

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

FORM 10-KSB

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

For the fiscal year ended September 30, 2006

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

For transition period from ____ to ____.

Commission file number 0-23153

REMOTEMDX, INC.

(Name of small business issuer 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

(Address of principal executive offices)

84070

(Zip Code)

Issuer's telephone number: **(801) 563-7171**

Securities registered under Section 12(b) of the Act:

None

Name of each exchange on which registered:

None

Securities registered under Section 12(g) of the Act: Common Stock, \$0.0001 par value.

Check whether the issuer is not required to file reports pursuant to Section 13 or 15 of the Exchange Act.

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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

Yes ___ No X

Issuer's revenues for the fiscal year ended September 30, 2006 were \$1,070,141. Aggregate market value of the voting stock held by non-affiliates of the registrant at December 12, 2006 was approximately \$103,248,000.

There were 85,642,364 shares of common stock of the registrant outstanding as of December 12, 2006.

Transitional Small Business Disclosure Format (Check one): Yes ___ No X

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PART I

Item 1. Description of Business

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 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.

Additionally, the Company has identified a growing need in the parole/probation market, which in 2003, consisted of approximately 4.9 million adults in the criminal justice system at any given time. In order to meet the needs of this growing demand, the Company has developed TrackerPAL, a wireless device that works in conjunction with our monitoring center.

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 Activation – We sell our MobilePAL™ and lease our TrackerPAL devices as part of a monitoring contract.
- Monitoring Services – Following activation, our MobilePAL and TrackerPAL customers pay a monthly monitoring fee and fees for additional services offered by our contract providers or by us.

In addition to the foregoing sources, we have contractual rights to receive royalty revenues from a license agreement with Matsushita Electric Works (“MEW”) and from sales of telematic products and services under marketing agreements. “Telematic” means any wireless communication system designed for the collection and dissemination of data. To date these royalty agreements have not produced any royalty income.

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 the health monitoring industries.

Background

We have been engaged in our original business of manufacturing and marketing medical diagnostic stains, solutions and related equipment for over 10 years. Since 1997, this business has been conducted through a wholly-owned subsidiary, Volu-Sol Reagents Corporation. Our remote health monitoring and diagnostic business is conducted under the names “Remote Medical Diagnostics” and “RemoteMDx.” In July 2001, we acquired and now operate the business conducted

by SecureAlert. SecureAlert's business involves manufacturing and marketing mobile emergency and personal health monitoring systems, and also will focus on the parolee and probation market.

Our primary founders and owners are David Derrick ("Derrick") and James Dalton ("Dalton"), who are identified in this report under Item 9, Directors and Executive Officers.

In April 2000, we entered into a research agreement with Battelle Memorial Institute ("Battelle"), a large research and development firm, to assist us in developing our technology for remote monitoring and personal medical diagnostics. Although the agreement with Battelle expired in November 2002, it resulted in the development of design and technologies included in our current MobilePAL and TrackerPAL products today.

In July 2001, we acquired SecureAlert and added its patents and technology to our business plan. In October 2001, we began developing our telematic monitoring center in conjunction with Bishop Engineering ("Bishop"), an innovator in telematic and Global Positioning Satellite ("GPS") technologies. By July 2002, this collaboration with Bishop culminated in the development of a monitoring center jointly operated with Aradiant Corp ("Aradiant"). In July 2004, we moved the monitoring center from its location in the San Diego area to the Company's headquarters in Salt Lake City. This move allows the Company to better manage and control the monitoring center and its employees. This monitoring center enables our PAL Services Network to offer location, concierge services, medical triage advice, emergency response, call switching and health monitoring to our subscribers. The monitoring center and its related services also help us serve our customers in the criminal justice industry.

In April 2002, we entered into a manufacturing and product development agreement with MEW. This strategic alliance included an equity investment in the Company by MEW and an arrangement under which MEW was designated our preferred manufacturer, and the Company agreed to act as MEW's preferred worldwide service provider for GPS products. During 2002 and 2003, working with MEW and another manufacturer, we successfully designed and began to market products that combine cellular technology, including our patented single-button emergency feature, and GPS, allowing the two systems to work simultaneously in a single unit. No services were performed by MEW during fiscal year 2006.

Marketing

Over the past three years, we have developed our menu of services and core technology, which we refer to as the Personal Assistant Link ("PALTM") Services Network. We look to expand our sales of these products and services by relying on and establishing our distribution network. In fiscal year 2005, approximately 34% of our revenues were derived from the sale of PAL products and services. In fiscal year 2006, approximately 37% of our revenues were derived from the sale of MobilePAL and TrackerPAL products and services. We expect to see this percentage to increase in the future as we pursue our business plan to emphasize these services. This sales effort will be focused on the parole/probation market and to a lesser extent the Personal Emergency Response System ("PERS") industry.

Our PERS target market was the estimated 35 million Americans that are over the age of sixty-five. Of these 35 million seniors, we estimate that approximately 9.7 million currently live alone, with approximately 1.3 million of these homebound. Our experience with direct-to-consumer marketing shows that the senior customers do not personally make the decision to purchase our products and services. Instead, we have learned that the children or caregivers of these seniors make the purchase decisions. We have also learned that a direct-to-consumer marketing campaign is very expensive and that our efforts would be better rewarded by focusing on distributors and dealers selling our products and services.

Under our current business model, our customers own our MobilePAL devices and lease our TrackerPAL devices. The customer can terminate the service by sending a written cancellation notice or by returning the MobilePAL device to us. TrackerPAL devices are on a long-term contract and can only be cancelled as the contract expires. We may also pay a monthly fee to the dealer or distributor for each contract originated through that dealer or distributor.

