

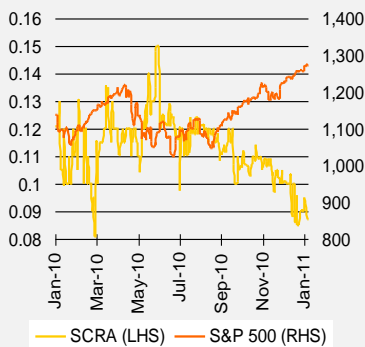
SecureAlert Inc.

(Ticker: OTC:SCRA)

January 24, 2011

RB MILESTONE GROUP 
A MILESTONE TO NEW HEIGHTS

Price (US\$):	0.105
Beta:	1.10
Price/Book Ratio:	7.2
Debt/Equity Ratio:	1.0
Target Price (US\$):	0.25
Listed Exchange:	OTC



Recent News

27/11/2010: SecureAlert, Inc. partners with Bahamian Ministry of National Security to deliver electronic monitoring services to a minimum of 500 offenders.

22/10/2010: SecureAlert Chosen Monitoring Provider for Alaska Pre-Trial Services

23/08/2010: SecureAlert, Inc. sponsors "Ride for Their Lives" August 21, 2010 through September 22, 2010.

23/08/2010: SecureAlert, together with International Surveillance Services Corporation, and Empresa Brasileira de Seguranca Ltda., announced the signing of a GPS offender monitoring contract.

12/04/2010: SecureAlert, Inc. Completes Acquisition of Court Programs, Inc. and Continues Recapitalization.

Shares in Issue

294.31 Million

Market Cap

(US\$) 30.90 Million

52 Week (High): US\$0.15

52 Week (Low): US\$0.081

Electronic monitoring on an inflection point

SecureAlert is a Utah based company specializing in providing products and services used for electronic surveillance based remote monitoring of offenders. The global market for these products and services is estimated to be around \$476 million and is expected to grow 12.5x by 2018 (growing to \$1 billion in 2012 to \$6 billion by 2018) based on estimates by Incucomm, a Texas based consultancy firm. This growth will be driven by prison overcrowding, fiscal budgetary constraints, concerns surrounding recidivism, among other factors. Electronic monitoring saves around \$60-\$450 per prisoner/ per day for the government and has been effective in reducing recidivism (repeat offenses). SecureAlert is well poised to benefit due to its superior solutions – it is the only company to manufacture single piece device enabling RF, GPS monitoring in addition to 2-3 way communication and is the only one to have its own monitoring center. The reliability of its product ReliaTrack™, at 99.9%, is the highest in the industry as it has tied up with leading vendors such as Google and Motorola, which ensures high quality performance of its monitoring products. Its recent contract win in Brazil beating seven competitors is a testimony to its growth prospects. The company also won a contract in Bahamian with an initial size of 500 offenders with a potential to reach 2,000 offenders. Both of these contracts will provide significant impetus to the top line. With a pipeline of \$43 million worth of contracts, we believe SecureAlert has entered a new growth orbit.

The company has been in the red for the past several years but is making steadfast progress in moving towards profitability. It has renegotiated contracts on the supply side and has taken several cost reduction initiatives, such as on the consulting and communication sides, which will improve margins and make the transition to profitability soon (Q3 2011 by our forecasts). The company's shares are trading at an all-time low due to their "penny stock" status that drives away potential investors, and also because of the continuous dilution from the preferred stock conversion. We have valued the company on a DCF basis and believe that the stock price does not factor in its immense growth prospects and its imminent return to profitability. We've factored in the full dilution from its outstanding preferred shares and believe that at the current price SecureAlert's shares are highly undervalued. We initiate coverage on SecureAlert with a price target of \$0.25 per share, an upside of 137.0% from the current level.

Investment Arguments

- **Strong Cost Arbitrage of Offender Tracking Products.** There are currently more than 5 million people on either parole or probation in the US and only about 3% of these are under electronic surveillance. The total expenditure on criminal justice is about \$425 billion in the US and incarceration costs alone can range anywhere between \$60-\$500 per person per day. In contrast, an offender can be monitored using SecureAlert's solution at a very reasonable cost of \$4-15 per day depending upon the product and services used, offering potentially significant cost savings for the government
- **Incarceration Has Proven to Have Negligible Effect on Recidivism.** Incarceration not only adds a large cost burden on the government but has also proven to have a negligible impact on recidivism, especially for juvenile and sex offenders. About two-thirds of released offenders are rearrested within 3 years and 80% within 10 years. In addition to probationers or parolees, the judicial system can even put incarcerated offenders on electronic monitoring which has a potential to reduce recidivism by up to

30% as well as offering attached savings to both costs and burden on the judiciary system

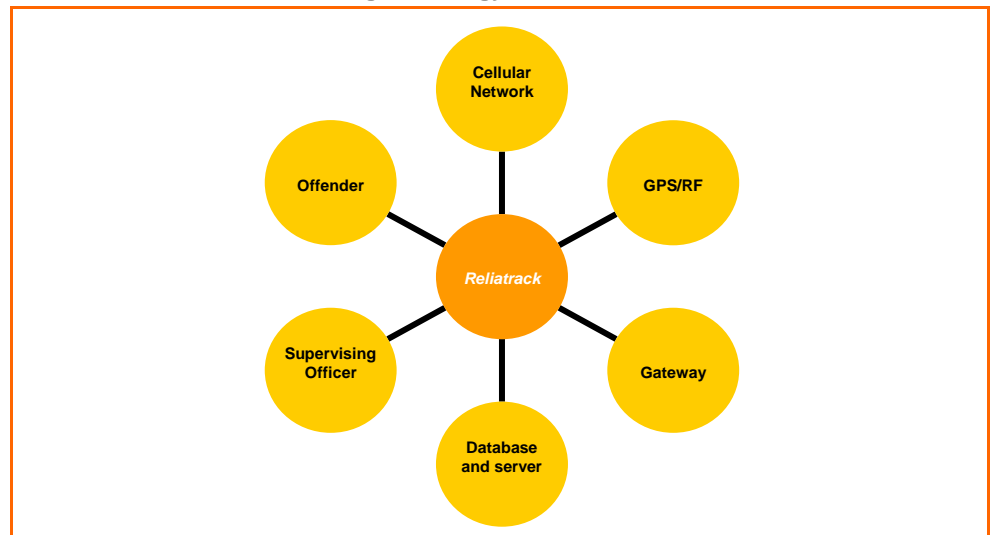
- **Superior Product and Technology.** SecureAlert is the only company to offer both RF and GPS technologies along with 2-3 way communication, on a single device, with best in class reliability of 99.9%. In addition, it is the only electronic monitoring company approved and certified by AT&T and T-Mobile as well as offers the toughest GPS tracking security cuff (patent pending). Overall, the company has 21 patents granted or pending on its product and technology
- **First to Have Own Offender Management Center.** SecureAlert is the only company among its peers to have its own offender management and intervention center, which frees up a considerable amount of the supervising officer's time. We believe that this offers a unique selling point as the US judiciary system is under tremendous capacity pressure. With its own monitoring center, it acts as a virtual extension of the judiciary system and allows their members more free time to focus on habitual offenders
- **Recent Contract with the Brazilian and Bahamian Authorities Harbingers Growth Outside the US.** The company has recently won a significant contract from the Brazilian state of Rio Grande do Sul to initially monitor ~250 offenders, while the contract can reach for up to 800 offenders. In addition, the Superintendent of Correctional Services (SUSEPE) has forecast growth to 5,000 offenders in total, as offender electronic monitoring is introduced statewide throughout Rio Grande do Sul. The company also signed a three year agreement with Bahamian Ministry of National Security for monitoring 500 offenders. The value of this contract is \$2.7 million and the monitoring can ramp up to 2,000 offenders. The estimated daily revenue is ~\$15, much higher than the average realized price of \$5.60 in 2010 and will also give an impetus to margins. New and expected contracts that are in the sales pipeline for 2011 would generate \$43 million revenue at full ramp-up, indicating that international markets are just opening up.
- **Margins to Improve, Expected to Break-Even this Year.** SecureAlert has achieved 50%+ gross margin and is targeting a level of 65% by Q4 2011. The company has taken several cost reduction initiatives, such as reducing cellular communication costs of the devices, renegotiating contracts and consulting arrangements, etc. to keep costs under control. Going forward, savings are expected to come from bringing certain processes in-house, such as product design and counseling, operationally assimilating its two subsidiaries (which will reduce SG&A expenses) and automation in the monitoring center, while international expansion will expand margins further due to better pricing. Over the medium term, we expect the company to maintain a gross margin of 65% and a net margin of ~25%
- **Attractive Valuation.** Due to a history of losses as well as ongoing dilution from its conversion of preferred shareholders and designation of "penny stock" status, the company has failed to attract investors. From a high of \$4.24 in January 2008, the share price has declined to \$0.105 currently. The company is currently trading at 6.6x 2012 earnings and 1.4x 2012 sales (EV/Sales) while the 2011 and 2012 EV/EBITDA estimates are 16.6x and 4.4x, respectively. Our DCF valuation methodology takes into consideration the full dilution effect from preferred shares conversion. Our model gives us a 137.0% upside on the current price levels. We believe that the stock is attractively priced at the current level and there is limited downside risk but huge upside potential at this juncture

