

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

Commission file number: 000-26455

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

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 South 111th Street
Omaha, Nebraska 68137
(Address of principal executive offices)(Zip Code)
Registrant's telephone number: (402) 537-0022

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, par value \$0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act)

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common stock of the registrant held by non-affiliates, all of which is voting, was approximately \$5,900,000, based on the closing sale price reported on June 30, 2008.

As of March 2, 2009, there were 10,799,090 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Registrant's 2009 Annual Meeting of Stockholders to be filed within 120 days of the fiscal year ended December 31, 2008, are incorporated by reference in Items 10, 11, 12, 13 and 14 of Part III of this Annual Report on Form 10-K

iSecureTrac Corp.

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PART I

Regarding Forward-Looking Statements

This Form 10-K contains forward-looking statements including statements about the future of iSECUREtrac Corp.'s ("iSECUREtrac" or the "Company" or "we" or "our") products and the industry, statements about future business plans and strategies, and most other statements that are not historical in nature. In this Form 10-K, forward-looking statements are generally identified by the words "believes," "intends," "expects," "may," "will," "should," "plan," "projected," "contemplates," "anticipates," "estimates," "predicts," "potential," "continue," or similar terminology. Readers of this Form 10-K should understand that a number of factors could cause the Company's actual results to differ materially from those expressed in the forward-looking statements contained herein. Many of these factors are described in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and under the heading "Risk Factors". Other factors discussed elsewhere in this report, in filings with the Securities and Exchange Commission or in materials incorporated herein or therein by reference may also affect the Company's future financial condition and results of operations.

Item 1. Business

Background

The Company is a Delaware corporation that is the successor in interest to a Colorado corporation initially incorporated in 1983. For more than a decade, the Company has been engaged in its current business of providing electronic monitoring products and services for individuals under community supervision with the objective of "monitoring compliance and modifying behavior." In 1997 the Company introduced its first Global Positioning System ("GPS") tracking system (1600 series), followed by the 2000 Series in 2003, and the latest generation system – the System 5000 in the fourth quarter of 2007.

Market Overview

At December 31, 2007, the latest date statistics are available; over 7.3 million people in the United States were under some form of correctional supervision – probation, prison, jail or parole. Approximately 70% of those people were included in the population most likely to utilize the Company's technology – community supervision.

Additionally, according to the Pew Public Safety Performance Project, for the first time more than one in every 100 adults is now confined in an American jail or prison. The United States now incarcerates more people than any country in the world. The growing number of incarcerated offenders is burdening states' budgets with soaring costs. Agencies are seeing increases in facilities, health care, geriatrics and overtime costs while at the same time seeing a lag in victim restitution, child support and tax payments as incarcerated persons lose their jobs and become a tax burden.

Electronic monitoring systems (e.g. GPS, House Arrest, and Visual Breath Alcohol) enable an agency to monitor, at a greater level of supervision, the activities of a growing number of probationers and parolees without having to allocate additional labor resources to such monitoring efforts. Community supervision programs give corrections and law enforcement agencies more flexibility in solving budget-related problems. Since public safety is maintained or improved by linking alternative sentencing programs with electronic monitoring, programs like work release become viable, cost-effective tools for today's correctional system.

In summary, the use of products and services offered by iSECUREtrac offer three distinct advantages over incarceration:

- (1) it reduces the public's tax burden by allowing the offender to work thereby providing the offender the opportunity to meet their financial obligations,
- (2) it reduces prison and jail overcrowding by providing a viable alternative to incarceration at a significantly lower cost to the community, and

- (3) it helps to reduce the rate of recidivism (re-offense) when combined with regular rehabilitation/reintegration counseling.

Industry/Technology Advancements

The electronic monitoring market remains an emerging, early stage industry. Accordingly, new technology is being developed and introduced at a rapid pace. In general, the technological advancements of the new products are able to demand a higher price point. However, the industry has historically demonstrated that in most instances, there remains a steady and consistent demand for the existing technology and products.

Business

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.

Our Products and Services

iSECUREtrac has a full suite of electronic monitoring products and services consisting of:

- GPS Tracking Systems
- House Arrest
- Visual Breath Alcohol Testing
- Supplemental Monitoring Center Services

In order to position the Company to remain competitive in the electronic monitoring industry, in 2007 we invested in both the GPS (System 5000) and Visual Breath Alcohol (MEMS 3000) technology. The Company sees a continued demand for its existing product offerings and remains committed to continuing to provide and support all product lines.

GPS Tracking Systems

GPS tracking systems enable law enforcement agencies to continuously monitor an individual’s location, and thereby compliance, with pre-determined terms.

Operated by the United States Department of Defense and provided free of charge, the Global Positioning System consists of at least 24 operational satellites that orbit the Earth every 12 hours. Eight to twelve GPS satellites are visible from any point on Earth at any given moment in time. A position fix can be acquired when a GPS receiver receives signals from at least three of these satellites.

Our GPS tracking products use this state-of-the-art positioning technology to monitor the movements of individuals under community supervision to a degree not previously possible or cost efficient.

The Company’s Series 2000 and Series 5000 GPS systems are manufactured in the United States and consist of:

- Personal Tracking Unit (PTU) that is carried by the offender when not in the charging base. The PTU may include cellular communication capabilities. The reception of the RF signal from the ankle cuff indicates the cuff and PTU are in proximity. The absence of that RF signal indicates a possible violation.
- An ankle cuff that is worn continuously by the offender. The cuff emits a radio frequency (RF) signal to the PTU.

- A charging base that re-charges the PTU battery and in some systems contains traditional land line communication capability.

Our GPS unit tracks an individual by collecting data points regarding their location and time, at intervals as short as every 10 seconds. All data processing and compliance assessments take place in the PTU, a capability we call on-board intelligence. When operating in an “active” mode, this feature provides officers with near real-time compliance reporting and potentially quicker response to violations by high risk offenders.

Our GPS systems offer:

- Tracking units equipped with on-board intelligence allowing them to compute GPS locations and discern violation status without the assistance of a monitoring center or other secondary sources
- Advanced circumvention sub-systems to identify, report and log attempts by the offender to tamper with the equipment or render it inoperable
- The latest generation GPS chip sets for greater accuracy and sensitivity in areas that typically have weak GPS signals (e.g., urban canyons, terrain under dense foliage)
- Secure, web-based management reporting through any Internet-ready device, anywhere in the world
- Geo-fencing to control entrance and/or egress from geographically defined locations (e.g., home, work, spouse’s residence, elementary schools, etc.)
- Automated voice notification with escalation to an unlimited number of parties including but not limited to supervising officers, law enforcement officials, judicial personnel and potential victims
- Equipment designed and manufactured specifically for the corrections market that is hypoallergenic (ankle bracelet or cuff), tamper and shock resistant and water resistant or water proof (ankle bracelet or cuff)
- Crime scene analysis (Crime Scene Inquiry) to assist agencies in identifying or eliminating potential suspects based upon their proximity to a specific crime location within a specified time period.

All of the Company’s GPS products collect data points regarding the individual’s time and location and provide the individual immediate feedback regarding compliance violations. Depending on the specifications of the law enforcement or social services agency, the agency or monitoring center is notified of compliance violations based on the modes of operations outlined below:

- *Active GPS* - uses on-board intelligence and a cellular communications network to report locations and violation status in near real time (Series 2000 and Series 5000). In addition, the Company’s System 5000 also offers the capability of reporting locations and violation status via a traditional land-line when the PTU is returned to the charging base. This service is particularly useful in areas where cellular coverage is weak.
- *Passive GPS* - uses the same on-board intelligence as the Active GPS unit, but reports the locations and violation status via a traditional land-line telephone only when the PTU is returned to the charging base (Series 2000 only)

House Arrest

House Arrest is a system that enables law enforcement agencies to verify an offender’s presence at a particular location (house, residence, work release facility, etc.). Equipment and features of the iSECUREtrac House Arrest System include:

- The ability to move from House Arrest to Active or Passive GPS remotely with the flip of a switch
- A hypoallergenic and water proof ankle bracelet or cuff worn continuously by the offender which is equipped with tamper-detecting sub-systems and a radio frequency (RF) transmitter
- A shock resistant monitoring base with enhanced signal reception to ensure superior signal monitoring at range of distances
- Reporting through a single, secure, web-based platform utilizing common management software for monitoring offenders on House Arrest, Active or Passive GPS

The agency can set a schedule for each offender corresponding to the rules of release. For example, the offender must be at home between 6:00 p.m. and 7:00 a.m. every day. Offender deviation from the schedule results in a violation notification sent to the agency. If the offender takes off the ankle bracelet or tampers with it, it sends out a unique signal alerting the monitoring base of the violation. The base then communicates with the monitoring center which, in turn, automatically alerts the appropriate authorities.

Visual Breath Alcohol Testing

Our breath alcohol monitoring system enables an offender's breath alcohol levels to be tested remotely and at the offender's residence. The system calls the offender on a scheduled, random, or on-demand basis, giving him clear instructions. The offender blows into a drinking straw inserted in the HomeStation while a camera on the unit photographs the offender. Breath Alcohol Test data and photographs are sent electronically to our data center. Our personnel confirm the offender's identity by comparing the event verification photo with original reference picture provided by the agency. Deviation from program parameters, as defined by the agency, results in monitoring center staff contacting appropriate agency personnel.

Advantages of the iSECUREtrac Alcohol Testing System include:

- In-home testing of individuals who may not have convenient access to a central testing facility
- A proven alcohol testing methodology that yields court admissible evidence
- The ability to customize a testing schedule (fixed, random or on-demand) to fit an individual's supervision/corrections plan
- The use of a time-tested reliable system designed to meet agency program parameters and budget

Many agency programs use a combination of iSECUREtrac systems to better monitor compliance and shape more socially responsible behavior. For example, it is not unusual for individuals accused or convicted of domestic violence to be supervised with both active GPS and remote alcohol monitoring.

Supplemental Monitoring Center Services

To effect a more seamless integration with agency protocols and programs, iSECUREtrac provides supplemental services. These optional services include:

- *Direct Monitoring Center Intervention* in which iSECUREtrac will attempt to resolve common compliance issues through direct contact with the monitored individual. If iSECUREtrac cannot resolve the issue, the situation is escalated in accordance with agency protocols.
- *Equipment Install and Removal* frees agents from the task of fitting their clients and retrieving the equipment at the end of the program.
- *Automated Voice Notification* provides voice alerts to officers in addition to text, pager and email notifications when those individuals under community supervision violate the terms of their release. These automated voice alerts can be customized by offender, violation and content. Voice messages can

be automatically and simultaneously sent to a virtually unlimited number of recipients including potential victims.

- *On-Site Inventory Management* provides precise control and safeguarding of equipment. An on-site iSECUREtrac administrator maintains accurate inventory records including data pertaining to equipment receipt, the movement of equipment within and between locations and inventory assignments that match equipment serial numbers with client case numbers.
- *Extended Training* includes follow-up training and refresher courses to ensure agents, officers and supervisors are comfortable with the operation of the equipment and proficient in reading and interpreting electronic monitoring reports.
- *Program Development and Consulting* can help fine tune protocols and procedures to reduce program “noise”, annoyance alerts and unnecessary data.
- *Financial Services and Administration* provides agencies several options in the financial administration of community supervision programs. For example, iSECUREtrac provides client billing services in which the offender/client is directly invoiced by iSECUREtrac for the cost of their electronic supervision.
- *Day Reporting Services* includes the provision by iSECUREtrac of a reporting center and staff to effectively supervise release compliance by those individuals under community supervision.

Web-Based Software/System Interface (tracNET24)

Our web-based software/system interface, known as tracNET24, is provided to end-user agencies through the Internet. Probation or corrections officers with a secure log-in can access the system and know where his or her clients have been over any given time period. With GPS monitoring, the officer can create or modify a schedule of locations where the offender must be at certain times of the day, week or month (e.g., a place of work, medical appointments, counseling appointments, meetings with the probation officer, etc.). He/she merely enters a drop down menu for the schedule and either enters an address or points to a spot on the map and specifies a radius. He/she thereby creates “inclusion zones” for the offender. Similarly, the officer can create “exclusion zones” (e.g., schools, home of an ex-spouse, etc.). Once the parameters are entered, the officer clicks “synchronize with Personal Tracking Unit” which causes the scheduling and zone information to be downloaded to the tracking unit.

Features of iSECUREtrac’s proprietary reporting and management software include but are not limited to:

- The ability to establish boundaries or geo-fences via “inclusion” and “exclusion” zones, either for individual clients or entire caseload populations
- The flexibility to change the content, delivery method and timing of alert notifications to best fit agency needs
- Access to all reports and key events pertaining to monitored individuals through a secure, web-based program
- Utilization of Microsoft’s Virtual Earth® as a mapping system overlay as well as recognizable and easy-to-read names of countries, states, counties, cities, municipalities, landmarks, points of interest, and street names
- The ability to present mapping and monitoring information for all enrolled clients in the vicinity of a crime at the time the crime was committed, enabling the officer to research multiple clients simultaneously

Customers

Our principal customers are federal, state, county, and municipal law enforcement and corrections agencies in the United States. Our customers also include social service agencies dealing with curbing juvenile delinquency and domestic violence/abuse.

Sales and Distribution Channels

The Company markets and sells its products and services to governmental and not-for-profit agencies throughout the United States directly through its in-house sales force and indirectly through third party distributors. We also market our products and services through other service providers that have direct relationships with law enforcement and correction agencies and other end users of our products and who integrate iSECUREtrac systems with their own localized offender management services.