To further expand the viability of our distribution and marketing plan, we are working with state Medicaid agencies, insurance companies, and correctional agencies to pursue reimbursement for our products and services. The MobilePAL product is Medicaid-approved in Colorado and Maryland and we hope to replicate this success in other states. In addition, we are working with insurers to obtain private reimbursement approval. There can be no assurance that these efforts will be successful.

In addition to the PERS market, we will also focus our efforts in the parole and probation market. According to 2003 Bureau of Justice Statistics, in the United States there are a record number 4.9 million adult men and women who are on supervised probation or parole. This number is expected to continue to grow as state budget deficits are requiring prisons to be closed, putting additional pressure on the already swelling parole and probation market. In 2003 the total adult correctional population, including those incarcerated and those being supervised in the community, was approximately 6.9 million and growing at the rate of 2.4% per year. This equaled approximately 3.2% of the U.S. population or about 1 in every 32 adults.

This increase has strained the ability of parole officers and supervisors to manage the burgeoning growth in parolees. RemoteMDx has created a product and service to answer this problem called PAL Services Offender Tracking Network (the "Network").

We believe the Network and its accompanying products that will be marketed and sold by RemoteMDx will create a shift in the parole/probation market. The Network strategy transforms the current market to one that provides offender monitoring products and services. The Network allows a supervisor to manage dozens of parolees simultaneously. Under the Network program, a parolee is required to wear the device twenty-four hours a day, seven days a week, which allows the PAL monitoring center to track where the parolee is in real time (active monitoring). The computer at the monitoring center automatically checks to make sure that the parolee is within inclusion areas and does not enter any exclusionary zones. At any sign of problems, the monitoring center can contact the parolee directly and, if necessary, put the parole officer in direct contact with the parolee. The parole officer can also access a secured web site that shows where the parolee is and where he has been, allowing the supervisor to better manage the parolee.

The PAL Operator can provide a multitude of services for the offender and the supervising officer. The various services offered are as follows:

- 24/7 nationwide two-way voice communication;
- Automated reporting of location and alarms (breadcrumbs);
- Inclusion and exclusion alarms;
- Proximity alarm;
- Automated alert notification;
- Tamper resistant band and alarm;
- Battery status alerts (rechargeable/replaceable);
- Web-based real-time tracking;
- Active monitoring; and
- Enhanced GPS/GSM locate.

Research and Development Program

The PAL Products

In 2000, as a direct result of our strategic relationship with Battelle, we began our efforts to develop a mobile solution to the PERS market. We eventually determined that combining cellular and GPS technologies could expand the PERS market from approximately 1.3 million homebound patients to more than 10 million seniors living alone in the United States. We began by reviewing patents and products previously developed that might be utilized in this market. Our research led us to SecureAlert, the owner of patents and circuitry that we believed could help accelerate our move into the market.

Our first product line utilizing these patents was MobilePAL, a cellular-based emergency and concierge device with one-button access to our PAL Services Operators. The first version of the MobilePAL unit was an analog cell device. We used analog technology because of its more expansive coverage in North America at that time. Our first unit could be configured to call 911 Emergency only, or could accept a Mobile Identification Number (MIN) and make outbound calls to either of two predetermined phone numbers.

Our second version of the MobilePAL device incorporates GPS technology. GPS technology utilizes the highly accurate clocks on 24 satellites orbiting the earth owned and operated by the U.S. Department of Defense. These satellites are designed to transmit their identity, orbital parameters and the correct time to earthbound GPS receivers at all times.

Supporting the satellites are several radar-ranging stations maintaining exact orbital parameters for each satellite and transmitting that information to the satellites for rebroadcast at frequencies between 1500 and 1600 MHz.

A GPS receiver (or engine) scans the frequency range for GPS satellite transmissions. If the receiver can detect three satellites, the algorithms within the engine deduce its location, usually in terms of longitude and latitude, on the surface of the earth as well as the correct time. If the receiver can detect four or more GPS satellite transmissions, it can also deduce its own elevation above sea level. The effectiveness of GPS technology is limited by obstructions between the device and the satellites and, therefore, service can be interrupted or may not be available at all if the user is located in the lower floors of high-rise buildings or underground.

Shortly after commencing sales of the new GPS-enabled MobilePAL, MEW began working with us to develop an improved MobilePAL device complete with an improved GPS engine, speakerphone, and cellular chipset. The result was the MobilePAL GPS2000. The GPS2000 has several advantages over the earlier versions. The first is the improved quality of the GPS engine. MEW partnered with Sirf, a leading GPS technology company, to create a new, smaller GPS device with greater sensitivity and acquisition times of less than one minute. The GPS2000 is able to use the GPS engine concurrently with the cellular circuitry in the device, unlike the GPS1000 which temporarily drops the cellular signal during the time that the GPS engine is operating, and then automatically redials the PAL Services Center once the location data has been obtained. Using the GPS2000, the PAL Services Center operators are able to continuously communicate with the subscriber while simultaneously determining the caller's location.

During the year ended September 30, 2006, we spent \$2,087,802 on research and development. This compares to \$1,766,791 spent on research and development for the year ended September 30, 2005.

TrackerPAL

We have worked with nexAira, Inc. ("nexAira") to develop our TrackerPAL product. nexAira is a Canadian firm that specializes in hardware and software development in the areas of GPS, GSM and GPRS. It is the preferred distributor of GPS chip sets manufactured by Motorola. nexAira is recognized for its rapid development cycles and expertise in both the cellular and GPS areas.

