

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549-1004

Form 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED September 30, 2011

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number 000-26455

ISECURETRAC CORP.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

87-0347787
(I.R.S. Employer Identification No.)

5078 S. 111th Street
OMAHA, NEBRASKA 68137
(Address of principal executive offices, Zip Code)

(402) 537-0022
(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of issuer's common stock outstanding as of October 24, 2011 was 10,930,117.

**iSecureTrac Corp.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

iSECUREtrac Corp. and SUBSIDIARY CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	September 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 456,128	\$ 88,956
Accounts receivable, net of allowance for doubtful accounts of \$727,754 in 2011 and \$470,998 in 2010	1,552,921	1,717,235
Inventories	288,533	223,629
Prepaid expenses and other	209,762	158,749
Total current assets	2,507,344	2,188,569
Leasehold improvements and equipment, net of accumulated depreciation of \$13,325,120 in 2011 and \$12,428,434 in 2010	3,606,707	3,719,361
Goodwill	2,302,179	2,302,179
Other assets	18,059	68,059
Total assets	\$ 8,434,289	\$ 8,278,168
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 543,995	\$ 449,414
Accrued expenses	337,024	298,009
Revolving line of credit	-	642,886
Note payable	50,000	-
Current maturities of long-term debt	712,703	1,185,254
Deferred revenues	66,011	71,024
Accrued interest payable	833	-
Total current liabilities	1,710,566	2,646,587
Long-term debt, less current maturities, including accrued interest on long-term debt	2,553,767	15,266,221
Total liabilities	4,264,333	17,912,808
Redeemable convertible Series C preferred stock	-	15,896,210
Commitments and contingency		
Stockholders' equity		
Common stock	10,930	10,928
Nonredeemable exchangeable Series C preferred stock	15,882	-
Nonredeemable exchangeable Series D preferred stock	13,318	-
Additional paid-in capital	87,507,079	55,551,402
Accumulated deficit	(83,377,253)	(81,093,180)
Total stockholders' equity (deficit)	4,169,956	(25,530,850)
Total liabilities and stockholders' equity	\$ 8,434,289	\$ 8,278,168

See Notes to Consolidated Financial Statements (unaudited).

iSECUREtrac Corp. and SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
Revenues:				
Equipment leasing	\$ 2,299,640	\$ 2,437,485	\$ 6,829,887	\$ 7,313,861
Administrative, field & support service revenues	117,941	123,280	354,870	365,057
Equipment sales	60,869	64,823	211,672	119,113
Royalty revenue	-	-	-	282,815
Total revenues	2,478,450	2,625,588	7,396,429	8,080,846
Operating expenses:				
Cost of revenues	726,345	828,916	2,325,166	2,585,999
Research and development	176,049	286,521	635,544	895,840
Sales, general and administrative	1,371,261	1,413,507	4,599,794	4,470,560
Total operating expenses	2,273,655	2,528,944	7,560,504	7,952,399
Operating income (loss)	204,795	96,644	(164,075)	128,447
Interest income (expense):				
Interest income	-	2	2	7
Interest expense	(84,710)	(326,866)	(830,637)	(979,253)
Total interest expense	(84,710)	(326,864)	(830,635)	(979,246)
Income (loss) before provision for income taxes	120,085	(230,220)	(994,710)	(850,799)
Provision for income taxes	-	-	-	-
Net income (loss)	\$ 120,085	\$ (230,220)	\$ (994,710)	\$ (850,799)
Preferred stock dividends and accretion	(647,652)	(375,409)	(1,389,052)	(1,067,332)
Net loss available to common stockholders	\$ (527,567)	\$ (605,629)	\$ (2,383,762)	\$ (1,918,131)
Basic and diluted loss per common share	\$ (0.05)	\$ (0.06)	\$ (0.22)	\$ (0.18)
Weighted average shares of common stock outstanding	10,930,117	10,890,717	10,929,673	10,853,109

See Notes to Consolidated Financial Statements (unaudited).

iSECUREtrac Corp. AND SUBSIDIARY
STATEMENT OF STOCKHOLDERS' EQUITY
For the Nine Months Ended September 30, 2011
(Unaudited)

	<u>Common Stock</u>		<u>Preferred Series C</u>		<u>Preferred Series D</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2010	10,927,451	\$ 10,928	-	\$ -	-	\$ -	\$ 55,551,402	\$ (81,093,180)	\$ (25,530,850)
Shares issued for directors' fees	2,666	2	-	-	-	-	1,998	-	2,000
Stock based compensation	-	-	-	-	-	-	222,117	-	222,117
Series C preferred stock dividends	-	-	-	-	-	-	352,262	(993,973)	(641,711)
Series D preferred stock dividends	-	-	-	-	-	-	295,390	(295,390)	-
Reclassification of Series C preferred stock pursuant to amended designation	-	-	1,588,163	15,882	-	-	16,621,728	-	16,637,610
Shares issued in connection with debt conversion	-	-	-	-	1,331,814	13,318	14,561,871	-	14,575,189
Accretion to redemption value of preferred stock	-	-	-	-	-	-	(99,689)	-	(99,689)
Net loss	-	-	-	-	-	-	-	(994,710)	(994,710)
Balance, September 30, 2011	10,930,117	\$ 10,930	1,588,163	\$ 15,882	1,331,814	\$ 13,318	\$ 87,507,079	\$ (83,377,253)	\$ 4,169,956

See Notes to Consolidated Financial Statements (unaudited).

iSECUREtrac CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	2011	2010
Cash Flows From Operating Activities		
Net loss	\$ (994,710)	\$ (850,799)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	896,686	940,934
Stock based compensation	224,117	117,521
Provision for Doubtful Accounts	256,756	-
Changes in operating assets and liabilities:		
Accounts receivable	(92,442)	(157,344)
Inventories	(64,904)	45,943
Prepaid expenses and other assets	(1,012)	(59,503)
Accounts payable	32,620	56,622
Accrued expenses	37,015	(720,286)
Deferred revenues	(5,013)	(24,469)
Accrued interest payable	589,567	621,633
Net cash provided by (used in) operating activities	878,680	(29,748)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(620,182)	(76,928)
Capitalization of software development costs	(163,850)	(159,610)
Net cash used in investing activities	(784,032)	(236,538)
Cash Flows From Financing Activities		
Principal proceeds from notes	50,000	-
Principal proceeds from long-term debt	750,000	360,000
Proceeds from revolving line of credit	575,000	400,000
Proceeds from equipment term loan	-	618,805
Principal payments on long-term debt	(1,092,476)	(1,289,994)
Payments in connection with Series D Preferred Stock and debt conversion agreement	(10,000)	-
Proceeds from the exercise of options and warrants	-	32,758
Net cash provided by (used in) financing activities	272,524	121,569
Increase (decrease) in cash	367,172	(144,717)
Cash at beginning of period	88,956	719,662
Cash at end of period	\$ 456,128	\$ 574,945

Supplemental Non-cash Disclosure

Issuance of 1,331,814 of Series D Preferred Stock in connection with:

Conversion of long-term debt pursuant to debt conversion agreement dated June 30, 2011	\$14,108,972	-
Accrued interest payable on related long-term debt converted	540,178	-

See Notes to Consolidated Financial Statements.

iSECUREtrac CORP. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Three and nine months ended September 30, 2011 and 2010
(Unaudited)

Note 1. General

The unaudited interim condensed consolidated financial statements as of September 30, 2011 and for the three and nine month periods ended September 30, 2011 and 2010, included herein, have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X.

