

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

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission File Number 0-23153

REMOTEMDX, INC.

(Exact name of small business issuer as specified in its charter)

Utah

(State or other jurisdiction of
incorporation or organization)

87-0543981

(IRS Employer Identification No.)

150 West Civic Center Drive

Suite 400

Sandy, Utah 84070

(Address of principal executive offices)

(801) 451-6141

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

On February 6, 2007, the issuer had a total of 91,129,931 shares of common stock issued and outstanding. The issuer also had a total of 9,375 shares of Series A Preferred Stock outstanding, convertible at any time at the option of the holders thereof into common stock at the rate of 370 shares of common stock for each share of Series A Preferred Stock, or a total of 3,468,754 shares, 12,999 shares of Series B Preferred Stock outstanding, convertible at any time at the option of the holders thereof into approximately 134,472 shares of common stock, and 5,643,711 shares of Series C Preferred Stock outstanding, convertible at any time at the option of the holders thereof into approximately 16,931,133 shares of common stock

Transitional Small Business Disclosure Format (Check One): Yes No

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

REMOTEMDX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	<u>December 31,</u> <u>2006</u>
Assets	
Current assets:	
Cash	\$5,175,593
Accounts receivable, net of allowance for doubtful accounts of \$22,000	863,032
Inventories (note 2)	154,670
Subscription receivable	1,580,464
Prepaid expenses	<u>408,487</u>
Total current assets	8,182,246
Property and equipment, net of accumulated depreciation and amortization of \$725,767 (note 3)	1,325,264
Monitoring equipment, net of accumulated amortization of \$474,604 (note 4)	8,833,922
Other assets	<u>48,778</u>
Total assets	<u><u>\$18,390,210</u></u>
Liabilities and Stockholders' Equity	
Current liabilities:	
Bank line of credit (note 5)	\$ 3,870,315
Accounts payable	5,283,048
Accrued liabilities (note 6)	1,759,872
Dividends payable	91,542
Deferred revenue	3,498
Related party line of credit	66,349
Notes payable (note 7)	<u>169,676</u>
Total current liabilities	11,244,300
Total liabilities	11,244,300
SecureAlert Series A Preferred Stock	3,590,000
Stockholders' equity:	
Preferred stock:	
Series A; 10% dividend, convertible, non-voting; \$0.0001 par value; 40,000 shares designated; 9,375 shares outstanding (aggregate liquidation preference of \$24,938)	1
Series B; convertible; \$0.0001 par value; 2,000,000 shares designated; 12,999 shares outstanding (aggregate liquidation preference of \$38,997)	1
Series C; convertible, \$0.0001 par value; 7,357,144 shares designated; 5,643,711 shares outstanding (aggregate liquidation preference of \$9,481,434)	564
Common stock; \$0.0001 par value; 175,000,000 shares authorized, 89,571,928 shares outstanding	8,957
Additional paid-in capital	120,642,599
Deferred compensation	(2,443,768)
Accumulated deficit	<u>(114,652,444)</u>
Total stockholders' equity	<u>3,555,910</u>
Total liabilities and stockholders' equity	<u><u>\$18,390,210</u></u>

See accompanying notes to unaudited condensed consolidated financial statements.

REMOTEMDX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,	
	2006	2005
Net sales	\$ 988,237	\$ 219,493
Cost of goods sold	2,205,393	107,143
Gross profit	(1,217,156)	112,350
Operating expenses		
Research and development expenses	1,219,659	729,933
Selling, general and administrative expenses (including \$1,660,636 and \$451,820 of compensation expense paid in stock or stock option / warrants, respectively.)	5,196,926	1,743,612
Loss from operations	(7,633,741)	(2,361,195)
Other income (expense):		
Derivative valuation loss	-	(490,901)
Gain on revalued registration rights	52,500	-
Other income	356	2,000
Interest income	51,521	1,253
Interest expense	(284,285)	(596,910)
Loss before income taxes	(7,813,649)	(3,445,753)
Income tax benefit	-	-
Net loss	(7,813,649)	(3,445,753)
Dividends on Series A and C preferred stock	(237,856)	(124,461)
Net loss attributable to common shareholders	\$ (8,051,505)	\$ (3,570,214)
Net loss per common share – basic and diluted	\$ (0.10)	\$ (0.08)
Weighted average common shares outstanding – basic and diluted	83,018,000	47,166,000

See accompanying notes to unaudited condensed consolidated financial statements.

REMOTEMDX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	December 31,	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (7,813,649)	\$ (3,445,753)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	471,676	16,427
Derivative liability valuation	-	490,901
Common stock issued for penalties and services	557,550	27,000
Common stock issued for interest	-	63,366
Amortization of deferred financing and consulting costs	205,320	562,937
Gain on registration rights liability	(52,500)	-
Accretion of interest expense related to redeemable common stock and debt	-	154,584
Amortization of debt discount	-	139,252
Stock options vested during the period and/or issued for services	982,567	-
Increase in related party line of credit for services	150,639	175,562
Changes in operating assets and liabilities:		
Increase in restricted cash	-	(1,461)
Accounts receivable, net	(633,604)	3,158
Interest receivable	15,604	-
Inventories	(115,394)	8,407
Prepaid expenses	2,095,248	(4,164)
Accounts payable	3,586,883	139,176
Accrued liabilities	1,116,701	(191,517)
Deferred revenue	(14,319)	218
Net cash provided by (used in) operating activities	552,722	(1,861,907)
Cash flows used in investing activities:		
Purchase of property, equipment and monitoring equipment	(7,148,146)	(17,369)
Net cash used in investing activities	(7,148,146)	(17,369)
Cash flows from financing activities:		
Payment of accrued SecureAlert Series A Preferred Stock dividend	(20,877)	-
Payments under related-party line of credit	(128,839)	(192,314)
Payments on bank line of credit	(26,796)	(423)
Decrease in subscription receivable	-	504,900
Proceeds from issuance of common stock	6,000,000	700,000
Proceeds from the issuance of subsidiary stock	-	600,000
Proceeds from the exercise of warrants	75,000	-
Proceeds from issuance of notes payable and convertible debentures	-	1,075,000
Payments on notes payable	-	(10,955)
Net cash provided by financing activities	5,898,488	2,676,208
Net increase (decrease) in cash	(696,936)	796,932
Cash, beginning of period	5,872,529	416,036
Cash, end of period	\$ 5,175,593	\$ 1,212,968

See accompanying notes to unaudited condensed consolidated financial statements.