Competition

The Company competes for GPS-based offender monitoring with a number of different companies, including G4S, Omnilink Systems, ProTech Monitoring, Inc., BI Incorporated, STOP LLC and SecureAlert. Neither the Company nor any of these competitors has attained a dominant market position, however, several of the Company's principal competitors have access to financial, technical, marketing, distribution and procurement resources that are greater than those of the Company. In addition, there are several other companies that use GPS, electronic mapping and Internet technologies to provide tracking and monitoring products and services. The markets served by these companies include vehicle and rail car tracking, vehicle fleet management, container tracking as well as cell phones and 911 emergency response services. While the companies serving these markets do not currently sell products or services to the corrections and social services markets, these companies or others may enter this market in the future.

In general, contracts with our targeted customer base in the offender tracking market are awarded through a competitive bid process in which we must demonstrate the ability to provide services meeting stated customer specifications at competitive prices. We compete by providing state-of-the-art equipment, a proprietary web-based reporting solution, and customer support that we believe offers the highest value to our customers. In addition, we are the only provider that offers Active GPS, Passive GPS, and traditional House Arrest products that are integrated into a single web application.

Principal Suppliers

The Company's products are manufactured in the United States by third party contract manufacturers in accordance with manufacturing specifications set by the Company. The PTUs and other hardware components are designed to use off-the-shelf electronic components available for any standard electronic assembly. The Company works in partnership with contract manufacturers to manage the supply chain of electronic components for the manufacture of the Company's products. In January of 2003, the Company contracted with Altron Inc. of Anoka, Minnesota, an ISO-9002 qualified electronics manufacturer, to be the primary manufacturer of PTUs.

Intellectual Property Rights

We have been issued four patents to date by the United States Patent Office: (i) No. 6,072,396 for an "Apparatus and Method for Continuous Electronic Monitoring and Tracking of Individuals" was issued on June 6, 2000 and will expire on December 30, 2014; (ii) No. 6,100,806, also for an "Apparatus and Method for Continuous Electronic Monitoring and Tracking of Individuals" was issued on August 8, 2000 and will expire on December 30, 2014; (iii) No. 6,337,665 was issued on January 8, 2002 for an "Antenna Orientation Maintaining System in a System for Tracking Individuals and Method of Use" and will expire on April 24, 2017; and (iv) No. 6,646,617 was issued on November 11, 2003, for an "Antenna Orientation Maintaining System in a System for Tracking Individuals and Method of Use" and will expire on April 24, 2017.

We have been issued patent rights in Australia, patent No. 2000235013, issued November 17, 2005 relating to an "Apparatus and Method for Continuous Electronic Monitoring and Tracking of Individuals" and will expire on February 24, 2020.

We have been granted a non-exclusive software license from SiRF Technology Incorporated ("SiRF") allowing us to embed SiRF's patented GPS technology into our products.

We assert common law copyright and statutory trade secret protection to our proprietary software. Our logo, the words "tracNET24", Reg No. 3114715, "iSECUREtrac", Reg No. 3159632, "IntelliCuff", Reg No. 3313220 and the word "iSecureTrack", Reg. No. 2520981 are registered trademarks.

In addition, we have applied for several additional patents and trademarks.

Regulation

The manufacture, sale and use of devices that utilize any part of the radio frequency radiation spectrum are subject to regulation. The Federal Communications Commission (the "FCC") is the principal agency responsible for regulations relating to the manufacture, sale and use of devices that transmit radio frequency radiation. All of our equipment utilizing radio frequency has each received full FCC compliance certification.

Similarly, insofar as GPS remains funded and controlled by the U.S. government, devices utilizing GPS must conform to government specifications.

Research and Development

The electronic monitoring market remains an emerging, early stage industry. Accordingly, new technology is being developed and introduced at a rapid pace. In order to maintain our competitive position, we must constantly improve our products and services. Our research and development staff designs and develops products incorporating GPS technology, wireless communications, web-based reporting and data storage and transmission. Our research and development activities are primarily related to our GPS products. During 2008, these activities were mainly related to addressing the engineering and design issues related to the System 5000 as identified in the 10-KSB filed for the year ended December 31, 2007, and efforts directed toward the improvement in the functionality of the related web-based software and interfaces including the development and enhancement of crime scene inquiry. During 2008 and 2007, our research and development expenses totaled \$1,240,000 and \$1,892,000, respectively.

Employees

As of December 31, 2008, the Company had 74 full-time employees, one part-time employee and one contractor on staff. Of the 74 full-time employees, five are executives, five are administrative personnel, seven are in sales, 14 are in customer support, 13 operate the monitoring center, one is in technology services, 17 are in operations and 12 are in engineering and development. The part-time employee works in the monitoring center and the contractor is assisting in technology services.

General Information

The Company's principal office is located at 5078 South 111th Street, Omaha, Nebraska, 68137 (telephone: 402-537-0022) and its internet address is www.isecuretrac.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are available free of charge through its website as soon as reasonably practicable after these documents are filed with the Securities and Exchange Commission. The information contained in the Company's website is not part of this Report on Form 10-K.

Item 1A. Risk Factors

The Company's business and financial condition are subject to a number of risks and uncertainties, many of which are beyond the control of the Company. These risks and uncertainties include the following:

The current economic downturn could adversely impact our future revenue.

Our revenues are primarily derived from contracts with state, local and county government agencies in the United States. The budgets of many of these government agencies have been, or are expected to be, negatively impacted by the current economic downturn. As a result, the amount spent by the Company's current clients on equipment and services supplied by the Company may be reduced or grow at rates slower than anticipated and it may be more difficult to attract additional government clients for the Company's equipment and services. As a result, our ability to maintain or increase our revenues may be negatively affected.

We have incurred significant losses and expect losses to continue.

Our revenues have not been sufficient to cover our cost of operations and other expenses, and we have yet to establish profitable operations. We incurred net losses of \$4,601,000 and \$7,202,000 for the years ending December 31, 2008 and 2007 respectively. As a result, on December 31, 2008, the Company is reporting an accumulated deficit of \$75,762,000. There is no assurance that we will be able to increase our revenues or manage our operating expenses so that our revenues will be sufficient to cover our operating expenses or that we will achieve profitability in the future.

We have incurred a substantial amount of secured debt and may not have enough cash to repay it at maturity.

We have borrowed a total of \$11,900,000 under a Credit and Security Agreement with Crestpark LP, Inc., an affiliate of our controlling shareholder. The entire principal of this loan, plus an estimated \$2,075,000 of accrued interest, will be due and payable no later than July 1, 2010. The borrowings under the loan are secured by a first priority security interest in all of the assets of the Company except that Lender's security interest in certain monitoring equipment is subordinate to the interest of AHK Leasing LLC under its sale leaseback arrangements. To the extent that the Company is not able to retain sufficient cash flow from operations to repay principal and interest on this loan, we will need to refinance the loan through additional debt or equity financings. There is no assurance that the Company will be able to generate sufficient cash flow from operations to service this loan and there is no assurance that we will be able to refinance this loan or otherwise raise capital in order to repay all amounts that will be due and payable on the loan. If we cannot repay all principal and interest on this loan as due, we will be subject to all of the remedies available to the lender upon default, including foreclosure of virtually all of our assets. It is unlikely that the holders of our common stock would recover any of their investment if that were to occur.

Markets for our products and services may develop slowly.

The long-term financial viability of our company depends on our ability to attract additional customers for our GPS tracking system in order to increase revenues. There are many factors that affect the demand for our products and services that we cannot control. In particular, we sell our products to governmental agencies, such as state corrections departments. Accordingly, the acquisition and continued use of our products by these types of customers is generally subject to legislative appropriation of funds which is subject to budgetary and political considerations that change over time. Adoption of our GPS tracking system may represent a significant expenditure by these types of customers which often face restrictive budgetary constraints. In addition, contracts with governmental agencies are generally subject to a competitive bid process which is often time consuming and does not assure that we will be successful in selling our products and services or that we will be able to do so at prices that are economically beneficial for us. In addition, our industry is relatively new and many of our target customers are only now becoming aware of our products and services and the possible advantages they may provide. As a result, there is often a long sales cycle involved with sales of our products and services. Due to these market factors, the demand for GPS tracking systems is difficult to forecast and may develop slowly or sporadically. Accordingly, we may not be able to commercialize our products on the scale necessary to achieve profitability.

We face significant competition and this may make it difficult to achieve profitability.

We compete with a number of other companies that offer GPS solutions for offender tracking. In addition, many companies use GPS, electronic mapping and Internet technologies to provide tracking and monitoring products and services in other markets such as vehicle and rail car tracking, vehicle fleet management, container tracking and emergency response services. Companies serving these other markets may enter the offender tracking market in the future. Some of the companies with which we currently compete, or may compete against in the future, may have access to greater financial, technical, marketing, distribution and procurement resources than we have. There can be no assurance that we will be able to continue to successfully compete in our market. Accordingly, we may not be able to commercialize our products on the scale necessary to achieve profitability.

Our technology may become obsolete which could materially adversely affect our ability to sell our products and services.

If our technology, products and services become obsolete, our business operations would be materially adversely affected. The market in which we compete is characterized by technological change, evolving industry standards, introductions of new products, and changes in customer demands that can render existing products obsolete and unmarketable. We must continuously improve our product as the market demands smaller, lighter and more versatile PTUs. Faster and more accurate mapping software may make the mapping software currently used in our tracNET24 application obsolete. Future releases of Windows may also compel us to upgrade our application software. Our current application servers will require continuous upgrading with newer and faster models or our technology will become obsolete. Our future success will depend upon our ability to address the increasingly sophisticated needs of our customers by supporting existing and emerging hardware, software, database, and networking platforms and by developing and introducing enhancements to our existing products and new products on a timely basis that keep pace with technological developments, evolving industry standards, and changing customer requirements. Accordingly, we have and expect to continue to incur significant research and development expenses in the future.

We rely on third party vendors to manufacture our products and if these vendors are unable to timely supply us with required components our business will be materially adversely affected.

While we acquire the components used in our products from various electronics manufacturers, we currently rely on a single electronics manufacturer to manufacture most of our PTUs. We have not qualified or contracted with other manufacturers for our PTUs. Accordingly, if our vendor encounters difficulties with meeting our demand for PTUs, alternative components may not be available quickly enough to avoid delaying production and shipment of customer orders. Any such delays may hamper our ability to service existing customers or market our products and services to new customers. Also, if the agreement with our current manufacturer is terminated or expires, our search for additional or replacement manufacturers could result in significant delays, added expense and our inability to maintain or expand our customer base.

We face the risk of systems interruptions and capacity constraints, possibly resulting in adverse publicity, revenue loss and erosion of customer trust.

The satisfactory performance, reliability and availability of our network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels. We may experience temporary service interruptions for a variety of reasons, including telecommunications or power failures, fire, water damage, vandalism, computer bugs or viruses or hardware failures. We may not be able to correct a problem in a timely manner. Any service interruption that results in the unavailability of our system or reduces its capacity could result in real or perceived public safety issues that may affect customer confidence in our services and result in negative publicity that could cause us to lose customer accounts or fail to obtain new accounts. Any inability to scale our systems may cause unanticipated system disruptions, slower response times, degradation in levels of customer service, or impaired quality and speed of transaction processing. We are not certain that we will be able to project the rate or timing of increases, if any, in the use of our services to permit us to upgrade and expand our systems effectively or to integrate smoothly any newly developed or purchased modules with our existing systems.

If we were denied access to GPS technology, our business will be materially adversely affected.

Our services rely on signals from GPS satellites built and maintained by the U.S. Department of Defense. GPS satellites and their ground support systems are subject to electronic and mechanical failures and sabotage. If one or more satellites malfunction, there could be a substantial delay before they are repaired or replaced, if at all, and our services may cease and customer satisfaction would suffer. In addition, the U.S. government could decide not to continue to operate and maintain Global Positioning System satellites over a long period of time or to charge for the use of the Global Positioning System. Furthermore, because of increasing commercial applications of the Global Positioning System, other U.S. government agencies may become involved in the administration or the regulation of the use of Global Positioning System signals in the future. If the foregoing factors affect the availability and pricing of Global Positioning System technology, our business will suffer. Global Positioning System technology is also dependent on the use of radio frequency spectrum. An international organization known as the International Telecommunications Union controls the assignment of spectrum. If the International Telecommunications Union reallocates radio frequency spectrum, our services may become less useful or less reliable. This would, in turn, harm our business. In addition, emissions from mobile satellites and other equipment using other frequency bands may adversely affect the utility and reliability of our services.

If we are not able to protect our intellectual property rights, our business may be materially adversely affected.

In order to protect the technology and other intellectual property underlying our products and services, we rely on a combination of patents, license agreements, copyrights, trade secrets, and trademarks. We also rely on confidentiality procedures and contractual provisions to protect our intellectual property rights. There can be no assurance that any of the measures we take to protect our intellectual property rights will be adequate. There is a risk that any patents issued to us may be invalidated, circumvented, or challenged; that the rights granted thereunder will not provide competitive advantages to us; or that none of our future patent applications will be issued with the scope of protection sought by us, if at all. Furthermore, there is a risk that others may develop technologies that are similar or superior to our technology or design around any patents issued to us. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary.

The protection of our intellectual property in foreign countries is uncertain.

We have not registered our patents with most foreign countries and may have no legal recourse to proceed against entities in such countries that choose to copy its hardware and/or software. In addition, the laws of some foreign countries do not protect proprietary information rights as fully as do the laws of the United States.