The consolidated balance sheet of iSECUREtrac Corp. (“iSECUREtrac”, or the “Company”) and its wholly-owned subsidiary, iSt Services, Inc., at December 31, 2010, has been taken from the audited consolidated financial statements at that date. The condensed consolidated financial statements for the three and nine months ended September 30, 2011 and September 30, 2010 are unaudited and reflect all normal and recurring accruals and adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, operating results and cash flows for the interim periods presented in this quarterly report. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management’s discussion and analysis of financial condition and results of operations, contained in our Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations and cash flows for the three and nine months ended September 30, 2011 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2011. Where appropriate, items of an insignificant nature within the condensed consolidated financial statements have been reclassified from the previous periods’ presentation.

The Company believes that its current working capital combined with expected future cash flow and the amounts available to it through the capital lease financing arrangements as described in Note 6 are sufficient to meet its liquidity needs through 2012. Management is in the process of negotiating a long-term line of credit with a local financial institution to address unexpected, short-term liquidity needs. This line of credit is expected to replace the current Note Payable outlined in Note 5.

Note 2. Common Stock, Common Stock Options and Warrants

The Company is authorized to issue up to 75,000,000 shares of common stock with a stated par value of \$0.001.

The Company may issue stock options and other types of equity-based compensation under its 2006 Omnibus Equity Incentive Plan (the “2006 Plan”) which was implemented on May 31, 2006 and its 2011 Omnibus Equity Incentive Plan which was implemented on May 4, 2011. These are the only plans under which the Company may issue additional equity-based compensation. The Company also has outstanding stock options that were issued under its 2001 Omnibus Equity Incentive Plan (the “2001 Plan”) and which were issued under employment agreements with executive officers.

During the three and nine months ended September 30, 2011, the Company granted options to purchase a total of 4,000 and 44,000 shares of common stock to five and fifteen employees pursuant to the 2006 Plan. During the three and nine months ended September 30, 2011, 100,500 and 188,563 options issued under the 2006 Plan were forfeited, 0 and 20,875 options issued under the 2001 Plan were forfeited and no options issued under employment agreements outside the 2006 Plan and the 2001 Plan were forfeited.

No options were exercised during the three and nine months ended September 30, 2011. The following table shows stock option activity during the nine month period ended September 30, 2011:

Options	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	3,282,529	\$ 1.31	7.1 Years	\$ 535,829
Granted	44,000	0.47		
Exercised	-	-		
Forfeited	(209,438)	0.93		
Outstanding at September 30, 2011	3,117,091	\$ 1.31	5.58 Years	\$ 20
Exercisable at September 30, 2011	2,779,819	\$ 1.37	5.28 Years	\$ 20

During the three and nine month period ended September 30, 2011, 0 and 21,550 warrants expired and no warrants were granted by the Company or exercised by warrant holders.

At September 30, 2011, the Company had 3,117,091 outstanding stock options, 6,287,045 shares issuable upon exercise of warrants to be issued upon exchange of Preferred Stock, and 658,018 shares issuable upon the exercise of outstanding warrants that were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the periods presented.

The Company accounts for its stock-based compensation by recognizing compensation costs relating to share-based compensation awards, including grants of employee stock options as these awards become vested based on the grant date fair value of the equity instruments issued.

The Company estimated the grant date fair value of each option granted during the periods set forth below using the Black-Scholes option pricing model with the following weighted average assumptions:

	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Risk free interest rate	3.32%	3.29%
Expected volatility factor	80.68%	81.28%
Expected option term in years	3.5 to 6.5	3.5 to 6.5
Dividends	\$0.00	\$0.00
Forfeitures for senior executives and non-senior executives	0% and 3%	0% and 3%

The risk-free interest rate is determined on the date the grant is issued. This rate is equal to the rates based on yields from U.S. Treasury zero-coupon issues with maturity of 3.5 years to 6.5 years. Expected volatilities are based upon looking back at historical stock prices of the Company since the date of adoption of the plan.

The Company estimates forfeitures of stock options. The forfeiture rate is the rate at which options are expected to be forfeited prior to full vesting. The forfeiture rate is determined based on actual forfeiture

rate experience as follows: For each historical year of option issuance, the total options issued for the year is compared to the options forfeited prior to having vested. For option years in which the two year vesting period has not passed, past experience is used to project future forfeitures. The total of pro forma forfeitures is then compared to total options awarded and the resultant percentage is used as the forfeiture rate. This rate is recalculated on an annual basis.

The annual rate of quarterly dividends is 0% since iSECUREtrac has historically not paid dividends on its common stock and currently does not expect to pay dividends on its common stock.

The Company recorded compensation expense of \$70,041 and \$222,403 for the three and nine months ended September 30, 2011, respectively, compared to \$32,079 and \$111,521 for the same periods in 2010 related to employee stock-based compensation awards.

As of September 30, 2011, there was approximately \$214,084 of total unrecognized compensation costs related to non-vested stock option agreements granted to the Company's executives and employees. The future compensation expense the Company will recognize if and as these options vest according to their contractual terms is as follows:

2011	\$	58,586
2012		154,698
2013		800
<u>Total</u>	<u>\$</u>	<u>214,084</u>

Note 3. Leasehold Improvements and Equipment

The cost and accumulated depreciation of our leasehold improvements and equipment as of September 30, 2011 and December 31, 2010 are as follows:

	September 30, 2011			December 31, 2010		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 1,091,292	\$ 928,158	\$ 163,134	\$ 1,074,334	\$ 834,957	\$ 239,377
Leasehold improvements	175,819	112,771	63,048	173,521	98,365	75,156
Components held for future monitoring equipment builds	210,000	-	210,000	210,000	-	210,000
Software development costs	687,729	196,306	491,423	523,879	99,483	424,396
Monitoring equipment	14,766,987	12,087,885	2,679,102	14,166,061	11,395,629	2,770,432
<u>Total leasehold improvements and equipment</u>	<u>\$ 16,931,827</u>	<u>\$ 13,325,120</u>	<u>\$ 3,606,707</u>	<u>\$ 16,147,795</u>	<u>\$ 12,428,434</u>	<u>\$ 3,719,361</u>

During the three month period ended June 30, 2010 management increased the estimated useful life of certain monitoring equipment from three years to five years to more accurately reflect the expected life of the related assets. The effect of the increase in estimated useful life was a decrease in depreciation expense for the nine months ended September 30, 2011 of \$124,000, an earnings per share impact of approximately \$0.01.