Company Overview

SecureAlert, Inc. was founded in 1997 as Volu-Sol, Inc. Along with its subsidiaries, the company provides offender monitoring and management products and services. The company is based out of Salt Lake City, Utah and currently operates in 34 US states. It provides 24/7 intervention based electronic monitoring, 365 days a year, using its patented GPS tracking technology. Its product enables remote monitoring of offenders and related law enforcement services, facilitating restricted freedom for the offender while at the same time reducing expenditures for the law enforcement and correctional system. For smaller requirements (<100 units), the company has tied-up with various distribution partners but meets larger requirements directly. The company maintains its own dedicated sales and service staff.

The company has a team of life coaches on standby, who can inform the offender's supervising officer if he/she is in violation and/or initiate a two-three way communication. Violations are committed whenever a) offenders are not compliant with inclusion zones such as home curfews b) offenders enter exclusion zones such as victims' homes; places where children frequent; or establishments serving alcohol c) offenders fail to keep the device charged or d) tamper with the device or strap. Such constant monitoring enables the law enforcement agencies to better manage their offender base. SecureAlert is believed to be the only company offering offender management technology which integrates GPS, RF and an interactive 3-way voice communication system with siren capabilities into a single device. Because of 3-way voice communication and life coaches in the intervention monitoring center, SecureAlert is the only company with the capacity to intervene in real-time. These service offerings are the cornerstone differentiators which set them above and apart from their competitors.

Exhibit 1 : SecureAlert's Monitoring Technology



Source: Company

The company's solutions are customized specific to offender type, such as monitoring an offender's alcohol consumption. This solution would include on-demand electro-chemical breath alcohol testers with facial recognition and semi-hourly continuous remote alcohol monitoring units. These technologies are scientifically proven and accepted as evidence by courts in the United States.

SecureAlert generates revenue by charging the governmental agencies using its services on a per diem basis. The charge varies between \$4 and \$15 depending on the service levels which are scalable depending on the monitoring needs of the agent.

Electronic monitoring is particularly suited for juveniles which, when incarcerated, tend to develop a lifelong tendency for recidivism. This occurs as first-time and minor crime

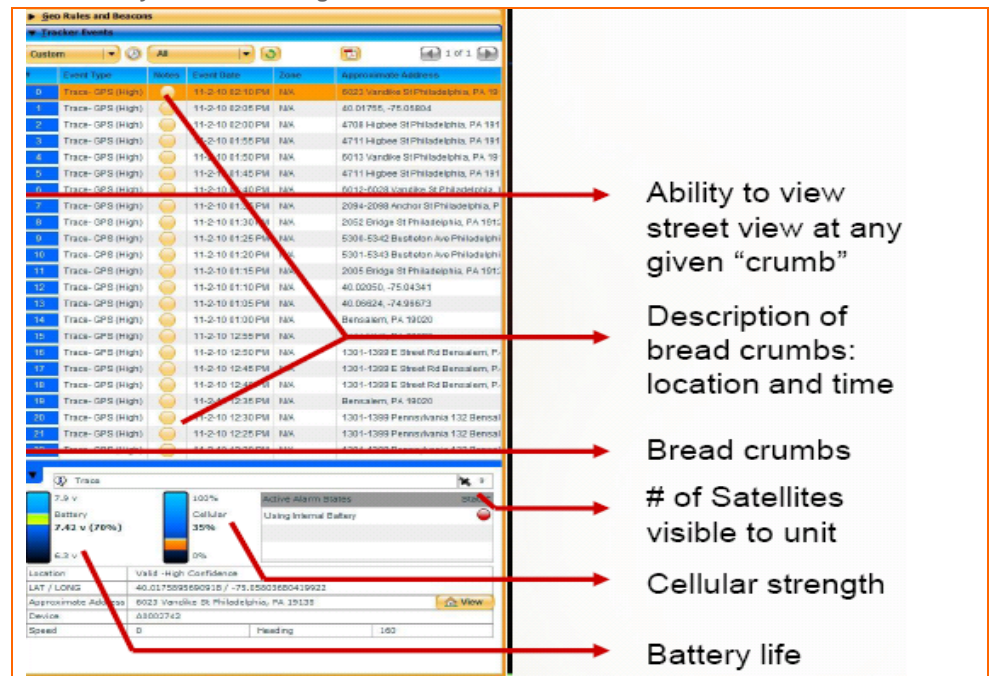
offenders socialize with more seasoned offenders. Even those involved with juvenile law enforcement and correctional services believe that keeping youth at home is better than incarcerating them. SecureAlert has achieved the following in the last four years:

- 64 million hours of intervention experience
- Projected government savings of over \$150 million
- 45,048 offenders monitored on interactive tracking
- 10.6 million alarms handled
- 4.1 million two/three-way intervention calls handled
- 148,675 sirens/alarms activated on device (Emergency Interventions)
- 1,207 life-threatening situations resolved through intervention monitoring (average 5 per week)

SecureAlert's Monitoring Center Provides Sustainable Competitive Edge

SecureAlert provides three levels of dynamic monitoring with the ability to adjust between Passive, Active and Intervention options. All levels provide continuous tracking and transmission of offender movements.

Exhibit 2 : Dynamic Monitoring



The screenshot displays the 'Geo Rules and Breaches' interface. The top section shows a table of tracked events with columns for Event Type, Status, Event Time, Zone, and Approximate Address. Below this, a detailed view of a specific event is shown, including battery status (7.9v, 7.42v (76%)), cellular strength (35%), location (V818 - High Confidence), and speed (0). Red arrows point from text labels on the right to specific elements in the interface.

- Ability to view street view at any given "crumb"
- Description of bread crumbs: location and time
- Bread crumbs
- # of Satellites visible to unit
- Cellular strength
- Battery life

Source: Company

The company's unique competitive advantage is its multi-communication capable Intervention Monitoring Center. SecureAlert is currently the only offender monitoring company on the market with its own Intervention Monitoring Center. The Intervention Monitoring Center is staffed with bilingual specialists who are able to communicate with the offenders in either English or Spanish. Through its product, the offender, supervising officer and SecureAlert's monitoring officer can have three-way conversations at any time. For some offenders this is the only mode of communication available through which they can give an alert during critical times. In addition, the supervising officer not only gets an opportunity to interact with the offender more often but can also take on added responsibilities due to the fact that a SecureAlert monitoring officer is tracking the offender on a real-time basis (based on service level).

The intervention monitoring center is a powerful tool for monitoring high risk offenders such as gang members; sex offenders; domestic violence offenders; or child abusers. SecureAlert's Monitoring Specialist can act as the first line of response when violations occur by immediately informing the offender's supervising officer.

Subsidiaries

SecureAlert Monitoring, Inc. SecureAlert Monitoring, Inc. is the core subsidiary which markets and deploys offender management solutions through ReliaTrack™ and its real-time Intervention Monitoring Center. Service solutions focus around specific offender type and correction initiatives (i.e. probation or parole of juvenile offenders; sexual predators; and domestic violence perpetrators as well as pre-trial defendants and overcrowding releases). This subsidiary will be the driver for the company's growth going forward.