REMOTEMDX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)

	Three Months Ended	
	December 31,	
	2006	2005
Cash paid for interest and taxes:		
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	196,834	43,400
Supplemental schedule of non-cash investing and financing activities:		
Issuance of shares of common stock in exchange for shares of Series A preferred stock	1	1
Issuance of Preferred Series A and C for stock dividends	237,856	124,461
Exercise of options for receivable	1,580,464	-
SecureAlert Series A dividends	91,542	-
Common stock issued for deferred financing costs	-	721,050
Issuance of shares of common stock in exchange for shares of Series B preferred stock	4	-
Penalty shares issued for accrued liability	291,000	-

See accompanying notes to unaudited condensed consolidated financial statements.

REMOTEMDX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of RemoteMDx, Inc. and subsidiaries (the "Company"), have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. These condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the results of operations of the Company for the periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Form 10-KSB for the year ended September 30, 2006. The results of operations for the three months ended December 31, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2007.

Going Concern

The Company has a history of recurring net losses, negative cash flows from operating activities, a working capital deficit, and an accumulated deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In order for the Company to remove substantial doubt about its ability to continue as a going concern, the Company must generate positive cash flows from operations and obtain the necessary funding to meet its projected capital investment requirements.

Management's plans with respect to this uncertainty include raising additional capital from the sale of equity securities and expanding its market for its tracking products. There can be no assurance that revenues will increase rapidly enough to payback operating losses and payback debts. Likewise, there can be no assurance that the debt holders will be willing to convert the debt obligations to equity securities or that the Company will be successful in raising additional capital from the sale of equity or debt securities. If the Company is unable to increase revenues or obtain additional financing, it will be unable to continue the development of its products and may have to cease operations.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company transactions have been eliminated in consolidation.

Stock-Based Compensation

Effective October 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, using the modified prospective method. SFAS 123R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period). Prior to our adopting SFAS 123R, the Company accounted for its stock-based compensation plans under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, generally no compensation expense is recorded when the terms of the award are fixed and the exercise price of the employee stock option equals or exceeds the fair value of the underlying stock on the date of grant. The Company adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

For the three months ended December 31, 2006, the Company calculated compensation expense of \$747,452 related to the vesting of previously granted stock options and additional options granted during the period.

For options granted subsequent October 1, 2006, the fair value of each stock option grant will be estimated on the date of grant using the Black-Scholes option pricing model. The Company granted 150,000 stock options to employees during the three months ended December 31, 2006. No stock options were issued to employees during the three months ended December 31, 2005. The weighted average fair value of stock options at the date of grant during the three months ended December 31, 2006, was \$0.69. During the three months ended December 31, 2006, 890,000 options issued in prior periods vested resulting in \$496,033 of compensation expense.

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents the Company's anticipated cash dividend over the expected life of the stock options.

The following are the weighted-average assumptions used for options granted during the three months ended December 31, 2006:

<u>December 31, 2006</u>	
Risk free interest rate	4.69%
Expected life	5 Years
Dividend yield	n/a
Volatility	145%

No options were granted to employees during the three months ended December 31, 2005.

A summary of stock option activity for the three months ended December 31, 2006, is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at September 30, 2006	3,607,500	\$ 0.63		
Granted	150,000	1.85		
Exercised	(225,000)	0.58		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2006	<u>3,532,500</u>	\$ 0.69	4.12 Years	3,261,475
Exercisable at December 31, 2006	<u>1,327,500</u>	\$ 1.22	4.11 Years	1,094,325

A summary of the status of the Company's non-vested stock options as of and for the three months ended December 31, 2006, is presented below:

	Non-Vested Options	Weighted Average Grant Date Fair Value
Non-vested at September 30, 2006	3,095,001	\$ 0.56
Granted	-	-
Vested	(890,000)	0.56
Forfeited	-	-
Non-vested at December 31, 2006	<u>2,205,001</u>	\$ 0.56

As of December 31, 2006, there was approximately \$1,225,545 of unrecognized compensation cost related to stock options that will be recognized over approximately the next two years.

Prior to October 1, 2006, the Company determined the value of stock-based compensation arrangements under the provisions of APB 25 and made pro forma disclosures required under SFAS 123. Had compensation expense for stock option grants been determined based on the fair value at the grant dates consistent with the method prescribed in FASB 123, the Company's net loss and net loss per share would have been adjusted to the proforma amounts below for three months ended December 31, 2005, as indicated below:

	<u>December 31, 2005</u>
Net loss applicable to common shareholders – as reported	\$ (3,570,214)
Add: intrinsic value of employee stock based compensation	-
Deduct: total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>-</u>
Net loss – pro forma	<u>\$ (3,570,214)</u>
Basic and diluted loss per share – as reported	<u>\$ (0.08)</u>
Basic and diluted loss per share – pro forma	<u>\$ (0.08)</u>

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell.

Net Loss Per Common Share

Basic net loss per common share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per common share ("Diluted EPS") is computed by dividing net loss by the sum of the weighted-average number of common shares outstanding and the weighted-average dilutive common share equivalents then outstanding. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Common share equivalents consist of shares issuable upon the exercise of common stock options and warrants, the conversion of the convertible debentures and related accrued interest, and shares issuable upon conversion of preferred stock. As of December 31, 2006 and 2005, there were approximately 46,882,148 and 22,840,255 outstanding common share equivalents, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive. The common share equivalents outstanding at December 31, 2006, consisted of 3,468,754 shares of common stock underlying Series A Preferred Stock, 134,472 shares of common stock underlying Series B Preferred Stock, 16,931,133 shares of common stock underlying Series C Preferred Stock, and 26,347,789 shares underlying options and warrants. Of the 26,347,789 shares underlying options and warrants, 23,658,043 shares underlie options and warrants which have vested and 2,689,746 shares underlie options and warrants which have not yet vested.

Revenue Recognition

The Company derives its revenue primarily from the sale and monitoring of offender tracking device systems and reagent stains.

The sale of offender tracking device systems may include the tracking device, such as the TrackerPal device, and/or the related monitoring service. If the sale includes the device only, revenue from the sale is recognized immediately. Revenue from the monitoring service contracts is recognized monthly as earned in accordance with the monitoring service contract. The Company records reserves for estimated returns of defective product. Amounts received in advance of shipment are recorded as deferred revenue. Shipping and handling fees are included as part of net sales. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold.