During the periods ending September 30, 2011 and September 30, 2010, the Company capitalized software development costs of \$163,850 and \$159,610, respectively.

Note 4. Goodwill

Goodwill is the excess of the cash paid over the fair value of the net assets acquired and liabilities assumed in an acquisition, less the amount of identifiable intangible assets. Goodwill is not amortized, but is tested for impairment on an annual basis at the end of each calendar year or if certain events or circumstances occur. The Company determined that there was no impairment of goodwill as of December 31, 2010. No events transpired in the nine months ended September 30, 2011 that required a reevaluation of this conclusion.

Note 5. Credit Agreements

On November 10, 2008, the Company entered into a loan agreement (the "Loan Agreement") with Crestpark LP, Inc. ("Crestpark") and in connection with the Loan Agreement executed two separate promissory notes. The first note was for \$750,000 for working capital via a Revolving Credit Commitment and the second note for \$1,750,000 for equipment financing via an Equipment Term Loan.

Revolving Credit Commitment - The proceeds of the Revolving Credit Commitment of \$1,468,788 were to be used for working capital needs and are anticipated to be repaid from cash flow generated by the operations of the Company. The Revolving Credit Commitment has a term ending on January 1, 2015, is unsecured and bears interest at a fixed noncompounded rate of 12% per annum, payable quarterly. The Company is also required to pay Crestpark an unused fee of 0.25% per annum on the average daily unused amount of the Revolving Credit Commitment.

On June 30, 2011, the Company entered into a debt conversion agreement with Crestpark pursuant to which Crestpark converted the balance outstanding on the Revolving Credit Commitment of \$1,217,086 into 110,717 shares of the Company's Series D 8% Cumulative, Compounding Exchangeable Preferred Stock (the "Series D Preferred Stock"). Accordingly, as of June 30, 2011, the Company had no amounts outstanding under the Revolving Credit Commitment and \$250,902 available, compared with \$642,886 outstanding and \$825,902 available as of December 31, 2010. Amounts borrowed and repaid remain available under the Revolving Credit Commitment.

On July 22, 2011, the Revolving Credit Commitment was terminated and replaced with a short-term note payable to Crestpark in the amount of \$250,000 which was available to the Company to draw upon and matured September 20, 2011. On September 14, 2011 the maturity date on the short-term note payable was extended to October 20, 2011. Additionally, as described in Note 9 – Subsequent Events, subsequent to September 30, 2011, the maturity date on the short-term note payable was amended to November 20, 2011. Pursuant to the Note, Crestpark agrees to make advances to the Company from time to time upon request and subject to the conditions set forth in the Note. As of September 30, 2011, the Company had \$50,000 outstanding under the short-term note payable and \$200,000 available to draw. Amounts drawn and repaid under the note payable are not eligible to be re-drawn.

Equipment Term Loan - The proceeds of the \$1,750,000 Equipment Term Loan were to be used to purchase GPS-based offender tracking and monitoring equipment that is leased or sold by the Company to its clients. It is anticipated that borrowings under the Equipment Term Loan will be repaid from permanent equipment

financing secured by the Company from time to time. At Crestpark's discretion, any borrowings under the Equipment Term Loan that remain outstanding more than 30 days can be converted into separate 36 Month Notes, which are notes payable over 36 month terms. The Equipment Term Loan had a term ending January 1, 2012, bears interest at a fixed rate of 12% per annum and was secured by the monitoring equipment purchased with the proceeds of the Equipment Term Loan. The Company was also required to pay Crestpark an unused fee of 0.25% per annum on the average daily unused amount of the Equipment Term Loan. The Equipment Term Loan was terminated on December 31, 2010.

Crestpark is an affiliate of Mykonos 6420 LP ("Mykonos"). As the sole holder of the Company's Series C Preferred Stock, as amended, Mykonos shares with Crestpark the right to elect a majority of the Company's Board of Directors. The terms of the Loan Agreement were approved by a Special Committee of the Board of Directors consisting solely of disinterested directors.

Note 6. Long-Term Debt

The Company had the following long-term debt at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Crestpark LP, Inc		
One secured note payable maturing on January 1, 2015		
Fixed Tranche ~ with an interest rate of 9.5% effective December 31, 2010	\$ 2,000,000	\$ 9,891,086
Floating Tranche ~ with an interest rate of 2% over prime (5.25% at September 30, 2011)	-	5,000,000
Crestpark LP, Inc Total	\$ 2,000,000	\$ 14,891,086
AHK Leasing, LLC		
Eleven separate capital leases with related parties that are carrying interest rates at 8.50% to 11.15% and maturing October 2011 to August 2014	1,217,914	1,560,389
Total long-term debt	\$ 3,217,914	\$ 16,451,475
Less current maturities	(712,703)	(1,185,254)
Total long-term debt less current maturities	\$ 2,505,211	\$ 15,266,221

Crestpark LP, Inc.

On June 30, 2011, the Company entered into a debt conversion agreement with Crestpark, pursuant to which Crestpark converted \$7,891,086 of the Fixed Tranche and the outstanding balance of \$5,000,000 of the Floating Tranche, along with \$540,978 of related accrued interest into 1,221,097 shares of the Company's Series D 8% Cumulative, Compounding Exchangeable Preferred Stock (the "Series D Preferred Stock").

As of September 30, 2011 and December 31, 2010, the Company has outstanding a Note Payable ("Note") with Crestpark for \$2,000,000 and \$14,891,086, respectively, under a Credit and Security Agreement originally dated December 18, 2007 and subsequently amended. Outstanding borrowings are due and payable on the earlier of (i) January 1, 2015 or (ii) the first date on which the Company either issues equity securities or arranges for additional indebtedness (other than trade indebtedness incurred in the ordinary course of business) in a transaction or series of transactions which generates aggregate net proceeds to the Company of not less than the then current principal amount outstanding under this Note, plus all accrued but unpaid interest. The Company may prepay the Note at any time without premium or penalty.

The Note provides, among other things, that the Fixed Tranche of the borrowings thereunder shall bear interest at 9.5% per annum and that such interest will be due and payable at maturity of the Note. Additionally, prior to the debt conversion agreement, the Floating Tranche under the Note bore interest at

a floating rate equal to 2% over the prime rate (the “Base Rate”), payable quarterly beginning March 31, 2011. Accrued interest on the Note was \$48,556 and \$0 at September 30, 2011 and December 31, 2010, respectively.

The borrowings under the Note are secured by a first priority security interest in all of the assets of the Company except that Crestpark’s security interest in certain monitoring equipment is subordinate to the interest of AHK Leasing, LLC under its sale leaseback arrangements.

Crestpark is an affiliate of Mykonos. As the sole holder of the Company’s Series C Preferred Stock, as amended, Mykonos shares with Crestpark the right to elect a majority of the Company’s Board of Directors. The terms of the Loan Agreement were approved by a Special Committee of the Board of Directors consisting solely of disinterested directors.