Court Programs, Inc. Court Programs, Inc. is a distributor of electronic monitoring devices to courts, providing a solution to monitoring individuals on pre-trial; probation; parole; or early release. The subsidiary utilizes an offender pay program in which the offender bears the cost of electronic monitoring. Court Programs, Inc. also provides case management services. When individuals are released on GPS monitoring they are turned over to Court Programs to ensure that they are fulfilling their conditions of GPS monitoring. Court Programs is similar to a distributor of SecureAlert Monitoring and utilizes their technologies when available. SecureAlert, Inc. acquired a 51% ownership interest in Court Programs, Inc. on 1 December 2007 for a total consideration of \$1.5 million. In March 2010, SecureAlert, Inc. acquired the remaining 49% in Court Programs, Inc. for ~\$1.8 million.

Midwest Monitoring & Surveillance, Inc. SecureAlert purchased a 51% ownership interest in Midwest Monitoring & Surveillance on 1 December 2007. Midwest Monitoring & Surveillance provides electronic monitoring for individuals released to GPS monitoring, concentrating on the Mid-West region of the United States. Similar to Court Programs, Midwest Monitoring utilizes SecureAlert Monitoring's service offerings. A high share of these revenues is generated by "offender pay," where the offender who wears the device bears the cost of electronic monitoring. In addition, the company also generates revenues from selling electronic monitoring solutions to prisons. In April 2010, SecureAlert and the minority owners of Midwest Monitoring & Surveillance Inc. signed an agreement which extends the option period for the purchase of the remaining minority ownership (49%) in Midwest Monitoring & Surveillance Inc. by 12 months to April 2011. The consideration payable by SecureAlert for this extension was 150k in restricted shares of the company's common stock and the waiving of \$10k owed by Midwest to SecureAlert.

Bishop Rock Software, Inc. SecureAlert acquired Bishop Rock Software Inc., a California-based corporation in January 2009 for \$850,800. During 2009 the entire goodwill of \$460,800 was impaired. Subsequent to the acquisition, all operations have been integrated into SecureAlert Monitoring, Inc.

Exhibit 3 : Live Intervention Monitoring Center



Source: Company

Multiple Levels of Solutions

The company renamed its erstwhile brand *TrackerPal* to *ReliaTrack™* in 2010 after several product improvements. The company will further launch an advanced version of the *ReliaTrack™* brand in 2011. The company provides different levels of service to address varying customer requirements. It offers the following categories of solutions:

- **ReliaTrack™ MAX** Features the patented, stainless steel laminated SecureCuff with three-way communications, including Watchdog Services and real-time Live Agent Intervention, and a one-minute GPS Trace and Data Reporting Frequency that provides maximum offender visibility and operator intervention, if required by the agency or officer
- **ReliaTrack™ Premium Solutions.** Provides offender supervision and real-time notification when required on critical alarms. These active monitoring solutions provide one or five-minute location information throughout the day and report violations as they happen through the company's cellular communications network. This solution is feasible when budget constraints limit active real-time monitoring. The company offers a Premium+ option which includes three-way communications, including Watchdog Services and Live Agent Intervention, and a one-minute GPS Trace and Data Reporting Frequency
- **ReliaTrack™ Standard Solutions.** These are also active monitoring solutions but do not include the Live Agent Intervention and three-way voice communication. Customers have the option to choose GPS Trace and Data Reporting Frequency
- **ReliaTrack™ Passive Solution.** Suitable when staffing or budget constraints dictate minimal offender supervision and immediate response to violations is not required. The same GPS information is provided, but on a delayed basis

All *ReliaTrack™* solutions also include the option of adding the cellular version of the HomeAware™ RF Solution for house arrest applications. Officers can transition offenders to different solutions using the *ReliaTrack™* software or by calling the monitoring center for assistance. This is an advantage because it dramatically reduces the number of devices an agency must keep on hand to be proficient.

Exhibit 4 : ReliaTrack™ Electronic Tracker



Source: Company

Product improvements in 2010

In 2010, the company authorized the commercial release of its TrackerPAL II(e) next generation GPS tracking technology and intervention services. To improve the quality of this product, SecureAlert moved the manufacturing contract to Inovar, Inc. located in Logan, Utah, which is ISO 9001:2000 and ISO 13485:2003 certified. By investing in a series of process and design improvements, the company improved out-of-box reliability of its key product *ReliaTrack™* to 99.9%, giving it the highest quality level in the company's history

and making it equivalent with or above that of other competitors in the market. This focus on quality has also resulted in improved customer satisfaction, product reliability, and lower operating costs. The company replaced 2,861 previous generation devices by June 30, 2010. Although these activities kept the revenue unchanged during the period, the company is clearly gearing up to establish its positioning in a fragmented and promising market. The company also slashed product prices by ~40% while working on reliability. SecureAlert spent \$1.5 million in 2010 for further development of their TrackerPal and ReliaTrack™ portfolio of products and services. Some of the key improvements were:

- Enhancement of software to provide for automated protocol steps
- ParAccel Analytic Database (PADB) was implemented to reduce data access times on time-sensitive queries. ParAccel will serve as the base for analytic programs which will detect patterns of offender behavior that could predict or provide insights into future crimes
- Avaya IP Office 500 system was installed. This version of Avaya has many standard features but those most beneficial to SecureAlert are VOIP (voice over IP) capability, support for both digital and analog phone lines and the ability to record 100 percent of in- and outbound phone calls

SecureAlert is looking to feature a new website and introduce new marketing materials, advertising and public relations activities as well as introduce the next generation technologies in 2011 to strengthen its grip in the sector.

Industry Overview

Globally, there are about 10 million people estimated to be incarcerated for various crimes who would eventually be released. The US leads with about 2.3 million offenders in either jail or prison, representing over 23% of the global total as of December 2009. However, incarceration has not been an effective tool for sustaining peace and safety. About two-thirds of released offenders are rearrested within 3 years and 80% within 10 years – although not necessarily for the same crime. Sex offenders and juvenile offenders are more likely to be rearrested as sex offenders are four times more likely to commit similar crimes and two-thirds of juvenile delinquents are rearrested within two years.

Growth in the offender/criminal population has led to overcapacity in US prisons. According to the BJS, in 2005 federal prisons were running at 134% of capacity while state prisons were running at 107% of capacity. The corrections system is seeking alternative solutions to the high cost of incarceration for pre-trial defendants, key parolee and probationer offenders (e.g. Sexual Predators, Domestic Violence Perpetrators, Juveniles).

Generally, felony offenses are punished with incarceration while less serious offenses receive short-term sentences to be served in the local city or county jail. Alternative forms of sanctions for misdemeanor or minor offenses are community corrections (halfway house); RF (Radio Frequency) house arrest; or GPS (Global Positioning Satellite) electronic monitoring. We believe with the technological advancements and success of electronic surveillance systems, governments will increasingly use alternative forms of sanctions for minor offenses.

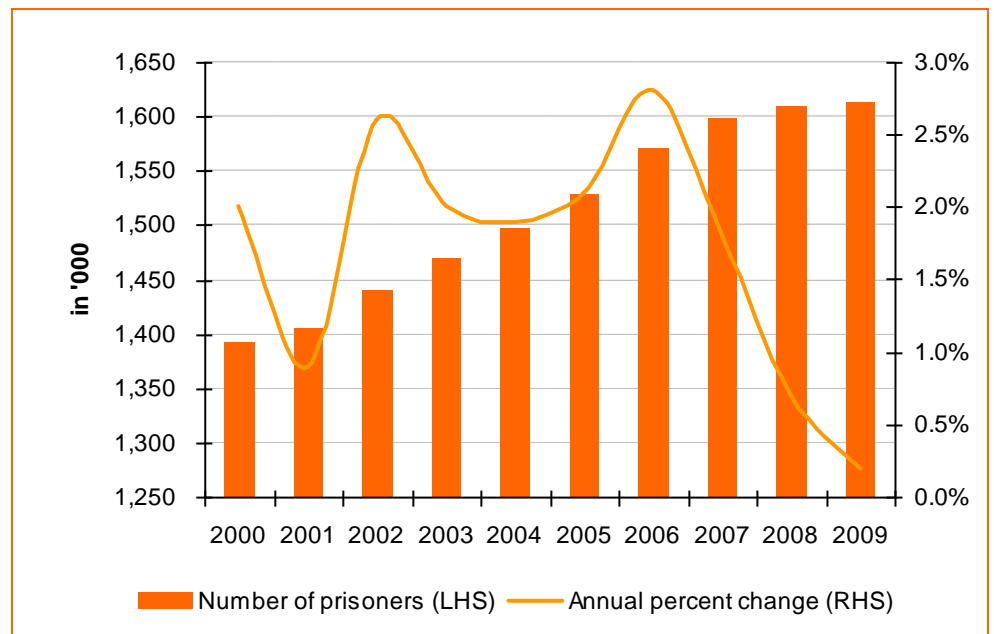
Exhibit 5 : Prison and Jail Population



Source: Bureau of Justice Statistics, RB Milestone

According to the Bureau of Justice Statistics (BJS), each year about 750,000 offenders are released from federal, state, local, and tribal prisons while between 10 and 12 million offenders and defendants are released from jail. After their release, these individuals face multiple barriers in terms of stable employment; personal issues; lack of skills; acquiring housing; or mental and other health problems which lead to an increased capacity for recidivism (repeat offense). The BJS observes that about two-thirds of offenders are rearrested within 3 years of release (50% within the year).

