant to Section 13 or 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(5) That, for purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of the registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of the registration statement as of the time it was declared effective.

(6) That, for the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In

the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Scottsdale, State of Arizona, on March 3, 2004.

ALANCO TECHNOLOGIES, INC.
an Arizona corporation

By: /s/ Robert R. Kauffman
Robert R. Kauffman
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints jointly and severally, Robert R. Kauffman and John A. Carlson, and each one of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including pre-effective and post-effective amendments) to this registration statement, and to sign any registration statement and amendments thereto for the same offering pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all which said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do, or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this registration statement has been signed by the following persons in the capacities and on the dates indicated:

Signature	Title	Date

/s/ Robert R. Kauffman Robert R. Kauffman	Chief Executive Officer (Principal Executive Officer), Director and Chairman of the Board	March 3, 2004
/s/ John A. Carlson John A. Carlson	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Director	March 3, 2004
/s/ Harold S. Carpenter Harold S. Carpenter	Director	March 3, 2004
/s/ Donald E. Anderson Donald E. Anderson	Director	March 3, 2004
/s/ James T. Hecker James T. Hecker	Director	March 3, 2004
/s/ Thomas C. LaVoy Thomas C. LaVoy	Director	March 3, 2004
/s/ Steven P. Oman Steven P. Oman	Director	March 3, 2004

Law Office of
STEVEN P. OMAN, P.C.

Gold Dust Corporate Center

10446 N. 74th Street, Suite 130
Telephone:(480)348-1470 Scottsdale, Arizona 85258
Facsimile:(480)348-1471
e-mail: soman@omanlaw.net

January 30, 2004

Alanco Technologies, Inc.
15575 N. 83rd Way, Suite 3
Scottsdale, Arizona 85260

Re: Registration Statement on Form S-3

Gentlemen:

We have acted as counsel to Alanco Technologies, Inc. (the "Company") in connection with the registration by the Company of 4,420,193 shares of its Class A Common Stock (the "Shares") that may be offered and sold by certain

stockholders of the Company from time to time. We have assisted the Company in the preparation of a Registration Statement on Form S-3 (the "Registration Statement") filed on the date hereof by the Company with the Securities and Exchange Commission (the "Commission") pursuant to the Securities Act of 1933, as amended (the "Securities Act"). This opinion is provided pursuant to the requirements of Item 16 of Form S-3 and Item 601(b)(5) of Regulation S-B.

In connection with the foregoing, we have examined, among other things, the Registration Statement and certified copies of the Company's Second Restated Articles of Incorporation, the Company's Bylaws, as amended, Resolutions of the Company's Board of Directors, and such other documents, including copies of the loan agreements containing conversion rights description of the rights, privileges and liabilities of the Preferred Stock of the Company, warrant agreements, and subscription agreements.

In connection with our review, we have assumed: (i) the genuineness of all signatures; (ii) the authenticity of all documents submitted to us as originals and the conformity to original documents of all documents submitted to us as certified or photostatic copies; and (iii) the proper issuance and accuracy of certificates of officers and agents of the Company and public officials.

Based on the foregoing, we are of the opinion that (i) the Shares issued were validly issued, fully paid and nonassessable at the time of their issuance, and (ii) when Shares are issued out of the Company's duly authorized Class A Common Stock upon conversion of any portion of the outstanding balance under the Company's loan agreements as permitted therein, or upon exercise of, and pursuant to the provisions of, the existing warrant agreements and the Company has received the consideration therefor in accordance with the terms of the warrant agreements, the Shares so issued will be validly issued, fully paid and non-assessable.

This opinion is limited to the corporate laws of the State of Arizona, and we are expressing no opinion as to the effect of the laws of any other jurisdiction. This opinion is rendered as of the date hereof to be effective as of the effective date of the Registration Statement, and we undertake no obligation to advise you of any changes in applicable law or other matters that may come to our attention after said effective date.

We hereby consent to be named in the Registration Statement under the heading "Legal Matters" as attorneys who passed upon the validity of the Shares and to the filing of a copy of this opinion as Exhibit 5 to the Registration Statement.

Very truly yours,

LAW OFFICE OF STEVEN P. OMAN, P.C.

By: /s/ Steven P. Oman

Steven P. Oman

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Consent of Independent Certified Public Accountants

Alanco Technologies, Inc.

Scottsdale, Arizona

As independent public accountants, we hereby consent to the incorporation by reference in the S-3 registration statement of our report dated September 19, 2003, included in the Company's Form 10-KSB for the year ended June 30, 2003, and to all references to our firm included in this registration statement.

/S/ SEMPLE & COOPER, LLP
Phoenix, Arizona

January 30, 2004

Monitor the Company s management incentive and stock-based compensation plans and discharge the duties imposed on the Committee by the terms of those plans; and

Perform other functions or duties deemed appropriate by the Board.

Compensation decisions for the executive officers of the Company and the Company s directors are made by the Compensation Committee. The Committee has engaged outside executive compensation consultants to assist in evaluating the components of the executive compensation program. The competitive analysis developed by these firms has been helpful in constructing the compensation package for the chief executive officer and the other executive officers.

The Compensation Committee s chairman reports the Committee s recommendations on executive compensation to the Board. The Compensation Committee has authority under its charter to retain, approve fees for and terminate advisors and consultants as it deems necessary to assist in the fulfillment of its responsibilities.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is comprised entirely of independent directors.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table, with notes thereto, sets forth as of March 28, 2007 certain information regarding the Common Stock held by (i) persons known to us who own beneficially more than 5% of our Common Stock, (ii) each of our directors, (iii) each of our Named Executive Officers (as defined on page 16), and (iv) all of our directors and executive officers as a group. Unless otherwise indicated immediately beneath the beneficial owner s name, the address of each beneficial owner listed in the table below is c/o Performance Technologies, Incorporated, 205 Indigo Creek Drive, Rochester, New York 14626.