The Parolee Tracking Device ("PTD") System required the design and development of four devices:

- Ankle electronics, a wireless body-worn tracking device;
- PTD-Cuff, a single-use band used to fasten the ankle electronics to the offender;
- Fixture for charging up to 2 batteries at once; and
- Rechargeable battery pack, a custom-tooled battery used to power the ankle device.

The PTD allows a monitoring center to detect the location of an offender and the offender's attempts to tamper with the device. When the device is attached to an offender's ankle and activated, it makes use of a GPS receiver to determine the offender's position and a cellular wireless link to communicate these coordinates to the monitoring center. The center can contact an offender whenever the device has adequate cellular signal, using the integrated cellular speakerphone. Automatic alerts can be sent to the server when the wearer travels outside a specified area or attempts to enter an "off limits" area. The PTD is water resistant to 3 meters.

The ankle strap or PTD-Cuff is a reinforced band used to secure the device to the offender. The strap is permanently fixed to the offender and requires the destruction of the strap for removal. The strap incorporates a metal strip to ensure the strap does not shrink or stretch as well as electrical and optic continuity detection circuits/paths for tamper detection. The strap is made to be inexpensive yet strong while the optical continuity assists in making it very difficult to circumvent and remove without detection.

Development of PAL Services Network

As we developed the MobilePAL product line, we simultaneously worked to create the PAL Services Center. In contrast to a typical PERS monitoring center, the PAL Services Center is equipped with hardware and software that pinpoints the location of the incoming caller by utilizing GPS technology. This capability is referred to as telematic. The operator's computer screen can identify the caller as well as locate the caller's precise location on a detailed map. In addition, the computer must be able to give directions to various sites from the caller's location, such as directions to the nearest

hospital, police station, or emergency service and is able to guide emergency services to the caller's location.

With the MobilePAL products developed and the PAL Services Center in place, we have the ability to offer the following services:

- 24/7 nationwide one-button access to a live Personal Assistant;
- Mobile access to immediate dispatch of police, fire or ambulance services;
- Access and dispatch of roadside assistance such as tow trucks, etc.;
- Location of nearest hospital and veterinary services;
- Auto-accident assistance including direct connection to the client's insurance company;
- Nurse triage service in case of medical questions or concerns;
- Personal calling to any phone number of customer's choosing including family, friends, caregivers, etc.;
- Mobile directory assistance to any U.S. phone number;
- Step-by-step driving instructions to virtually anywhere in the United States;
- Location services;
- Medical Data Link to store customer's critical personal medical information and communicate the customer's needs to emergency personnel;
- Daily monitoring of chronically ill customers with data and compliance information forwarded to care providers and loved ones;
- Location of lost or injured loved ones;
- Ability to immediately notify insurers and care providers during a medical emergency;
- Ability of monitoring center to initiate a call to the subscriber to check the subscriber's condition;
- Update immediate caregiver weekly on status of subscriber and any calls the operators may have received that week;
- Ability to track device online;
- Active Monitoring;
- Enhanced GPS/GSM location;
- Web based real-time tracking;
- Inclusion and exclusion alarms; and
- Proximity alarms.

MobilePAL Development

We believe that the next generation of MobilePAL products will revolutionize the PERS market. This next generation product further miniaturizes the technology, making MobilePAL a wearable device (such as a watch or pendant). nexAira is in the process of designing and developing for the Company a watch-type device that contains a single button and fall

detection mechanism that communicates with a pager-size companion device. Activated manually by pushing a button on the watch or automatically by sensing a sudden movement such as a fall, the device immediately transmits a radio frequency (“RF”) signal that is picked up by the companion device that then triggers a call to the monitoring center. From there, the wearer can talk to the center on the speakerphone while the GPS system pinpoints his or her location.

While the capabilities of MobilePAL will grow with each development cycle, we anticipate that all models of future generations of MobilePAL, including the watch/pendant device, will have the following features:

- Wearable watch or pendant with an emergency button for contacting the PAL Services Operator regardless of the location of the wearer.
- GPS engine for locating the subscriber.
- Fall detection that will alert the service in the event of a fall.
- Communication with small pager size device that talks to the customer and the PAL Services Center.
- Dual band cellular technology utilizing Global System Mobile (GSM) and AMPS (analog service).
- Rechargeable units.
- Alarm when not in proximity of base unit.

Although no functioning prototypes yet exist for this watch/pendant device, the research and development of this next generation of MobilePAL is currently underway and is being performed by nexAira. Continuation of this research by nexAira on behalf of the Company is contingent upon the Company obtaining adequate funding. There can be no assurances given that the Company will obtain the necessary funding.

WatchPAL Development Program

We are working to combine remote health monitoring services with mobile communication and security services by launching the WatchPAL line of products.

Each WatchPAL product will be specifically designed to monitor a specific chronic illness. The first chronic disease we have targeted for the WatchPAL product is diabetes. This WatchPAL product is designed to monitor diabetic patients remotely and unobtrusively. The patient wears a watch that will not only act as a fall detection device, but will also monitor on a preprogrammed basis the glucose level of the patient. This is done unobtrusively and without the patient’s participation. The information is then transmitted to the monitoring center. If the monitoring center detects that the glucose reading is outside of that patient’s given parameters, it will immediately contact the patient or care provider. If there is an emergency, the monitoring center can locate the user and respond by sending assistance.

The WatchPAL line of products is in the early phases of research and development. We have not yet developed a working prototype of this product. Our ability to develop a working line of products in this area is largely contingent on our ability to obtain the necessary funding for the research and development. There can be no assurance that we will be able to obtain the funding necessary to design, develop, and manufacture this line of products.