We depend on licensed technologies and may need to obtain additional licenses in the future to remain competitive.

We have been granted a nonexclusive software license from a technology company that has designed GPS chip sets and software solutions that allow us to embed GPS technology into our products. This license has an indefinite term; however, it may be terminated if the licensor loses any of its rights to the software products encompassed therein or by either party upon thirty (30) days written notice in the event of a material breach of the license by the other party. Termination of this license could have a material adverse effect on our business. In addition, we may need to obtain licenses to additional technologies in the future in order to keep our products competitive. If we fail to license or otherwise acquire necessary technologies, we may not be able to develop new products or services needed to remain competitive.

Our products could infringe on the intellectual property rights of others.

There are other U.S. patents and patent applications submitted for technologies in, or related to, our principal area of business, and it is possible that foreign patents are also in existence or have been applied for by others. As a result, any application or exploitation of our technology could infringe on patents or proprietary rights of others and any licenses required as a result of such infringement might not be available on commercially reasonable terms, if at all. This may lead others to assert patent infringement or other intellectual property claims against us.

We may not be able to effectively manage the growth of our company.

If our business grows in the manner that we currently project, we must continue to implement and improve our operational, financial and management information systems and expand, train and manage our employees. We may not have made adequate allowances for the costs and risks associated with this expansion, and our systems, procedures or controls may not be adequate to support the growth of our operations. Our failure to manage growth effectively could cause us to incur substantial additional costs, lose opportunities to generate sales or impair our ability to maintain our customers.

Risks Relating to the Ownership of Our Common Stock

The price for our common stock is volatile and may drop.

The trading price for our common stock has fluctuated significantly over recent years. The volatility in the price of our stock is attributable to a number of factors, not all of which relate to our operating results and financial position. Nevertheless, continued volatility in the market price for our stock should be expected and we cannot assure you that the price of our stock will increase in the future. Fluctuations or further declines in the price of our stock may affect our ability to sell shares of our stock and to raise capital through future equity financing.

We may issue a large number of shares to holders of preferred stock and warrants and the issuance and sale of these shares may depress the market price of our common stock.

We currently have warrants outstanding which entitle the holders thereof to acquire 3,544,535 shares of common stock. An additional 6,287,045 shares of our common stock are issuable upon exercise of warrants to be issued upon exchange of our Preferred Stock. In addition, the holder of our Series C 8% Exchangeable Preferred Stock may convert this Preferred Stock into 4,782,609 shares of common stock. The issuance and sale of these shares is likely to result in substantial dilution to the proportionate equity interest and voting power of holders of our common stock. The sale of these shares also has potential to cause significant downward pressure on the price of our common stock. This is particularly the case if the shares being placed into the market exceed the market's ability to absorb the increased stock. Such an event could place further downward pressure on the price of our common stock. This presents an opportunity for short sellers to contribute to the further decline of our stock price. If there are significant short sales of our stock, the price decline that would result from this activity will cause the share price to decline more so, which, in turn, may cause long holders of the stock to sell their shares thereby contributing to sales of stock in the market.

In 2005, we issued a significant number of shares of Preferred Stock as part of a refinancing transaction and the holder of these shares has the ability to acquire a majority position in our common stock and appoint a majority of our Board.

On June 27, 2005, we issued 1,000,000 shares of our Series C 8% Cumulative Compounding Exchangeable Preferred Stock plus warrants to acquire 3,234,248 shares of the Company's common stock, of which 3,052,898 are currently outstanding, at exercise prices ranging from \$2.30 to \$16.50 per share. The 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. Upon conversion of the Preferred Stock into common stock, and exercise of its warrants, the holder of the Preferred Stock will control a majority of the shares of our common stock. Prior to that time, the holder of the Preferred Stock has the right to appoint a majority of our Board of Directors. In addition, each share of Preferred Stock will have 11 votes on all other matters submitted to the vote of the Company's stockholders. Accordingly, the holder of our Preferred Stock holds a majority of the voting power held by all stockholders of the Company. If the holder of the Preferred Stock exchanges its Preferred Stock for shares of the Company's common stock and exercises all of its warrants, it would own approximately 55% of the issued and outstanding shares of the Company's common stock.

Our common stock is deemed to be "penny stock," which may make it more difficult for investors to sell their shares due to suitability requirements.

The Securities and Exchange Commission has adopted Rule 3a51-1 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share

or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15c-9 requires:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- that the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Item 2. Properties

The Company leases approximately 11,477 square feet of office space located at 5078 South 111th Street, Omaha, Nebraska where most of the Company's administrative, service, and other business operations are conducted. The lease was amended on December 18, 2006 to extend the term of the lease to December 31, 2009. The base rent for this property was \$7,053 per month through October 31, 2008 when it increased to \$7,265 per month for the remaining term of the lease. In addition to base rent, the Company pays a pro rata share of the operating expenses of the building. The Company's pro rata share of operating expenses on the leased premises is \$3,099 per month.

The Company also leases approximately 1,800 square feet of office space located at 11132 Q Street, Omaha, Nebraska where its monitoring center is located. The lease term commenced on January 1, 2007, and ends on December 31, 2009. The base rent for this property is \$1,125 per month. In addition to base rent, the Company pays a pro rata share of the operating expenses of the building. The Company's pro rata share of operating expenses on the leased premises is \$549 per month.

In the opinion of management, each of the leased properties is adequate for the Company's current and reasonably foreseeable needs. However, as a result of the upcoming lease expirations management is evaluating our options for renewing our existing leases or securing new space. The Company does not own any real property.

Item 3. Legal Proceedings

The Company is not currently involved in any material pending legal proceedings but may, from time to time, be involved in ordinary routine litigation incidental to the business.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of the Company's shareholders during the fourth quarter of 2008.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information. iSECUREtrac's common stock is listed on the OTC Bulletin Board under the trading symbol "ISEC". The following table sets forth the high and low sale prices for the Company's common stock during each calendar quarter of 2007 and 2008:

Year	Quarter	High	Low
2007	1st	\$1.57	\$0.90
	2nd	\$1.55	\$0.97
	3rd	\$1.50	\$1.05
	4th	\$1.28	\$0.62
2008	1st	\$0.72	\$0.45
	2nd	\$0.71	\$0.33
	3rd	\$0.65	\$0.33
	4th	\$0.55	\$0.19

The source of the foregoing information is Bloomberg, LP Quotations and reflects inter-dealer prices, without retail markup, markdown or commission and may not represent actual transactions.

Holdings. As of December 31, 2008 there were approximately 367 stockholders of record for the Company's common stock.

Dividends. The Company has not declared any dividends on shares of Common Stock and has no plans to do so in the foreseeable future.

Recent Sales of Unregistered Securities. The Company issued 19,410, 6,226 and 3,582 shares of common stock without registration under the Securities Act of 1933 during 2008, 2007 and 2006, respectively, to non-management directors as payment of director fees. The number of shares of common stock issued in each case was based on the fair market value of the Company's common stock as of the date of the meetings to which such fees related. All previously unreported, unregistered issuances of common stock during 2008 are as follows:

Date Issued	Title	Amount of Securities Issued	Security Holder	Description of Transaction	Cash to Company
02/25/08	Common Stock	3,076	Various Directors	Shares issued for directors' fees	N/A
05/05/08	Common Stock	5,556	Various Directors	Shares issued for directors' fees	N/A
08/11/08	Common Stock	2,778	Various Directors	Shares issued for directors' fees	N/A
11/03/08	Common Stock	8,000	Various Directors	Shares issued for directors' fees	N/A

All of the foregoing sales of common stock were exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) of such Act. All such shares are subject to restrictions on resale.

Company Purchases of its Equity Securities. No purchases of the Company's common stock were made by the Company or any "affiliated purchaser" (as defined in Rule 10b-18 under the Securities Exchange Act of 1934) during 2008.

Item 6. Selected Financial Data

Not Required for Smaller Reporting Company

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Highlights of 2008 Operations

During the year ended December 31, 2008, two significant objectives were accomplished:

First, the engineering and design issues related to the System 5000, which were identified in the Annual Report on Form 10-KSB filed for the year ending December 31, 2007, were resolved in the first six months of 2008. Over the last six months of 2008, the System 5000 has performed very well in competitive testing and its reputation as a highly reliable product line has increased substantially over that period of time.

Second, beginning in the first three months of 2008, the Company began the process of evaluating its cost structure and initiated a cost reduction plan to reduce and control expenditures, most particularly in the Selling General and Administrative area.

The Company began 2008 with 92 full-time employees and as a result of the cost reduction plan reduced the number of full-time employees by almost 20% to 74 by December 31, 2008. In addition, the Company implemented a number of other cost controls which contributed to the reduced overall expense levels in 2008.

The reduction in headcount and cost controls has resulted in the Company reducing its monthly operating expenses, excluding the provision for doubtful accounts, from \$875,000 per month during the three months ended December 31, 2007 to \$685,000 per month during the three months ended at December 31, 2008, a reduction of approximately 22%.

Management believes that the lowered cost structure of the Company, the growth in recurring revenues in the three months ending December 31, 2008, combined with the anticipated revenue growth from contracts signed subsequent to year-end, as further described under Total Revenues below, as well as known and anticipated growth in contracts in place at December 31, 2008 will allow the Company to achieve cash flow positive operations during 2009.

Summary of Financial Information

The following table provides a comparison of selected financial highlights for the years ended December 31, 2008 and 2007:

CONDENSED CONSOLIDATED FINANCIAL HIGHLIGHTS

Years Ended December 31, 2008 and 2007

(Rounded to nearest thousand)

	2008	2007	Change
Total revenues	\$ 9,702,000	\$ 8,786,000	\$ 916,000
Cost of revenues	3,868,000	3,640,000	228,000
Gross profit margin	5,834,000	5,146,000	688,000
Research and development expenses (R&D)	1,240,000	1,892,000	(652,000)
Sales, general and administrative expenses (SG&A):			
Litigation and settlement expenses	-	1,118,000	(1,118,000)
Management restructuring expenses	-	207,000	(207,000)
Consulting expenses - Sarbanes-Oxley	-	70,000	(70,000)
Other sales, general and administrative expenses	8,117,000	8,531,000	(414,000)
Total sales, general and administrative expenses	8,117,000	9,926,000	(1,809,000)
Total R&D and SG&A	9,357,000	11,818,000	(2,461,000)
Operating loss	(3,523,000)	(6,672,000)	3,149,000
Interest expense, net	(1,078,000)	(530,000)	(548,000)
Net loss	\$ (4,601,000)	\$ (7,202,000)	\$ 2,601,000
Preferred stock dividends and accretion	(1,224,000)	(1,186,000)	38,000
Net loss available to common stockholders	\$ (5,825,000)	\$ (8,388,000)	\$ 2,563,000

Quarterly Highlights

In addition to the annual statements of operation presented above, the following selected quarterly financial and non-financial data is important in understanding the Company's results of operation for the year ending December 31, 2008 and the operating trends going into 2009.

CONDENSED CONSOLIDATED QUARTERLY FINANCIAL HIGHLIGHTS

Year Ended December 31, 2008

(Rounded to nearest thousand)

	Three Months Ending March 31	Three Months Ending June 30	Three Months Ending September 30	Three Months Ending December 31	12 Months Ending December
Recurring Revenue					
Equipment leasing	2,180,000	2,239,000	2,099,000	2,254,000	8,772,000
Administrative field & support service revenues	74,000	87,000	71,000	102,000	334,000
	<u>2,254,000</u>	<u>2,326,000</u>	<u>2,170,000</u>	<u>2,356,000</u>	<u>9,106,000</u>
Equip Sales/Leaseback	35,000	24,000	-	58,000	117,000
Other Revenues	213,000	6,000	8,000	252,000	479,000
Total Revenue	<u>2,502,000</u>	<u>2,356,000</u>	<u>2,178,000</u>	<u>2,666,000</u>	<u>9,702,000</u>
Cost of Revenues	1,088,000	948,000	844,000	988,000	3,868,000
Gross profit margin	<u>1,414,000</u>	<u>1,408,000</u>	<u>1,334,000</u>	<u>1,678,000</u>	<u>5,834,000</u>
Research & Development (R&D)	340,000	329,000	275,000	296,000	1,240,000
Selling General & Administrative (SG&A)	2,252,000	2,047,000	1,817,000	2,001,000	8,117,000
Subtotal R&D and SG&A	<u>2,592,000</u>	<u>2,376,000</u>	<u>2,092,000</u>	<u>2,297,000</u>	<u>9,357,000</u>
Operating Loss	<u>(1,178,000)</u>	<u>(968,000)</u>	<u>(758,000)</u>	<u>(619,000)</u>	<u>(3,523,000)</u>
Total Full-Time Employees at Quarter End	91	89	80	74	

Total Revenues

For the year ended December 31, 2008, the Company had total revenue of \$9,702,000, an increase of 10.4% over the total revenue of \$8,786,000 recorded for the year ended December 31, 2007. The Company's principal sources of revenue (daily leasing of electronic monitoring equipment and administrative, field and support services) grew 8.6% over 2007. The increase in revenue is a result of an increase in the number of units under lease (equipment leasing) and the number of units utilizing the Company's monitoring center services (administrative field & support service revenues).

On a quarterly basis, the Company reported increasing record levels of recurring revenue (record levels when the quarter was reported) in the three month periods ending March 31, 2008, June 30, 2008 and December 31, 2008. During the three months ended September 30, 2008, the recurring revenue dipped as a result of the mix of growth and declines in existing contacts during the quarter as well as the timing of new contracts won and contracts lost.