The sale of reagent stains is recognized when an agreement with the buyer exists, the price is fixed or determinable, the product has been shipped, and collection is reasonably assured.

(2) INVENTORIES

Substantially all items included in inventory are finished goods and consisted of the following as of December 31, 2006:

Offender tracking devices and accessories	\$114,072
Reagent stains, net of reserve for obsolescence of \$65,204	40,598
Total	<u>\$154,670</u>

(3) PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2006, was as follows:

Property and equipment	\$ 2,051,031
Less: accumulated depreciation	<u>(725,767)</u>
Total	<u>\$ 1,325,264</u>

During the three months ended December 31, 2006, the Company purchased \$81,420 of tooling and computer equipment.

(4) **MONITORING EQUIPMENT**

Monitoring equipment at December 31, 2006, was as follows:

Monitoring equipment	9,308,526
Less: accumulated depreciation	<u>(474,604)</u>
Total	<u>\$ 8,833,922</u>

The Company began leasing monitoring equipment to agencies for offender tracking in April 2006 under the terms of operating leases. As of December 31, 2006, the Company had deployed 15,027 TrackerPAL devices. The Company is in the process of training and assisting agencies in activating these TrackerPAL devices. Once activated the Company will begin to monitor the equipment and recognize revenue. The monitoring equipment is depreciated on the straight-line method over the estimated useful lives of the related assets of three years. This cost is included in cost of goods sold.

(5) **BANK LINE OF CREDIT**

As of December 31, 2006, the Company's outstanding balance under a line of credit with Citizen National Bank was \$3,870,315. The interest rate is 8% and the line of credit matures on June 30, 2008. The line of credit is secured by letters of credit for a total of \$4 million and SecureAlert's assets excluding TrackerPAL products. This note can be expanded up to \$10 million under certain terms and conditions. The letters of credit were provided as collateral by four entities. The entities received a total of 400,000 shares of the Company's common stock and were reimbursed \$40,000 in cash for expenses related to establishing the letters of credit in the year ended September 30, 2006.

In addition, the Company will pay 11% annual interest rate, paid monthly, on the line of credit to the entities who provided and arranged for the letters of credit.

(6) **ACCRUED LIABILITIES**

Accrued liabilities consisted of the following at December 31, 2006:

Accrued tooling	\$ 116,000
Accrued interest	71,260
Accrued bonuses and director fees	70,000
Accrued payroll and employee benefits	258,912
Accrued commissions	4,500
Accrued property taxes	12,000
Accrued cellular costs	243,200
Accrued legal expenses	50,000
Accrued lawsuit settlement liability	600,000
Accrued engineering costs	85,000
Registration rights liability	238,500
Other accrued expenses	<u>10,500</u>
Total	<u>\$ 1,759,872</u>

On November 9, 2006, the Company sold 3,000,000 shares of common stock at a purchase price of \$2.00 per share for aggregate proceeds of \$6,000,000. The Company also issued warrants to purchase up to an additional 7,000,000 shares of the Company's common stock. In connection with the sale of the Shares and the Warrants, the Company granted registration rights to the purchaser. The Company agreed to use its best efforts to have the registration statement declared effective within 30 days of filing the registration statement. The Company has currently incurred an aggregate penalty of 300,000 shares of commons stock because the registration statement was not filed within 30 days. The Company will continue to incur additional penalties for each successive 30 day period a registration statement is not filed with no limit to the amount of penalty. As of December 31, 2006, the Company has recorded a registration rights liability of \$238,500 to value the 150,000 penalty shares still due to purchaser at the \$1.59 closing market price due to the fact that it is probable that the penalty will be incurred.

(7) **NOTES PAYABLE**

As of December 31, 2006, the Company had unsecured notes payable to former SecureAlert Shareholders of \$169,676, with interest at 5%, payable in installments of \$80,000 per month until paid in full. These notes are currently in default, although these notes are subject to an offset provision which has never been provided to the Company.

(8) **RELATED-PARTY LINE OF CREDIT AND NOTE**

As of December 31, 2006, the Company owed to ADP Management, an entity owned and controlled by two of the Company's officers and directors, \$66,349 under a line of credit agreement. Outstanding amounts on the line of credit accrue interest at 5.0% and are due on July 31, 2007. During the three months ended December 31, 2006, the net increase in the related party line of credit was \$21,800. The net increase consisted of net cash repayments during the three months ended December 31, 2006, of \$128,839 and net increases of \$150,639 related to a monthly management fee owed to ADP Management, and expenses incurred by ADP Management that are reimbursable by the Company. Mr. Derrick's and Mr. Dalton's respective salaries are paid to ADP Management which in turn pays Messrs. Derrick and Dalton. If the Company is unable to pay the management fee and the reimbursable expenses in cash, the related party line of credit is increased for the amount owed to ADP Management.

(9) **PREFERRED STOCK**

Series A 10% Convertible Non-Voting Preferred Stock

Each share of Series A Preferred Stock is convertible into 370 shares of common stock. During the three months ended December 31, 2006, a total of 8,357 shares of Series A Preferred Stock were converted into 3,092,315 shares of common stock. This included 170 shares of Series A Preferred Stock issued in satisfaction of accrued Series A Preferred dividends valued at \$34,096. As of December 31, 2006, there were 9,375 shares of Series A Preferred Stock outstanding, which represents 3,468,754 common stock equivalents at a conversion rate of 370 for 1. Subsequent to December 31, 2006, and as of the date of this Report, no additional shares of Series A Preferred Stock had been converted into shares of common stock.

The holders of the Series A Preferred Stock are entitled to dividends at the rate of 10 percent per year on the stated value of the Series A Preferred Stock (or \$200 per share), payable in cash or in additional shares of Series A Preferred Stock at the discretion of the board of directors. Dividends are fully cumulative and accrue from the date of original issuance. During the three months ended December 31, 2006 and 2005, the Company recorded \$50,440 and \$124,461, respectively, in dividends on Series A Preferred Stock.

The Company may, at its option, redeem up to two-thirds of the total number of shares of Series A Preferred Stock at a redemption price of 133 percent of the stated value of Series A Preferred Stock; however, the Company may designate a different and lower redemption price for all shares of Series A Preferred Stock called for redemption by the Company. Through December 31, 2006, the Company had not exercised its option to redeem shares of Series A Preferred Stock.