Intellectual Property

We own seven patents and we have six patents pending and one application in process to be filed. The following table contains information regarding our patents and patent applications; there is no assurances that the applications will be granted or that they will, if granted, contain all of the claims currently included.

Patent Title	Application /Patent Number	Filing / Issue Dates	Status
Emergency Phone With Single Button activation	11/174,191	6/30/05	Responded to Office Action
Remote Tracking and Communication Device	11/202,427	8/10/05	Pending
Remotely Controllable Thermostat	6,260,765	7/17/01	Issued

Interference Structure for Emergency Response System Wristwatch	6,366,538	4/2/02	Issued
Emergency Phone with Single Button Activation	6,636,732	10/21/03	Issued
Emergency Phone with Alternate Number Calling Capability	7,092,695	8/15/06	Issued
Emergency Phone for Automatically Summoning Multiple Emergency Response Services	6,226,510	5/1/01	Issued
Combination Emergency Phone and Personal Audio Device	6,285,867	9/4/01	Issued
Panic Button Phone	6,044,257	3/28/00	Issued
Alarm and Alarm Management System for Remote Tracking Devices	11/489,992	7/14/06	Pending
A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between Device and a Monitoring Center	11/486,989	7/14/06	Pending
A Remote Tracking System with a Dedicated Monitoring Center	11/486,976	7/14/06	Pending
Remote Tracking System and Device with Variable Sampling	11/486,991	7/14/06	Pending

We also own the following Trademarks:

<u>Mark</u>	<u>Application Number</u>	<u>Registration Number</u>	<u>Status/Next Action</u>
MOBILE911	75/615,118	2,437,673	Registered
MOBILE911 SIREN WITH 2-WAY VOICE COMMUNICATION & Design	76/013,886	2,595,328	Registered
WHEN EVERY SECOND MATTERS	76/319,759	2,582,183	Registered
MOBILEPAL	78/514,031	3,035,577	Registered
HOMEPAL	78/514,093	3,041,055	Registered
PAL SERVICES	78/514,514		Pending

REMOTEMDX	78/561,796		Allowed-Awaiting Statement of Use
TRACKERPAL	78/843,035		Pending
MOBILE911	78/851,384		Pending

Strategic Relationships

We believe one of the Company’s strengths is the high quality of our strategic alliances. Our primary alliances are described below.

nexAira, Inc.

nexAira, Inc., “(nexAira)” is a Canadian firm that specializes in hardware and software development in the areas of GPS, GSM and GPRS. It is the preferred distributor of GPS chip sets manufactured by Motorola. They are recognized for their rapid development cycles and expertise in both the cellular and GPS areas. nexAira performs research and development for the Company on a contractual basis.

Dynamic Source Manufacturing

Dynamic Source Manufacturing (“DSM”) located in Calgary, Alberta, Canada is an electronics manufacturing company which delivers a full range of services to its clients. From quickturn prototyping to high volume turnkey manufacturing, DSM has the resources available to manufacture all types of printed circuit boards. DSM manufactures of the Company’s TrackerPAL product.

Competition in PERS Industry

We have identified several companies we believe are developing products and services that in time could affect, or compete in, the same developing areas of the PERS industry targeted by RemoteMDx. As these products and services take hold, we expect our competition likely will increase and intensify. We believe that we can maintain some advantages over our competition due in large part to our alliance with MEW our strategic partners. In addition, we believe that several components in our product family might enjoy significant intellectual property protection from competition.

We believe our primary competitors are as follows:

- Lifeline Systems, Inc., Framingham, MA– We believe that Lifeline may be the largest PERS company in the United States, reporting over 350,000 subscribers. Lifeline claims that at the touch of a button, the customer can be connected to help 24 hours a day from their home or yard. Lifeline is a public company that operates its own monitoring facility, reportedly handling over 10,000 calls per day.
- Wherify Wireless, Inc., Redwood City, CA– A publicly held developer of patented wireless location products and services for child safety, parental supervision, personal protection, Alzheimer’s and memory loss, supervision, law enforcement, security, animal identification and property asset tracking.

Competition in Parolee/Probation Market

- ProTech Monitoring Inc., Odessa, FL– This company has satellite tracking software technology that operates in conjunction with global positioning system (GPS) and wireless communication networks.
- ISecuretrac Inc., Omaha, NE – This company supplies electronic monitoring equipment for tracking and monitoring persons on pretrial release, probation, parole, or work release.
- Sentinel Security and Communications, Inc., Rochester NY– This company supplies monitoring and supervision solutions for the offender population.

The Company faces intense competition, including competition from entities that are more established and have greater financial resources than it does, which may make it difficult for it to establish and maintain a viable market presence.

Our current and expected markets are rapidly changing. Existing products and services and emerging products and services will compete directly with the products we are seeking to develop and market. Our technology will compete directly with other technologies, and, although we believe our technology has or will have advantages over these competing systems, there can be no assurance that our technology will have advantages that are significant enough to cause users to adopt its use. Competition is expected to increase.

Many of the companies currently in the remote medical monitoring, offender tracking and diagnostic markets may have significantly greater financial resources and expertise in research and development, marketing, manufacturing, pre-clinical and clinical testing, obtaining regulatory approvals and marketing than those available to us. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large third parties. Academic institutions, governmental agencies, and public and private research organizations also conduct research, seek patent protection, and establish collaborative arrangements for product and clinical development and marketing in the medical diagnostic arena. Many of these competitors have products or techniques approved or in development and operate large well-funded research and development programs in the field. Moreover, these companies and institutions may be in the process of developing technology that could be developed more quickly or be ultimately more effective than our planned products.