Exhibit 6 : Prisoners Under State and Federal Jurisdiction



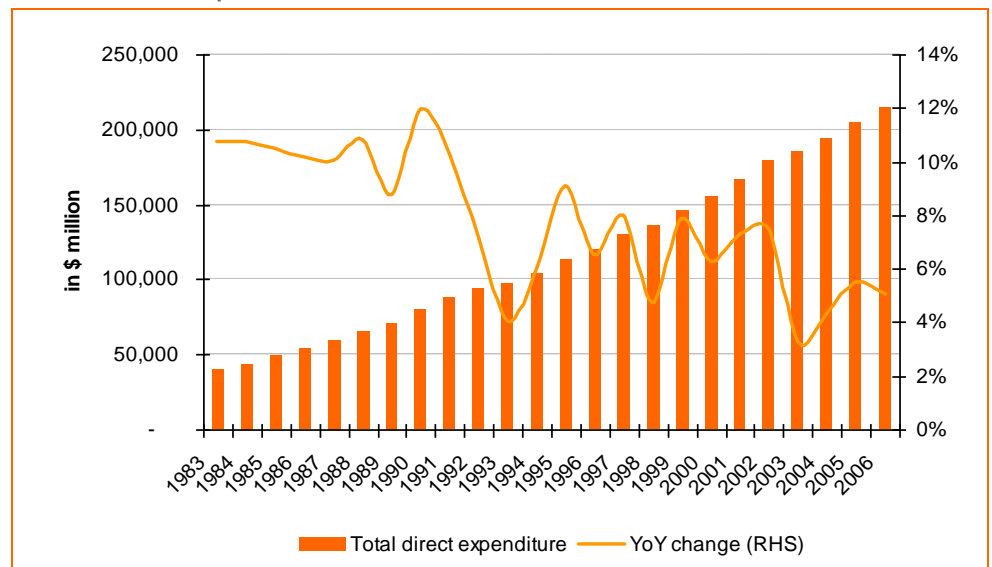
Source: Bureau of Justice Statistics, RB Milestone

The offender population has increased by over 50% in the last 25 years, which has led to a huge burden on the US judiciary system, especially in the wake of the recent recession. The US Office of Justice Programs is working to reduce recidivism and the related social and fiscal costs. This is also a high priority for the Obama administration. US direct expenditure on criminal justice has increased from ~ \$35 billion in 1983 to ~\$215 billion in 2006. The total cost (including indirect) is estimated to be ~\$425 billion in the US, making the

corrections budget the largest budget item in many states, surpassing both education and healthcare:

- Taxpayers pick up the incarceration rates tab of \$60-\$500 per offender/ per day depending on facility and offender types. The average total direct/ indirect costs per offender in a year was \$59,000 in 2008
- \$100 billion of the \$425 billion is a direct cost of the criminal justice system, none of which affects crime, and \$62 billion of the \$100 billion is expended on incarcerating over 2.3 million offenders each year
- In 2008, the average cost to house an inmate in prison was \$79/day and prisons made up about 90% of the expenditure on correction services, or about ~\$18.65 billion
- Detention costs range from \$87-\$500 per day. However, keeping juveniles out of detention drops recidivism rates by 26%, making a strong case for keeping them out
- When a defendant fails to appear in court, the social and budgetary cost is around \$8,500 per defendant. Tracking the defendant's movement increases the chances of his appearing, thus reducing the costs
- There are 16,800 homicides and 2.2 million (medically treated) injuries due to domestic violence annually, which costs \$37 billion. Keeping offending partners under surveillance could reduce these costs substantially

Exhibit 7 : Direct Expenditure on Criminal Justice

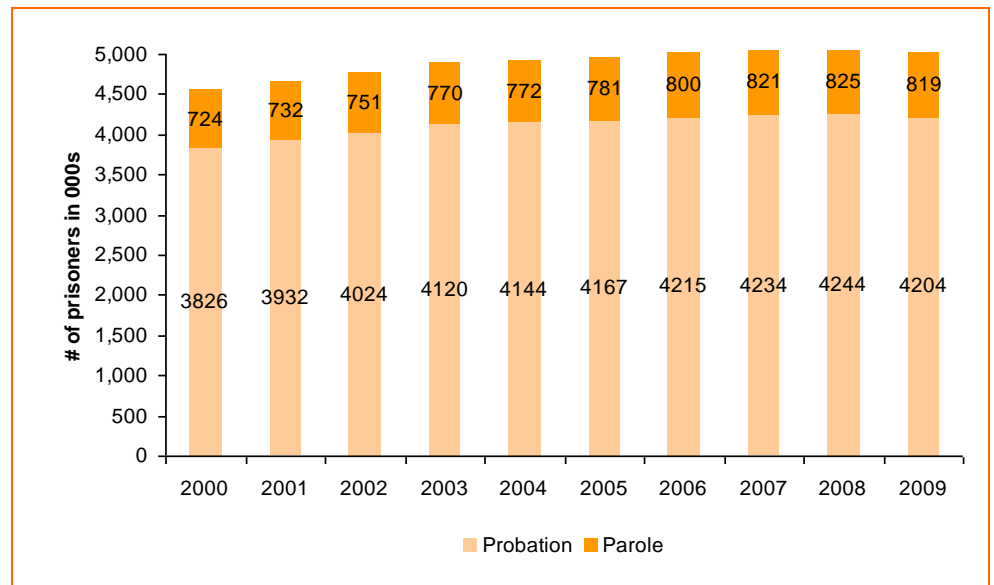


Source: Bureau of Justice Statistics, RB Milestone

Increase in offender population in jails and prisons; budgetary constraints; and repeat offenses would increasingly lead governments to seek alternative solutions to high cost of incarceration for pre-trial defendants, key parolee and probationer offenders. As a case in point, in August 2009, citing an overcrowded prison system that has led to inadequate health care for inmates, a panel of federal judges ordered California to reduce its prison population by 40,000 over the next two years.

By mid 2009, jail authorities were responsible for supervising more than 70,000 offenders outside the jail facilities, including 11,800 under electronic monitoring; 11,200 in weekend programs; 17,700 in community service programs; and 12,400 in other pretrial release programs. We expect this number to grow significantly in the coming years.

Exhibit 8 : Total Adults Under Community Supervision and on Probation or Parole



Source: Bureau of Justice Statistics, RB Milestone

Globally, traditional methods of corrections and incarceration are under review due to budget constraints, effectiveness and humanitarian concerns. We believe that the advances in technology and cost effectiveness put electronic surveillance in a sweet spot to benefit from this change.

Electronic Monitoring

Electronic monitoring dates back to 1964 when Ralph Kirkland Schwitzgebel headed a research team at Harvard that developed a prototype electronic monitoring system. Until the widespread adoption of cellular and broadband internet networks in the mid-1990s, electronic monitoring devices were typically home-based and dependent on a dedicated landline, making it useful for criminals on work-release programs, on parole, or on probation.

Technological advances, including GPS and cellular networks, have permitted courts to order more specific restrictions such as permitting a registered offender to leave his home at any time of day, but alerting authorities if they come within a certain distance of a prohibited area.

Today, the global electronic monitoring market place is at an inflection point. With the advent of the cost effective GPS technology, electronic monitoring through this route is poised to gain widespread acceptance.