Series B Convertible Preferred Stock

During the three months ended December 31, 2006, a total of 40,333 shares of Series B Convertible Preferred Stock were converted into 351,824 shares of common stock. As of December 31, 2006, there were 12,999 shares of Series B Preferred Stock outstanding convertible into approximately 134,472 common shares. Subsequent to December 31, 2006, and as of the date of this Report, no additional shares of Series B Convertible Preferred Stock had been converted into shares of common stock.

Series C Convertible Preferred Stock

As of December 31, 2006, no shares of Series C Convertible Preferred Stock were converted into shares of common stock. The holders of the Series C Convertible Preferred Stock are entitled to dividends at the rate of 8 percent per year on the stated value of the Series C Convertible Preferred Stock, payable in cash or in additional shares of Series C Convertible Preferred Stock at the discretion of the board of directors. During the three months ended December 31, 2006 and 2005, the Company recorded \$187,416 and \$0, respectively, in dividends on Series C Convertible Preferred Stock. As of December 31, 2006, there were 5,643,711 shares of Series C Convertible Preferred Stock

outstanding convertible into approximately 16,931,133 common shares.

Subsequent to December 31, 2006, 466,001 shares of Series C Convertible Preferred Stock were converted into 1,398,003 shares of common stock.

SecureAlert, Inc., Preferred Shares

As of December 31, 2006, there were 3,590,000 shares of SecureAlert Series A Preferred Stock outstanding. The holders of shares of Series A Preferred Stock are entitled to receive quarterly dividends out of any of SecureAlert's assets legally available therefore, prior and in preference to any declaration or payment of any dividend on the Common Stock of SecureAlert, at the rate of \$1.50 per day times the number of SecureAlert's parolee contracts calculated in days during the quarter. For example, if there were an average of 10,000 parolee contracts outstanding during the quarter, the total dividend would be \$1,350,000 (\$1.50 X 90 days X 10,000 contracts) or \$.385 per share of Series A Preferred Stock. In no case will a dividend be paid if the gross revenue per contract per day to SecureAlert averages less than \$4.50. Dividends will be paid in cash to the holders of record of shares of Series A Preferred Stock as they appear on the books and records of SecureAlert on such record dates not less than ten (10) days nor more than sixty (60) days preceding the payment dates thereof, as may be fixed by the Board of Directors of SecureAlert. As a group, all SecureAlert Series A Preferred Stock may be converted at the holder's option at any time into an aggregate of 20% ownership of the common shares of SecureAlert, Inc. During the three months ended December 31, 2006, no shares of SecureAlert Series A Preferred Stock had been converted into shares of SecureAlert common stock.

(10) COMMON STOCK

During the three months ended December 31, 2006, the Company issued 9,437,075 shares of common stock as follows:

- 293,333 shares were issued for services performed for a value of \$557,549.
- 3,444,139 shares were issued from Series A and B Preferred Stock conversions.
- 2,549,603 shares were issued from the exercise of warrants.
- 150,000 shares, valued at \$291,000, were issued from a penalty for filing a registration statement late.
- 3,000,000 shares were issued for \$6,000,000 in cash.

Common Stock Options and Warrants

As of December 31, 2006, 23,658,043 of the 26,347,789 outstanding options and warrants were vested with a weighted average exercise price of \$1.02 per share. During the three months ended December 31, 2006, 7,300,000 options and warrants were issued with an exercise price range of \$1.73 to \$2.00 per share and vested immediately. During the three months ended December 31, 2006, various warrant holders exercised 2,549,602 warrants for cash proceeds of \$75,000, and subscription receivables of \$1,580,464. Subsequent to December 31, 2006, and through the date of this report, the subscription receivable of \$1,580,464 was received by the Company.

(11) SEGMENT INFORMATION

The Company is organized into two business segments based primarily on the nature of the Company's products. The Regents segment is engaged in the business of manufacturing and marketing medical diagnostic stains, solutions and related equipment to hospitals and medical testing labs. The SecureAlert segment is engaged in the business of developing, distributing and monitoring offender tracking devices. Other (unallocated) loss consists of research and development, selling, general and administrative expenses related to the Company's corporate activities, including remote health monitoring and market and business development activities.

The following table reflects certain financial information relating to each reportable segment for three months ended December 31, 2006 and 2005:

	Three Months Ended December 31,	
	2006	2005
Sales to external customers:		
SecureAlert	\$ 835,383	\$ 77,060
Reagents	152,854	142,433
	<u>\$ 988,237</u>	<u>\$ 219,493</u>
Net (loss) income from operations :		
SecureAlert	\$ (4,880,324)	\$ (1,349,620)
Reagents	(66,722)	23,830
Other (unallocated)	(2,866,603)	(2,119,963)
	<u>\$ (7,813,649)</u>	<u>\$ (3,445,753)</u>
Identifiable assets:		
SecureAlert	\$ 11,594,297	
Reagents	199,193	
Other (unallocated)	6,596,720	
Total assets	<u>\$ 18,390,210</u>	

(12) SUBSEQUENT EVENTS

Subsequent to December 31, 2006, the Company entered into the following transactions:

- 1) The Board of Directors authorized Messrs. Derrick and Dalton to purchase 30% of Volu-Sol Reagents Corporation for \$400,000. Subsequent of December 31, 2006, the Company received \$250,000 towards the purchase. It is anticipated that the Company will receive the remaining \$150,000 before March 31, 2007.
- 2) Subsequent to December 31, 2006, 466,001 shares of Series C Convertible Preferred Stock were converted into 1,398,003 shares of common stock.
- 3) The Company entered into a settlement agreement with plaintiffs Michael Sibbett and HGR Enterprises, resolving all claims asserted in litigation against the Company. Pursuant to the settlement agreement, effective February 1, 2007, in exchange for the dismissal of the litigation with prejudice, the Company agreed to pay \$400,000 and issue 160,000 unregistered shares of the Company's common stock with piggyback registration rights. The Company anticipates that the action will be dismissed in early March 2007. The Company has accrued \$600,000 for the settlement as of December 31, 2006.
- 4) Subsequent to December 31, 2006, the Company received \$1,580,464 of subscription receivables from the exercise of warrants.