Subsequent to December 31, 2008, the Company has deployed additional units in connection with the expansion of programs under contracts in existence at December 31, 2008 as well as new contracts signed subsequent to December 31, 2008. The incremental recurring revenue that is expected to be generated by these units could

result in the recurring revenue for the three months ending March 31, 2009 being higher than the three months ended March 31, 2008 by as much as 14% to 18%.

Cost of Revenues

Cost of Revenues represents all direct costs related to delivery of monitoring equipment including amortization of the acquisition costs, repairs and maintenance of the monitoring equipment, transportation costs, communication costs associated with the equipment, as well as costs to upgrade existing units for advancements in technology. Certain increases were experienced in royalty expenses, which began January 27, 2008 and are further described below, as well as communication costs and amortization as a result of additional units under lease. However, these increases were offset by reductions in other costs such as third party service costs and equipment upgrade and supply costs most of which were associated with the 2000 series product line. The net result is an increase in total cost of revenues of \$228,000 from the year 2007 to 2008.

On November 27, 2007, the Company and Pro Tech Monitoring, Inc. ("Pro Tech") entered into a Confidential Settlement Agreement ("Settlement Agreement"), pursuant to which the Company agreed to make a modification to its GPS tracking equipment to eliminate or disable a component that allegedly infringed on a U.S. patent held by Pro Tech. On January 27, 2008, the Company became subject to royalty payments, which escalate over time, on unmodified equipment generating revenue. Throughout the year ended December 31, 2008, the Company actively brought GPS tracking units into compliance with the Settlement Agreement, and will continue to do so as practical in 2009. On December 31, 2008, 13.5% of the Company's GPS tracking equipment available to generate revenue were subject to royalties. For the year ended December 31, 2008, the Company expensed \$240,000 in settlement royalty costs.

Gross Profit Margin

As a result of higher revenues, combined with the minimal increase in cost of revenues, the Company's gross profit margin for 2008 improved 13.4% to \$5,834,000 in 2008 from \$5,146,000 in 2007, an increase of \$688,000. Gross profit margin, as a percentage of total revenue, improved from 58.6% for 2007 to 60.1% for 2008.

Looking forward, management believes that a gross profit margin in excess of 60% is sustainable.

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.

Research and Development expenses for 2008 were \$1,240,000, a decrease of \$652,000 over the \$1,892,000 expensed in 2007. Of the \$652,000 decrease, \$200,000 was attributable to the hiring and relocation of a new senior manager and severance costs associated with the previous manager. See comments below in Sales, General and Administrative regarding management restructuring. The remainder of the decrease was the result of the final development and testing involved in the production of our next generation product, the System 5000, which began commercial production in the fourth quarter of 2007.

The Company is currently in the process of redesigning several major software systems and, in accordance with Statement of Position (SOP) 98-1, has capitalized certain payroll and related costs associated with the development of the applications. For the year ended December 31, 2008, the capitalized expenses totaled approximately \$114,000. No costs associated with this redesign were incurred prior to 2008.

On a quarterly basis, R&D expenses increased slightly in the three months ending December 31, 2008 as a result of an open position being filled by contract staff as well as a reduction of costs capitalized in connection with the software re-write noted above.

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 year ended December 31, 2008, SG&A expenses decreased \$1,809,000 to \$8,117,000 from \$9,926,000 incurred in 2007. Significant components of the decrease in SG&A expense from 2008 to 2007 are related to expenses incurred in 2007 as highlighted below:

- ***Litigation and settlement expenses:*** In 2007, we incurred \$1,118,000 in legal fees and settlement costs in connection with the lawsuit brought by Pro Tech described above. The Company did not incur similar expenses in 2008.
- ***Management restructuring expenses:*** In 2007, we incurred compensation expenses of \$207,000 relating to hiring and relocation of new executive officers and severance costs associated with the previous officers. The actions referred to herein, and in “Research and Development Expenses” above, represent a transition of the Company’s entire executive and senior management team. The Company did not incur similar expenses in 2008.
- ***Consulting expenses – Sarbanes-Oxley:*** In 2007, we incurred consulting costs of \$70,000 for assisting management in the initial design and evaluation of the Company’s internal controls and procedures over financial reporting and disclosure. The Company did not incur similar expenses in 2008.
- ***Other sales, general and administrative expenses:*** Other sales, general and administrative expenses decreased \$414,000 from \$8,531,000 in 2007 to \$8,117,000 in 2008. The significant increases and decreases from 2007 to 2008 are as follows:
 - Personnel related expenses including salaries, benefits, recruiting, and travel decreased approximately \$80,000 primarily due to the decrease in staffing levels related to sales and customer support and monitoring center services.
 - Consulting fees decreased approximately \$156,000 as the Company decreased its reliance on outside consultants and lobbyists.
 - Bad debt expense increased approximately \$158,000 due to uncertainty regarding the payment of accounts receivable by two customers.
 - Advertising expenses decreased approximately \$71,000 due to the implemented cost control measures
 - Office expenses decreased approximately \$70,000 due to the implemented cost control measures and the reduction in the Company’s overall headcount.
 - Decreases of \$195,000 in various other expenses including Accounting & Legal, Liability Insurance, Other Business Development Expenses, and Other Expenses.

On a quarterly basis, other sales, general and administrative expenses increased in the fourth quarter of 2008 as a result of increasing the provision for bad debts, in the amount of approximately \$224,000, in

connection with two customer accounts for which collectability is uncertain. Notwithstanding the increased provision, the Company is actively pursuing collection.

Looking forward, management expects Operating Expenses which include SG&A and R&D to continue at, or slightly above the same levels as incurred in the second half of 2008, not including the increased bad debt provision recorded in the quarter ended December 31, 2008.

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. The net interest expense increased \$548,000 from \$530,000 in 2007 to \$1,078,000 in 2008. The increase is attributable to the increase in equipment purchased under capital leases, as well as the additional borrowings from Crestpark LP, Inc (“Crestpark”) in late 2007.

As a result of the continued borrowings from Crestpark and the Company’s continuing use of capital leases to finance its equipment purchases, until such time as the Company is able to achieve cash flow operations, we expect to see net interest expense continue to grow.

Net Loss

The Company’s net loss for 2008 was \$4,601,000 a decrease of \$2,601,000 from the \$7,202,000, reported in 2007 for the reasons described above.

The Company expects to have a net loss in 2009. However, in anticipation of higher revenue, sustained gross profit margins and controlled growth in Operating Expenses, as detailed above, the projected net loss is substantially less than the \$4,601,000 reported in 2008.

Preferred Stock Dividends and Accretion

For the year ended December 31, 2008, preferred stock dividends and accretion totaled \$1,224,000 as compared to \$1,186,000 for 2007. This increase was due to compounding interest on accrued but unpaid dividends on our Series C Preferred Stock. The Series C Exchangeable Preferred Stock accrues interest at a cumulative compounded rate of 8.0% per annum.

Liquidity and Capital Resources

For the year ended December 31, 2008, the Company used \$2,636,000 of cash in operating activities, used another \$2,433,000 in investing activities, and generated \$2,049,000 in cash from financing activities. The total of all cash flow activities resulted in a decrease of \$3,019,000 in the balance of cash for the year ended December 31, 2008. During the year ended December 31, 2007, the Company used \$4,009,000 of cash in operating activities, used \$2,308,000 in investing activities and generated \$5,419,000 in cash from financing activities. The total of all cash flow activities in 2007 resulted in a decrease in the balance of cash of \$899,000.

The Company made principal payments on long-term debt and notes payable totaling \$1,151,000 and \$959,000 during 2008 and 2007, respectively. At December 31, 2008, the Company had \$0 in short-term and \$15,053,000 in long-term debt.

On December 18, 2007, the Company amended its Promissory Note and Credit and Security Agreement with Crestpark (the “Lender”) in order to increase the amount loaned (the “Loan”) from the Lender to the Company by the amount of \$3,300,000. As a result of these amendments, the principal amount outstanding under the Loan increased from \$8,492,000 to \$11,877,000, consisting of the \$3,300,000 in additional borrowings plus accrued but unpaid interest on the existing Loan. The additional borrowings are to be used for general working capital purposes. Principal on the Loan is due on the earlier of (i) July 1, 2010 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 its 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 Loan, plus

all accrued but unpaid interest. The Company may prepay the Loan at any time without premium or penalty. The terms of the Amended and Restated Promissory Note evidencing the Loan (the "Note") provide, among other things, that \$6,455,000 of the borrowings thereunder shall bear interest at 7.0% per annum and that such interest will be due and payable at maturity of the Note. The remaining \$5,422,000 of borrowings (the "Floating Tranche") under the Note (which includes the \$3,300,000 of additional borrowings) will bear interest at a floating rate equal to 2% over the prime rate (the "Base Rate"). The prime rate as of December 31, 2008 was 3.25%. The portion of the interest on the Floating Tranche determined by the Base Rate will be payable at maturity, but the remaining portion of the interest representing the 2% premium over the Base Rate will be payable monthly.

The borrowings under the Note are secured by a first priority security interest in all of the assets of the Company except that Lender's security interest in certain monitoring equipment is subordinate to the interest of AHK Leasing LLC under its sale leaseback arrangements. The Lender is an affiliate of Mykonos 6420 LP ("Mykonos"). As the sole holder of the Company's Series C Preferred Stock, Mykonos has the right to elect a majority of the Company's Board of Directors. The terms of the Loan were approved by a Special Committee of the Board of Directors consisting solely of disinterested directors.

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

The proceeds of the Revolving Credit Commitment of \$750,000 are 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 July 1, 2010, is unsecured and bears interest at a fixed noncompounded rate of 12% per annum. As of December 31, 2008, the Company had \$250,000 available under the Revolving Credit Commitment which were drawn down subsequent to December 31, 2008.

The proceeds of the \$1,750,000 Equipment Term Loan are 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 the Lender'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 has a term ending July 1, 2010, bears interest at a fixed rate of 12% per annum and is secured by the monitoring equipment purchased with the proceeds of the Equipment Term Loan. The Company is also required to pay the Lender an unused fee of 0.25% per annum on the average daily unused amount of the Equipment Term Loan. As of December 31, 2008, the Company had \$1,700,000 available under the Equipment Term Loan.

The terms of the Loan Agreement were approved by a Special Committee of the Board of Directors consisting solely of disinterested directors.

AHK Leasing, LLC ("AHK"), a company controlled by three stockholders, one of which is a current director has indicated that they expect to continue to provide lease financing for our monitoring equipment purchases during 2009. Under these sale-leaseback arrangements, the Company sells the inventory to AHK and then leases the equipment back. All capital leases are treated as financing transactions with two of the leases carrying an interest rate of 10.00% per annum, one of them carrying an interest rate of 10.50%, one of them carrying an interest rate of 10.75%, one of them carrying an interest rate of 11.15%, one of them carrying an interest rate of 11.25%, five of them carrying interest rates of 12.00% per annum and one of them carrying an interest rate of 12.50% per annum. Maturity dates on these capital leases run from June 2009 to December 2011. As of December 31, 2008, the aggregate balance on the capital leases totaled \$2,625,000, of which \$1,223,000 is current and the balance of \$1,403,000 is classified as long-term debt. To the extent that AHK is unable to provide lease financing, the Company intends to utilize the Equipment Term Loan under the November 2008 loan agreement with Crestpark.

By the end of 2008, the Company was incurring approximately \$330,000 in recurring monthly costs of revenues and \$685,000 in recurring monthly operating expenses, excluding the provision for doubtful accounts. The majority of the recurring monthly operating expenses consisted of salaries, wages, payroll taxes, health insurance and other employee benefits. In addition to these recurring monthly operating expenses, the Company's other principal uses of cash are the payment of other recurring monthly operating expenses, the acquisition of monitoring equipment and the financing of its receivables. In general, the Company meets its liquidity needs from its current revenues, from cash and cash equivalents (including the proceeds of the additional borrowings from Crestpark, as described above), and through capital leasing arrangements. As of December 31, 2008, the Company had \$423,000 in cash and cash equivalents.

The Company believes that its current working capital, combined with the expected amounts available for additional working capital through Crestpark and through lease financing for its monitoring equipment through AHK and/or Crestpark are sufficient to meet its liquidity needs through 2009.

Critical Accounting Policies

The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in the United States of America ("U.S. GAAP"). This requires management to make estimates and judgments that affect reported amounts and related disclosures. Actual amounts will differ from those estimates. The significant accounting policies are described in Note 1 to the audited Consolidated Financial Statements. Of those policies, the following have been identified as the most critical because they are the most important to the portrayal of the Company's results of operations and financial condition and they require subjective or complex management judgments:

Revenue recognition and deferred revenue

The Company derives revenue primarily from the leasing of monitoring equipment, as well as providing administrative, field and support services. The amounts charged by the Company for equipment leasing and administrative, field and support services are calculated on a daily basis – (e.g. per day/per individual being monitored) and billed monthly in arrears. Revenues are recognized as equipment and services are provided. Any amounts invoiced in advance of equipment and services being provided are recorded as deferred revenue. Royalty revenue is recognized on an accrual basis as earned.

Stock-based compensation

The Company accounts for its stock-based compensation in accordance with FASB Statement No. 123 (revised 2004), "*Share-Based Payment*" ("FAS# 123(R)"). FAS# 123(R), which it adopted as of January 1, 2006, requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements based on the fair value of the equity or liability instruments issued. FAS# 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Under FAS# 123(R), the Company is required to measure the cost of its employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award.