The Company faces competition based on product efficacy, the timing and scope of regulatory approvals, availability of supply, marketing and sales capability, reimbursement coverage, price and patent position. There can be no assurance that its competitors will not develop more effective or more affordable products, or achieve earlier patent protection or product commercialization.

Dependence on Major Customers

During fiscal year 2006, one customer accounted for more than 10% of sales. Fisher Scientific accounted for approximately 21% (\$228,437) of sales. The loss of this customer could result in lower revenues and limit the cash available to grow our business and to achieve profitability. We have no arrangements or contracts with this customer that would require them to purchase a specific amount of product from us.

Dependence on Major Suppliers

During the year ended September 30, 2004, the Company cancelled its agreement with the prior cellular organization and entered into an agreement with a new cellular company. In the year ended September 30, 2006, the Company has entered into several agreements with other cellular organizations to provide cellular services. The costs to the Company during years ended September 30, 2006 and 2005 were approximately \$290,000 and \$103,900, respectively.

The Company has established a relationship with Dynamic Source Manufacturing (DSM) to manufacture the TrackerPAL device. All monitoring leased equipment has been manufactured by DSM. Should the relationship between DSM and Company cease, the Company would need to find another company to manufacture the device which could limit the ability to lease additional monitoring equipment.

Employees

As of December 12, 2006, the Company had 97 full time employees and 2 part-time employees. None of the employees are represented by a labor union or subject to a collective bargaining agreement. The Company has never experienced a work stoppage and management believes that the relations with employees are good.

Item 2. Description of Property

We entered into a 40-month lease for approximately \$17,100 per month, in March 2005, consisting of approximately 11,400 square feet of office space at 150 West Civic Center Drive, Sandy Utah. This facility serves as our monitoring center and corporate headquarters. We moved into these facilities during the fourth fiscal quarter of 2005.

We also have leased premises consisting of approximately 11,500 square feet of laboratory and office facilities located at 5095 West 2100 South, West Valley City, Utah. These premises also serve as the manufacturing, warehouse and shipping facilities for Volu-Sol Reagents Corporation. This lease has been renewed and now expires in November 2010 with monthly base rent of \$5,750, subject to annual adjustments according to changes in the Consumer Price Index.

Management believes that these facilities are efficient to meet our needs for the foreseeable future.

Item 3. Legal Proceedings

Michael Sibbet and HGR Enterprises v. RemoteMDx and SecureAlert, Third Judicial District Court, Salt Lake County, State of Utah, Civil No. 060915336. On September 20, 2006, Plaintiffs Michael Sibbet and HGR Enterprises brought an action in Utah state court against RemoteMDx and SecureAlert. The suit alleges that the Company and SecureAlert wrongfully terminated the plaintiffs, and includes causes of action for breach of contract, breach of the implied covenant of good faith and fair dealing, tortious interference with contract and prospective economic relations, unjust enrichment, and injunctive relief. The plaintiffs seek damages of approximately \$264 million over five years, plus the value of converting 50% of \$264 million into shares of our common stock at \$0.60 per share, plus punitive damages of approximately \$1 billion. The plaintiffs' motion for temporary restraining order was denied by the Court in its entirety on September 28, 2006. SecureAlert's and RemoteMDx's responses to the Complaint were filed on October 10, 2006. The litigation is at an early stage and discovery has not yet commenced. The Company has had preliminary settlement discussions but can make no representations of the possible outcome. The Company and SecureAlert intend to defend themselves vigorously against this action.

SecureAlert, Inc. v. The Jaxara Group, LLC, et al., Case No. 2:06CV00098, United States District Court for the District of Utah: On February 1, 2006, plaintiff SecureAlert, Inc. ("SecureAlert") filed a Complaint against defendants Jaxara Group, LLC, Daniel Boice and Alexander Petty (collectively, "Jaxara") in the United States District Court for the District of Utah. The action arises out of contracts between SecureAlert and Jaxara for certain software programming work to be performed by Jaxara. Based upon the foregoing, SecureAlert's Complaint alleges causes of action for: (1) Breach of Contract; (2) Breach of Express Warranty; (3) Breach of the Implied Covenant of Good Faith and Fair Dealing; (4) Fraud; (5) Constructive Fraud; (6) Declaratory Relief and (7) Federal Unfair Competition. Jaxara thereafter on or about April 10, 2006 answered the Complaint and filed counterclaims against SecureAlert for (1) Breach of Contract; (2) Breach of the Implied Covenant of Good Faith and Fair Dealing; (3) and Unjust Enrichment. The litigation is at an early stage of discovery. SecureAlert intends to vigorously prosecute its claims against Jaxara and to defend itself against Jaxara's counterclaims.

Strategic Growth International, Inc. et al. v. RemoteMDx, Inc., Case No. 06 Civ. 3915, United States District Court Southern District of New York: On May 23, 2006, plaintiffs Strategic Growth International, Inc., Richard E. Cooper and Stanley S. Altschuler (collectively, the "SGI Defendants") filed a Complaint against defendant RemoteMDx, Inc. ("RMDx") in the United States District Court Southern District of New York. The action arises out of a contract between the SGI Defendants and RMDx for certain financial relations services to be performed by SGI. Based upon the foregoing, the SGI Defendants' Complaint alleges a cause of action for: Breach of Contract. RMDx thereafter on September 29, 2006 answered the Complaint and filed counterclaims against SecureAlert for (1) Breach of Contract, (2) Rescission; (3) and Declaratory Judgment. The litigation is at an early stage of discovery. RMDx intends to vigorously defend itself against the SGI Defendants' claim and to prosecute its counterclaims against the SGI Defendants.