Item 2. Management's Discussion and Analysis or Plan of Operation

Special Note Regarding Forward-looking Information

Certain statements in this Item 2 "Management's Discussion and Analysis or Plan of Operation" are "forward-looking statements" within the meaning of the Securities Exchange Act of 1934 (the "Exchange Act"). For this purpose, any statements contained or incorporated in this report that are not statements of historical fact may be deemed to be forward-looking statements. The words "believes," "will," "plans," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. A number of important factors could cause the actual results of the Company to differ materially from those anticipated by forward-looking statements. These factors include those set forth under the caption "Risk Factors" in Item 6 - "Management's Discussion and Analysis or Plan of Operation" in the Company's Annual Report on Form 10-KSB for the year ended September 30, 2006. The Company disclaims any obligation or intention to update any forward-looking statement.

General

RemoteMDx, Inc. ("RemoteMDx" or the "Company") markets and sells patented wireless location technologies and related monitoring services, and develops, markets and sells personal security, senior supervision, and monitoring services. The RemoteMDx products and monitoring services feature wireless products that utilize GPS and cellular technologies in conjunction with a monitoring center. These devices include a mobile emergency response device, MobilePAL™, which can locate persons in distress, no matter where they may be, and dispatch the closest emergency service to their location. The Company also has developed a tracking device, TrackerPAL, which is being used to monitor convicted offenders in the criminal justice system. The Company believes that its technologies and services will benefit the healthcare and penal system as they allow both care providers and law enforcement officials to respond immediately to a medical market event or criminal activity respectively. Our customers will be able to better monitor and manage their own chronic disease and medical conditions, giving peace of mind to them and their loved ones and care providers. Similarly, law enforcement officials will be able to monitor the location of offenders and parolees wearing the TrackerPAL product.

The Company's primary health monitoring market consists of approximately 35 million Americans over the age of sixty-five. Of these 35 million seniors, it is estimated that 9.7 million currently live alone. However, in most cases, the Company anticipates that the senior customers will not purchase the Company's products for themselves. Instead, based on the Company's experience, the Company believes that it would be more effective to target the children or caregivers of these seniors. Therefore, the primary target market is children, friends, and spouses of these individuals.

We derive our revenues from the following sources:

- Medical Diagnostic Stains – We sell medical diagnostic stains and equipment to laboratories throughout the United States. The Company anticipates that these sales will decrease in the future as a percentage of total sales.
- Monitoring Services – We sell and lease the TrackerPAL devices as part of a monitoring contract and collect a daily monitoring fee on each device.

Our Strategy

Our goal is to establish the Company as a significant marketer and distributor of leading technology and services we have developed for the mobile personal emergency market, the parolee and probation market, and health monitoring industries.

Critical Accounting Policies

In Note 1 to the audited financial statements for the fiscal year ended September 30, 2006, included in the Company's Annual Report on Form 10-KSB, the Company discusses those accounting policies that are considered to be significant in determining the results of operations and its financial position. The Company believes that the accounting principles utilized by it conform to generally accepted accounting principles in the United States of America.

The preparation of consolidated financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. The Company bases its estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual results may differ from these estimates under different assumptions or conditions.

With respect to inventory reserves, revenue recognition and allowance for doubtful accounts, the Company applies the following critical accounting policies in the preparation of its financial statements:

Inventory Reserves

The nature of the Company's business requires it to maintain sufficient inventory on hand at all times to meet the requirements of its customers. The Company records finished goods inventory at the lower of standard cost, which approximates actual costs (first-in, first-out) or market. Raw materials are stated at the lower of cost (first-in, first-out), or market. General inventory reserves are maintained for the possible impairment of the inventory. Impairment may be a result of slow moving or excess inventory, product obsolescence, or changes in the valuation of the inventory. In determining the adequacy of its reserves, the Company analyzes the following, among other things:

- Current inventory quantities on hand;
- Product acceptance in the marketplace;
- Customer demand;
- Historical sales;
- Forecast sales;
- Product obsolescence; and
- Technological innovations.

Any modifications to these estimates of reserves are reflected in the cost of goods sold within the statement of operations during the period in which such modifications are determined necessary by management.

Revenue Recognition

The Company derives its revenue primarily from selling or leasing the TrackerPAL device and providing monitoring services in connection with the device. In addition, the Company receives revenue from the sell of medical diagnostic stains.

The sale of offender tracking device systems may include the tracking device, such as the TrackerPal device, and/or the related monitoring service. If the sale includes the device, revenue from the sale is recognized immediately. If the sale includes the monitoring service, revenue for the service is recognized ratably over the life of the monitoring service contract. Revenue from the monitoring service contract is recognized monthly as earned in accordance with the monitoring service contract. The Company records reserves for estimated returns of defective product. Amounts received in advance of shipment are recorded as deferred revenue. Shipping and handling fees are included as part of net sales. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold.

The sale of reagent stains is recognized when an agreement with the buyer exists, the price is fixed or determinable, the product has been shipped, and collection is reasonably assured.

Impairment of Long-lived Assets

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are identifiable cash flows that are independent of other groups of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less the estimated costs to sell. In addition, depreciation of the asset ceases. During the three months ended December 31, 2006 and 2005, no impairment of long-lived assets was recorded.

Accounting for Stock-based Compensation

Effective October 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, using the modified prospective method. SFAS 123R requires the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. SFAS 123R also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period). Prior to our adopting SFAS 123R, the Company accounted for its stock-based compensation plans under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, generally no compensation expense is recorded when the terms of the award are fixed and the exercise price of the employee stock option equals or exceeds the fair value of the underlying stock on the date of grant. The Company adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

For the three months ended December 31, 2006, the Company calculated compensation expense of \$747,452 related to the vesting of previously granted stock options.

For options granted subsequent October 1, 2006, the fair value of each stock option grant will be estimated on the date of grant using the Black-Scholes option pricing model. The Company granted 150,000 stock options to employees during the three months ended December 31, 2006. No stock options were issued to employees during the three months ended December 31, 2005. The weighted average fair value of stock options at the date of grant during the three months ended December 31, 2006, was \$0.69. During the three months ended December 31, 2006, 890,000 options issued in prior periods vested resulting in \$496,033 of compensation expense.

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents the Company's anticipated cash dividend over the expected life of the stock options.

The following are the weighted-average assumptions used for options granted during the three months ended December 31, 2006:

<u>December 31, 2006</u>	
Risk free interest rate	4.69%
Expected life	5 Years
Dividend yield	n/a
Volatility	145%

No options were granted to employees during the three months ended December 31, 2005.