There are four primary segments in the US Electronic Monitoring Industry:

- GPS: Global Positioning Satellite
- One and two piece devices
- RF: Radio Frequency House Arrest
- Alcohol Monitoring

Of the above, RF is mature and approaching saturation while GPS is new and underutilized. RF provides offender location on demand and is generally required for limited restrictions such as an offender prohibited from leaving his home at a particular time. On the other hand, GPS provides dedicated, real-time information on the movement of the offender and is very useful for monitoring more serious offenders, hence RF is expected to lose ground to GPS.

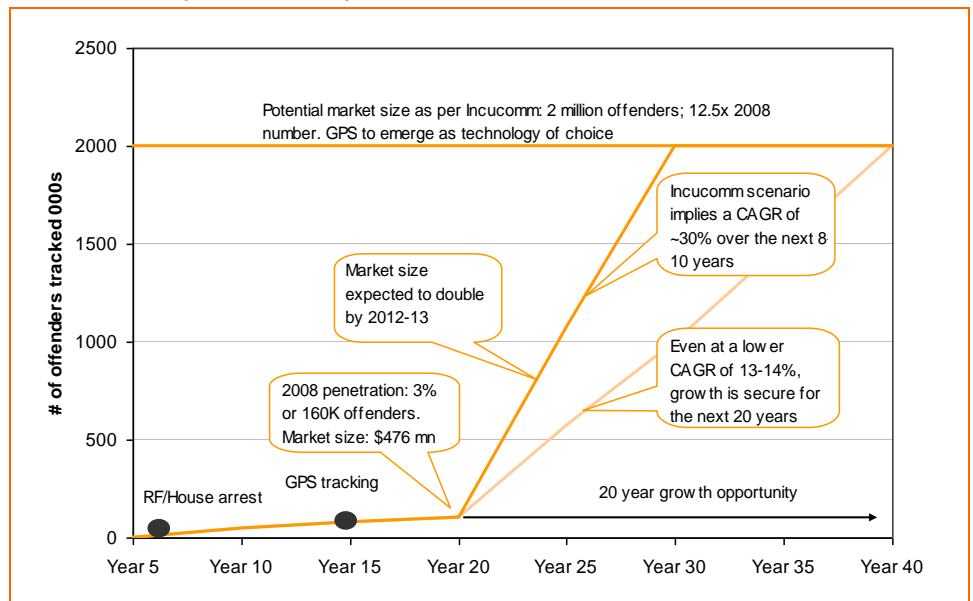
Growth Drivers

Electronic Monitoring Industry Growth

According to Incucomm Inc., a Texas based consultancy firm, only 3% of the current domestic parole and probation population in the United States is currently electronically monitored. Less than 1% of the total spending of the US Department of Justice, or \$256m per year, is dedicated to electronic monitoring. With 160k offenders being electronically monitored in 2008, the market for GPS based offender monitoring devices in the United States has grown by 100% since 2006. By 2018, this figure is expected to increase to 2m, or 12.5x 2008 numbers.

It is estimated that the global Electronic Monitoring Industry is ~\$476 million in revenues of which US comprises \$320 million and \$156 million is international. We believe that this industry can grow by 30-40% annually, driven primarily by the GPS monitoring segment, achieving \$1.0 billion+ globally by 2012-13. This US EM industry is expected to more than double in revenue terms between 2010 and 2012, reaching \$740 million from \$320 million currently. The international EM industry is expected to touch \$256 million from \$156 million currently over the same period.

Exhibit 9 : Industry Situation Analysis



Source: Incucomm, Company presentations, RB Milestone

According to Incucomm, the US Electronic Monitoring market has the potential to grow to \$5.6 billion over the next eight years if the whole potential of two million offenders monitoring is realized. SecureAlert strives to acquire a spot among the top three firms with ~25% market share.

Public safety sensibilities; budgetary concerns; prison/jail overcrowding; GPS device reliability & innovations; EM legislation; political awareness; and certain offender classes at risk (sexual predators, domestic violence perpetrators and juveniles) will drive significant growth in overall deployments and EM marketplace expansion.

Juvenile Monitoring Likely to See Strong Growth

Supervising the daily activities of juvenile delinquents has become a tedious affair for probationary officers as the population of young offenders has increased while the recessionary tailwinds have put pressure on staff numbers. Given the alarming recidivism associated with incarcerating such offenders, correctional measures for these at-risk

offenders is even more imperative. Many agencies are recognizing the viability of GPS monitoring programs which will free supervising officers from regular monitoring and empower them to focus on non-compliant offenders. Budgetary limitations also reinforce the feasibility of electronic monitoring – it is estimated that in some areas the cost of incarcerating juvenile offenders exceed \$500 per day vis-à-vis \$35, at most, for electronic monitoring per day.

Multiple Solutions Offered Through its Subsidiaries

With the acquisition of Court Programs, SecureAlert has widened its suite of solutions to include “pay-to-stay”, “parent-pay” or “partial-pay” programs. Many jurisdictions have started to adopt these programs to shift or share the burden of incarceration costs with the offenders. The threat of re-incarceration for nonpayment leads the majority of these accounts to remain in compliance to avoid the severe consequences of non-payment. SecureAlert derives 30% of its business from this segment and given Court Programs strengths it is expected to outpace traditional tax-payer obligated payment programs over time.

ReliaTrack™ Compares Favorably with Competing Products

SecureAlert’s GPS tracker device *ReliaTrack™* is water and tamper proof. It combines radio frequency; real time GPS; cellular two and three way communication; 90 decibel alarm; fiber optic tamper-strap alarm; and a water resistant casing. In addition, the battery life is one of the best among its peer set. This device offers multiple tracking options which can be seamlessly changed without device changes, a real time saving for monitoring agencies.

The product compares favorably with some of the competing products in the market as highlighted in the Exhibit below.

Exhibit 10 : Single Piece Device Tracking Comparison



Offender Tracking Device	ReliaTrack™	ExacuTrack On	SMART One™/1Track	OM210	BluTag
Voice Interactive “Live Intervention Specialist” through 24/7 Intervention Monitoring Center	Yes	No	No	No	No
Integrated Two/Three-Way Voice Communication on One-Piece Device	Yes	No	No	No	No
Integrated Siren with Speaker	Yes	No	No	No	No
High Security, Cut-Resistant Strap with Alarm	Yes	No	No	No	No
Embedded RF Technology	Yes	Yes	Yes	No	Yes
Primary Communication Protocol (Cellular)	GSM	CDMA	GSM	CDMA	GSM
Global Portability (Primary Communication)	Yes	Limited or N/A	Yes	Limited or N/A	Yes
Claimed Tracking/Reporting Interval	1 min. / 1min.	1 min.3 / 15 min.4	1 min.3 / 1 hr.5	1 min. / 1-30 min.5	1 min. / 10 min.
Claimed Battery Operating Life (Active Mode)	36 hrs.	20 hrs.	24 hrs.	24 hrs.	60 hrs.
Dimensions (Inches - H x W x D)	4.25x3.5x1.256	5.0x3.5x3.5	4.5x2.5x1.5	3.5x1.5x1.75	4.33x2.08x1.25
Weight (oz)	9.9	8.7	6.0	5.3	6.0

Source: Company presentations, RB Milestone

The company records all communications digitally and its intervention specialists attend bi-weekly training sessions. The company has agreements with GoogleMaps to provide custom views – satellite, hybrid, regular and street mapping. Also, the company has developed predictive behavior software that anticipates crimes by analyzing offenders' habitual movements.

We believe that the company is well placed to increase its market share given its patented technology, and live intervention and monitoring capabilities as well as its 2/3 way communication capability.

Increasing International Presence

SecureAlert created history by becoming the first foreign company to sign a GPS offender monitoring contract in Brazil after a new national law was passed in August 2010. The company had obtained a distribution partner in September 2007 and began governmental marketing efforts in January 2008. Later it established a local partner and its branding and solutions were covered widely by the local press. After the law allowing electronic monitoring of offenders was passed in Spring 2010, an RFP was put out for bid and SecureAlert beat out 7 competitors to win the contract in August 2010 from the Brazilian state of Rio Grande de Sul.

The initial contract size is for monitoring 250 offenders with a potential to scale upto 800 offenders. If extended to the whole statehood of Rio Grande de Sol, it can eventually reach 5,000 offenders.