The Company adopted FAS# 123(R) using the modified prospective transition method for valuing stock options. Under this method, stock based compensation expense is recognized using the fair-value based accounting method for all employee awards granted, modified, or settled during a period. See Note 1 of the financial statements for critical assumptions related to stock based compensation.

Research and Development Expenses

The Company expenses research and development expenses as incurred. For the year ended December 31, 2008, the Company incurred \$1,240,000 in research and development expenses, net of \$114,000 capitalized in connection with the redesign of major software systems in accordance with SOP 98-1.

Impairment of Long-Lived Assets

The Company evaluates goodwill for impairment on an annual basis. The Company assesses the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These computations utilize judgments and assumptions inherent in management's estimate of future undiscounted and discounted cash flows to determine recoverability of these assets. If management's assumptions about these assets were to change as a result of events or circumstances, the Company may be required to record an impairment loss. The Company recorded no impairment charges for the years ended December 31, 2008 and December 31, 2007.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Not Required for Smaller Reporting Company

Item 8. Financial Statements.

iSECUREtrac Corp. and Subsidiaries Consolidated Financial Report

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
iSECUREtrac Corp.
Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of iSECUREtrac Corp. and Subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of iSECUREtrac Corp. and Subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years ended December 31, 2008 and 2007, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of iSECUREtrac Corp.'s internal control over financial reporting as of December 31, 2008 included in the Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

As described in Note 1 to the financial statements, on January 1, 2007 the Company changed its method of accounting for income taxes, as required by Financial Accounting Standards Board Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*.

/s/ McGladrey & Pullen LLP
Kansas City, Missouri
March 24, 2009

iSECUREtrac Corp. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2008 and 2007

	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents (Note 11)	\$ 423,361	\$ 3,442,712
Accounts receivable, net of allowance for doubtful accounts of \$462,553 in 2008 and \$292,669 in 2007 (Note 11)	2,445,505	1,941,902
Inventories	193,820	135,376
Prepaid expenses and other	84,224	92,750
Total current assets	3,146,910	5,612,740
Leasehold improvements and equipment, net of accumulated depreciation of \$9,125,376 in 2008 and \$7,041,272 in 2007 (Note 2, 4 & 8)	4,229,319	3,875,728
Intangibles, net of accumulated amortization of \$892,127 in 2008 and \$850,166 in 2007 (Note 3)	19,394	61,356
Goodwill (Note 3)	2,302,179	2,302,179
Other assets	83,386	88,425
Total assets	\$ 9,781,188	\$ 11,940,428
LIABILITIES AND STOCKHOLDERS' (DEFICIT)		
Current Liabilities		
Accounts payable	\$ 403,399	\$ 1,069,577
Accrued expenses	524,339	609,083
Current maturities of long-term debt (Note 4, 8, & 10)	1,772,508	622,340
Deferred revenues & gain on related party sale-leaseback transactions (Note 8 & 10)	299,548	314,090
Accrued interest payable (Note 4)	776,011	30,513
Total current liabilities	3,775,805	2,645,603
Long-term debt, less current maturities (Note 4, 8 & 10)	13,280,368	12,381,598
Redeemable convertible Series C preferred stock, 5,000,000 shares designated at \$0.01 par value; 1,000,000 issued and outstanding (Note 7)	13,106,407	11,882,545
Commitments and contingency (Note 8 & 12)		
Stockholders' (deficit)		
Common stock, 75,000,000 shares authorized at \$0.001 par value; 10,799,090 issued and outstanding in 2008; 10,779,680 issued and outstanding in 2007	10,799	10,779
Additional paid-in capital	55,369,880	55,109,333
Accumulated deficit	(75,762,071)	(70,089,430)
Total stockholders' (deficit)	(20,381,392)	(14,969,318)
Total liabilities and stockholders' (deficit)	\$ 9,781,188	\$ 11,940,428

See Notes to Consolidated Financial Statements.

iSECUREtrac Corp. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
Years Ended December 31, 2008 and 2007

	2008	2007
Revenues:		
Equipment leasing & hosting (Note 11)	\$ 8,771,198	\$ 8,306,999
Administrative, field & support service revenues	334,579	80,487
Equipment sales	104,014	94,613
Other revenues	479,433	154,318
Gain on related party sale-leaseback transactions (Notes 8 & 10)	13,191	149,295
Total revenues	9,702,415	8,785,712
Operating expenses:		
Cost of revenues	3,867,895	3,640,219
Research and development	1,240,382	1,891,820
Sales, general and administrative	8,116,974	9,925,442
Total operating expenses	13,225,251	15,457,481
Operating loss	(3,522,836)	(6,671,769)
Other income (expense):		
Interest income	27,130	121,926
Interest expense (Note 4 & 10)	(1,105,530)	(651,884)
Total other income (expense)	(1,078,400)	(529,958)
Loss before provision for income taxes	(4,601,236)	(7,201,727)
Provision for income taxes (Note 5)	-	-
Net loss	\$ (4,601,236)	\$ (7,201,727)
Preferred stock dividends and accretion (Note 7)	(1,223,862)	(1,185,848)
Net loss available to common stockholders	\$ (5,825,098)	\$ (8,387,575)
Basic and diluted loss per common share	\$ (0.54)	\$ (0.78)
Weighted average shares of common stock outstanding	10,788,089	10,776,240

See Notes to Consolidated Financial Statements.

iSECUREtrac Corp. AND SUBSIDIARIES
STATEMENT OF STOCKHOLDERS' (DEFICIT)
Years Ended December 31, 2008 and 2007

	<u>Common Stock</u>		<u>Additional</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid -in</u>	<u>Deficit</u>	
			<u>Capital</u>		
Balance, December 31, 2006	10,773,454	\$ 10,773	\$ 54,950,315	\$ (61,898,373)	\$ (6,937,285)
Shares issued for director's fees	6,226	6	7,994	-	8,000
Stock-based compensation	-	-	347,542	-	347,542
Series C preferred stock dividends	-	-	-	(989,330)	(989,330)
Accretion to redemption value of preferred stock	-	-	(196,518)	-	(196,518)
Net loss	-	-	-	(7,201,727)	(7,201,727)
Balance, December 31, 2007	10,779,680	\$ 10,779	\$ 55,109,333	\$ (70,089,430)	\$ (14,969,318)
Shares issued for director's fees	19,410	20	6,980	-	7,000
Stock-based compensation	-	-	406,024	-	406,024
Series C preferred stock dividends	-	-	-	(1,071,405)	(1,071,405)
Accretion to redemption value of preferred stock	-	-	(152,457)	-	(152,457)
Net loss	-	-	-	(4,601,236)	(4,601,236)
Balance, December 31, 2008	10,799,090	\$ 10,799	\$ 55,369,880	\$ (75,762,071)	\$ (20,381,392)

See Notes to Consolidated Financial Statements.

iSECUREtrac CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Net loss	\$ (4,601,236)	\$ (7,201,727)
Depreciation and amortization	2,126,066	1,872,701
Stock based compensation	413,024	355,542
(Increase) Decrease in accounts receivable	(847,364)	169,022
Increase in allowance for doubtful accounts	343,761	173,253
(Increase) in inventories	(58,444)	(74,355)
(Increase) Decrease in prepaid expenses	8,526	(18,142)
(Decrease) Increase in accounts payable	(666,178)	612,096
(Decrease) Increase in accrued expenses	(84,744)	218,799
(Decrease) in deferred revenues and gain on sale - leaseback transactions	(14,542)	(109,259)
Increase (Decrease) in accrued interest payable	745,498	(7,325)
Net cash (used in) operating activities	(2,635,633)	(4,009,395)
Cash Flows From Investing Activities		
Purchases of leasehold improvements and equipment	(2,437,696)	(2,285,964)
Decrease (Increase) in other assets	5,039	(22,380)
Net cash (used in) investing activities	(2,432,657)	(2,308,344)
Cash Flows From Financing Activities		
Principal proceeds from long-term debt	3,200,000	6,377,475
Principal payments on long-term debt	(1,151,061)	(958,709)
Net cash provided by financing activities	2,048,939	5,418,766
(Decrease) in cash	(3,019,351)	(898,973)
Cash at beginning of period	3,442,712	4,341,685
Cash at end of period	\$ 423,361	\$ 3,442,712
Supplemental Disclosure of Cash Payments for		
Interest	360,033	659,210

See Notes to Consolidated Financial Statements.

iSECUREtrac CORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Business and Significant Accounting Policies

Nature of Business

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 suite of services (e.g. Global Positioning System (“GPS”) tracking systems, house arrest, visual breath alcohol monitoring and supplemental monitoring services) are designed to offer an alternative to incarceration thereby reducing the overall cost associated with individuals under correctional or community supervision.

Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include the accounts of iSECUREtrac and its wholly-owned subsidiaries, iSt Services, Inc., formed September 25, 2002, and Tracking Systems Corporation (“TSC”), acquired on August 28, 2003. On October 16, 2007, the Company dissolved TSC. All material intercompany balances and transactions have been eliminated in consolidation.

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

Cash and cash equivalents: For financial statement purposes, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying value of these investments approximates fair value due to the nature of the maturity period.

Trade accounts receivable: Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful receivables by regularly evaluating individual customer receivables and considering a customer’s financial condition, credit history and current economic conditions. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade accounts receivable previously written off are recorded when received. The Company offers credit terms to select customers of up to 45 days. Additionally, the Company reserves the right to assess finance charges on delinquent accounts where such charges are permitted. Accounts are considered delinquent after 45 days. There was \$343,761 of bad debt expenses for 2008 and \$185,565 for 2007.

Inventories: Inventories consist of repair parts or components that will be used in the production of new revenue producing equipment.

Leasehold improvement and equipment: Leasehold improvements and equipment are recorded at cost. Equipment, including monitoring equipment, is depreciated on the straight-line method over the estimated useful lives of the related assets ranging from 3 to 7 years. The cost of leasehold improvements is amortized over the lesser of the estimated lives of the assets or the lease term. Amortization of assets acquired under capital leases is included with depreciation expense on the owned assets. These assets are reviewed for impairment under Statement of Financial Accounting Standard (SFAS) No. 144 when events indicate the carrying amount may not be recoverable.

The Company assesses the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. These computations utilize judgments and assumptions inherent in management's estimate of future undiscounted and discounted cash flows to determine recoverability of these assets. If management's assumptions about these assets were to change as a result of events or circumstances, the Company may be required to record an impairment loss. With respect to the Company's long lived assets, the Company recorded no impairment charges for the years ended December 31, 2008 and December 31, 2007.

Product development: The Company capitalized software and hardware development costs in accordance with the SFAS No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed*. Capitalization begins when a product's technological feasibility has been established and ends when the product is available for general release to customers. All software and hardware development costs are amortized on a straight-line basis over 36 months. As of December 31, 2008, the Company had capitalized development costs of \$241,298 related to the System 5000 and \$113,802 related to the improvements in the functionality of our web-based software and interfaces. Of these amounts, \$173,198 and \$0, respectively, had been amortized through December 31, 2008. The net value of these capitalized software and hardware development costs are included in the Leasehold improvements and equipment line of the Consolidated Balance Sheets.

Research and development expenses: Research and development cost of \$1,240,382 and \$1,891,820 were charged to operations for the years ended December 31, 2008 and 2007, respectively.

Goodwill: Goodwill represents the excess of purchase price paid over the net identifiable assets of the acquired business. It is subject to annual tests for impairment. The Company has recorded no impairment charges related to goodwill for the years ended December 31, 2008 and 2007.

Intangibles, subject to amortization: Amortizable intangibles represent the value assigned to the future net income stream attributable to customer monitoring contracts assumed by the Company in a prior acquisition based on their capacity to generate such income. The intangible asset is being amortized over seven years, which is the estimated life of the monitoring contracts to which they relate. Amortization is based on the ratio of projected annual revenue streams to total projected revenue per existing customer monitoring contracts.

Earnings (loss) per share: Basic Earnings (Loss) Per Common Share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted Earnings (Loss) Per Common Share shall be computed by including contingently issuable shares with the weighted average shares outstanding during the period. When inclusion of the contingently issuable shares would have an antidilutive effect upon earnings per share, no diluted earnings (loss) per share shall be presented. The following potentially dilutive shares were not included in diluted earnings (loss) per common share as they would have an antidilutive effect upon earnings (loss) per share:

	December 31, 2008	December 31, 2007
Shares issuable upon conversion of Series C Exchangeable Preferred Stock	4,782,609	4,782,609
Common stock options outstanding	2,734,376	1,817,580
Common stock warrants outstanding	3,544,535	3,922,925

Revenue recognition and deferred revenue: The Company derives revenue primarily from the leasing of monitoring equipment as well as providing administrative, field and support services. The amounts charged by the Company for equipment leasing and administrative, field and support services are calculated on a daily basis – (e.g. per day/per individual being monitored) and billed monthly in arrears. Revenues are recognized as equipment and services are provided. The majority of the Company's customers are invoiced in arrears. Any

amounts invoiced in advance of equipment and services being provided are recorded as deferred revenue and recognized as equipment and services are provided. Royalty revenue is recognized on an accrual basis as earned.