A summary of stock option activity for the three months ended December 31, 2006, is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at September 30, 2006	3,607,500	\$ 0.63		
Granted	150,000	1.85		
Exercised	(225,000)	0.58		
Forfeited	-	-		
Expired	-	-		
Outstanding at December 31, 2006	<u>3,532,500</u>	\$ 0.69	4.12 Years	3,261,475
Exercisable at December 31, 2006	<u>1,327,500</u>	\$ 1.22	4.11 Years	1,094,325

A summary of the status of the Company's non-vested stock options as of and for the three months ended December, 2006, is presented below:

	Non-Vested Options	Weighted Average Grant Date Fair Value
Non-vested at September 30, 2006	3,095,001	\$ 0.56
Granted	-	-
Vested	(890,000)	0.56
Forfeited	-	-
Non-vested at December 31, 2006	<u>2,205,001</u>	\$ 0.56

As of December 31, 2006, there was approximately \$1,225,545 of unrecognized compensation cost related to stock options that will be recognized over approximately the next two years.

Prior to October 1, 2006, the Company determined the value of stock-based compensation arrangements under the provisions of APB 25 and made pro forma disclosures required under SFAS 123. Had compensation expense for stock option grants been determined based on the fair value at the grant dates consistent with the method prescribed in FASB 123, the Company's net loss and net loss per share would have been adjusted to the proforma amounts below

for three months ended December 31, 2005, as indicated below:

	<u>December 31,</u> <u>2005</u>
Net loss applicable to common shareholders – as reported	\$ (3,570,214)
Add: intrinsic value of employee stock based compensation	-
Deduct: total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>-</u>
Net loss – pro forma	<u>\$ (3,570,214)</u>
Basic and diluted loss per share – as reported	<u>\$ (0.08)</u>
Basic and diluted loss per share – pro forma	<u>\$ (0.08)</u>

Three months ended December 31, 2006, compared to three months ended December 31, 2005

Net Sales

For the three months ended December 31, 2006, the Company had net sales of \$988,237 compared to \$219,493 for the three months ended December 31, 2005, an increase of \$768,744. The increase in net sales resulted primarily from the sale and monitoring of offender tracking devices.

SecureAlert (PAL Services) had net sales of \$835,383 during the three months ended December 31, 2006, compared to net sales of \$77,060 for the three months ended December 31, 2005. These sales consisted of \$813,521 from the sale and monitoring of offender tracking devices and \$21,862 from mobile emergency and personal security systems. Security Investment, LLC, and the Oakland Police Department were significant customers of SecureAlert, accounting for 48% and 16% of SecureAlert sales during the period, respectively.

Reagents had revenues for the three months ended December 31, 2006, of \$152,854, compared to \$142,433 during the three months ended December 31, 2005. The Company anticipates that Reagents' sales will decrease in the future as a percentage of total sales. Fisher Scientific is a significant customer of Reagents, accounting for 29% of Reagents' sales during the period. No other Reagents customer accounted for 10% or more of its sales.

Cost of Goods Sold

For the three months ended December 31, 2006, cost of goods sold was \$2,205,393 compared to \$107,143 during the three months ended December 31, 2005, an increase of \$2,098,250. SecureAlert's cost of goods sold totaled \$2,111,909 or 253% of SecureAlert's net sales during the three months ended December 31, 2006. The largest portion of the cost of goods sold for the three months ended December 31, 2006, is related to \$894,847 in communication costs associated with the launch of the parolee product. The Company paid cellular costs on all SIMS embedded in 15,027 TrackerPAL units that were deployed as of December 31, 2006. Subsequent to December 31, 2006, the Company has negotiated with the cellular companies to be charged for SIMS in devices that are monitored. In addition, \$412,438 was included in SecureAlert's cost of good sold for payroll to increase the monitoring center staff and \$372,490 for the amortization of the TrackerPAL device. Reagents' cost of goods sold was \$93,484 or 61% of Reagent's net sales during the three months ended December 31, 2006, compared to \$72,645 or 51% of Reagent's net sales for the same period during the prior fiscal year. The decrease as a percentage of net sales was primarily due to a decrease in material and labor costs.

Research and Development Expenses

During the three months ended December 31, 2006 and 2005, research and development expense was \$1,219,659 and \$729,933, respectively, and consisted primarily of expenses associated with the development of SecureAlert's TrackerPAL device and related services.

Selling, General and Administrative Expenses

During the three months ended December 31, 2006, selling, general and administrative expenses were \$5,196,926 compared to \$1,743,612 during the three months ended December 31, 2005. The increase of selling, general and administrative expenses are due primarily from the launch of the TrackerPAL product. The increase of \$3,453,314 relates primarily to an increase in payroll and payroll taxes of \$296,266; an increase in legal and professional fees of \$333,568; an increase in outside services of \$223,902; an increase in shipping costs of \$161,116; an increase in travel of \$101,595; an increase in other selling, general and administrative expenses of \$552,354; an increase in compensation of \$600,000 to settle the lawsuit between the Company and HGR Enterprises; and an increase in consulting costs of \$1,184,513. Consulting expense increased due to expenses related to the issuance of common stock and options to employees and the board of directors of \$1,031,318. In addition, 365,000 shares of common stock valued at \$508,800 were issued to consultants for services rendered and a penalty for filing the registration statement late. The majority of other consulting expense for the three months ended December 31, 2006, is related to payments issued to consultants for public relations and branding services and to increase the Company's presence in the capital markets.

Interest Income and Expense

During the three months ended December 31, 2006, interest expense totaled \$284,285 compared to \$596,910 paid in the three months ended December 31, 2005. This amount consists primarily of non-cash interest expense of approximately \$84,801 related to unamortized financing costs associated with shares of common stock issued for prepaid interest. The decrease of \$312,625 is due primarily from eliminating convertible debt with embedded derivatives that were on the books as of December 31, 2005.

Liquidity and Capital Resources

The Company is presently unable to finance its operations solely from cash flows from operating activities. During the three months ended December 31, 2006, the Company financed its operations primarily from the issuance of common stock and exercise of warrants of the Company for net proceeds of \$6,075,000.

As of December 31, 2006, the Company had unrestricted cash of \$5,175,593 and a working capital deficit of \$3,062,054, compared to unrestricted cash of \$5,872,529 and a working capital deficit of \$2,410,471 at September 30, 2006.

During the three months ended December 31, 2006, the Company's operating activities provided cash of \$531,845, compared to \$1,861,907 of cash used during the three months ended December 31, 2005. The increase cash was primarily a result an increase of accounts payable and accrued expenses.