Name of Beneficial Owner	**Shares Beneficially Owned Amount and Nature of Beneficial Ownership**	**Percent of Class** [(1)]
Royce & Associates, LLC 1414 Avenue of the Americas, New York, NY 10019	1,658,790[(2)]	12.8%
Bank of America Corporation 100 North Tryon St., Floor 25, Bank of America Corporate Center, Charlotte, NC 28255	1,616,351[(3)]	12.4%
Dimensional Fund Advisors LP 1299 Ocean Avenue, Santa Monica, CA 90401	770,164[(4)]	5.9%
Charles E. Maginness	659,642[(5)]	5.1%
John M. Slusser	258,261[(6)]	2.0%
Bernard Kozel	234,144[(7)]	1.8%
Dorrance W. Lamb	150,332[(8)]	1.1%
John J. Peters	104,302[(9)]	*
John J. Grana	64,300[(10)]	*
Robert L. Tillman	59,000[(11)]	*
Stuart B. Meisenzahl	53,250[(12)]	*
E. Mark Rajkowski	40,350[(13)]	*

Michael F. Tortorello	4,000[(14)]	*
Michael P. Skarzynski	-	-
All Directors and Executive Officers as a Group (13 persons)	1,845,041[(15)]	13.6%

* Less than 1%.

(1) Percentage based upon 13,008,846 shares of Common Stock outstanding as of March 28, 2007.

(2) The following information is derived from Amendment No. 3 to Schedule 13G dated January 24, 2007 filed by Royce & Associates, LLC. Royce & Associates, LLC has sole voting and dispositive power over 1,658,790 shares.

(3) The following information is derived from Amendment No. 7 to Schedule 13G dated February 7, 2007 filed by Bank of America Corporation. NB Holdings Corporation, Bank of America, NA, Columbia Management Group, LLC and Columbia Management Advisors, LLC are the listed subsidiaries which acquired the securities being reported by the parent holding company. Bank of America Corporation has shared dispositive power over 1,616,351 shares and shared power to vote or to direct the voting of 1,198,513 shares. NB Holdings Corporation has shared dispositive power over 1,616,351 shares, and shared voting power over 1,198,513 shares. Bank of America, NA has sole voting power over 202,658 shares, shared voting power over 995,855 shares, sole dispositive power over 231,696 shares and shared dispositive power over 1,384,655 shares. Columbia Management Group, LLC has shared dispositive power over 1,384,655 shares and shared voting power over 995,855 shares. Columbia Management Advisors, LLC has sole dispositive power over 1,384,655 shares and sole voting power over 995,855 shares.

(4) The following information is derived from Schedule 13G dated February 1, 2007 filed by Dimensional Fund Advisors LP. Dimensional Fund Advisors LP has sole voting and dispositive power over 770,164 shares.

(5) Includes (a) 50,000 shares of Common Stock issuable upon exercise of options currently exercisable; and (b) 93,247 shares of Common Stock owned of record by Mr. Maginness wife. Mr. Maginness disclaims beneficial ownership of the shares owned by his wife.

(6) Includes (a) 30,000 shares of Common Stock issuable upon exercise of options currently exercisable; and (b) 7,500 shares of Common Stock owned of record by Mr. Slusser as custodian for his minor children living in his household.

(7) Includes (a) 40,000 shares of Common Stock issuable upon exercise of options currently exercisable; and (b) 189,144 shares of Common Stock owned of record by The Kozel Holding Company, LLC, over which Mr. Kozel has voting and investment power.

(8) Includes 88,000 shares of Common Stock issuable upon exercise of options currently exercisable. Excludes 22,000 shares of Common Stock issuable upon exercise of options not yet vested.

(9) Includes 102,000 shares of Common Stock issuable upon exercise of options currently exercisable. Excludes 30,000 shares of Common Stock issuable upon exercise of options not yet vested.

(10) Includes (a) 62,000 shares of Common Stock issuable upon exercise of options currently exercisable; and (b) 150 shares of Common Stock owned of record by Mr. Grana s wife as custodian for their child living in their household. Excludes 30,000 shares of Common Stock issuable upon exercise of options not yet vested.

(11) Includes 40,000 shares of Common Stock issuable upon exercise of options currently exercisable.

(12) Includes 50,000 shares of Common Stock issuable upon exercise of options currently exercisable.

(13) Includes (a) 40,000 shares of Common Stock issuable upon exercise of options currently exercisable; and (b) 350 shares of Common Stock owned of record by Mr. Rajkowski s wife. Mr. Rajkowski disclaims beneficial ownership of the shares owned by his wife.

(14) Includes 4,000 shares of Common Stock issuable upon exercise of options currently exercisable. Excludes 16,000 shares of Common Stock issuable upon exercise of options not yet vested.

(15) Includes 557,250 shares of Common Stock issuable upon exercise of stock options currently exercisable. Excludes 109,000 shares of Common Stock issuable upon exercise of stock options not yet vested.

PROPOSAL 1

ELECTION OF DIRECTORS

Our Board of Directors is divided into three classes. We currently have six directors, three in one class, two in one class and one in one class, a majority of whom are independent under the listing standards of the Nasdaq Stock Market. Terms are staggered so that only one class is elected at each Annual Meeting of Stockholders. Each director so elected serves for a three-year term and until his or her successor is elected and qualified, subject to such director s earlier death, resignation or removal.

Our Board of Directors recommends the election of the two nominees named below, each of whom is currently a director. Our Board of Directors does not contemplate that any of the nominees will be unable to serve as a director, but if that should occur prior to the voting of the proxies, the persons named in the enclosed proxy reserve the right to vote for such substitute nominee or nominees as they, in their discretion, shall determine.

Information about the Directors

The following table sets forth certain information with respect to the two directors who are nominated for re-election at the Meeting for a three-year term expiring in 2010.

PROPOSED FOR ELECTION AS DIRECTORS AT THE 2007 ANNUAL MEETING

FOR A THREE-YEAR TERM EXPIRING IN 2010

Name and Background	**Director Since**
Stuart B. Meisenzahl, age 65, has served as a director of the Company since 2001. He is a former partner in the law firm of Harter, Secrest & Emery LLP, which continues to serve as general counsel to the Company. He was affiliated with the firm for 36 years, retiring in 1999, and he practiced principally in the areas of federal securities law and biotechnology licensing. Following his retirement, Mr. Meisenzahl has acted as a business consultant to a number of biotechnology companies and is Acting General Counsel to Vaccinex, Inc., a biotechnology company in Rochester, New York. In addition, he has served as director or trustee of a number of charitable organizations in Rochester, New York.	2001
John M. Slusser, age 54, a founder of the Company, has served as President and CEO since January 2007, after serving as interim President and CEO since October 2006, Chairman of the Board of Directors since June 2001, as a director since our formation in 1981 and as Chief Strategic Officer from January 2003 to May 2005. From 1981 through 1995, he held various positions within the Company, including president and chief executive officer. From 1995 until 2000, he served as Chairman of	1981

the Board of InformationView Solutions Corporation and from 1995 to 1999 he served as that company s Chief Executive Officer. Since 2000, he has served as President of Radio Daze LLC, a vintage electronics company. Prior to founding the Company, Mr. Slusser held various positions at Computer Consoles, Inc. (now a division of Nortel Networks). Mr. Slusser holds a BSEE degree from Rochester Institute of Technology.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 1

The following table sets forth certain information with respect to each director whose term in office does not expire at the Meeting.