Mr. Joseph L. Markham v. RemoteMDx, Inc. The Company received a demand letter from counsel for Mr. Joseph L. Markham dated September 25, 2006. Mr. Markham contends that he entered into an agreement with the Company to provide investor relation services in exchange for \$20,000 and 100,000 shares of RemoteMDx stock. Mr. Markham further contends that he has fully performed under the purported agreement and is owed the above amounts. The Company denies that any such agreement exists, written or otherwise. To date, the Company is unaware of any lawsuit having been filed regarding this claim. If such a lawsuit is filed, the Company intends to defend itself vigorously against such action, and we are unable to express an opinion with respect to the likelihood of an unfavorable outcome or to estimate the amount or the range of potential loss should the outcome be unfavorable.

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

None

PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchase of Equity Securities

Market Information. Our common stock is traded on the OTC Bulletin Board of the National Association of Securities Dealers, Inc., under the symbol "RMDX.OB." The following table sets forth, for the fiscal periods indicated the closing price for our common stock. The sales information is available online at <http://otcbb.com>.

	<u>Closing Price</u>
<u>2005</u>	
First Quarter	N/A *
Second Quarter	N/A *
Third Quarter	N/A *
Fourth Quarter	\$1.06
<u>2006</u>	
First Quarter	\$0.90
Second Quarter	\$0.70
Third Quarter	\$1.75
Fourth Quarter	\$1.99

* The Company's common stock began trading on August 25, 2005.

Holder. As of December 12, 2006, there were approximately 1,300 holders of record of the common stock and approximately 85,642,364 shares of common stock outstanding. We also have 17,310 shares of Series A preferred stock outstanding, held by 27 shareholders, convertible into a minimum of approximately 6,404,633 shares of common stock, as well as 53,332 shares of Series B preferred stock outstanding held by 11 shareholders, that at present are convertible into approximately 533,320 shares of common stock; and 5,532,369 shares of Series C preferred stock outstanding, held by approximately 126 share holders, convertible into approximately 16,597,107 shares of common stock. We also have granted options and warrants for the purchase of approximately 21,597,392 shares of common stock. As discussed elsewhere in this report, we may be required to issue additional shares of common stock or preferred stock to pay accrued dividends, or to comply with anti-dilution adjustments to the conversion rights of present or former preferred shareholders.

Dividends. Since incorporation, we have not declared any dividends on our common stock. We do not anticipate declaring a dividend on the common stock for the foreseeable future. The Series A Preferred Stock accrues dividends at the rate of 10% annually, which may be paid in cash or additional shares of preferred or common stock, at our option. To date all such dividends have been paid by issuance of preferred stock, valued at \$200 per share of preferred. We are not required to pay and do not pay dividends with respect to the Series B Preferred Stock. Series C preferred stock has an 8% dividend that may be paid in cash or additional shares of Series C Convertible Preferred Stock at the option of the Company. During the years ended September 30, 2006 and 2005, the Company recorded \$642,512 and \$512,547 in dividends on Series A and C Preferred Stock, respectively.

Dilution. We have a large number of shares of common stock authorized in comparison to the number of shares issued and outstanding. The board of directors determines when and under what conditions and at what prices to issue stock. In addition, a significant number of shares of common stock are reserved for issuance upon exercise of purchase or conversion rights.

The issuance of any shares of common stock for any reason will result in dilution of the equity and voting interests of existing shareholders.

Transfer Agent and Registrar. The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, 40 Wall Street, New York City, NY 10005.

Recent Sales of Unregistered Securities

The following information summarizes certain information for all securities we have sold during the fiscal year covered by this report without registration under the Securities Act.

In each of these transactions, the securities were issued to individuals or entities that were “accredited investors” as that term is defined in Rule 501 under Regulation D of the Securities Act, and the issuance of the securities was accomplished without registration under the Securities Act in reliance on the exemptions from the registration requirements of the Securities Act afforded by Section 4(2), including Rule 506 of Regulation D under the Securities Act.

Subsequent to September 30, 2006, the Company entered into various transactions. These transactions are described in the Current Report on Form 8-K of the Company filed with the Commission on November 9, 2006.

On November 9, 2006, RemoteMDx, Inc. (the “Company”), closed a private placement of shares of its common stock. The Company sold 3,000,000 shares of its common stock (the “Shares”), at a purchase price of \$2.00 per share, for aggregate proceeds to the Company of \$6,000,000. The Company also issued warrants (the “Warrants”) to purchase up to an additional 7,000,000 shares of the Company’s common stock. The investor was VATAS Holding GmbH.

The Company intends to use the proceeds from the sale of the Shares and the Warrants for general corporate and working capital purposes.

In connection with the sale of the Shares and the Warrants, the Company granted registration rights to the purchaser, in connection with which the Company agreed to file a registration statement to register the resale of the Shares and shares underlying the Warrants by the purchaser not later than 10 days after the Company files its annual report for the year ended September 30, 2006. The Company also agreed to use its best efforts to have the registration statement declared effective within 30 days of the filing, and to respond within ten days to any comments from the Securities and Exchange Commission. In the event that the Company does not (a) have the registration statement filed by the filing deadline, (b) respond within ten days to any SEC comments, or (c) have the registration statement effective within 100 days of the filing, the Company is required to pay a 5% penalty to the investor.