Capital Leases - AHK Leasing, LLC.

AHK Leasing, LLC (“AHK”) is a company controlled by three stockholders, one of which is a current director. These loans were in the form of capital leases with 36 month terms and bearing interest at a rate of 8.50% to 11.15% per annum and mature between October 2011 and August 2014. There was no accrued interest payable to AHK at September 30, 2011.

Total interest expense, including unused commitment fees, for the three and nine months ended September 30, 2011 and September 30, 2010 is as follows:

	Three Months Ended Sept 30, 2011	Three Months Ended Sept 30, 2010	Nine Months Ended Sept 30, 2011	Nine Months Ended Sept 30, 2010
AHK interest on long term debt	\$ 31,791	\$ 53,013	\$ 108,566	\$ 195,427
Crestpark LP interest on long-term debt	49,756	221,219	655,768	656,443
Crestpark LP credit agreements	864	47,427	61,762	109,197
Other	2,300	5,207	4,540	18,186
Total interest expense	\$ 84,710	\$ 326,866	\$ 830,637	\$ 979,253

Note 7. Series C 8% Cumulative, Compounding Exchangeable Preferred Stock

On June 27, 2005, the Company issued 1,000,000 shares of its \$0.01 par value Series C 8% Cumulative, Compounding Exchangeable Preferred Stock (the “Series C Preferred Stock”). The Series C Preferred Stock is exchangeable for 4,782,609 shares of common stock and warrants to acquire 6,287,045 shares of common stock at an exercise price of \$2.30 per share at anytime at the discretion of the preferred stockholder.

On June 30, 2011, the Company amended the terms of the Series C Preferred Stock to:

- eliminate the right of the holders of Series C Preferred Stock to cause the Company to redeem their shares of Series C Preferred Stock for cash on the tenth anniversary of the issue date of the Series C Preferred Stock. Prior to the amendment, the Series C Preferred Stock was redeemable in cash on the tenth anniversary of the original issue date at the election of the holder as further described below
- provide that dividends on the Series C Preferred Stock shall be payable in additional shares of Series C Preferred Stock, rather than cash, in an amount per share equal to 0.08 shares of Series C Preferred Stock per annum compounded annually.

- provide that the holders of the Series C Preferred Stock will vote with the holders of the Series D Preferred Stock, as single class, with respect to the appointment of four of the seven directors of the Company until the earliest date on which either (i) less than an aggregate of 500,000 shares of Series C Preferred Stock and Series D Preferred Stock remain outstanding or (ii) the holders of record of a majority of the outstanding shares of Series C Preferred Stock and Series D Preferred Stock, voting as a single class, elect to eliminate their right to appoint such directors. The right to appoint these four directors was previously exercised exclusively by the holders of the Series C Preferred Stock – Mykonos. Mykonos and Crestpark, the holder of all issued and outstanding shares of Series D Preferred Stock, are affiliated companies which are majority owned and controlled by the same entity.

The amended certificate of designation also designated 2,800,000 shares of the total 5,000,000 authorized shares of the Company's preferred stock as Series C Preferred Stock. Previously, only 1,000,000 shares of the Company's authorized preferred stock was designated as Series C Preferred Stock.

An additional 588,163 shares of Series C Preferred Stock were issued to Mykonos for payment of all dividends and associated compounded interest through June 30, 2011. Accordingly, as of June 30, 2011 the Company had issued and outstanding 1,588,163 shares of Series C Preferred Stock and no accrued dividends.

The above amendments result in the classification of the Series C Preferred Stock as Stockholders' Equity in the Company's Consolidated Balance Sheet at June 30, 2011. In addition, subsequent to June 30, 2011, as a result of the amendments, the periodic accretion noted below, which was increasing the carrying amount of the Series C Preferred Stock, is no longer required. The Company is also not expected to incur interest expense on future accrued but unpaid dividends since the dividends will be paid through the issuance of additional shares of Series C Preferred Stock.

The following paragraphs outline the original terms of the Series C Preferred Stock which were in effect through June 30, 2011.

If, after June 27, 2010, the closing price of the common stock exceeds \$20.00 per share for at least 120 consecutive trading days, the Company can require the conversion of the Series C Preferred Stock into common stock in accordance with the above exchange provisions.

The Series C Preferred Stock is redeemable on the tenth anniversary of the original issue date. The redemption price per share of the Series C Preferred Stock will equal the per share original issue price (\$11.00 per share) plus an amount equal to all accrued but unpaid dividends thereon (and any interest payable thereon). The interest method will be utilized to accrete the carrying amount of the Series C Preferred Stock over the ten year period to the earliest redemption date so that the carrying amount will equal the redemption amount at the earliest possible redemption date. Due to the accumulated deficit position of the Company, the periodic accretion will be charged to Additional Paid-In Capital. Prior to the amended designation through June 30, 2011, the Company had accrued Series C Preferred Stock dividends totaling \$6,469,790 and accretion to redemption value of the Series C Preferred Stock totaling \$1,148,739.

Upon any liquidation of the Company, no distribution can be made to the holders of shares of common stock or other stock ranking junior to the Series C Preferred Stock unless, prior thereto, the holders of shares of Series C Preferred Stock have received an amount per share equal to the per share original issue price plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, multiplied by a factor of 105%.

Except as otherwise required by law, the holders of shares of Series C Preferred Stock vote together with the holders of shares of the common stock of the Company on all matters submitted to the stockholders of the Company and not as a separate class, and each share of Series C Preferred Stock entitles the holder thereof to 11 votes or the equivalent amount of voting power thereof as determined by the Board of Directors. In addition, until such time that less than 500,000 shares of Series C Preferred Stock are outstanding, the Series C Preferred Stockholders have the ability to appoint a majority of the Company's directors.

As of September 30, 2011 the Company had accrued \$352,262 in Series C Preferred Stock dividends, all of which was accrued during the three months ended September 30, 2011.

Note 8. Series D 8% Cumulative, Compounding Exchangeable Preferred Stock

On June 30, 2011, the Company filed a Certificate of Designation, Preferences and Rights of Preferred Stock Designated Series D 8% Cumulative, Compounding Exchangeable Preferred Stock ("Series D Preferred Stock") with the Secretary of State of the State of Delaware. The Series D Certificate of Designation designates 2,200,000 shares of the Company's 5,000,000 authorized shares of preferred stock as Series D Preferred Stock.

Also on June 30, 2011, the Company issued 1,331,814 shares of its \$0.01 par value Series D Preferred Stock to Crestpark as follows:

	<u>Shares</u>	<u>Amount</u>
Conversion on long-term note payable - fixed tranche		\$ 7,891,086
Conversion on long-term note payable - floating tranche		5,000,000
Accrued interest payable		540,978
	<u>1,221,097</u>	<u>13,432,064</u>
Conversion of Revolving Credit Commitment	<u>110,717</u>	<u>1,217,086</u>
	<u>1,331,814</u>	<u>\$ 14,649,150</u>

Each share of the Series D Preferred Stock is exchangeable for 18.644068 shares of common stock or a total of 24,830,431 shares of common stock if all shares of the Series D Preferred Stock were converted.