Income taxes: Deferred taxes are provided for by the liability method wherein deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Stock-based compensation: The Company accounts for its stock-based compensation in accordance with FASB Statement No. 123 (revised 2004), “*Share-Based Payment*” (“FAS# 123(R)”). FAS# 123(R), which was adopted on January 1, 2006, requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in the financial statements based on the fair value of the equity or liability instruments issued. FAS# 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. Under FAS# 123(R), the Company is required to measure the cost of its employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award.

The Company adopted FAS# 123(R) using the modified prospective transition method for valuing stock options. Under this method, stock based compensation expense is recognized using the fair-value based accounting method for all employee awards granted, modified, or settled during a period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: The significant assumptions used in the Black Scholes model to estimate compensation expense are as follows:

	2008	2007
Risk free interest rate	3.79%	4.65%
Expected volatility factor	82.84%	86.59%
Expected option term in years	3.5 to 6.5	3.5 to 6.5
Dividends	\$0.00	\$0.00
Forfeitures for senior executives	23%	19%
Forfeitures for non-senior	24%	20%

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 since the date of adoption of the plan.

Under FAS# 123(R), the Company is required to estimate forfeitures. 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. The estimated

forfeiture rate for senior executive and non-senior executive option grants is 23% and 24%, respectively. 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 does not anticipate paying dividends on its common stock in the future.

The Company recorded pre-tax compensation expense for stock options issued to its employees of \$406,024 and \$347,542 for the years ended December 31, 2008 and 2007, respectively. The Company has recorded a full valuation allowance on deferred tax assets and, therefore, no tax benefit is recognized.

The fair value of stock warrants issued to non-employees is also accounted for using FAS # 123(R). Related compensation expense is charged to income when incurred.

Advertising costs: Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2008 and 2007, was \$35,310 and \$97,922, respectively.

Uncertain Tax Positions. In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No.48, *Employers' Accounting for Uncertainty in Income Taxes*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes* (SFAS 109). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company adopted FIN No. 48 as of January 1, 2007.

The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense. As of December 31, 2008, the Company has not recorded any provisions for accrued interest and penalties related to uncertain tax positions.

Recent Accounting Pronouncements:

In September 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. The Company adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis for which delayed application is permitted until fiscal years beginning after November 15, 2008. Under the elected deferral, the following are assets and liabilities recognized or disclosed at fair value for which the Company has not yet applied the provisions of SFAS No. 157; (*non financial assets and liabilities in business combinations, reporting units measured at fair value in goodwill testing, indefinite lived intangibles measured at fair value for impairment testing, long lived assets measured at fair value for impairment, asset retirement obligations and liabilities for exit or disposal activities.*) The Company is currently assessing the potential effect of the adoption of the remaining provisions of SFAS No. 157 on its financial position, results of operations and cash flows. The adoption of the remaining provisions of SFAS No. 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in consolidated Financial Statements - an Amendment of ARB No. 51." This statement requires that noncontrolling or minority interests in subsidiaries be presented in the consolidated statement of financial position within equity, but separate from the parents' equity, and that the amount of the consolidated net income attributable to the parent and to the

noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income. SFAS No. 160 is effective for the fiscal years beginning on or after December 15, 2008. Currently the Company does not anticipate that this statement will have an impact on its financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised) "Business Combinations". SFAS No. 141 (Revised) establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The guidance will become effective for the fiscal year beginning after December 15, 2008. SFAS No. 141 (Revised) will have an impact on any future acquisitions.

Note 2. Leasehold Improvements and Equipment

The cost and accumulated depreciation of our leasehold improvements and equipment for the years ended December 31, 2008 and 2007, are as follows:

	2008			2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 969,624	\$ 592,072	\$ 377,552	\$ 844,307	\$ 446,991	\$ 397,316
Leasehold improvements	239,341	113,924	125,417	227,229	54,047	173,182
Monitoring equipment	12,145,730	8,419,380	3,726,350	9,845,464	6,540,234	3,305,230
Total leasehold improvements and equipment	\$ 13,354,695	\$ 9,125,376	\$ 4,229,319	\$ 10,917,000	\$ 7,041,272	\$ 3,875,728

The company incurred depreciation expense of \$2,084,104 and \$1,790,133 for the years ended December 31, 2008 and 2007, respectively.

Note 3. Goodwill and Intangibles, Subject to Amortization

Goodwill is the excess of the cash paid over the net fair value of 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. The Company has determined that there is no impairment of goodwill as of December 31, 2008.

The Company also separately records other intangible assets that can be identified and assigned a value. At December 31, 2008, such intangible assets consisted solely of customer monitoring contracts assumed in a prior acquisition. The Company amortizes the initial carrying value attributable to these monitoring contracts based on the projected revenue stream of the monitoring contracts. This amortization expense is included in sales, general and administrative expenses in the consolidated statements of operations and was \$41,961 in 2008 and \$82,569 in 2007. These intangible assets are also tested for impairment on an annual basis, but the Company determined that there was no impairment of these intangible assets as of December 31, 2008.

The composition of goodwill and intangible assets at December 31, 2008 and 2007, is as follows:

	2008		2007	
	Goodwill	Intangibles, subject to Amortization	Goodwill	Intangibles, subject to Amortization
Gross Carrying Amount	\$ 2,302,179	\$ 911,522	\$ 2,302,179	\$ 911,522
Accumulated Amortization	-	(892,127)	-	(850,166)
Balance	\$ 2,302,179	\$ 19,394	\$ 2,302,179	\$ 61,356

The estimated aggregate amortization expense of the intangibles is as follows:

2009	19,394
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Note 4. Long Term Debt

The Company had the following long-term debt at December 31, 2008 and 2007:

	2008	2007
Long Term Debt		
One secured note payable maturing on July 1, 2010, with an interest rate of 7% for \$6,455,250 of the borrowings and 2% over prime for \$5,422,225 of the borrowings, collateralized by the assets of the Company.	\$ 11,877,475	\$ 11,877,475
Proceeds from the unsecured Revolving Credit Commitment term ending on July 1, 2010 with an interest rate of 12%	500,000	-
Proceeds from the secured Equipment Term Loan term ending on July 1, 2010 with an interest rate of 12%.	50,000	-
Twelve separate capital leases with related parties that are carrying interest rates at 10.00% to 12.50% and maturing June 2009 to December 2011 (see Note 8).	2,625,401	1,126,463
Total long term debt	15,052,876	13,003,938
Less current maturities	(1,772,508)	(622,340)
Total long term debt less current maturities	\$ 13,280,368	\$ 12,381,598

Accrued interest on the secured note payable at December 31, 2008 equaled \$772,545 and was included in interest expense during the year. Accrued interest on the proceeds from the unsecured Revolving Credit Commitment at December 31, 2008 equaled \$2,682 and was included in interest expense during the year. Accrued interest on the proceeds from the secured Equipment Term Loan at December 31, 2008 equaled \$784 and was included in interest expense during the year. Total interest expense for the years ended December 31, 2008 and 2007 was \$1,105,530 and \$651,884, respectively. Of that amount, \$1,082,426 and \$633,152 was expensed to related parties for the years ended December 31, 2008 and 2007, respectively.

The carrying value of the secured note payable and the capital leases approximates their fair value in each case due to the short-term nature of the borrowings and, in the case of the capital leases, a guarantee from a stockholder.

The following is a schedule of aggregate maturities required on long-term debt due in future years as of December 31, 2008:

2009	\$ 1,772,508
2010	12,915,299
2011	365,069
Total	\$ 15,052,876

Note 5. Income Taxes

Net deferred tax asset includes the following components as of December 31, 2008 and 2007:

	2008	2007
Deferred tax assets (liabilities):		
Net operating loss carry forward	\$ 28,926,000	\$ 27,221,000
Allowance for doubtful accounts	185,000	100,000
Leasehold improvements and equipment	-	(87,000)
Intangible assets	-	(37,000)
Other, net	-	11,000
Subtotal deferred tax assets (liabilities)	29,111,000	27,208,000
Valuation allowance	(29,111,000)	(27,208,000)
	\$ -	\$ -

The income tax provision differs from the amount of income tax determined by applying the statutory federal income tax rate to pretax loss for the years ended December 31, 2008, and 2007 due to the following:

	2008	2007
Computed "expected" tax benefit	\$ (1,564,000)	\$ (2,448,000)
Increase (decrease) in income taxes (benefits) resulting from:		
Benefit from state taxes	(276,000)	(432,000)
Nondeductible expenses and other	50,000	(37,000)
Other timing differences	(113,000)	(189,000)
Increase in valuation allowance	1,903,000	3,106,000
Total provision for income taxes	\$ -	\$ -

As of December 31, 2007, the Company had federal net operating loss carryforwards of approximately \$73,000,000 for future tax purposes that expire from 2010 to 2027. The Company believes that Section 382 of the Internal Revenue Code and the associated U.S. Treasury regulations will significantly limit the amount of net operating loss carryforward that the Company will be able to utilize in any tax year. All losses incurred prior to the Company's change of ownership event on June 27, 2005 totaled approximately \$53,835,000. The utilization of these losses is limited (by Internal Revenue Code Section 382) to approximately \$950,000 per year through 2025.

A valuation allowance was established due to the uncertainty relating to the future utilization of net operating loss carryforwards. As a result of that uncertainty, the valuation allowance was further increased by \$1,903,000 and \$3,106,000 for 2008 and 2007, respectively. The amount of the deferred tax assets considered realizable could be adjusted in the future based upon changes in circumstances that result in a change in our assessment of our ability to realize those deferred tax assets through the generation of taxable income or other tax events.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and

measurement of a tax position taken or expected to be taken in a tax return. It requires that we recognize in our consolidated financial statements, only those tax positions that are “more-likely-than-not” of being sustained as of the adoption date, based on the technical merits of the position. As a result of the implementation of FIN 48, we performed a comprehensive review of our material tax positions in accordance with recognition and measurement standards established by FIN 48.

As a result of the adoption, there were no unrecognized tax benefits in the financial statements as of January 1, 2007. There was no significant change in the amount of unrecognized benefits during the year ended December 31, 2008 nor do we expect that there will be any significant change within the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. As the Company has a federal Net Operating Loss carryforward from the year ended December 31, 1995 forward, all tax years from 1995 forward are subject to examination. As states have varying carryforward periods, and the Company has recently entered into additional states, the states are generally subject to examination for the previous 15 years or less.

The Company recognizes interest accrued, net of tax and penalties, related to unrecognized tax benefits as components of income tax provision as applicable. As of December 31, 2008, the Company did not have any accrued interest or penalties.

Note 6. Common Stock, Stock Options, Warrants and Benefit Plan

Common Stock

In 2008 and 2007, the Company issued 19,410 and 6,226 shares of common stock, respectively, to non-management directors in lieu of director fees. The number of shares of common stock issued in each case was based on the fair market value of the Company’s common stock as of the date of the meetings to which such fees related. Expense related to these director’s fees totaled \$7,000 and \$8,000 for each of the years ended December 31, 2008, and 2007, respectively.

Stock Options

The Company has issued options to acquire shares of its common stock under two equity incentive plans and pursuant to certain employment agreement with current and former executive officers. The terms of these equity incentive plans and non-plan option grants are described below.

2001 Omnibus Equity Incentive Plan

In June 2001, the stockholders of iSECUREtrac approved the 2001 Omnibus Equity Incentive Plan (the “2001 Plan”). As of May 31, 2006, the Company’s 2001 Plan expired. The 2001 Plan provided for the granting of stock options and other equity incentives for up to 100,000 shares of the Company’s Common Stock to the Company’s officers, directors, and consultants who provided services to the Company and key employees at an exercise price 85% of the average daily closing price of the Company’s common stock for the week prior to when the options were granted. The options are to vest on a monthly basis over a one month to a 36-month period of time from the date of grant. As of January 1 of each year, commencing with the year 2002, the aggregate number of options that were awarded under the 2001 Plan was automatically increased by a number equal to the lesser of 1% of the total number of Common Shares then outstanding or 20,000. During the year ended December 31, 2007, (i) grants of options for 0 shares of Common Stock under the 2001 Plan were made, (ii) options were exercised under the 2001 Plan for 0 shares of common stock and (iii) options for 50,217 shares were forfeited. No options were granted under the 2001 Plan during the year ended December 31, 2008 nor were there any exercises of options previously granted. However, a total of 28,250 2001 Plan options were forfeited during 2008. At December 31, 2008 and 2007, there were 72,525 and 100,775 outstanding options, respectively, in conjunction with the 2001 Plan. No further options may be issued under this plan.

2006 Omnibus Equity Incentive Plan

On May 4, 2006, at the Company's annual meeting of stockholders, the stockholders approved the adoption of the Company's newly created 2006 Omnibus Equity Incentive Plan (the "2006 Plan"). The 2006 Plan became effective on May 31, 2006. The 2006 Plan provides for the granting of stock options and other equity incentives to the Company's officers, employees, directors and consultants who provide services to the Company. The 2006 Plan has a term of ten years unless terminated by the board of directors. Stock options are granted with an exercise price not less than fair market value of the common stock on the date of the grant. Vesting schedules and expiration dates for the grants issued under this plan are specified at the time of grant. During the years ended 2008 and 2007, grants for 1,126,050 and 142,475 shares of Common Stock were made, respectively, under the 2006 Plan. No options were exercised under the 2006 Plan during the years ended December 31, 2008 or 2007. Options forfeited under the 2006 Plan during the years ended December 31, 2008 and 2007, were 125,212 and 39,419, respectively. At December 31, 2008 and 2007, there were 1,760,583 and 759,745 outstanding options, respectively, in conjunction with the 2006 Plan.