The Company used cash of \$7,148,146 for investing activities during the three months ended December 31, 2006.

The Company's financing activities during the three months ended December 31, 2006, provided cash of \$5,919,365 compared to \$2,676,208 during the three months ended December 31, 2005. During the three months ended December 31, 2006, the Company had net proceeds of \$6,000,000 from the sale of equity securities and \$75,000 from the exercise of warrants. Cash was decreased by \$26,796 in payments to the bank line of credit, and \$128,839 in net payments on the related party line of credit.

The Company incurred a net loss of \$7,813,649 through the three months ended December 31, 2006. As of December 31, 2006, the Company had a net tangible stockholders' equity of \$3,555,910 and an accumulated deficit of \$114,652,444. These factors, as well as the risk factors set out in the Company's annual report on Form 10-KSB for the year ended September 30, 2006, raise substantial doubt about the Company's ability to continue as a going concern. The unaudited condensed consolidated financial statements included in this report do not include any adjustments that might result from the outcome of this uncertainty. The Company's plans with respect to this uncertainty, is to focus on sales of the TrackerPAL product. There can be no assurance that revenues will increase rapidly enough to payback operating losses and payback debts. Likewise, there can be no assurance that the debt

holders will be willing to convert the debt obligations to equity securities or that the Company will be successful in raising additional capital from the sale of equity or debt securities. If the Company is unable to increase revenues or obtain additional financing, it will be unable to continue the development of its products and may have to cease operations.

Recent Developments

Subsequent to December 31, 2006, the Company entered into the following transactions:

- 1) The Board of Directors authorized Messrs. Derrick and Dalton to purchase 30% of Volu-Sol Reagents Corporation for \$400,000. Subsequent of December 31, 2006, the Company received \$250,000 towards the purchase. It is anticipated that the Company will receive the remaining \$150,000 before March 31, 2007.
- 2) The Company entered into a settlement agreement with plaintiffs Michael Sibbett and HGR Enterprises, resolving all claims asserted in litigation against the Company. Pursuant to the settlement agreement, effective February 1, 2007, in exchange for the dismissal of the litigation with prejudice, the Company agreed to pay \$400,000 and issue 160,000 unregistered shares of the Company's common stock with piggyback registration rights. The Company anticipates that the action will be dismissed in early March 2007.
- 3) The Company entered into an agreement with Seguridad Satelital Vehicular S.A. de C.V. ("SSV"), a company organized and existing under the laws of Mexico to deploy 10,000 TrackerPAL units over a 16-month period. SSV will purchase the device and pay the Company \$2 per day for each device under a licensing agreement. In order to have exclusivity in Mexico, SSV must have 10,000 units deployed at the end of 16 months; an additional 10,000 units deployed by the end of 28 months and another 10,000 (for a total of 30,000 units) deployed by the end of 40 months.
- 4) Due to the ever increasing prevalence of digital cellular technology, many of the existing analog cellular communication towers upon which the MobilePAL device relies upon are being phased out. As a result, the Company will discontinue providing monitoring service for the MobilePAL device on February 28, 2007. However, the Company will continue providing monitoring service for all non-analog devices.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized, and reported within the required time periods, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding disclosure.

As required by Rule 13a-15(b) under the Exchange Act, the Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2006. In their evaluation, the Chief Executive Officer and Chief Financial Officer identified deficiencies that existed in the design or operation of our internal control over financial reporting that we and our independent registered public accounting firm considered to be "material weaknesses." A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial information will not be prevented or detected.

The deficiencies in our internal control over financial reporting related to the failure to properly disclose equity and debt transactions. In addition, there have been deficiencies in our inventory control process. The deficiencies were detected in the evaluation process and the transactions have been appropriately recorded and disclosed in this Form 10-QSB. In addition, we have not created a "Disclosure Controls Committee" to monitor and follow up on our processes to assure disclosures are complete and accurate; however, we intend to have such a committee in place by October 1, 2007. We are in the process of improving our internal control over financial reporting in an effort to resolve these deficiencies through improved supervision and training of our accounting staff, but additional effort is needed to fully remedy these deficiencies. Our management, audit committee, and directors will continue to work with our auditors and outside advisors to ensure that our controls and procedures are adequate and effective.

Based on the matter identified above, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective. These deficiencies have been disclosed to our Audit

Committee.

Changes in Internal Controls. There has been no change in our internal control over financial reporting during the quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Since the most recent evaluation date, there have been no significant changes in our internal control structure, policies, and procedures or in other areas that could significantly affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Michael Sibbet and HGR Enterprises v. RemoteMDx and SecureAlert, Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 060915336. The Company and SecureAlert entered into a settlement agreement with the plaintiffs, Michael Sibbett and HGR Enterprises, resolving all claims asserted in the litigation. Pursuant to the settlement agreement, effective February 1, 2007, in exchange for the dismissal of the litigation with prejudice, the Company/SecureAlert agreed to pay \$400,000 and issue 160,000 unregistered shares of the Company's common stock with piggyback registration rights. The Company anticipates that the action will be dismissed in early March 2007.

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

During the three months ended December 31, 2006, the Company issued 9,437,075 shares of common stock as follows:

- 293,333 shares were issued for services performed for a value of \$557,549.
- 3,444,139 shares were issued from Series A and B Preferred Stock conversions.
- 2,549,603 shares were issued from the exercise of warrants.
- 150,000 shares, with a value of \$291,000, were issued from a penalty for filing a registration statement late.
- 3,000,000 shares were issued for \$6,000,000 in cash.

In each of these transactions the securities were issued without registration under the Securities Act of 1933, as amended, in reliance upon exemptions from registration applicable to limited or non-public offers and sales of securities. The offer and sale of securities in the Company's private placement of debt and equity were made solely to individuals or entities that were "accredited investors" as that term is used in Rule 501 under Regulation D of the Securities Act, in reliance on the exemptions from the registration requirements of the Securities Act afforded by Section 4(2) and Rule 506 of Regulation D under the Securities Act.

Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits Required by Item 601 of Regulation S-B*

<u>Exhibit Number</u>	<u>Title of Document</u>
3.01	Articles of Incorporation (incorporated by reference to the Company's Registration Statement and Amendments thereto on Form 10-SB, effective December 1, 1997).
3.01(1)	Amendment to Articles of Incorporation for Change of Name (previously filed)
3.01(2)	Amendment to Articles of Incorporation Amending Rights and Preferences of Series A Preferred Stock (previously filed)
3.01(3)	Amendment to Articles of Incorporation Adopting Designation of Rights and Preferences of Series B Preferred Stock (previously filed)
3.01(4)	Certificate of Amendment to the Designation of Rights and Preferences Related to Series A 10% Cumulative Convertible Preferred Stock of RemoteMDx, Inc. (incorporated by reference to the Company's annual report on Form 10-KSB for the year ended September 30, 2001)
3.01(5)	Certificate of Amendment to the Designation of Rights and Preferences Related to Series C 8% Convertible Preferred Stock of RemoteMDx, Inc. (incorporated by reference to the Company's Current Report on Form 8-K, filed with the Commission on March 24, 2006)
3.01(6)	Articles of Amendment to Articles of Incorporation filed July 12, 2006 (previously filed as exhibits to the Company's current report on Form 8-K filed July 18, 2006, and incorporated herein by reference).
3.02	Bylaws (incorporated by reference to the Company's Registration Statement on Form 10-SB, effective December 1, 1997)
4.01	2006 Equity Incentive Award Plan (previously filed in August 2006 the Form 10-QSB for the nine months ended June 30, 2006)
10.01	Distribution and Separation Agreement (incorporated by reference to the Company's Registration Statement and Amendments thereto on Form 10-SB, effective December 1, 1997).
10.02	1997 Stock Incentive Plan of the Company, (incorporated by reference to the Company's Registration Statement and Amendments thereto on Form 10-SB, effective December 1, 1997).
10.03	1997 Transition Plan (incorporated by reference to the Company's Registration Statement and Amendments thereto on Form 10-SB, effective December 1, 1997).
10.04	Securities Purchase Agreement for \$1,200,000 of Series A Preferred Stock (incorporated by reference to the Company's Registration Statement and Amendments thereto on Form 10-SB, effective December 1, 1997)
10.05	Securities Purchase Agreements with ADP Management and James Dalton (previously filed)
10.06	Agreement and Plan of Merger (SecureAlert (PAL Services)) (previously filed as exhibit to Current Report on Form 8-K)

- 10.07 Loan Agreement (as amended) dated June 2001 between ADP Management and the Company (incorporated by reference to the Company's annual report on Form 10-KSB for the year ended September 30, 2001)
- 10.08 Amended and Restated Loan and Security Agreement (SunTrust Bank and SecureAlert (PAL Services)), dated August 3, 2001 (incorporated by reference to the Company's annual report on Form 10-KSB for the year ended September 30, 2001)
- 10.09 Amended and Restated Loan and Security Agreement (SunTrust Bank and SecureAlert (PAL Services)), dated January 24, 2002 (filed as an exhibit to the Company's quarterly report on Form 10-QSB for the quarter ended December 31, 2001)
- 10.10 Amended and Restated Loan and Security Agreement (SunTrust Bank and SecureAlert (PAL Services)) dated March 1, 2002 (filed as an exhibit to the Company's quarterly report on Form 10-QSB for the quarter ended December 31, 2001)
- 10.11 Loan Agreement (as amended and extended) dated March 5, 2002 between ADP Management and the Company, effective December 31, 2001 (filed as an exhibit to the Company's quarterly report on Form 10-QSB for the quarter ended December 31, 2001)
- 10.12 License Agreement between RemoteMDx, Inc. and SecureAlert (PAL Services), Inc. as licensor and Matsushita Electric Works, Ltd., as licensee, (April 12, 2002) Agreement with SecureAlert Entertainment, LLC, with amendments (January and June 2003) (previously filed)
- 10.13 Agreement with SAE (incorporated by reference to the Company's quarterly report on Form 10-QSB for the quarter ended December 31, 2002)
- 10.14 Agreement between the Company and SecureAlert Telematics (incorporated by reference to the Company's quarterly report on Form 10-QSB for the quarter ended December 31, 2002)
- 10.15 Amendments to SAE Agreement (previously filed)
- 10.16 Agreement with ADP Management, Derrick and Dalton (April 2003) (previously filed)
- 10.17 Security Agreement between Citizen National Bank and the Company (previously filed on Form 8-K in July 2006).
- 10.18 Promissory Note between Citizen National Bank and the Company (previously filed on Form 8-K in July 2006).
- 10.19 Common Stock Purchase Agreement dated as of August 4, 2006 (previously filed as an exhibit to the Company's current report on Form 8-K filed August 7, 2006 and incorporated herein by reference).
- 10.20 Change in Terms Agreement between Citizen National Bank and the Company (previously filed in August 2006).
- 10.21 Securities Purchase Agreement between the Company and VATAS Holding GmbH, a German limited liability company (previously filed on Form 8-K in November 2006).
- 10.22 Common Stock Purchase Warrant dated November 9, 2006.
- 10.23 Settlement Agreement and Mutual Release between the Company and Michael Sibbett and HGR Enterprises, LLC, dated as of February 1, 2007.
- 10.24 Distributor Sales, Service and License Agreement between the Company and Seguridad Satelital Vehicular S.A. de C.V., dated as of February 5, 2007

- 31.1 Certification of President and Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002
- 32 Certification under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. SECTION 1350)

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report, as amended, to be signed on its behalf by the undersigned, thereunto duly authorized.

REMOTEMDX, INC.

Date: February 14, 2007

By: /s/ David G. Derrick
David G. Derrick,
Chief Executive Officer

Date: February 14, 2007

By: /s/ Michael G. Acton
Michael G. Acton,
Principal Accounting Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David G. Derrick, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of RemoteMDx, Inc.;
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(s) 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)) 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) 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
 - (c) 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(s) 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: February 14, 2007

/s/ David G. Derrick
David G. Derrick
Chief Executive Officer

CERTIFICATION OF CFO

I, Michael G. Acton, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of RemoteMDx, Inc.;
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(s) 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)) 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) 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
 - (c) 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(s) 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: February 14, 2007

/s/ Michael G. Acton
Michael G. Acton
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of RemoteMDx, Inc. on Form 10-QSB for the period ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David G. Derrick, Chief Executive Officer and Michael G. Acton, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ David G. Derrick
David G. Derrick
Chief Executive Officer
RemoteMDx, Inc.

/s/ Michael G. Acton
Michael G. Acton
Chief Financial Officer

Dated: February 14, 2007