With the exception of the conversion rate into common stock and the fact that dividends and interest are payable in Series D Preferred Stock, the terms of the Series D Preferred Stock are identical in all respects to those of the Series C Preferred Stock, as amended on June 30, 2011. Accordingly, the Company's Series D Preferred Stock is classified as Stockholders' Equity in the Company's Consolidated Balance Sheets.

The Series D Preferred Stock ranks on parity with the Series C Preferred Stock, but will rank senior to all other series of preferred stock and to the common stock as to the payment of dividends and as to the distribution of assets upon liquidation, dissolution or winding up. Because, the holder of the Series D Preferred Stock does not have a right to redeem the Series D Preferred Stock for cash.

As of September 30, 2011 the Company had accrued \$295,391 in Series D Preferred Stock dividends, all of which was accrued during the three months ended September 30, 2011.

As the holder of all issued and outstanding shares of Series D Preferred Stock, Crestpark, an affiliate of Mykonos, shares the right to appoint a majority of the Company's Board of Directors with Mykonos the holder of all issued and outstanding shares of the Company's Series C Preferred Stock.

Note 9. Subsequent Events.

On October 19, 2011, the parties agreed to extend the maturity date on the promissory note with Crestpark by 30 days, to November 20, 2011. Pursuant to the Note, Crestpark agrees to make advances to the Company from time to time upon request and subject to the conditions set forth in the Note. Amounts borrowed and repaid may not be re-borrowed.

Note 10. Recent Accounting Pronouncements

In September 2011, Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") No. 2011-08, "Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment". This ASU simplifies how entities test goodwill for impairment. The amendments in ASU 2011-10 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Previous guidance under Topic 350 required an entity to test goodwill for impairment, on at least an annual basis, by comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then the second step of the test must be performed to measure the amount of the impairment loss, if any. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. ASU 2011-08 is effective for fiscal years beginning after December 15, 2011, however early adoption is permitted. Based on the Company's evaluation of this ASU, the adoption of this amendment will not have a material impact on the Company's consolidated financial statements.

In June 2011, the Financial Accounting Standards Board ("FASB") has issued Accounting Standards Update ("ASU") No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income". This ASU allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 will be applied retrospectively. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. Based on the Company's evaluation of this ASU, the adoption of this amendment will only impact the presentation of comprehensive income on the Company's consolidated financial statements.

In May 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements." This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (the Boards) on fair value measurement, resulting in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term "fair value." The amendments to this ASU are to be applied prospectively. ASU No. 2011-04 is effective during interim and annual periods beginning after December 15, 2011. Based on the Company's

evaluation of this ASU, the adoption of this amendment will not have a material impact on the Company's consolidated financial statements.

Note 11. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate fair value of each class of financial instruments for which it is practicable to estimate that value;

Accounts receivable: The carrying amount approximates fair value.

Long-term debt: Based on the borrowing rates available to the Company for bank loans with similar terms and maturities, the carrying value approximates fair value due to the refinancing at December 31, 2010.

Accounts payable and accrued expenses: The carrying amount approximates fair value.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact, including statements regarding guidance, industry prospects and future results of operations or financial position, made in this Quarterly Report on Form 10-Q are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including , among others without limitation the risks set forth in Item 1A of Part I, "Risk Factors" contained in the Company's 2010 Annual Report on Form 10-K.

General

The following discussion is intended to provide a better understanding of the significant changes in trends relating to the Company's financial condition and results of operations. Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto.

Overview

iSECUREtrac develops, markets, leases and services products that assist in "monitoring compliance and modifying behavior" of individuals who are under the supervision of the criminal justice system and social service agencies, primarily in the United States.

The Company's principal sources of revenue are daily leasing of electronic monitoring equipment including access to the corresponding web-based monitoring software, and providing administrative, field and support services, generally charged on a per offender basis.

General Comments Regarding the Electronic Monitoring Industry

Over the past twelve to eighteen months, management has observed signs that the electronic monitoring industry may be showing early signs of maturing. Specifically management has observed the following trends:

- Increasing price competition
- Relative standardization of GPS tracking equipment across the industry, and
- Marked increase in mergers and acquisitions

It is too early to know precisely what impact, if any, these trends will have on iSECUREtrac. However iSECUREtrac is taking strategic steps to maintain or improve the competitive position of the Company in the face of these trends. For example, in response to the standardization of equipment, the Company continues to invest in increasing the functionality and performance of the tracNET24 platform and the Salesforce.comTM service delivery system.

Financial Restructuring

During the three months ended June 30, 2011, the Company completed a major restructuring of its balance sheet whereby the Company's stockholders' equity was increased approximately \$31.3 million with a corresponding decrease in liabilities as outlined below.

Series D Preferred Stock

Pursuant to a debt conversion agreement dated June 30, 2011 with Crestpark LP, Inc, the Company issued 1,331,814 shares of Series D 8% Cumulative, Compounding Exchangeable Preferred Stock ("Series D Preferred Stock") in satisfaction of \$14,649,150 liabilities. The detail of the liabilities and the associated annualized interest expense the Company will not incur as a result of the conversion is estimated as follows:

Description	Amount	Interest Rate	Estimated Annualized Interest Savings
Long-term note payable - fixed tranche	\$ 7,891,086	9.50%	\$ 750,000 (a)
Long-term note payable - floating tranche	5,000,000	5.25%	\$ 263,000 (b)
Revolving Credit Commitment	1,217,086	12.00%	\$ 146,000 (b)
Accrued interest payable	540,978		
	\$ 14,649,150		\$ 1,159,000

(a) Interest accrued monthly but not payable until January 2015

(b) Interest payable quarterly

In addition to the interest expense savings as a result of the debt conversion the Company is no longer obligated to make the \$125,000 quarterly principal payments originally scheduled to begin in 2012 in connection with the floating tranche – an additional cash savings of \$600,000. In total, management expects the debt conversion to positively impact the Company's cash flow by approximately \$270,000 in 2011, \$900,000 in 2012 and \$850,000 in 2013.

Series C Preferred Stock

In addition to the above debt conversion, on June 30, 2011, the Company filed Amended and Restated Certificate of Designation, Preferences and Rights of Preferred Stock Designated Series C 8% Cumulative, Compounding Exchangeable Preferred Stock (“Series C Preferred Stock”) with Mykonos. Among other things, the amendments eliminate the right of the holders of the Series C Preferred Stock to redeem their shares for cash and provides that all future dividends shall be payable only in additional shares of Series C Preferred Stock.

The effect of the amendment to the Series C Preferred Stock is a reclassification of the carrying value of the Series C Preferred Stock - \$16,637,610 as of June 30, 2011, to Stockholders’ Equity.

In connection with the amended certificate of designation, the Company issued to Mykonos an additional 588,163 shares of Series C Preferred Stock in satisfaction of all accrued dividends and associated compounded accrued interest through June 30, 2011.