Non-Plan Stock Options

The Company has granted options to purchase common stock outside of the 2001 Plan and 2006 Plan to various executive officers pursuant to the terms of their employment agreements. These options have exercise prices ranging from \$2.01 to \$4.90 per share and have terms expiring through April 30, 2014. These options vest on a monthly basis over two year periods from their grant date. During the years ended 2008 and 2007, grants for 0 and 0 shares of Common Stock were made, respectively, outside the 2001 Plan and 2006 Plan. None of these options have been exercised, but a total of 55,792 and 204,375, respectively, of these options were forfeited during the years ended December 31, 2008 and 2007 as a result of the terminations of certain of these executive officers before the options had fully vested. As of December 31, 2008 and 2007, a total of 901,268 and 957,060, respectively, of these non-plan options remained outstanding, all of which have vested.

A summary of employee stock option activity during the years ended December 31, 2008, and 2007, is as follows:

Options	For the Year Ended December 31, 2008		For the Year Ended December 31, 2007	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,817,580	\$ 2.30	1,969,116	\$ 2.35
Granted	1,126,050	0.45	142,475	1.15
Exercised	-	-	-	-
Forfeited	(209,254)	1.72	(294,011)	2.06
Outstanding at end of year	2,734,376	\$ 1.59	1,817,580	\$ 2.30
Exercisable at end of year	1,772,246	\$ 2.11	1,390,808	\$ 2.43
Weighted-average fair value for options granted during the year	1,126,050	\$ 0.30	142,475	\$ 0.77

Additional information regarding options outstanding at December 31, 2008, is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.50 to 2.00	1,301,177	7.9 years	\$0.58	434,794	\$0.88
\$2.01 to 3.00	1,287,531	3.0 years	2.41	1,191,785	2.41
\$3.01 to 4.00	125,418	3.6 years	3.09	125,417	3.09
\$4.01 to 5.00	20,250	0.2 years	4.70	20,250	4.70
\$5.01 to 10.00	-	-	-	-	-
Totals	2,734,376	6.3 years	\$ 1.59	1,772,246	\$ 2.11

No stock options were exercised during 2008.

As of December 31, 2008, there was approximately \$388,237 of total unrecognized compensation costs related to non-vested share based compensation agreements granted to the Company's executives and employees. The weighted average period in which the unrecognized compensation costs will be recognized into income is 1.1 years.

Common Stock Warrants

Prior to 2006, iSECUREtrac issued warrants to purchase 184,837 shares of common stock to stockholders and non-employees in connection with various services these individuals provided the Company. No such warrants were issued during 2008 or 2007. During 2008 and 2007, none of these warrants were exercised, but 0 and 100,000, respectively, of these warrants expired unexercised. At December 31, 2008, 78,588 of these warrants remained outstanding.

Prior to 2006, iSECUREtrac issued detachable warrants to purchase 413,049 shares of common stock in connection with obtaining convertible debt. No such warrants were issued during 2008 or 2007. During 2008 and 2007, none of these warrants were exercised and none of these warrants expired. At December 31, 2008, 413,049 of these warrants remained outstanding.

Prior to 2006, iSECUREtrac issued warrants to purchase a total of 1,173,021 shares of common stock in connection with various equity financing transactions, as well as warrants to purchase 3,234,248 shares of common stock that were issued by the Company in 2005 to Mykonos 6420, LP in conjunction with issuance of 1,000,000 shares of Series C Exchangeable Preferred Stock to Mykonos. No such warrants were issued during 2008 or 2007. During 2008 and 2007, none of these warrants were exercised, but 378,390 and 719,461, respectively, of these warrants expired unexercised. At December 31, 2008, 3,052,898 of these warrants remained outstanding.

A summary of the status of all the warrants outstanding at December 31, 2008, and 2007 and changes during the years ended on those dates is as follows:

Warrants	<u>For the Year Ended December 31,2008</u>		<u>For the Year Ended December 31,2007</u>	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	3,922,925	\$3.65	4,742,386	\$3.62
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	(378,390)	3.70	(819,461)	3.49
Outstanding at end of year	3,544,535	3.65	3,922,925	3.65
Exercisable at end of year	3,544,535	\$3.65	3,922,925	\$3.65

No warrants were issued in 2008 or 2007.

A further summary about warrants outstanding at December 31, 2008, is as follows:

Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Remaining Life	Weighted Average Exercise Price
\$1.00 to 2.50	780,676	2.1 years	\$2.30
\$2.51 to 5.00	2,738,859	0.9 years	4.01
\$5.01 to 7.50	25,000	0.6 years	5.36
Total	3,544,535	1.5 years	\$3.65

Benefit Plan

The “iSECUREtrac Corporation Retirement Plan” offers all regular full-time employees, 21 years of age and older, to participate in a 401k savings plan. The plan offers either a pre-tax contribution option or the Roth, after-tax contribution option. iSECUREtrac provides a match of 25% up to 10% of the employee’s contribution, with a maximum match of \$2,500. The employer contribution vests over a 4-year graded schedule. The total expense related to the plan was \$38,589 and \$36,780 for the years ended December 31, 2008 and 2007, respectively.

Note 7. Convertible Preferred Stock

The Company is authorized to issue up to 5,000,000 shares of preferred stock from time to time with such rights and privileges as the Board of Directors may determine. The Company has issued the following shares of preferred stock:

Series C 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 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.

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 Preferred Stock is redeemable on the tenth anniversary of the original issue date. The redemption price per share of the Preferred Stock will equal the per share original issue price (\$11 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 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 is charged to Additional Paid-In Capital.

As of December 31, 2008, the Company had accrued Series C Preferred Stock dividends totaling \$3,427,366 and accretion to redemption value of the Series C Preferred Stock totaling \$659,960. Of these amounts, \$1,071,405 and \$152,456, respectively, were the amounts accrued and accreted in 2008.

Upon any liquidation of the Company, no distribution shall 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 shall 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 stock are outstanding, the Series C holders have the ability to appoint a majority of the Company's directors.

Note 8. Lease Obligations

In 2008 and 2007, the Company financed the acquisition of approximately \$2,650,000 and \$500,000 of monitoring equipment, respectively, through sale-leaseback agreements with a related party. Under these sale-leaseback arrangements, the Company purchases the monitoring equipment from the manufacturer, sells it to the leasing company at a gain or at cost and then leases the equipment back. If the monitoring equipment is sold to the leasing company at a gain, this gain is recorded as a liability and amortized into income over the life of the lease (typically 2-3 years). The gain on related party sale-leaseback transactions consists of amortization of this deferred gain. The Company's capital leases in conjunction with these transactions expire from June 2009 to December 2011. The assets and the related liabilities under the leases have been recorded at the present value of the future minimum lease payments using discount rates of 10.00% to 12.50%.

The Company also has two noncancelable operating leases for its facilities in Omaha, NE and an operating lease for office equipment. Future minimum lease payments, by year and in aggregate, under the capital leases and noncancelable operating leases, with initial terms of one year or more, are due as follows:

	Capital Leases Related Party	Operating Lease
2009	\$ 1,453,807	\$ 100,680
2010	1,140,837	-
2011	377,293	-
Total approximate minimum lease payments	\$ 2,971,937	\$ 100,680
Less the amount representing interest	(346,536)	-
Approximate present value of minimum lease payments	\$ 2,625,401	\$ 100,680

The cost and accumulated depreciation of assets acquired under capital leases is as follows:

	2008	2007
Equipment	\$ 5,029,183	\$ 2,143,867
Less accumulated depreciation	(2,267,556)	(1,056,184)
Total	\$ 2,761,627	\$ 1,087,683

The total rent expense under the operating leases was \$104,195 and \$103,206 for the years ended December 31, 2008 and 2007, respectively.

Note 9. Common Shares Issued for Cash

No common shares were issued for cash during 2007 or 2008.

Note 10. Related Party Transactions

AHK Leasing, LLC, a company controlled by three stockholders, one of which is a current director, lent the Company money during 2008 and 2007. These loans were in the form of capital leases with 36 month terms and bearing interest at a rate of 10.00% to 12.50% per annum. The Company has capital leases which expire from June 2009 to December 2011. As of December 31, 2008 and 2007, the aggregate balance on these capital leases totaled \$2,625,401 and \$1,126,463, respectively. The interest expense to AHK Leasing in 2008 and 2007 was \$226,978 and \$152,835, respectively. See Notes 4 and 8.

During the fourth quarter of 2006, the Company received two unsecured loans totaling \$6,000,000 from a private investment company that is an affiliate of the Mykonos 6420 LP (“Mykonos”), the sole holder of the Company’s Series C Preferred Stock (the “2006 Notes”). Interest on the 2006 Notes accrued at a rate of 7% per annum. Principal and interest on the loans was due at the earlier of (i) July 1, 2009 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 its business) in a transaction or series of transactions which generates aggregate net proceeds to the Company of not less than \$6,000,000. The interest expense to the private investment company in 2008 and 2007 was \$0 and \$354,026, respectively. Borrowings under these unsecured loans were refinanced in 2007 as described below.

On October 29, 2007, the Company refinanced the 2006 Notes and borrowed an additional \$2,100,000 under the terms of a Credit and Security Agreement with Crestpark LP, Inc. (“Lender”), another affiliate of Mykonos. Borrowings from the Lender are evidenced by a promissory note (the “Crestpark Note”) in the principal amount of \$8,491,864 which is equal to the aggregate principal and accrued interest on the 2006 Notes as of October 29, 2007 plus an additional \$2,100,000. Principal on the Crestpark Note is due on the earlier of (i) July 1, 2010 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 its business) in a transaction or series of transactions which generates aggregate net proceeds to the Company of not less than the amount lent to the Company by Crestpark.

On December 18, 2007, the Company amended its Promissory Note and Credit and Security Agreement with the Lender in order to increase the amount loaned (the “Loan”) from the Lender to the Company by the amount of \$3,300,000. As a result of these amendments, the principal amount outstanding under the Loan increased from \$8,491,864 to \$11,877,475, consisting of the \$3,300,000 in additional borrowings plus accrued but unpaid interest on the existing Loan. The additional borrowings are to be used for general working capital purposes. Interest expense to the Lender in 2008 and 2007 was \$725,022 and \$126,291, respectively.

Principal on the Amended and Restated Promissory Note (the “Note”) is due on the earlier of (i) July 1, 2010 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 its 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 Loan, plus all accrued but unpaid interest. The Company may prepay the Loan at any time without premium or penalty. The Note provides, among other things, that \$6,455,250 of the borrowings thereunder shall bear interest at 7.0% per annum and that such interest will be due and payable at maturity of the Note. The remaining \$5,422,225 of borrowings (the “Floating Tranche”) under the Note (which includes the \$3,300,000 of additional borrowings) will bear interest at a floating rate equal to 2% over the prime rate (the “Base Rate”). The portion of the interest on the Floating Tranche determined by the Base Rate will be payable at maturity, but the remaining portion of the interest representing the 2% premium over the Base Rate will be payable monthly.

The borrowings under the Note are secured by a first priority security interest in all of the assets of the Company except that Lender’s security interest in certain monitoring equipment is subordinate to the interest of AHK Leasing under its sale leaseback arrangements. The Lender is an affiliate of Mykonos 6420 LP (“Mykonos”). As the sole holder of the Company’s Series C Preferred Stock, Mykonos has the right to elect a majority of the Company’s Board of Directors. The terms of the Loan were approved by a Special Committee of the Board of Directors consisting solely of disinterested directors.

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

The proceeds of the Revolving Credit Commitment of \$750,000 are 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 July 1, 2010, is unsecured and bears interest at a fixed noncompounded rate of 12% per annum. The Company is also required to pay the Lender an unused fee of 0.25% per annum on the average daily unused amount of the Revolving Credit Commitment. Interest expense to the lender in 2008 and 2007 was \$2,682 and \$0, respectively. As of December 31, 2008, the Company had \$250,000 in proceeds still available under the Revolving Credit Commitment.

The proceeds of the \$1,750,000 Equipment Term Loan are 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 the Lender’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 has a term ending July 1, 2010, bears interest at a fixed rate of 12% per annum and is secured by the monitoring equipment purchased with the proceeds of the Equipment Term Loan. The Company is also required to pay the Lender an unused fee of 0.25% per annum on the average daily unused amount of the Equipment Term Loan. Interest expense to the lender in 2008 and 2007 was \$784 and \$0, respectively. As of December 31, 2008, the Company had \$1,700,000 in proceeds still available under the Equipment Term Loan.

The Lender is an affiliate of Mykonos 6420 LP (“Mykonos”). As the sole holder of the Company’s Series C Preferred Stock, Mykonos has the right to elect a majority of the Company’s Board of Directors. The terms of the loan were approved by a Special Committee of the Board of Directors consisting solely of disinterested directors.

Note 11. Concentrations

The Company maintains cash in excess of the Federal Deposit Insurance Corporation limit of \$250,000. The Company has not experienced and does not anticipate such losses in these accounts.

For the year ended December 31, 2007, the Company had one customer which accounted for 10.71% of its total revenues for the year. The receivable balance for this customer at December 31, 2007 was \$133,417. The company had no customers which accounted for more than 10% of total revenues for the year ended December 31, 2008.