DIRECTORS WHOSE TERMS DO NOT EXPIRE

AT THE 2007 ANNUAL MEETING

Name and Background	**Director Since**
Bernard Kozel, age 85, has served as a director of the Company since 1983. He is the former Chairman of the Board of J. Kozel & Son, a Rochester, New York-based structural steel company and the former President of K.G. Capital Corporation.	1983
Charles E. Maginness, age 74, served as Chairman of our Board of Directors from 1986 to 2001 and served as our Chief Executive Officer from 1995 to 1997. From 1984 through 1986, he held the position of President and from 1984 through 1995 was also Chief Financial Officer. From 1970 to 1983, Mr. Maginness was employed by Kayex Corporation where he held several positions, including president and chief executive officer, and President of its Hamco Division. He is currently a partner in Vortex LLC.	1983
E. Mark Rajkowski**,** age 48, has been Senior Vice President and Chief Financial Officer of MeadWestvaco Corporation since 2004 and has served as director of the Company since 2003. From December 2003 to August 2004, Mr. Rajkowski was Vice President and General Manager, Worldwide Operations, Digital Film and Imaging Systems Business, for Eastman Kodak Company. From January 2003 to December 2003, he held the position of Chief Operating Officer of Kodak s Digital and Applied Imaging Division. From 2001 to 2003, he held the position of Vice President of Finance for Eastman Kodak and from 1998 until 2001 he held the position of Corporate Controller for Eastman Kodak.	2003

Robert L. Tillman, age 59, has been an independent business consultant since 2002. From 2000 to 2002, he served as General Manager in Intel s Embedded Intel Architecture Division, where he was responsible for the operations of Ziatech Corporation. From 1997 to 2000 he held the position of President of Ziatech Corporation. From 1971 to 1997, Mr. Tillman held various positions at Hewlett Packard. 2003

EXECUTIVE OFFICERS

In January 2007, the Company announced key management appointments which resulted in changes to our group of executive officers. We are currently served by the following executive officers:

Name and Background	Executive Officer Since
John J. Grana, age 51, has served as Senior Vice President and General Manager of the Embedded Systems Group since January 2007 and Senior Vice President of Systems Engineering since November 2005. From 2000 to 2005 he served as Vice President of Software Engineering. From 1997 to 2000, he held the position of Vice President and General Manager of the Controller Products Group. From 1994 to 1997, he held the position of Vice President of Software Engineering. From 1990 to 1994, he held the position of Technical Director of the Workstation Products business unit, and from 1986 to 1990, he served in various engineering positions. Prior to joining the Company, he held various engineering positions with Computer Consoles, Inc. (now a division of Nortel Networks). Mr. Grana holds a BS degree in computer science from Rochester Institute of Technology.	2000
Dorrance W. Lamb, age 59, has served as Chief Financial Officer of the Company since 1995 and as Senior Vice President since November 2005. From 1992 to 2005 he served as Vice President of Finance. Prior to joining the Company, he was Senior Vice President for Finance and Administration at Infodata Systems, Inc. based in Fairfax, Virginia. Mr. Lamb is a certified public accountant and holds a BS degree in accounting from Benjamin Franklin University.	1992
William E. Mahuson, age 56, has served as Senior Corporate Vice President since March 2007. From 2005 to 2007 he served as Vice President of Business Development. From 1987 to 2005 he served as Vice President. From 1992 to 1995 he served as General Manager of the UconX business unit of the Company. From 1987 to 1990, he served as Vice President, Engineering. Prior to joining the Company, he held various technical and technical management positions with Computer Consoles, Inc. (now a division of Nortel Networks) and Xerox Corporation. Mr. Mahuson holds a BS degree in electrical engineering from Rensselaer Polytechnic Institute.	1987
John J. Peters, age 48, has served as Chief Technology Officer and Senior Vice President of Embedded Engineering since November 2005. From 2000 to 2005, he served as Vice President of Engineering. From 1997 to 2000, he held the position of Vice President of Development, Network Switching Products. From 1994 to 1997, he held the position of Vice President of	2000

Hardware Engineering. From 1990 to 1994, he served as Technical Director of the Hardware Products business unit, and from 1986 to 1990, he served in various engineering positions. Prior to joining the Company, he held various engineering positions with Computer Consoles, Inc. (now a division of Nortel Networks). Mr. Peters holds a BS degree in engineering from the Rochester Institute of Technology.

J. Patrick Rice, age 47, was appointed Vice President and General Manager of the Company s Signaling Systems Group in January 2007. Prior to this appointment, he served as Vice President of Worldwide Signaling Sales and Marketing since 2006. Prior to joining the Company in 2006, Mr. Rice held key senior positions at Tekelec and Nortel Networks. 2007

John M. Slusser, age 54, has served as President and Chief Executive Officer since October 2006. Further information about Mr. Slusser is set forth under DIRECTORS PROPOSED FOR ELECTION AT THE 2007 ANNUAL MEETING above.
2006

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee (the Committee) of the Board has responsibility for establishing, implementing and continually monitoring adherence with the Company s compensation philosophy. The Committee ensures that the total compensation paid to its

executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to its executive officers are similar to those provided to other executive officers in peer companies.

Throughout this proxy statement, the individuals who served as the Company s chief executive officer and chief financial officer during 2006, as well as the other individuals included in the Summary Compensation Table on page 16, are referred to as the Named Executive Officers.

Compensation Philosophy and Objectives

Each year, the Company establishes a plan for the fiscal year that includes revenue, earnings per share and other goals to be accomplished. The Company s executive compensation program is designed to reward the achievement of these specific annual goals and to align executives

interests with those of the stockholders. The Committee evaluates both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives in peer companies. To that end, the Committee believes executive compensation packages provided by the Company to its Named Executive Officers should include both cash and stock-based compensation that reward performance as measured against established goals.

Role of Executive Officers in Compensation Decisions

The Committee makes all decisions related to the compensation of the Named Executive Officers. The chief executive officer annually reviews the performance of each Named Executive Officer. The conclusions reached in connection with these reviews are presented to the Committee for its consideration. The Committee can exercise its discretion in modifying any recommended adjustments or awards to Named Executive Officers.