Highlights of Quarter Ending September 30, 2011

The results of operation for the three months ended included the following highlights:

- First ever reported quarterly net income before preferred stock dividends
- Highest operating income ever reported for a quarter
- Increased revenue over the previous quarter for the first time since September 2010

Outlook for the Remainder of 2011 and 2012

Management expects the Company’s results of operations during the final quarter of 2011 to be very similar to the three months ended September 30, 2011 – generating net income and positive cash flow.

Going into 2012, the Company’s largest contract, which accounts for approximately 30% of revenue for the three months ended September 30, 2011, will end on January 4, 2012. Accordingly, that agency is conducting a public bid process. While the Company has received no official notification, management believes it is unlikely that the Company will re-win that contract.

The Company continues to actively bid on new opportunities and management is optimistic about the prospects of adding new contracts. During the three months ended September 30, 2011 the Company signed a number of new contracts which are expected to begin producing revenue late in the last quarter of 2011 or early 2012. However, none of these new contracts or known opportunities are of sufficient size to absorb the potential loss of the above contract and as such, the Company’s revenue is expected to drop significantly if the contract is transitioned to a new provider. Although the Company would expect to receive revenues from this contract into 2012, as it is transitioned to a new provider, there is no way to predict how long that transition period might be. Accordingly, there is no way to quantify with any level of accuracy, the amount of the potential decline in revenue for 2012.

In the event the Company does not re-win the above contract, the Company’s ability to maintain sufficient liquidity is, in part, the result of the financial restructuring which decreased annualized cash flow requirements related to interest and principal payments on long-term debt. In addition, the Company’s cash flow requirement on long-term equipment leases is expected to decline over \$800,000 from 2011 to 2012. Furthermore, as a result of certain actions taken management expects other operating expenses to decline over \$500,000, annualized, from the levels reported in the three months ended September 30, 2011.

Management believes its current working capital combined with expected future cash flow will be sufficient to meet the Company's liquidity requirements through 2012, regardless of the outcome of the bid process in connection with the above contract.

Summary of Financial Information

The following table provides a comparison of selected financial highlights, in thousands, for the three months ended September 30, 2011 and 2010:

CONDENSED CONSOLIDATED FINANCIAL HIGHLIGHTS
Three Months Ended September 30, 2011 and 2010
(In thousands)

	2011	2010	Fav / (Unfav) Change
Revenue:			
<i>Equipment revenue</i>	\$ 2,360	\$ 2,502	\$ (142)
<i>Services revenue</i>	118	123	(5)
Total revenue	2,478	2,625	(147)
Costs of revenue	726	829	103
Gross profit margin	1,752	1,796	(44)
<i>Gross profit margin %</i>	70.7%	68.4%	
Research and development expenses (R&D)	176	286	110
Sales, general and administrative expenses (SG&A)	1,371	1,413	42
Total R&D and SG&A	1,547	1,699	152
Operating income	205	97	108
Interest expense, net	85	327	242
Net income (loss)	\$ 120	\$ (230)	\$ 350
Preferred stock dividends and accretion	648	376	(272)
Net loss available to common stockholders	\$ (528)	\$ (606)	\$ 78

Quarterly Highlights

In addition to the selected financial highlights above, the following selected quarterly financial and non-financial data over the past 5 quarters is important in understanding the trend in the Company's results of operations:

CONDENSED CONSOLIDATED QUARTERLY FINANCIAL HIGHLIGHTS

Quarterly Trend

(In Thousands)

	Sept 30 2010	Dec 31 2010	Mar 31 2011	Jun 30 2011	Sept 30 2011
Revenue:					
<i>Equipment leasing</i>	\$ 2,502	\$ 2,442	\$ 2,380	\$ 2,301	\$ 2,360
<i>Service Revenue</i>	123	118	120	117	118
Total Revenue	2,625	2,560	2,500	2,418	2,478
Costs of Revenue	829	910	836	763	726
<i>Gross profit margin</i>	1,796	1,650	1,664	1,655	1,752
<i>Gross profit margin %*</i>	68.4%	64.5%	66.6%	68.4%	70.7%
Research & Development (R&D)	286	225	232	228	176
Selling General & Admin (SG&A)	1,413	1,266	1,538	1,690	1,371
Subtotal R&D and SG&A	1,699	1,491	1,770	1,918	1,547
Operating Income (Loss)	\$ 97	\$ 159	\$ (106)	\$ (263)	\$ 205

* Gross profit margin percentage = Gross Profit Margin / Total Revenue

CONDENSED CONSOLIDATED QUARTERLY FINANCIAL HIGHLIGHTS

Quarterly Trend

(In Thousands)

	Sept 30	Dec 31	Mar 31	Jun 30	Sept 30
	2010	2010	2011	2011	2011
Cash Flows From Operating Activities					
Net income (loss)	\$ (230)	\$ (157)	\$ (465)	\$ (650)	\$ 120
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	262	259	309	305	283
Stock based compensation	35	74	81	73	70
Provision for doubtful accounts	-	-	54	203	-
Changes in operating assets and liabilities:					
Accounts receivable	(154)	317	189	(392)	110
Inventories	(19)	15	55	(103)	(17)
Prepaid expenses	(59)	18	(90)	117	(28)
Accounts payable	105	(162)	(105)	150	(12)
Accrued expenses	(35)	(160)	108	7	(78)
Deferred revenue	(1)	(1)	(9)	(5)	9
Accrued interest payable	201	146	316	259	15
Net cash provided by (used in) operating activities	105	349	443	(36)	472
Principal payments on long-term debt	(436)	(433)	(436)	(347)	(310)
Net cash provided by (used in) operating activities less principal payments on long-term debt	\$ (331)	\$ (84)	\$ 7	\$ (383)	\$ 162

Because the Company finances the majority of all equipment purchases through long-term leases, the investing activities (e.g. purchase of leasehold improvements and equipment) of the Company are generally offset by the proceeds of long-term debt reported in financing activities. Accordingly in evaluating the cash flow of operations, management looks at the net cash provided by operating activities (as per the Consolidated Statement of Cash Flows) and subtracts the principal payments on long-term debt.

For the three and nine months ended September 30, 2011 compared to the three and nine months ended September 30, 2010

Revenue

Equipment Revenue

Equipment revenue consists of the daily leasing of electronic monitoring equipment and periodic charges for lost or damaged equipment. For the three and nine month periods ended September 30, 2011 the Company had equipment revenue of \$2,360,000 and \$7,042,000 compared with \$2,502,000 and \$7,432,000 for the same periods in 2010 which represents a decline of 5.7% and 5.3%, respectively, due to a net decline in the number of units deployed.

Service Revenues

Service revenues consist of daily charges for Monitoring Center Intervention, in connection with the leasing of GPS equipment outlined above. For the three and nine months ended September 30, 2011 the Company reported service revenue of \$118,000 and \$355,000 compared to \$123,000 and \$365,000 for the same period in 2010. The decline in service revenues is also a result of the net decline in the number of units deployed.