The company has also recently won a contract from the Bahamian Ministry of National Security to monitor 500 offenders, a number which can eventually reach 2,000 offenders. The annual size of this Bahamian contract is \$2.7 million, indicating a much higher rate than its 2010 realized daily price of \$5.60.

The new revenue stream from the above mentioned contracts is expected to be much higher than the current \$12.5 million annually.

This confirms our faith in SecureAlert's growth prospects. Brazil is the first major international contract for the company and SecureAlert can leverage this contract to enter other international regions with large prison populations. Brazil was estimated to have a prison population of 440,013 in mid 2008. There are many countries with similar or more prison population where SecureAlert can roll-out its services, such as:

- South Africa - 164,297 (as of end 2008)
- Mexico - 222,671 (as of Q3 2008)
- India - 373,271 (as of end 2006)
- China - 1,565,771 (as of end 2005)
- The Russian Federation – 891,738 (as of end 2008)
- Thailand - 166,338 (as of end 2007)

No company has so far emerged as a major player in the fragmented Electronic Monitoring sector, which presents a strong opportunity for SecureAlert as the company can leverage on such contracts to build presence in other regions. We believe that in this sector, size, scale and experience would be major decision factors.

SWOT of SecureAlert Inc.

Strengths

- Electronic monitoring industry at inflection point. GPS electronic monitoring preferred over RF and reduces recidivism
- Has tied up with reputed leading technology companies such as Google and Motorola, hence its solutions are reliable and of superior quality
- Only company with own intervention monitoring center
- ReliaTrack™'s failure rate is the lowest in the industry
- Recent recapitalization has strengthened the balance sheet
- Strong management
- SecureAlert's solution offers significant cost savings for the government
- The only company to manufacture a single piece device that incorporates RF, GPS and 2-3 way communication

Weaknesses

- Penny stock status renders SecureAlert's shares unattractive for many investors which may make price discovery and fair valuation a distant possibility. In addition, "penny stocks" are subject to stringent regulations
- A large amount of potentially dilutive securities would keep eps depressed
- Company is still in the red even at the operating level

Opportunity

- Incucomm expects the number of offenders under electronic monitoring to increase 12.5 times by 2018
- Recent forays into Brazil and the Bahamas can open many doors for SecureAlert in the international markets
- Changing government stance towards incarceration combined with budgetary restraints would drive demand for ReliaTrack™

Threat

- Inability to sustain funding
- A competitor may introduce superior product or services
- An unfavorable change in existing laws can affect SecureAlert's prospects significantly

Latest Financial Results

Exhibit 11 : Income Statement Annually

\$	Year Ended Sept 30, 2009	Year Ended Sept 30, 2010	YoY%
Revenues	12,625,908	12,450,971	-1.4%
Products	(275,688)	(45,131)	-83.6%
Monitoring services	(12,182,455)	(7,524,644)	-38.2%
Total cost of revenues	(12,458,143)	(7,569,775)	-39.2%
Gross profit	167,765	4,881,196	2809.5%
Selling, general and administrative	(16,540,645)	(12,126,413)	-26.7%
Settlement expense	-	(1,150,000)	
Research and development	(1,777,873)	(1,483,385)	-16.6%
Impairment of goodwill	(2,804,580)	(204,735)	-92.7%
Profit/(Loss) from operations	(20,955,333)	(10,083,337)	-51.9%
Loss on disposal of equipment		(41,597)	
Redemption of SecureAlert monitoring series A preferred	95,816	(19,095)	-119.9%
Interest income	18,187	23,139	27.2%
Interest expense	(5,012,803)	(4,146,459)	-17.3%
Derivative valuation gain (loss)	1,867,007	200,534	-89.3%
Other income, net	905,626	147,206	-83.7%
Net profit/(loss)	(23,081,500)	(13,919,609)	-39.7%
Non controlling interest	(142,955)	(135,567)	-5.2%
Net profit/(loss) attributable to SecureAlert, Inc.	(22,938,545)	(13,784,042)	-39.9%
Dividends on series A and D preferred stock	(175)	(1,494,481)	
Net profit/(loss) attributable to common stockholders	(22,938,720)	(15,278,523)	-33.4%
Basic and diluted eps	(0.13)	(0.07)	-46.6%

Source: Company filings, RB Milestone

Revenues declined overall by 1.4% as revenues from monitoring services remained flat. However, the number of net billable days increased ~26% YoY. However, the company's average billable rate declined by ~20%, from \$6.28 per day to \$5.04, as it continued to expand its portfolio towards basic services for which the charges are lower. Revenues from product sales declined \$199,535 or 35% due to increased focus to leasing monitoring equipment instead of device sales. In 2011, the company expects to witness growth as it moves ahead with the marketing initiatives including a new website design. In addition, introduction of next generation technologies which will provide leading edge tracking, interaction and security features, accompanied by enhanced, value-driven service level offerings will provide further boost.

Cost of revenues declined 39.2% in 2010 (31% excluding impairments) from \$6,978,974 (ex impairments) or 56% of net revenues, compared to cost of revenues during the fiscal year ended September 30, 2009 of \$10,138,613 (ex impairments) or 80% of net revenue. The improvement in cost of revenues resulted primarily from decreases in communication costs; manufacturing costs; monitoring center costs; equipment amortization related to impairments from previous years; device costs; and freight costs. These cost savings resulted as management improved budgetary planning processes and focused on monthly budget awareness and accountability.

The company incurred R&D expenses of \$1,483,385 compared to similar expenses recognized during 2009 totaling \$1,777,873. The decline was driven by the management's decision to bring software enhancements and product design in-house as opposed to using third-party vendors.

SG&A declined 26.7% due to improvement in the following areas: consulting; legal and professional fees; payroll and related taxes; depreciation of property and equipment; board of director fees; insurance; outside services; and operating leases. These decreases were partially offset by increases in rent and storage expenses.

Consulting expense for the fiscal year ended September 30, 2010 was \$1,911,563 compared to \$4,245,685 for the fiscal year ended September 30, 2009, a decrease of \$2,334,122. This decrease is primarily due to a significant reduction of non-cash compensation totaling \$2,046,289 through options and warrants.

The company incurred a net loss totaling \$13,919,609 in 2010 compared to a net loss of \$23,081,500 in 2009. This improvement was due to reduction in impairment of equipment and parts; communication and device costs; bringing software enhancements and product design in-house as opposed to using high priced third party vendors; the reduced use of consulting services by bringing these services in-house; and the reduction of interest expense related to debt that was converted into shares of Series D Preferred stock.

Valuation

DCF Valuation Analysis

SecureAlert provides electronic monitoring services through its patented processes via ReliaTrack™, its newly introduced and improved single piece device. Although the company has been in the red in terms of cash flow from operations, we believe (management has also alluded) that the company will turn cash flow positive in 2011 with CFO turning positive in Q3 2011. Hence we use the DCF valuation model with explicit forecasts until 2015 to value SecureAlert's operations.

Key Assumptions

Devices in Use

We have estimated there are about 5,900 devices in service currently. Going forward, we estimate robust growth in the number of devices in services (leased) driven by increased uptake of ReliaTrack™ in both US and abroad (recent contracts signed in Brazil and Bahamas are a testimony to our expectation). We expect devices in continual usage (365 days a year) to reach 18,430 by 2011 and eventually 51,088 by 2015.

Capital Expenditure

We expect total capex (both and products and monitoring equipment) to reach ~\$2.3 million in 2011 from ~\$2.2 million in 2010. While the maintenance capex is likely to increase as the number of devices in service increases, majority of capex associated with product improvement has already been incurred in 2010 and before. Hence, we expect that most of the capex will be maintenance in nature and will eventually reach \$2.7 million in 2015.

Number of Shares Outstanding

Currently there are about 294 million shares outstanding. However, the company has issued a number of convertible preferred shares to fund its development activities in the past. There are 38,924 preferred shares outstanding at the moment and each share is convertible into 6,000 common equity shares. Including the options and warrants issued by the company, the total number of "common share equivalents" are about 269 million. For computing per share value we have assumed that all the preferred shares will be converted to common equity by 2011. We have not assumed any dilution from options as the same are anti-dilutive presently with weighted average price \$0.36. For valuation, we have assumed total number of shares outstanding to be ~527.8 million.