Setting Executive Compensation

Based on the foregoing objectives, the Committee has structured the Company s annual and long-term incentive awards to motivate executives to achieve the business goals set by the Company and reward the executives for achieving such goals. In furtherance of this, the Committee periodically has engaged outside executive compensation consultants to conduct a review of its total compensation program for the chief executive officer as well as for other key executives. Executive compensation consultants provide the Committee with relevant market data to consider when making compensation decisions for the chief executive officer and other executive officers.

In making compensation decisions, the Committee compares each element of total compensation against a peer group of publicly-traded, technology companies with revenues generally between $35 million and $100 million (collectively, the Compensation Peer Group). The Compensation Peer Group consists of companies which the Committee believes can employ similarly situated executives. The companies comprising the Compensation Peer Group are:

Brooktrout, Inc.	Glenayre Technologies, Inc.
Interphase Corporation	NMS Communications Corporation
Optical Communication Products, Inc	RadiSys Corporation
SBS Corporation	SpectraLink Corporation
Teltronics, Inc.	Ulticom Inc.
Vodavi Technology, Inc.	Zhone Technologies, Inc.

The Committee s overall compensation objective is to target the total compensation of the Company s Named Executive Officers at the midpoint of the Compensation Peer Group. Data provided by compensation consultants indicates that the current total compensation of the Named Executive Officers is below this level. The Committee expects, over time, to increase the total compensation to the midpoint of the Compensation Peer Group based on the Company s ability to afford to do so.

Presently, the Committee generally sets total compensation for Named Executive Officers in the second quartile of compensation paid to similarly situated executives. Variations to this objective may occur as dictated by the experience level of the individual and market factors.

There is no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Committee reviews information provided by executive compensation consultants to determine the

appropriate level and mix of incentive compensation. Income from such incentive compensation is realized as a result of the performance of the Company or the individual, depending on the type of award, compared to established goals. In 2006, with respect to the aggregate of salary and long-term incentives for the Named Executive Officers, salary accounted for approximately 62% of this total while long-term incentives accounted for approximately 38% of this total.

2006 Executive Compensation Components

For the year ended December 31, 2006, the principal components of compensation for Named Executive Officers were as follows:

- Base Salary;
- Annual Short-term Incentive Award; and
- Long-term Incentive Award.

Base Salary

The Company provides Named Executive Officers and other employees with base salary to compensate them for services rendered during the year. Base salary ranges for Named Executive Officers are determined for each executive based on his or her position and responsibility by using market data. The Committee s goal is to target the base salaries of the Named Executive Officers at the midpoint of the Compensation Peer Group. Data provided by compensation consultants indicates that the current salaries of the Named Executive Officers are below this level. The Committee expects, over time, to increase base salaries to the midpoint of the Compensation Peer Group based on the Company s ability to afford to do so.

During its review of base salaries for executives, the Committee primarily considers:

- Market data provided by outside consultants;
- Internal review of the executive s compensation, both individually and relative to other officers; and
- Individual performance of the executive.

Salary levels are typically considered annually as part of the Company s performance review process as well as upon a promotion or other change in job responsibility. Merit-based increases to salaries of Named Executive Officers are based on the assessment of the individual s performance.

For 2006, base salaries for the chief executive officer and other Named Executive Officers were generally set in the second quartile of the Compensation Peer Group data and became effective on April 1, 2006. Base salaries for the Named Executive Officers for the year ended December 31, 2006 are included in the third column of the Summary Compensation Table on page 16.

For 2007, the base salary of the chief executive officer was set at $300,000 when Mr. Slusser became the permanent president and chief executive officer on January 16, 2007.

Annual Short-term Incentive Award Compensation

The Annual Short-term Incentive Award Program is an annual cash incentive program for Named Executive Officers and other key employees. This program includes various incentive levels based on the participant s accountability and impact on Company operations, with target award opportunities that are established as a percentage of base salary. These targets range from 25% to 70% of base salary for the Named Executive Officers.

For 2006, the Annual Short-term Incentive Award program was based upon achievement of the corporate financial objective relating to earnings per share. In January 2006, the Committee set minimum, target and maximum levels for the corporate financial objective relating to earnings per share. Payment of awards is based upon the achievement of such objective for that year. Named Executive Officers participating in the Annual Short-term Incentive Awards Program receive:

No payment for the corporate financial objective unless the Company achieves the minimum performance level;

A payment of 25% of the target award opportunity for the corporate financial objective if the Company achieves the minimum performance level;
A payment of at least 25%, but not more than 50% of the target award opportunity for the corporate financial objective if the Company achieves between the minimum to the target performance level; and
A payment of between 50% but not more than 100% of the target award opportunity for the corporate financial objective if the Company achieves between the target and the maximum performance level. A portion of the bonus amount in excess of 50% of base salary may be paid in the form of restricted stock, at the Committee s discretion.

Upon completion of the audit for the year, the Committee assesses the performance of the Company for the corporate financial objective comparing the actual results to the pre-determined minimum, target and maximum levels for the objective.

The Committee generally sets the target level for earnings per share higher than the actual results for the prior year. Minimum and maximum earnings per share objectives are set somewhat below or above the target level. In making the annual determination of the minimum, target and maximum levels, the Committee considers the specific circumstances likely to be faced by the Company during the coming year.

Generally, the Committee sets the minimum, target and maximum levels such that the relative difficulty of achieving the target level is consistent from year to year. Over the past five years, the Company achieved performance in excess of the target level on one occasion.

For 2006, the target level for earnings per share was $.35 per share. There were no award payments made to the Named Executive Officers under this program for 2006.

Long-term Incentive Award Compensation

The Long-term Incentive Awards Program, which is generally stock option based compensation, encourages participants to focus on long-term Company performance, as any appreciation in the price of the stock will benefit all stockholders commensurately.

The Stock Option Program assists the Company to:

- Enhance the link between the creation of stockholder value and long-term executive incentive compensation;
- Provide an opportunity for increased equity ownership by executives; and
- Maintain competitive levels of total compensation.

In 2006, the Committee provided a pool of Common Stock equivalent to approximately 2% of the total number of Common Stock outstanding to be awarded as stock option grants to the Named Executive Officers and key employees. The Committee s target number of stock options awarded reflects the projected performance of the Company as well as the impact of stock option grants on the Company s earnings per share. Data provided by compensation consultants indicates that this target generally places the long-term incentive award compensation of the Named Executive Officers below the midpoint of the Compensation Peer Group.