Royalty Revenue

The Company earned royalty revenues of \$125,000 per quarter through June 30, 2010 under a Patent License Agreement with Satellite Tracking of People, L.L.C. (STOP) which grants STOP a license to utilize specific technology that is patented by the Company. The Company earned a royalty equal to 2.5% of STOP's revenue utilizing this technology. The royalty was paid annually. The Company has earned the maximum amount of royalties it could earn under the STOP Patent License Agreement. Accordingly, the Company expects no future royalty revenue to be recognized and all payments were received as of March 31, 2011.

Cost of Revenue

Cost of revenue represents all direct costs related to delivery of proprietary and third-party monitoring equipment including amortization of the acquisition costs, lease costs on third-party equipment, repairs and maintenance of the monitoring equipment, royalty expenses, transportation costs, communication costs associated with the equipment, as well as costs to upgrade existing units for advancements in technology.

For the three and nine month periods ended September 30, 2011 the Company reported cost of revenue of \$726,000 and \$2,325,000 compared to \$829,000 and \$2,586,000 for the same periods in 2010 which represent decreases of approximately 12.4% and 10.1%, respectively.

For the three months ended September 30, 2011 the \$103,000 decrease in cost of revenue is attributable to the following:

- \$93,000 decrease in communications costs resulting from the renegotiation of our contract with our wireless service provider during the three months ended June 30, 2011
- \$66,000 decrease in 3rd party equipment costs driven by the Company's decision to terminate its reseller relationship with STOP, L.L.C. under which the Company deployed their one piece device
- \$13,000 increase in freight costs
- \$43,000 increase in various other costs including supply and repair costs

For the nine months ended September 30, 2011 the \$261,000 decrease in cost of revenue is attributable to the following:

- \$180,000 decrease in depreciation expense of which \$124,000 is related to the 2nd quarter 2010 increase in estimated useful life
- \$120,000 decrease in 3rd Party equipment costs, which includes a \$130,000 decrease due to the Company's decision to terminate its reseller relationship with STOP, L.L.C. under which the Company deployed their one piece device
- \$88,000 decrease in communications costs resulting from the renegotiation of our contract with our wireless service provider during the three months ended June 30, 2011
- \$48,000 increase in freight costs
- \$79,000 increase in various other costs including supply and repair costs

Management anticipates that Cost of Revenue generally will not change except in connection with an increase in revenue, in which case there will be an increase in the Cost of Revenue proportionate to the growth.

Research and Development Expenses

Research and Development (R&D) expenses represent the on-going direct costs associated with the development of the Company's proprietary hardware and software including staffing expenses for the Company's own engineers and software developers, the cost of outside contracted engineering and design, and the actual costs of components, prototypes, and testing equipment and services used in the product development functions.

R&D expenses for the three and nine months ended September 30, 2011 were \$176,000 and \$636,000 compared to \$286,000 and \$895,000 for the same periods in 2010, a decrease of \$111,000 and \$259,000, respectively. R&D expenses decreased largely as a result of open positions during the quarter and nine months ended September 30, 2011.

The Company is currently in the process of redesigning several major software systems and technology improvements and has capitalized certain payroll and related costs associated with the related development of the applications and technology. For the three and nine months ended September 30, 2011 the Company capitalized payroll costs of \$0 and \$40,000 compared to \$5,000 and \$42,000 for the same periods in 2010.

Over the remainder of the year management anticipates having resources dedicated to capitalizable projects. Accordingly, the reported R&D in future periods will be in part dependent on the resources devoted to these projects. However, overall R&D expenses are expected to continue at or about the current levels for the quarter ending December 31, 2011 and then as a result of certain actions taken, begin declining in 2012.

Sales, General and Administrative Expenses

Sales, General and Administrative (SG&A) expenses are all the expenses associated with the operations of the Company, other than the expenses described above. These expenses include payroll, taxes and benefits and related travel for executive, sales, administrative, customer support and accounting staff. In addition these costs include rent on property, corporate communications, office leases and supplies, marketing, advertising, trade shows, recruiting and training expenses, professional fees and bad debt expense.

For the three month period ended September 30, 2011, SG&A expenses decreased \$42,000 from \$1,413,000 reported in 2010 to \$1,371,000 reported in 2011. Significant increases and decreases of SG&A expense in the comparable periods are highlighted below:

- Personnel related expenses included salaries, benefits, incentive compensation, and travel decreased approximately \$101,000 as a result of the implemented cost control measures and open positions during the quarter
- Stock option expenses increased \$38,000
- Various other expenses including advertising, insurance, communications, and other expenses increased an aggregate of \$21,000

Management expects that SG&A expenses will continue at or about the same level as reported for the three months ended September 30, 2011 for the quarter ending December 31, 2011 and then begin to decline in 2012 as a result of certain actions taken during the current quarter. The Company remains strategically positioned to support material revenue growth without requiring a corresponding increase in SG&A expenses.

For the nine month period ended September 30, 2011, SG&A expenses increased \$129,000 from \$4,471,000 reported in 2010 to \$4,600,000 reported in 2011. Significant increases and decreases of SG&A expense in the comparable periods are highlighted below:

- Personnel related expenses including salaries, benefits, and travel decreased approximately \$245,000 as a result of the implemented cost control measures and open position during the 3rd quarter of 2011
- Consulting fees decreased \$46,000 in connection with the use of fewer consultants to fill open positions
- Office supply costs increased \$100,000 largely due to the transition to Salesforce.com and FinancialForce.com platforms, a transition that was ongoing through 2011
- Bad debt expense increased \$257,000 in connection with the uncertainty of collectability of a certain accounts receivable
- Stock option expense increased \$111,000
- Various other expenses including advertising, insurance, communications, and other expenses decreased an aggregate of \$48,000

Interest Expense, Net

Net interest expense represents the total interest expense incurred by the Company reduced by the interest income earned by the Company during the year. During the three and nine months ended September 30, 2011 the Company reported net interest expense of \$85,000 and \$831,000, respectively, decreases of \$242,000 and \$148,000 from the \$327,000 and \$979,000 reported for the three and nine months ended September 30, 2010. The decrease is attributable to the financial restructuring completed June 30, 2011.

Net Income / (Loss)

The Company generated net income for the three months ended September 30, 2011 of \$120,000, an improvement of \$350,000 over the net loss of \$230,000 realized during the three months ended September 30. For the nine months ended September 30, 2011, the Company realized a net loss of \$995,000 which was \$144,000 greater than the \$851,000 net loss realized in the first nine months of 2010 for the reasons described above.