Fiscal Year 2006

During the year ended September 30, 2006, we issued 35,005,811 shares of common stock without registration of the offer and sale of the securities under the Securities Act of 1933, as amended, as follows:

- 10,739,753 shares were exchanged for debt and accrued interest of \$7,893,782;
- 5,846,428 shares were issued for services in the amount of \$3,983,607;
- 4,014,916 shares were issued upon the conversion of 10,843 shares of Series A Preferred Stock of the Company; and
- 7,171,380 shares were issued upon the conversion of 1,315,825 shares of Series B Preferred Stock of the Company;
- 6,883,334 shares were issued for \$7,910,000 in cash;
- 350,000 shares were issued from the exercise of options.
- See note 16 to the financial statements for a discussion of financing activities subsequent to September 30, 2006.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Report.

THIS REPORT ON FORM 10-KSB CONTAINS, IN ADDITION TO HISTORICAL INFORMATION, FORWARD-LOOKING STATEMENTS THAT INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES. ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY REMOTE MDX TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY SECTION 21E OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. ACTUAL RESULTS COULD

DIFFER MATERIALLY FROM THE RESULTS ANTICIPATED BY REMOTE MDX AND DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. WHEN USED IN THIS REPORT, WORDS SUCH AS “BELIEVES,” “EXPECTS,” “INTENDS,” “PLANS,” “ANTICIPATES,” “ESTIMATES,” AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS, ALTHOUGH THERE MAY BE CERTAIN FORWARD-LOOKING STATEMENTS NOT ACCOMPANIED BY SUCH EXPRESSIONS. FACTORS THAT COULD CAUSE OR CONTRIBUTE TO SUCH DIFFERENCES ARE DISCUSSED BELOW IN THE SECTION ENTITLED “INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS” AND UNDER THE HEADING “CERTAIN SIGNIFICANT RISK FACTORS” BELOW. THE COMPANY DISCLAIMS ANY OBLIGATION OR INTENTION TO UPDATE ANY FORWARD-LOOKING STATEMENT.

The following table summarizes our results of operations for the last two completed fiscal years.

Summary Consolidated Statements of Operations Data

	Year Ended September 30,	
	2006	2005
Net sales	\$ 1,070,141	\$ 861,868
Cost of goods sold	940,132	823,752
Gross profit (loss)	130,009	38,116
Research and development expenses	2,087,802	1,766,791
Selling, general, and administrative expenses	16,025,373	7,230,222
Loss from operations	(17,983,166)	(8,958,897)
Other income (expenses):		
Derivative valuation gain (loss)	629,308	(580,626)
Interest and other income	97,190	4,570
Interest expense	(6,541,077)	(1,448,736)
Net loss	\$ (23,797,745)	\$ (10,983,689)

Fiscal Year Ended September 30, 2006, Compared to Fiscal Year Ended September 30, 2005

Results of Operations

Net Sales

During the fiscal year ended September 30, 2006, the Company had net sales of \$1,070,141 compared to net sales of \$861,868 for the fiscal year ended September 30, 2005, an increase of \$208,273. This increase is due primarily to the Company beginning to generate revenue from the TrackerPAL. The Company’s experience is that from time of deployment of the TrackerPAL unit (the moment a TrackerPAL unit is delivered to a customer) that it may take in excess of 90 days to receive any cash flow from the deployed unit. During the year ended September 30, 2006, SecureAlert provided net sales of \$391,600 compared to net sales of \$289,236 for the year ended September 30, 2005, an increase of approximately 36%. Net sales by Volu-Sol Reagents Corporation (“Reagents”) for the fiscal year ended September 30, 2006, were \$678,541 compared to \$572,632 in fiscal year 2005, an increase of approximately 18%. The increase in sales is due primarily to focusing on existing customers.

Cost of Goods Sold

During the fiscal year ended September 30, 2006, cost of goods sold totaled \$940,132, compared to cost of goods sold in fiscal 2005 of \$823,752. This increase is due primarily to the increase in sales of TrackerPAL. SecureAlert’s cost of goods sold totaled \$569,664, or 145% of its net sales in 2006, compared to \$437,224, or 151% for fiscal 2005. Reagents’ cost of goods sold totaled \$370,468 in fiscal 2006, compared to \$386,528 for the year ended September 30, 2005, a decrease of \$16,060 or approximately 4% from the prior fiscal year. The increase in overall margins of the

Company from 4% in fiscal year 2005 to 12% in fiscal year 2006 is attributable primarily to the Company now having an established distributor network.

Research and Development Expenses

During the fiscal year ended September 30, 2006, the Company incurred research and development expenses of \$2,087,802 compared to similar expenses in 2005 totaling \$1,766,791. This increase is due primarily to expenses associated with the development of the TrackerPAL device for the parolee market. We expect research and development expenses to continue in the future due to ongoing research and development related to our TrackerPAL, WatchPAL, and MobilePAL 3000 products.

Selling, General and Administrative Expenses

During the fiscal year ended September 30, 2006, the Company's selling, general and administrative expenses totaled \$16,025,373, compared to \$7,230,222 for the fiscal year ended September 30, 2005. This increase of \$8,795,151 is attributable primarily to an increase in non-cash compensation expense in connection with the grant of options and issuance of shares in lieu of cash compensation to consultants and employees, including officers and directors of the Company. In fiscal year 2006 these non-cash expense items totaled approximately \$8,454,000 compared to approximately \$2,750,000 during the fiscal year 2005. In addition to the non-cash expense associated with the grant of options and issuance of shares, selling, general and administrative expenses for fiscal year ended September 30, 2006 primarily consists of the following expenses: advertising (\$118,241), consulting (\$1,037,792), insurance (\$312,830), investment banking fees (\$517,606), legal, accounting, and professional fees (\$983,978), payroll (\$2,102,504), rent (\$227,181), and travel expenses (\$671,542).