Stock option award levels vary among participants based on their positions within the Company with consideration by the Committee of total historic grants for each of the Named Executive Officers and exercises by the participants. Stock options are granted when the assessment of the performance for the prior year has been completed.

Stock options are awarded at the closing price of the Company s Common Stock on the Nasdaq Stock Market on the date of the grant. The Company does not grant options with an exercise price that is less than the closing price of the Company s Common Stock on the grant date, nor does it grant options which are priced on a date other than the grant date.

Stock options granted to the Named Executive Officers by the Committee generally vest at a rate of 20% per year over the first five years of the ten-year option term beginning on the first anniversary of the grant date. In the event of a change in control of the Company, these stock options

become fully vested and exercisable. Vesting ceases upon termination of employment and exercise rights cease thirty days after termination of employment, except in the case of death, disability or retirement, in which case the

exercise right ceases in one year. Prior to the exercise of an option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights.

For 2006, stock options granted to the Named Executive Officers and key employees generally vest at a rate of 20% per year over the first five years of the ten-year option term. These stock options contain accelerated vesting if earnings per share equals or exceeds $.50 per share for any fiscal year ending December 31, 2007 through December 31, 2010. The compensation cost recognized in 2006 for these stock option awards and previous awards are included in the fifth column of the Summary Compensation Table on page 16.

In January 2007, 15,000 stock options were granted to the chief executive officer when Mr. Slusser became permanent president and chief executive officer. This stock option vests in full on the one-year anniversary of the grant date and has a five-year term.

Retirement and Other Benefits

Savings Plan:

All employees in the United States are eligible to participate in the Performance Technologies Incorporated Retirement Savings Plan (Savings Plan).

The Savings Plan is a tax-qualified retirement savings plan pursuant to which all U.S. based employees, including the Named Executive Officers, are able to contribute the lesser of up to 25% of their annual salary or the limit prescribed by the Internal Revenue Service on a before-tax basis. The Company may elect to match a percentage of the employees pay that is contributed to the Savings Plan. The Savings Plan has vesting for matching contributions where employees vest 20% per year for their first five years of service with the Company. All employee contributions to the Savings Plan are fully-vested upon contribution.

For 2006, the Company matched 25% of the first 4% of pay that was contributed by an employee to the Savings Plan. Company contributions to the Savings Plan for the Named Executive Officers for the year ended December 31, 2006, are included in the sixth column of the Summary Compensation Table on page 16.

For 2007, the Company is matching 25% of the first 4% of pay that is contributed by an employee to the Savings Plan.

Flex Plan:

All employees in the United States are eligible to participate in the Company s Flex Options Plan (Flex Plan). The Flex Plan provides employees with an annual benefit allowance to choose a variety of medical benefit options including comprehensive medical insurance, dental insurance and flexible spending accounts. Any unused benefit allowance can be contributed to the Savings Plan.

Perquisites and Other Personal Benefits

The Company provides the Named Executive Officers with certain perquisites and other personal benefits that the Company and the Committee believe are consistent with its overall compensation program to better enable the Company to attract and retain employees for key positions. The Committee periodically reviews the levels of perquisites and other personal benefits provided to the Named Executive Officers.

Certain of the Named Executive Officers are provided an automobile allowance for the use of their personal automobiles. Upon relocation, Named Executive Officers may receive, at the discretion of the Compensation Committee, a relocation allowance to reimburse up to an aggregate amount in relocation and moving expenses actually incurred, as well as additional reimbursement for temporary housing and travel expenses. During 2006, Mr. Skarzynski, our former president and chief executive officer was paid temporary living expenses which totaled $26,890.

In January 2007, the Company agreed to provide Mr. Slusser with an automobile allowance in the amount of $500 per month and to reimburse costs related to a $500,000 life insurance policy.

Employment Contracts

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The Company has not entered into any employment agreements with any of the Named Executive Officers except Michael P. Skarzynski, who was employed by the Company in the capacities of president and chief executive officer from November 3, 2005, until he resigned effective October 13, 2006.

The following is a brief description of the terms and conditions of the employment agreement with Mr. Skarzynski that were material to the Company:

Mr. Skarzynski received a base salary of $300,000 per year and was eligible to receive an annual performance bonus.

If Mr. Skarzynski remained employed by the Company as our president and chief executive officer between November 3, 2005 and December 31, 2006, his operating bonus for fiscal year 2006 would be not less than $150,000.

Mr. Skarzynski received a non-qualified stock option to purchase 225,000 shares of our common stock. Subject to certain conditions, the option would vest and become exercisable pro rata with respect to 37,500 of the shares subject to the option on each of the first, second, third, fourth, fifth and sixth anniversaries of the granting of the option.

Vesting of Mr. Skarzynski s option would have been accelerated if the Company met certain year-end earnings per share milestones during the life of the option.

In exchange for using his best efforts to permanently relocate from New Jersey to the Rochester, New York area by July 31, 2006, Mr. Skarzynski would have received certain relocation benefits, including the reimbursement of up to an aggregate of $150,000 in relocation and moving expenses actually incurred by him, as well as additional reimbursements for temporary housing and travel expenses.

On October 13, 2006, Mr. Skarzynski submitted his resignation as president, chief executive officer and director. After his resignation, the Company and Mr. Skarzynski entered into a short-term consulting agreement. Pursuant to the terms of the consulting agreement, between its effective date and March 31, 2007, Mr. Skarzynski was to provide, as requested by the interim president and Transition Committee, certain transition services for the purpose of facilitating the transfer of Mr. Skarzynski s former responsibilities as president and chief executive officer of the Company to the interim president and chief executive officer. In exchange for such transition services, pursuant to the terms of the consulting agreement, the Company made the following payments to Mr. Skarzynski: an initial payment of $50,000, paid on or by November 1, 2006; an additional payment of $40,000, paid on December 31, 2006; and a final payment of $10,000, paid on or by March 31, 2006. The consulting agreement contained release and waiver provisions pursuant to which Mr. Skarzynski released and waived any claims that he might have against the Company, as well as other provisions generally customary for an agreement of this type, including confidentiality, indemnification, non-disparagement and non-compete provisions. Upon his resignation, the previous stock option granted to Mr. Skarzynski expired, unvested, and he was not paid any bonus.