Preferred Stock Dividends and Accretion

For the three and nine month period ended September 20, 2011, preferred stock dividends and accretion totaled \$648,000 and \$1,389,000 as compared to \$376,000 and \$1,067,000 for the three and nine month periods ended September 30, 2010. This increase was due to compounding interest on accrued but unpaid

dividends on our Series C Preferred Stock. As a result of the amendment to the terms of the Series C Preferred Stock on June 30, 2011, which allows it to be recorded as shareholders' equity rather than debt, the periodic accretion noted above, which was increasing the carrying amount of the Series C Preferred Stock, will not be required, beginning with the three months ended September 30, 2011. For similar reasons, no accretion to carrying value is required on the Company's Series D Preferred Stock. Additionally, while future dividends on both the Series C Preferred Stock and the Series D Preferred Stock will continue to accrue at a cumulative compounded rate of 8.0% per annum, such dividends and interest are payable only in additional shares of Preferred Stock.

Liquidity and Capital Resources

The Company's principal uses of cash are the payment of operating expenses and debt service payments on its debt obligations, including its capital lease financing. In general, the Company expects to meet these liquidity needs by generating positive cash flow from operating activities. The Company also uses cash to repay long-term capital lease obligations incurred in connection with the acquisition of monitoring equipment that it leases or sells to its customers. For the nine months ended September 30, 2011, the Company generated \$879,000 of cash from operating activities. Investing activities used \$784,000 of cash and financing activities generated cash of \$272,000. The total of all cash flow activities resulted in an increase in the balance of cash for the nine months ended September 20, 2011 of \$367,000. For the same period of 2010, the Company used \$30,000 of cash in operating activities, used \$237,000 in investing activities, and generated \$122,000 in cash from financing activities. The total of all cash flow activities in the nine months ended September 30, 2010 resulted in a decrease in the balance of cash of \$145,000.

The Company believes that its current working capital, combined with expected future cash flow and the amounts available to it through the capital lease financing arrangements with AHK are sufficient to meet its liquidity needs through 2012. Management is in the process of negotiating a long-term line of credit with a local financial institution to address unexpected, short-term liquidity needs. This line of credit is expected to replace the current Note Payable outlined in Note 5.

As outlined earlier, the Company's largest contract, which expires January 4, 2012, is currently being re-bid and management believes it is unlikely to re-win the contract. Although the Company would expect to receive revenues from this contract during a transition period there is no way to predict how long that transition period might be and thus with any level of accuracy, the amount of the potential decline in revenue. As such, the Company expects to continue generating positive cash flow through the remainder of 2011 and into 2012 so long as the Company continues to generate revenue from the above contract.

In the event the Company does not re-win the above contract, the Company's ability to maintain sufficient liquidity is, in part, the result of the financial restructuring which decreased annualized cash flow requirements related to interest and principal payments on long-term debt. In addition, the Company's cash flow requirement on long-term equipment leases is expected to decline over \$800,000 from 2011 to 2012. Furthermore, as a result of certain actions taken management expects other operating expenses to decline over \$500,000, annualized, from the levels reported in the three months ended September 30, 2011.

Management believes that cash on hand at September 30, 2011 combined with expected future cash flow will be sufficient to meet the Company's liquidity requirements through 2012 regardless of the outcome of the bid process in connection with the above contract.

Application of Critical Accounting Estimates

Management uses estimates and assumptions in preparing our financial statements in accordance with accounting principles generally accepted in the United States. These estimates and assumptions affect the

reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an on-going basis, we evaluate our estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that our estimates and assumptions are reasonable under the circumstances; however, actual results may vary from these estimates and assumptions under different future circumstances. We do not believe that any of the accounting estimates are critical at this time, however we expect to continue to review our accounting estimates in order to determine if any of these accounting estimates are critical. For further discussion of our significant accounting policies, refer to Note 1 – “Nature of Business and Significant Accounting Policies” in the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that the information the Company must disclose in its filings with the Securities and Exchange Commission is recorded, processed, summarized and reported on a timely basis. The Company's principal executive officer and principal financial officer have reviewed and evaluated the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report (the "Evaluation Date"). Based on such evaluation, such officers have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective in bringing to their attention on timely basis material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act.

The Company's principal executive officer and principal financial officer determined that there have not been any changes in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is not subject to any material pending or threatened lawsuits.

Item 1A. Risk Factors.

Not required for smaller reporting companies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Reserved.

Item 5. Other Information.

None

Item 6. Exhibits.

- 3.1 Amended and Restated Certificate of Incorporation of the Company, as amended (3)
- 3.2 Restated Bylaws of the Company (1)
- 3.3 Amended and Restated Certificate of Designation, Preferences and Rights of Preferred Stock Designated Series C 8% Cumulative, Compounding Exchangeable Preferred Stock (2)
- 3.4 Certificate of Designation, Preferences and Rights of Preferred Stock Designated Series D 8% Cumulative, Compounding Exchangeable Preferred Stock of the Company (2)
- 4.1 Form of Common Stock Certificate (1)
- 10.1 Debt Conversion Agreement, Dated June 30, 2011, by and between the Company and Crestpark LP, Inc. (2)
- 10.2 Amended and Restated Registration Rights Agreement, dated June 30, 2011, by and between the Company, Mykonos 6420, LP and Crestpark LP, Inc. (2)
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - (1) *Incorporated by reference from the registrant's registration statement on Form 10-SB, filed on June 22, 1999 (Commission File No. 0-26455).*
 - (2) *Incorporated by reference from the registrant's current report on Form 8-K, filed on July 1, 2011 (Commission File No. 0-26455).*
 - (3) *Incorporated by reference from the registrant's current report on Form 8-K, filed on December 14, 2006 (Commission File No. 0-26455).*
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 are furnished herewith, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010, (iii) Statements of Stockholders' Equity for the nine months ended September 30, 2011, (iv) Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010, and (v) Notes to Condensed Consolidated Financial Statements.

SIGNATURES

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

iSECUREtrac Corp.

By: /s/ Peter A. Michel
Peter A. Michel
President & CEO

Dated: November 14, 2011

By: /s/Lincoln Zehr
Lincoln Zehr
Chief Financial Officer

Dated: November 14, 2011

CERTIFICATION

I, Peter A. Michel, Chief Executive Officer of iSECUREtrac Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q of iSECUREtrac Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: November 14, 2011

/s/ Peter A. Michel

Peter A. Michel, Chief Executive Officer

CERTIFICATION

I, Lincoln Zehr, Chief Financial Officer of iSECUREtrac Corp., certify that:

1. I have reviewed this quarterly report on Form 10-Q of iSECUREtrac Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the issuer's most recent fiscal quarter (the issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Date: November 14, 2011

/s/ Lincoln Zehr

Lincoln Zehr, Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350, as adopted), Peter A. Michel, the Chief Executive Officer of iSECUREtrac Corp. (the “Company”), and Lincoln Zehr, the Chief Financial Officer of the Company, each hereby certifies that:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2011, to which this Certification is attached as Exhibit 32 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Periodic Report and results of operations of the Company for the period covered by the Periodic Report.

Dated: November 14, 2011

/s/ Peter A. Michel

Peter A. Michel
Chief Executive Officer

/s/ Lincoln Zehr

Lincoln Zehr
Chief Financial Officer