Note 12. Legal Proceedings

On November 27, 2007, the Company and Pro Tech Monitoring, Inc. (“Pro Tech”) entered into a Confidential Settlement Agreement (the “Settlement Agreement”), pursuant to which the parties agreed to compromise and settle all claims and disputes related to a lawsuit filed by Pro Tech against the Company in the United States District Court for the Middle District of Florida in which Pro Tech alleged that the Company had infringed on a U.S. patent held by Pro Tech relating to GPS tracking and monitoring apparatus and systems. Pro Tech was seeking an injunction and substantial monetary damages from the Company.

Pursuant to the Settlement Agreement, Pro Tech has caused the dismissal of its lawsuit against the Company. In consideration, the Company paid Pro Tech \$800,000 in cash upon execution of the Settlement Agreement and agreed to, and did purchase \$600,000 worth of sobriety monitoring equipment from Pro Tech prior to December 31, 2007. The \$800,000 is included in sales, general and administrative expenses for the year ended December 31, 2007. In addition, the Company has agreed to make a modification to its GPS tracking equipment to eliminate or disable a component that allegedly infringed on Pro Tech’s patent.

Throughout the year ended December 31, 2008 the Company has actively brought GPS tracking units into compliance with this agreement, and will continue to do so as practical in 2009. On January 27, 2008, the Company became subject to royalty payments, which escalate over time, on activated, unmodified equipment generating revenue. At December 31, 2008, 13.5% of the Company’s units available to generate revenue were subject to royalties. For the year ended December 31, 2008, the Company has expensed \$239,531 in settlement royalty costs, which is included in cost of revenues. The Company entered into the Settlement Agreement without admission of liability and solely to avoid the expense and uncertainty of litigation.

Note 13. 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 short maturity dates.

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

Redeemable Exchangeable Series C Preferred Stock: The Company estimates the fair value of this instrument to be approximately \$18,100,000 at December 31, 2008 using a discount rate of 5%.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A(T). 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 chief executive officer and chief 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 upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the Evaluation Date, the Company's disclosure, controls and procedures are effective, providing them with information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Accounting Principles Generally Accepted in the U.S. and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and Directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. In making this assessment, the Company's management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on its assessment, the Company's management believes that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on that criteria.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There have not been any significant 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.

Item 9B. Other Information.

None

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The discussion under the headings “Election of Directors”, “Certain Relationships and Related Transactions”, “The Board of Directors and its Committees” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement are incorporated herein by reference.

Item 11. Executive Compensation.

The discussion under the headings “Executive Compensation” and “Director Compensation” in the Proxy Statement are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The discussion under the heading “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement is incorporated herein by reference.

Equity Compensation Plan Information. Information regarding shares of the Company’s common stock under equity compensation plans and executive employment agreements maintained by the Company as of December 31, 2008 is set forth in the following table:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans *
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,833,108	\$1.10	1,239,417
Equity compensation plans not approved by security holders	901,268	\$2.58	0
Total	2,734,376	\$1.59	1,239,417

*Excludes securities reflected in column (a).

Equity compensation plans approved by security holders consist of our 2006 Omnibus Equity Incentive Plan and 2001 Omnibus Equity Incentive Plan. The exercise prices for options issued under these plans range from \$0.20 to \$2.95 per share. Equity compensation plans not approved by security holders consist of options issued to employees per their employment agreements or performance bonuses. Exercise prices for these options range from \$2.01 to \$4.90 per share.

Item 13. Certain Relationships, Related Transactions and Director Independence.

The discussion under the heading “Certain Relationships and Related Transactions” and “The Board of Directors and its Committees” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The discussion under the heading “Principal Accounting Fees and Services” in the Proxy Statement is incorporated herein by reference.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements of the Company.
2. Exhibits.
 - 3.01 Amended and Restated Certificate of Incorporation of the Company, as amended (13)
 - 3.02 Restated Bylaws of the Company (1)
 - 3.03 Certificate of Designations, Preferences and Rights of Series A Convertible Preferred Stock of the Company (3)
 - 3.04 Certificate of Designations, Preferences and Rights of Series B Convertible Preferred Stock of the Company (9)
 - 3.05 Certificate of Designations, Preferences and Rights of Series C Exchangeable Preferred Stock of the Company (12)
 - 4.01 Form of Common Stock Certificate (1)
 - 10.01 License Agreement with SiRF Technology, Inc. (1)
 - 10.02 ADT Distribution Agreement (3)
 - 10.03 ADT Hosting Agreement (3)
 - 10.04 Preferred Distributor Agreement with Premier Geografix LTD. (7)
 - 10.05 Employment Agreement between the Company and David G. Vana (5)
 - 10.06 Employment Agreement between the Company and Edward J. Sempek (5)
 - 10.07 Employment Agreement between the Company and David G. Sempek (5)
 - 10.08 Employment Agreement between the Company and Peter A. Michel (17)
 - 10.09 Agreement Among Noteholders (10)
 - 10.10 Debt Conversion between the Company and Roger Kanne (11)
 - 10.11 Debt Conversion between the Company and Martin Halbur (11)
 - 10.12 Debt Conversion between the Company and Kenneth Macke (11)
 - 10.13 Debt Conversion between the Company and Buckshot Capital, LLC (11)
 - 10.14 Business Office Lease (11)
 - 10.15 Business Office Lease Amendment (20)
 - 10.16 Securities Purchase Agreement (14)
 - 10.17 Registration Rights Agreement (15)

- 10.18 Warrant Agreement (16)
- 10.19 2001 Omnibus Equity Incentive Plan (4)
- 10.20 2006 Omnibus Equity Incentive Plan (18)
- 10.21 Indemnification Agreement in favor of AHK Leasing, LLC (19)
- 10.22 Credit and Security Agreement in favor of Crestpark LP, Inc. (21)
- 10.23 First Amendment to Credit and Security Agreement in favor of Crestpark LP, Inc. (22)
- 10.24 Amended and Restated Promissory Note in favor of Crestpark LP, Inc. (22)
- 10.25 Employment Agreement between the Company and Lincoln Zehr
- 10.26 Employment Agreement between the Company and Robert Bierman
- 10.27 Confidential Settlement Agreement (24)
- 21.01 Subsidiaries of the Company
- 23 Consent of McGladrey & Pullen, LLP, Independent Registered Public Accounting Firm
- 24 Powers of Attorney
- 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 Certifications 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 under Form 10-SB, filed on June 22, 1999 (Commission File No. 0-26455).*
 - (2) *Not Used*
 - (3) *Incorporated by reference from the registrant's registration statement under Form SB-2 filed on November 30, 2001 (Commission File No. 333-74762).*
 - (4) *Incorporated by reference from the Notice of Annual Meeting of Stockholders and Proxy Statement contained in Registrant's Definitive Proxy Statement under Schedule 14A, filed with the SEC on May 14, 2001 (Commission File No. 0-26455).*
 - (5) *Incorporated by reference from the registrant's registration statement under Form S-8 filed on May 22, 2002 (Commission File No. 333-88798).*
 - (6) *Incorporated by reference from the registrant's registration statement under Form S-8 filed on April 16, 2004 (Commission File No. 333-114513).*
 - (7) *Incorporated by reference from the registrant's current report under Form 8-K filed on March 18, 2003 (Commission File No. 0-26455).*
 - (8) *Not Used*
 - (9) *Incorporated by reference from the registrant's registration statement under Form SB-2 filed on August 11, 2004 (Commission File No. 333-118135).*
 - (10) *Incorporated by reference from the registrant's current report under Form 8-K filed on February 10, 2005 (Commission File No. 0-26455)*
 - (11) *Incorporated by reference from the registrant's annual report under Form 10-KSB filed on March 31, 2005 (Commission File No. 0-26455).*

- (12) *Incorporated by reference from the registrant's current report under Form 8-K filed on June 23, 2005. (Commission File No. 0-26455).*
- (13) *Incorporated by reference from the registrant's current report under Form 8-K filed on December 14, 2006. (Commission File No. 0-26455).*
- (14) *Incorporated by reference from the registrant's current report under Form 8-K filed on June 23, 2005. (Commission File No. 0-26455).*
- (15) *Incorporated by reference from the registrant's current report under Form 8-K filed on June 29, 2005. (Commission File No. 0-26455).*
- (16) *Incorporated by reference from the registrant's current report under Form 8-K filed on June 29, 2005. (Commission File No. 0-26455).*
- (17) *Incorporated by reference from the registrant's current report under Form 8-K filed August 8, 2006 (Commission File No. 0-26455).*
- (18) *Incorporated by reference from the registrant's quarterly report under Form 10-QSB filed on August 11, 2006. (Commission File No. 0-26455).*
- (19) *Incorporated by reference from the registrant's current report under Form 8-K filed February 22, 2007 (Commission File No. 0-26455).*
- (20) *Incorporated by reference from the registrant's annual report under Form 10-KSB filed on March 12, 2006 (Commission File No. 0-26455).*
- (21) *Incorporated by reference from the registrant's current report under Form 8-K filed on November 2, 2007 (Commission File No. 0-26455).*
- (22) *Incorporated by reference from the registrant's current report under Form 8-K filed on December 20, 2007 (Commission File No. 0-26455).*
- (23) *Incorporated by reference from the registrant's current report under Form 8-K filed on November 12, 2008 (Commission File No. 0-26455).*
- (24) *Incorporated by reference from the registrant's annual report under Form 10-KSB filed on March 19, 2008 (Commission File No. 0-26455).*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
Chief Executive Officer

Dated: March 24, 2009

Pursuant to the requirements of the Securities Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Roger J. Kanne *</u> Roger J. Kanne	Chairman of the Board of Directors, Director	March 24, 2009
<u>/s/ Peter A. Michel</u> Peter A. Michel	President, Chief Executive Officer, Director (Principal Executive Officer)	March 24, 2009
<u>/s/ Lincoln Zehr</u> Lincoln Zehr	Chief Financial Officer (Principal Financial and Accounting Officer)	March 24, 2009
<u>/s/ Joseph A. Ethridge *</u> Joseph A. Ethridge	Director	March 24, 2009
<u>/s/ Robert W. Korba *</u> Robert W. Korba	Director	March 24, 2009
<u>/s/ Ravi Nath *</u> Ravi Nath	Director	March 24, 2009

* Peter A. Michel, by signing his name hereto, signs this annual report on behalf of each person indicated. A Power-of-Attorney authorizing Peter A. Michel to sign this annual report on Form 10-K on behalf of each of the indicated Directors of iSECUREtrac Corp. has been filed herein as Exhibit 24.

By:

/s/ Peter A. Michel
Peter A. Michel
Attorney-In-Fact

SUBSIDIARIES

The Company has one wholly-owned subsidiary: iSt Services, Inc. iSt Services, Inc. was incorporated on September 25, 2002, in the State of Nebraska and is in good standing. The address of iSt Services, Inc. is 5078 South 111th Street, Omaha, Nebraska 68137.

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements (No.'s 333-136894, 333-136893, 333-136891, 333-114513, 333-88798 and 333-64056) on Form S-8 of iSECUREtrac Corp. of our report dated March 24, 2009, relating to our audit of the consolidated financial statements which appears in this Annual Report on Form 10-K, of iSECUREtrac Corp. for the year ended December 31, 2008.

/s/ McGladrey & Pullen LLP
Kansas City, Missouri
March 24, 2009

POWER OF ATTORNEY

The undersigned does hereby make, constitute and appoint Peter A. Michel and/or Lincoln Zehr as his lawful agent and attorney-in-fact solely for the purpose of executing and filing all reports on Form 10-K relating to the year ended December 31, 2008, and any amendments thereto, required to be filed with the Securities and Exchange Commission by iSecureTrac Corp.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 22nd day of February, 2009.

/s/ Joseph A. Ethridge
Joseph A. Ethridge

POWER OF ATTORNEY

The undersigned does hereby make, constitute and appoint Peter A. Michel and/or Lincoln Zehr as his lawful agent and attorney-in-fact solely for the purpose of executing and filing all reports on Form 10-K relating to the year ended December 31, 2008, and any amendments thereto, required to be filed with the Securities and Exchange Commission by iSecureTrac Corp.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 23rd day of February 2009.

/s/ Robert W. Korba
Robert W. Korba

POWER OF ATTORNEY

The undersigned does hereby make, constitute and appoint Peter A. Michel and/or Lincoln Zehr as his lawful agent and attorney-in-fact solely for the purpose of executing and filing all reports on Form 10-K relating to the year ended December 31, 2008, and any amendments thereto, required to be filed with the Securities and Exchange Commission by iSecureTrac Corp.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 20th day of February 2009.

/s/ Ravi Nath
Ravi Nath

POWER OF ATTORNEY

The undersigned does hereby make, constitute and appoint Peter A. Michel and/or Lincoln Zehr as his lawful agent and attorney-in-fact solely for the purpose of executing and filing all reports on Form 10-K relating to the year ended December 31, 2008, and any amendments thereto, required to be filed with the Securities and Exchange Commission by iSecureTrac Corp.

IN WITNESS WHEREOF, the undersigned has executed this Power of Attorney as of the 19th day of February 2009.

/s/ Roger Kanne
Roger Kanne

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

1. I have reviewed this annual report on Form 10-K 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 registrant 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 registrant, 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 our 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 registrant'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; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: March 24, 2009

/s/ Peter A. Michel

Peter A. Michel, Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this annual report on Form 10-K 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-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 registrant 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 registrant, 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 our 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 registrant'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; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: March 24, 2009

/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 Annual Report on Form 10-K for the period ended December 31, 2008, 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: March 24, 2009

/s/ Peter A. Michel

Peter A. Michel
Chief Executive Officer

/s/ Lincoln Zehr

Lincoln Zehr
Chief Financial Officer