Potential Payments upon Termination

The Named Executive Officers and certain other key executives are eligible for certain benefits in the event their employment is terminated without cause. These benefits are:

Subject to our regular payroll policies and practices, the continuation of salary, automobile, and health insurance benefits for six months after the date the executive employee s employment ends;

Accelerated vesting of all outstanding stock options that would have vested within one year from the date of termination; and

The payment of any earned but unpaid bonus for the prior year.

The Board of Directors has determined that cause means (i) continually and willfully failing to perform the lawful responsibilities assigned to the executive employee; (ii) engaging in conduct that is demonstrably and materially harmful to the Company, including, but not limited to, engaging in inappropriate conduct toward other personnel or customers of the Company, being under the influence of alcohol or non-prescription drugs while at work, failing to comply with the provisions of a confidentiality agreement; (iii) misappropriating the Company s property; (iv) being convicted of a felony or other crimes of moral turpitude; or (v) mishandling material, nonpublic information.

COMPENSATION COMMITTEE REPORT

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The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Compensation Committee:

Charles E. Maginness, Chairman

Stuart B. Meisenzahl

Robert L. Tillman

SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by each of the Named Executive Officers for the year ended December 31, 2006. The Company has not entered into any employment agreements with any of the Named Executive Officers except Michael P. Skarzynski, who left the Company in October 2006. When setting total compensation for each of the Named Executive Officers, the Committee reviews compensation schedules which show the executive s current compensation, including equity and non-equity based compensation.

The Named Executive Officers were not eligible to receive payments under the Annual Short-term Incentive Award Program for the year ended December 31, 2006.

In 2006, combining salary and long-term incentives (the value of which was calculated using the Black Scholes option pricing model) of the Named Executive Officers, salary accounted for approximately 62% of this total while long-term incentives accounted for approximately 38% of this total. Because the table below reflects less than the full fiscal year salary for individuals who were not employed by the Company for the full fiscal year and because the value of certain equity awards included below is based on the FAS 123(R) value, the aforementioned percentages may not be able to be derived using the amounts reflected in the table below.

Name and Principal Position	Year	Salary	Bonus	Option Awards[1],[2]	All Other Compensation [3]	Total
Michael P. Skarzynski Chief Executive Officer and President (through October 2006)	2006	$241,153	-	-	$134,140	$375,293

John M. Slusser Chief Executive Officer and President (since October 2006)	2006	$57,692	-	- (4)	$1,270	$58,962
Dorrance W. Lamb Senior Vice President and Chief Financial Officer	2006	$210,315	-	$22,237	$5,062	$237,614
Michael F. Tortorello(5) Vice President of Embedded Systems Sales	2006	$248,480	-	$14,820	$4,000	$267,300
John J. Grana Senior Vice President and General Manager of Embedded Systems Group	2006	$182,730	-	$29,140	$3,674	$215,544

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John J. Peters Senior Vice President Embedded Engineering and Chief Technology Officer	2006	$182,730	-	$29,140	$2,661	$214,531

(1) The dollar value of stock options set forth in this column is equal to the compensation cost recognized in 2006 for financial statement purposes in accordance with FAS 123(R), except no assumptions for forfeitures were included. This valuation method values stock options granted in 2006 and previous years. A discussion of the assumptions used in calculating the amount is set forth in the Notes to Consolidated Financial Statements of our 2006 Annual Report to Stockholders.

(2) Information regarding stock options granted to our Named Executive Officers during 2006 is set forth in the 2006 Grants of Plan-Based Awards Table. The 2006 Grants of Plan-Based Awards Table also sets forth the aggregate grant date fair value of stock options granted during 2006 computed in accordance with FAS 123(R).

(3) Other annual compensation to Mr. Skarzynski in 2006 included payments related to (1) our health and medical benefit program, (2) temporary living expenses, (3) benefits related to a life insurance expense reimbursement, (4) an automobile allowance (5) Savings Plan contributions and (6) a consulting fee of $100,000 payable to Mr. Skarzynski in connection with services he provided after his resignation as president and chief executive officer. Under the terms of the consulting agreement, $90,000 was paid in 2006 and the remaining $10,000 was paid in 2007. During 2006, for the other Named Executive Officers listed above, we provided certain perquisites and benefits. These included benefits paid under our health and medical benefit program, automobile allowances and expenses, 401(k) allowances and life insurance.

(4) 0n January 16, 2007, Mr. Slusser was granted a stock option to purchase 15,000 shares of Common Stock at an exercise price of $5.82. The option vests on January 16, 2008 and terminates on January 16, 2012. The total grant date fair value of the option award on the date of grant was $35,865.

(5) During 2006, Mr. Tortorello became an executive officer of the Company. The total compensation for 2006 represents his total earnings for all of 2006.

2006 GRANTS OF PLAN-BASED AWARDS

The following table sets forth information regarding the grants of annual cash incentive compensation and stock options during 2006 to our executive officers named in the 2006 Summary Compensation Table.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Option Awards; Number of Securities Underlying Options	Exercise Price of Option Awards	Grant Date Fair Value of Stock and Option
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	(#)(2)	($/Sh)(3)	Awards($)(4)
Michael P. Skarzynski	N/A	$150,000	$150,000	$212,545			
John M. Slusser	N/A	-	-	-			
Michael F. Tortorello	3/31/2006	-	-	-	20,000	$7.50	$98,800
Dorrance W. Lamb	3/17/2006	$55,530	$106,444	$152,324	20,000	$6.64	$87,200
John J. Grana	3/17/2006	$49,073	$94,073	$134,612	30,000	$6.64	$130,800
John J. Peters	3/17/2006	$49,073	$94,073	$134,612	30,000	$6.64	$130,800

(1) The amounts set forth in these columns reflect the annual cash incentive compensation amounts that potentially could have been earned during 2006 based upon the achievement of performance goals. These goals were not achieved and no payments were made related to 2006.

(2) The amounts set forth in this column reflect the number of stock options granted on March 17, 2006 (to Messrs. Lamb, Grana and Peters) and March 31, 2006 (to Mr. Tortorello) under our 2003 Omnibus Incentive Program. These stock options vest at the rate of twenty percent per year and expire on March 17, 2016 and March 31, 2016, respectively. The vesting of these options will accelerate upon the Company achieving certain earnings per share goals in future years.

(3) The exercise price equals the closing price of our common stock on the respective date of grant.