R&D Spending

We expect the company to spend just over \$200,000 more in 2011 on some of its current R&D initiatives. Total R&D spending is expected to touch about \$1.7 million in 2011 from \$1.48 million in 2010.

Valuation & Investment View

Exhibit 12 : WACC Computation

Cost of debt	
Average pre-tax interest cost of debt	10.0%
Average tax rate	28.0%
Average post-tax interest cost of debt (k_d)	7.2%
Debt/(Debt+Equity) (W_d)	5.7%
Weighted average cost of debt ($W_d \times k_d$)	0.4%
Cost of equity (CAPM)	
Risk free rate (R_f)	3.5%
Market rate of return (R_m)	12.0%
Beta (β)	1.50
Risk premium $\beta(R_m - R_f)$	12.8%
Cost of equity (k_e)	16.3%
Equity/(Debt+Equity) (W_e)	94.3%
Weighted average cost of equity ($W_e \times k_e$)	15.3%
Weighted average cost of capital	15.7%

Source: Company filings, RB Milestone

Exhibit 13 : Per share value

Value per common stock	
Sum of PV of FCFF	41,347,491
PV of terminal value	92,430,032
Value of operations	133,777,524
Adjusted for	
Total debt	3,344,387
Cash and cash equivalents	1,126,232
Minority interest	(185,073)
Value available to common stockholders	131,374,296
Shares outstanding	527,853,452
Value per share	0.25
Current Market Price	0.11
Upside/downside	137.0%

Source: Company filings, RB Milestone

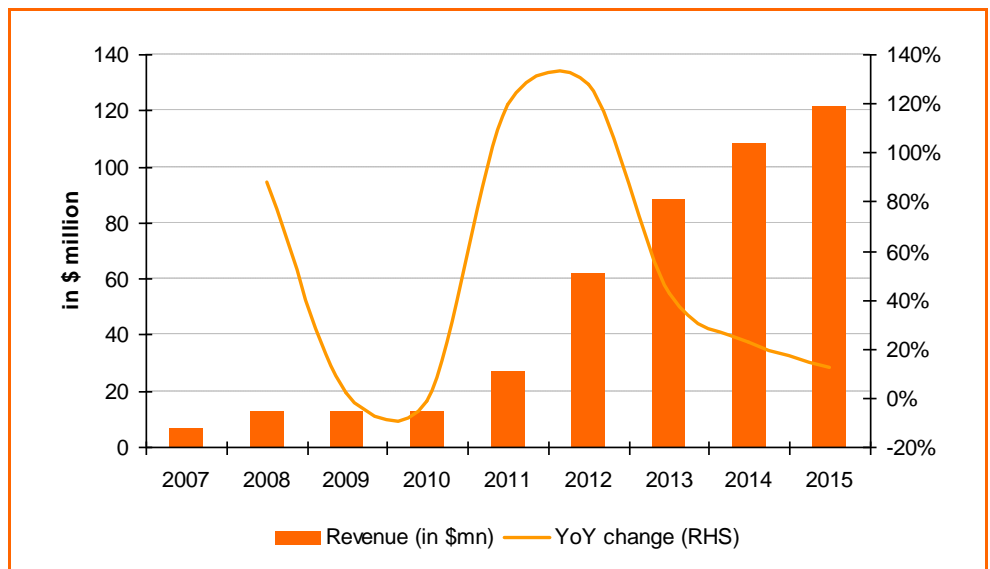
Exhibit 14 : Sensitivity Analysis

Weighted average cost of capital		Step						2.00%
Perpetual growth		9.7%	11.7%	13.7%	15.7%	17.7%	19.7%	21.7%
	1.5%	0.4	0.3	0.3	0.2	0.2	0.2	0.1
	2.0%	0.5	0.4	0.3	0.2	0.2	0.2	0.2
	2.5%	0.5	0.4	0.3	0.2	0.2	0.2	0.2
	3.0%	0.5	0.4	0.3	0.25	0.2	0.2	0.2
	3.5%	0.6	0.4	0.3	0.3	0.2	0.2	0.2
	4.0%	0.6	0.4	0.3	0.3	0.2	0.2	0.2
0.50%								

Source: Company filings, RB Milestone

We expect revenue to reach over \$27.3 million in 2011, primarily due to contribution from the recently signed Brazilian and Bahamian contracts. In all, the company has about \$43 million of revenue currently in pipeline. We expect \$15 million of this to be realized in 2011. By 2015, we expect revenue to reach \$121.1 million, as the company expands both domestically and internationally.

Exhibit 15 : Revenue Forecast



Source: Company filings, RB Milestone

For the purpose of remaining conservative, we have kept our estimates below the lower end of the management estimates mentioned below. While we acknowledge that SecureAlert is rightly placed to achieve these targets, strong competition can erode some of that strength if it competitors introduce products equivalent to, or better than, *ReliaTrack™*. We have also assumed a 1% improvement in product pricing in our estimates.

Exhibit 16 : Management Estimates of Revenue

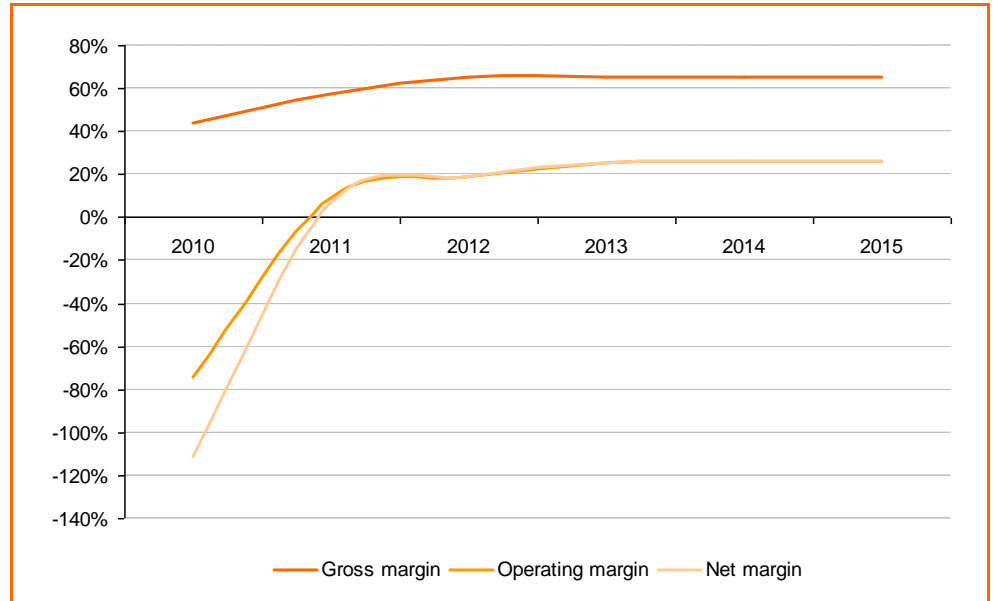
Revenue (\$ million)	Maintain Market Share	Modest Growth	Aggressive Growth
2011	26.07	35.10	48.68
2012	48.34	79.06	97.55

Source: Company filings, RB Milestone

The company is taking several steps to increase margins such as: automations in the monitoring center; international contracts at better pricing; and a higher gross margin which is likely to lift the gross margin at ~65% by 2012 and which is a long-term margin we have assumed in our forecast. In addition, we expect SG&A to decline slightly from the 2011 level because in 2010 ~\$1.1 million was associated with legal and accounting expenses. As the company has no current litigation, these expenses are not expected to recur. The company is planning to hire in-house counsel that will lower legal fees by \$200K. As the company further consolidates its subsidiaries – CPI and Midwest, SG&A will further decline by another \$200K. Other selling expenses included expense related to beneficial conversion of debentures to preferred shares. No such expense is expected in 2011. Also, considering

that the recently signed international contracts are at a higher price, operating margins are likely to get a further boost. Hence, we assume an EBIT margin of 7.6% in 2011 which will gradually expand to reach ~26% by 2015. As we expect the debt to mature and be re-paid by 2012, the net margin is likely to also be around ~25%.