(4) The dollar values of stock options disclosed in this column are equal to the grant date fair value computed in accordance with FAS 123(R), except no assumptions for forfeitures were included. A discussion of the assumptions used in calculating the grant date fair value is set forth in the Notes to Consolidated Financial Statements of our 2006 Annual Report to Stockholders.

OUTSTANDING AWARDS AT DECEMBER 31, 2006

The following table sets forth information regarding the number of shares of Common Stock underlying exercisable and unexercisable stock options outstanding on December 31, 2006 for our Named Executive Officers.

	Option Awards				
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable		Option Exercise Price ($)	Option Expiration Date
Michael P. Skarzynski	-	-		$ -	N/A
John M. Slusser	10,000	-	(1)	$ 8.60	6/4/2007
	10,000	-	(1)	$ 6.78	6/2/2010
		10,000	(1),(2)	$ 7.08	5/25/2011
Dorrance W. Lamb	25,000	-		$ 8.50	3/18/2008
	28,000	-		$ 3.90	4/23/2008
	25,000	-		$ 18.13	4/9/2009
	3,000	9,000	(3)	$ 5.78	5/17/2013
	-	20,000	(4)	$ 6.64	3/17/2016
Michael F. Tortorello	-	20,000	(5)	$ 7.50	3/31/2016
John J. Grana	20,000	-		$ 8.50	3/18/2008
	12,500	-		$ 3.90	4/23/2008
	17,500	-		$ 18.13	4/9/2009
	3,000	9,000	(3)	$ 5.78	5/17/2013
	-	30,000	(4)	$ 6.64	3/17/2016
John J. Peters	22,500	-		$ 5.94	5/15/2007
	25,000	-		$ 8.50	3/18/2008
	25,000	-		$ 3.90	4/23/2008
	17,500	-		$ 18.13	4/9/2009
	3,000	9,000	(3)	$ 5.78	5/17/2013
	-	30,000	(4)	$ 6.64	3/17/2016

(1) These options were granted to Mr. Slusser as a non-employee director of the Company.
(2) This option vests on May 25, 2007.
(3) These options vest in increments of 3,000 on May 17, 2007, 2008 and 2009.
(4) These options vest twenty percent annually beginning on March 17, 2007.
(5) This option vests twenty percent annually beginning on March 31, 2007.

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2006 OPTION EXERCISES

The following table sets forth information regarding the number and value of stock options exercised during 2006 for the Named Executive Officers who exercised options during 2006.

Name	Shares Acquired on Exercise (#)	Value Realized ($)[1]
Dorrance W. Lamb	34,500	$ 94,231
John J. Grana	11,250	$ 19,598
John J. Peters	10,000	$ 17,420

[1] Represents the difference between the fair market value of our Common Stock underlying the options as of the exercise date and the exercise price of the options.

ESTIMATED PAY ON TERMINATION

As discussed above, in 2005 the Board of Directors adopted guidelines regarding the severance benefits that we will provide to certain executive employees in the event that their employment with us is terminated without cause. The following table sets forth the estimated payments that would be made in the event of a termination without cause for the Named Executive Officers who are currently employed by the Company:

	Mr. Slusser	Mr. Lamb	Mr. Tortorello	Mr. Grana	Mr. Peters
Cash severance payment	$150,000	$107,500	$95,000	$95,000	$95,000
Accelerated stock options[1]		$420		$420	$420
Continued health care benefits	$3,625	$3,645	$5,988	$6,003	$6,003
Continued auto allowance	$3,000	$1,200	$3,000		
Total	$156,625	$112,765	$103,988	$101,423	$101,423

[1] This amount reflects the difference between the closing price of our Common Stock on December 31, 2006 and the exercise prices for each option for which vesting would accelerate.

ESTIMATED VALUE ON CHANGE IN CONTROL

Certain stock options granted to the Named Executive Officers will vest immediately in the event of a change in control. The following table sets forth the estimated value that the Named Executive Officers who remain employed with the Company would receive upon a change in control:

	Mr. Slusser	Mr. Lamb	Mr. Tortorello	Mr. Grana	Mr. Peters
Accelerated stock options[1]		$1,260		$1,260	$1,260

[1] This amount reflects the difference between the closing price of our Common Stock on December 31, 2006 and the exercise prices for each option for which vesting would accelerate.

DIRECTOR COMPENSATION

The Company uses a combination of cash and stock option-based compensation to attract and retain qualified candidates to serve on the Board of Directors. In setting director compensation, the Company considers the significant amount of time that directors expend in fulfilling their duties to the Company as well as the skill-level required by the Company of members of the Board.

Cash Compensation Paid to Board Members

For the year ended December 31, 2006, members of the Board who are not employees of the Company are entitled to receive $15,000 if they attend at least 75 percent of the scheduled Board meetings and an additional $1,000 for each meeting actively attended. The Chairman of the Board, if a non-employee, receives an annual retainer of $10,000. The Board Secretary, if a non-employee, receives an annual retainer of $1,000, and an additional $500 for each meeting attended. Directors who serve as a committee chair, or committee member, receive an annual retainer of $5,000 and $2,500, respectively, for the Audit Committee; $2,500 and $1,250, respectively for the Compensation Committee; and $1,500 and $750, respectively for the Nominating Committee. In addition, each committee member receives $500 for each committee meeting attended. The non-employee members of the Transition Committee were paid $1,000 for attending each Transition Committee Meeting.

Stock Option Program

Each non-employee director receives a stock option grant for 10,000 shares of Common Stock on the day of our Annual Meeting of Stockholders. The exercise price for these options is the fair market value of our Common Stock as of market close on the date of the option grant. Options vest on the first anniversary of the grant date and expire five years from the date of grant. Until an option is exercised, shares subject to options cannot be voted.

Director Summary Compensation Table

The table below summarizes the compensation paid by the Company to non-employee directors for the year ended December 31, 2006:

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)[1,2]	Total ($)
Robert L. Tillman	$43,250	$23,075	$66,325
Stuart B. Meisenzahl	$42,250	$23,075	$65,325
Charles E. Maginness	$37,250	$23,075	$60,325
John Slusser [3]	$36,000	$23,075	$59,075
E. Mark Rajkowski	$35,500	$23,075	$58,575
Bernard Kozel	$25,750	$23,075	$48,825

[1] The amounts listed are equal to the compensation cost recognized in 2006 for financial statement purposes in accordance with FAS 123(R), except no assumptions for forfeitures were included. This valuation method values stock options granted in 2006 and previous years. A discussion of the assumptions used in calculating the amount is set forth in the Notes to Consolidated Financial Statements of our 2006 Annual Report to Shareholders.

[2] The number of stock options held by the non-employee directors at December 31, 2006 was as follows: Mr. Tillman (40,000), Mr. Meisenzahl (50,000), Mr. Maginness (50,000), Mr. Rajkowski (40,000) and Mr. Kozel (40,000).

[3] Represents fees paid and stock options granted to Mr. Slusser prior to his assumption of the role of president and chief executive officer in October 2006.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our officers and directors and persons who own more than 10% of a registered class of our equity securities to file certain reports regarding ownership of, and transactions in, our securities with the SEC. Such officers, directors and 10% stockholders are also required by SEC rules to furnish us with copies of all Section 16(a) reports that they file.

Based solely on our review of such reports furnished to us and written representations from certain reporting persons, we believe that our executive officers, directors and more than 10% stockholders timely filed all Section 16(a) reports required to be filed by them during the most recent fiscal year except for one filing. On September 5, 2006, Mr. Tortorello filed an initial statement of beneficial ownership which should have been filed on May 31, 2006.

AUDIT COMMITTEE REPORT

The Audit Committee met nine times during 2006 and held four private sessions with PricewaterhouseCoopers LLP, our independent registered public accounting firm. The Audit Committee has:

reviewed and discussed, with us, regulatory changes occurring during the past year including subsequent requirements related to the Sarbanes-Oxley Act of 2002 and new Securities and Exchange Commission and NASD requirements;
reviewed and discussed our audited financial statements for 2006 with management and with PricewaterhouseCoopers LLP;

reviewed and discussed management s selection, application and disclosure of critical accounting policies;

reviewed and discussed the adequacy of our internal control over financial reporting and accounting and financial personnel;

discussed with PricewaterhouseCoopers LLP the matters required to be discussed by SAS 61, as amended (Codification for Statements on Auditing Standards);
discussed the process used by management in formulating accounting estimates and the basis for the registered public accounting firm s conclusions regarding the reasonableness of those estimates; and
received and discussed the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Statement No. 1 (Independence Discussions with Audit Committees) and has discussed with the independent registered public accounting firm the independent registered public accounting firm s independence.

Based on such review and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for 2006 for filing with the SEC.

Prior to approving PricewaterhouseCoopers LLP as our independent registered public accounting firm for 2006, the Audit Committee considered whether PricewaterhouseCoopers LLP s provision of other than audit services is compatible with maintaining the registered public accounting firm s independence and has concluded that PricewaterhouseCoopers LLP meets the independence standards.

Audit Committee:

E. Mark Rajkowski, Chairman

Stuart B. Meisenzahl

Robert L. Tillman

AUDIT FEES AND ALL OTHER FEES

Fees Billed by PricewaterhouseCoopers LLP during 2006 and 2005

During 2006 and 2005, PricewaterhouseCoopers LLP billed us the following fees for the services discussed below:

	2006	**2005**
Audit Fees	$318,000	$301,000

Audit-Related Fees	-	-
Tax Fees	$66,000	$69,000
All Other Fees	$2,000	-
Total	$386,000	$370,000

Audit Fees: Fees relating to the audit of the Company s annual financial statements, including services required under the Sarbanes- Oxley Act of 2002 and review of periodic SEC reports and fees related to assistance with regulatory reviews of Company filings.

Audit-Related Fees: There were no audit related fees billed in 2006 or 2005.

Tax-Related Fees: The fees in 2006 relate to tax advice and tax planning services. The fees in 2005 were for compliance services, tax advice and tax planning services.

All Other Fees*:* All other fees in 2006 were related to a subscription for an accounting literature research product. No other fees were billed by PricewaterhouseCoopers LLP in 2005.

All audit, audit-related and tax fees paid in 2006 and 2005 were approved by the Audit Committee.

Effective in 2003, the Audit Committee established the following guidelines for securing non-audit services.

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The chairperson for the Audit Committee can authorize management, in advance, to secure non-audit services up to $25,000 provided the Committee is informed on a timely basis of such commitment.
The Audit Committee must pre-approve each non-audit service in excess of $25,000.

PROPOSAL 2

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The firm of PricewaterhouseCoopers LLP served as our independent registered public accounting firm for the fiscal year ended December 31, 2006, and the Board of Directors has again selected PricewaterhouseCoopers LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007. This selection will be presented to the stockholders for their ratification at the Meeting. The Board of Directors recommends a vote in favor of the proposal to ratify this selection and (unless otherwise directed therein) it is intended that the shares represented by the enclosed properly executed proxy will be voted **FOR** such proposal. If the stockholders do not ratify this selection, the Board of Directors may reconsider its choice.

A representative of PricewaterhouseCoopers LLP is expected to be present at the Meeting. The representative will be given an opportunity to make a statement if he so desires and will be available to respond to appropriate questions concerning the audit of our financial statements.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE IN FAVOR OF PROPOSAL 2

STOCKHOLDER PROPOSALS FOR THE 2008 ANNUAL MEETING

In order for any stockholder proposal to be included in our Proxy Statement to be issued in connection with the 2008 Annual Meeting of Stockholders, such proposal must be delivered to us no later than December 28, 2007. If the proposal is in compliance with all of the requirements of Rule 14a-8 under the Securities Exchange Act, we will include the stockholder proposal in our proxy statement and place it on the form of proxy issued for the 2008 Annual Meeting of Stockholders. Stockholder proposals that are not submitted for inclusion in our proxy materials pursuant to Rule 14a-8 under the Securities Exchange Act may be brought before the 2008 Annual Meeting of Stockholders only if written notice of the proposal is delivered to our Secretary no earlier than March 4, 2008, and no later than April 3, 2008, and if the stockholder complies with all of the other provisions of Article II, Section 12 of our By-laws. All such notices should be delivered to Stuart B. Meisenzahl, Secretary of Performance Technologies, Incorporated, 205 Indigo Creek Drive, Rochester, New York 14626.

OTHER MATTERS

As of the date of this Proxy Statement, the Board of Directors does not intend to present, and has not been informed that any other person intends to present, any matter other than those specifically referred to in this Proxy Statement. If any other matters properly come before the Meeting, it is intended that the holders of the proxies will act in respect thereto in accordance with their best judgment.

By Order of the Board of Directors,

/S/ Stuart B. Meisenzahl

Stuart B. Meisenzahl
Secretary to the Board

Dated at Rochester, New York

April 27, 2007

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