Exhibit 17 : Margins



Source: Company filings, RB Milestone

Our DCF valuation gives us an upside of 137.0% based on the last traded price of \$0.105. For deriving fair value per share, we have assumed full conversion of SecureAlert’s outstanding preferred shares. Also, we have assumed a beta to 1.50 to approximate the underlying high risk associated with investing in SecureAlert. We believe that we have adopted a conservative stance in valuing SecureAlert and, at current price level, there is significant upside potential.

There is only one listed player, iSecuretrac, in its industry hence we have not used comparative valuation. iSecuretrac trades at 3.85x 2010 EV/Sales whereas, based on our sales forecast, SecureAlert trades at only 2.2x 2011 and 4.6x 2010 EV/Sales. This reinforces our belief in this investment opportunity.

Key risk factors

- **Ability to Continue Operations.** SecureAlert has been unprofitable operationally since inception. Its revenue has remained flat for the past three years. While we believe that revenue will grow strongly in future and the company will attain profitability in the near term, any delay in the same can hamper the company's ability to sustain operations.
- **Inability to Raise Funds.** Until its internally accrued cash flows turn positive, the company would be relying on external sources of funding. Inability to raise funds for running operations would affect continuation of operations for the company.
- **Regulatory Risk:** The electronic monitoring industry is exposed to regulatory changes. If there are unfavorable laws passed that restrict its business, the company would be unable to sell its products which would adversely affect its prospects.
- **Competitive Risks:** SecureAlert's industry is highly competitive with many firms offering similar products. In addition, given the technology oriented nature of the industry, there is extended risk of technological obsolescence. If a competitor introduces a better product and service or a similar product at lower price, SecureAlert will be unable to expand market share and may face risk of discontinuation of operations.
- **Protection of Intellectual Property Rights.** SecureAlert's success lies to a large extent on its ability to obtain and enforce patents and maintain trade secrets in the US and other countries. The company owns 13 patents while there are several patents pending. Inability to obtain or maintain those patents could adversely affect the company's business. This risk is even more pronounced for some countries outside the US, where the intellectual property right laws are not very developed.
- **Penny Stock Regulations.** SecureAlert's shares have been granted "penny stock" status by the SEC. Such shares are subject to additional regulations on brokers-dealers who want to trade in such shares which can affect the ability of investors to buy/sell the shares of the company or expose them to price manipulation that has historically occurred in penny stocks.

Annexure1: Management and Board of Directors

David G. Derrick, Chief Executive Officer and Chairman

David G. Derrick has been SecureAlert's CEO and Chairman since February 2001. Prior to joining SecureAlert, Mr. Derrick occupied directorship and management positions in other companies. From 1979 to 1982, Mr. Derrick was a faculty member at the University of Utah, College of Business. Mr. Derrick graduated from the University of Utah with a Bachelor of Arts degree in Economics and a Masters in Business Administration degree with an emphasis in Finance.

John L. Hastings, III, President and Chief Operating Officer

John L. Hastings, III became the company's President on June 19, 2008 and Chief Operating Officer on November 20, 2008. Mr. Hastings has worked for Nestle/Stouffer's; Kraft/General Foods; Nissan Motor Acceptance Corp.; NCR/Teradata; Unisys Corp.; and VNU/AC Nielsen. He has also served on the boards of small entrepreneurial companies. Mr. Hastings received a BA from Cal State University, Fullerton CA (1985) and an MBA from Pepperdine University, Malibu CA (1987).

Chad D. Olsen, Chief Financial Officer, Controller, and Corporate Secretary

He became Chief Financial Officer in January 2010. Prior to that, he served as the company's corporate controller since September 2001. From 1992 to 1997, Mr. Olsen worked in the banking and investment industry where he assisted clients with tax, investment and banking services. From 1997 to 2001, Mr. Olsen worked with a certified public accounting firm performing tax, auditing, and business advisory services. Additionally, Mr. Olsen owned and operated his own accounting practice performing tax, accounting and consulting services. Mr. Olsen received a Bachelor of Science Degree in Accounting from Brigham Young University.

Bernadette Suckel, Managing Director of Sales & Marketing

Bernadette Suckel joined SecureAlert on April 24, 2008. Prior to joining the company, Ms. Suckel served as the VP Solution and Client Principal, for The Nielsen Company/ACNielsen from 2000 through April 2008. From November 2006 through April 2008, she consulted on a part-time basis to Klever Marketing, Inc. to focus on cost reduction strategies. Ms. Suckel also worked previously for Cogit.com and NCR/AT&T GIS/Teradata. She received a BS in Business Administration, Marketing Option, from California State University, Fresno.

Dr. Edgar Bernardi, Director

Dr. Edgar Bernardi joined the company's board in January 2010. He graduated from the University of Wuppertal, Wuppertal, Germany, in 1976 in physics and mathematics. In 1988, he received his Ph.D. from the University Hamburg, Hamburg, Germany, specializing in elementary particle physics. From 2001 through 2009, Dr. Bernardi served as CTO, COO, CSO and CIO for euromicron AG, a holding company with buy and build strategy in the core business of network and fiber optics technology in Germany. From 1999 through 2001, he served as the general manager for Christian Schwaiger GmbH & Co., KG, an entity engaged in the production and trade of antenna, satellite and cable TV reception systems. From 1998 through 1999, Dr. Bernardi was the director of network operator services for Alcatel Sel AG, a worldwide manufacturer of telecommunication network equipment. From 1991 through 1998, he served in two capacities for Mannesmann Mobilfunk GmbH (Vodafone GmbH), which was the first private mobile network operator in Germany, of which he was the head of the department of network planning and optimization and head of the department of system aspects. From 1988 through 1990, he was with

Robert Bosch GmbH, a worldwide manufacturer of automotive and telecommunication equipment and served as the main adviser of the business unity public telecommunications and development center, and an adviser in the business unit for public telecommunications development center.

Robert E. Childers, Director

Robert E. Childers has been on the company's board since July 2001. Since 1977, he has served as the Chief Executive Officer of Structures Resources, Inc., a firm which he founded in 1972. He has more than 30 years of business experience in construction and real estate development. He is a former naval officer serving in Atlantic fleet submarines. Mr. Childers is a member of the Compensation Committee and the Nominating Committee of SecureAlert's Board of Directors.

David P. Hanlon, Director

David P. Hanlon has been a member of SecureAlert's Board of Directors since October 2006. He served previously as Chief Executive Officer and President of Empire Resorts, Inc., a public company in the gaming industry, until May 2009. Prior to starting his own gaming consulting business in 2000, in which he advised a number of Indian and international gaming ventures, Mr. Hanlon was President and Chief Operating Officer of Rio Suites Hotel & Casino from 1996-1999, a period in which the Rio Suites Hotel & Casino underwent a major expansion. Mr. Hanlon's education includes a B.S. in Hotel Administration from Cornell University; an M.S. in Accounting; an M.B.A. in Finance from the Wharton School, University of Pennsylvania; and completion of the Advanced Management Program at the Harvard Business School. Mr. Hanlon is a member of the Audit Committee of the company's Board of Directors.

Rene Klinkhammer, Director

Rene Klinkhammer became a Director in January 2010. He graduated from European Business School, Oestrich-Winkel, Germany, in 2004, with an MBA-equivalent degree in business administration. After graduating, Mr. Klinkhammer joined Deutsche Bank's Investment Banking Division as an analyst in the Corporate Finance Advisory Group specializing in mergers & acquisitions along with debt and equity financing transactions for larger German clients of the bank. In 2007, Mr. Klinkhammer joined Sapinda Group, a privately-owned investment company with offices in Amsterdam, Berlin and London. For the past four years, Mr. Klinkhammer has worked with the Company as both an investor and advisor.

Larry G. Schafran, Director

Larry G. Schafran has been a member of the Board of Directors since October 2006. He is associated with Providence Capital, Inc. ("PCI") as a Managing Director. PCI is a New York City-based investment and advisory firm. Additionally, Mr. Schafran was Lead Director and Audit Committee Chairman and later a consultant to the Chairman of WorldSpace, Inc. In addition, Mr. Schafran is also a director of the following publicly traded U. S. corporations: Sulphco, Inc.; New Frontier Energy, Inc.; DollarDays International, Inc.; Subaye, Corp.; and National Patent Development Corporation. Mr. Schafran is Chairman of the Audit and Nominating Committees and a member of the Compensation Committee of the Board of Directors.

Disclaimer

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