Other Income and Expense

During the fiscal year ended September 30, 2006, interest expense was \$6,541,077, compared to \$1,448,736 in fiscal year 2005. The increase of \$5,092,341 resulted primarily from the issuance of common stock and options granted in connection with debt instruments. These debt instrument were converted throughout the year ended September 30, 2006 and contained unamortized debt discounts which were fully expensed upon conversion. During the year ended September 30, 2006, the Company incurred \$6,229,485 of non-cash interest expense. The Company had interest income of \$30,051 and other income of \$67,139 during fiscal year 2006, compared to interest income of \$1,720 and other income of \$2,850 during fiscal year 2005. This increase in other income is due to settling debts in prior fiscal years at less than the expense incurred.

Net Loss

The Company had a net loss for the year ended September 30, 2006, totaling \$23,797,745, compared to a net loss of \$10,983,689 for fiscal year 2005. This increase is due primarily to expenses associated with the development of the TrackerPAL device for parolees, related increase in selling, general and administrative expenses and interest expense.

Liquidity and Capital Resources

September 30, 2006

The Company has not historically financed operations entirely from cash flows from operating activities. During the year ended September 30, 2006, the Company supplemented cash flows with funding from the sale of equity securities and to a much lesser extent borrowings from a related party.

At September 30, 2006, the Company had unrestricted cash of \$5,872,529, compared to cash of \$416,036 at September 30, 2005. At September 30, 2006, the Company had a working capital of \$2,410,471, compared to a working capital deficit of \$5,217,466 at September 30, 2005. The change in working capital primarily resulted from the conversion of debt into shares of common stock and from the sale of common and preferred stock.

During fiscal year 2006, the Company's operating activities used cash of \$11,397,627, compared to \$3,839,236 cash used in 2006.

Investing activities for the year ended September 30, 2006, used cash of \$3,333,983, compared to \$303,273 of cash used by investing activities in the year ended September 30, 2005. Cash used in 2006 was expended primarily for property, equipment and monitoring equipment purchases.

Financing activities for the year ended September 30, 2006, provided \$20,188,103 of net cash compared to \$4,496,442 of net cash provided from those activities in the year ended September 30, 2005.

The Company had net payments of \$635,073 on a related-party line of credit and payments of \$2,047,575 on long and short-term notes payable. The Company had proceeds from the sale of SecureAlert Series A preferred stock of \$600,000, \$7,439,558 from the issuance of RemoteMDx Series C preferred stock and \$7,910,000 from the issuance of common stock. In addition, the Company had \$6,164,293 from the issuance of debt and \$252,000 from the exercise of options and warrants.

During the fiscal year 2006, the Company incurred a net loss of \$23,797,745 and negative cash flows from operating activities of \$11,397,627, compared to a net loss of \$10,983,689 and negative cash flow of \$3,839,236 for the year ended September 30, 2005. As of September 30, 2006, the Company's working capital was \$2,410,471 and the Company had a net tangible stockholders' equity of \$2,351,200 and accumulated deficit of \$106,726,375.

These factors, as well as the risk factors set out elsewhere in this report raise substantial doubt about the Company's ability to continue as a going concern. The financial statements included in this report do not include any adjustments that might result from the outcome of this uncertainty. Our 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.

The following chart includes principal balances and interest rates applicable to borrowings (net of any applicable debt discounts) as of September 30, 2006. See note 16 of the financial statements for a complete discussion of financing transactions subsequent to September 30, 2006.

Description of Obligation	Annual Interest Rate	Maturity Date	Amount Owing at 9/30/06
Advances from ADP Management	5%	July 31, 2007	\$ 44,549 (1)
Note to Shareholder	5%	January 2004	\$ 84,838
Note to Shareholder	5%	January 2004	\$ 84,838
Bank Line of Credit	8.25%	June 30, 2007	\$ 3,897,111
Totals	N/A	N/A	<u>\$ 4,111,336</u>

Notes:

- (1) By agreement dated August 19, 2004, ADP Management Corporation ("ADP Management"), an entity owned and controlled by Messrs. Derrick and Dalton, provided a \$500,000 line-of-credit to the Company. During the year ended September 30, 2006, the line-of-credit increased by \$662,007 due to a monthly management fee, that includes the salaries of Mr. Derrick and Mr. Dalton, owed to ADP Management and expenses incurred by ADP Management that are reimbursable by the Company. The Company made cash repayments during the year of \$635,073.

Contractual Obligations

The following table summarizes the Company's outstanding borrowings and long-term contractual obligations at September 30, 2006, and the periods in which these obligations are scheduled to be paid in cash:

Contractual Obligations	Payments Due By Period				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Notes from schedule above	\$ 4,111,336	\$4,111,336	\$ -	\$ -	\$ -
Operating leases	1,310,785	507,959	723,430	79,396	-
Total	\$ 5,422,121	\$4,619,295	\$ 723,430	\$ 79,396	-

Inflation

The Company does not believe inflation has had a material adverse impact on its business or operating results during the periods presented nor is it expected to in the next year.

Critical Accounting Policies

In Note 2 to the audited financial statements for the fiscal year ended September 30, 2006 included in this 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 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, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. We base our 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, impairment of long-lived assets, and accounting for stock-based compensation, 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 maintenance of 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 reserves, management 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 revenue primarily from the sale of its mobile medical emergency products with service contracts, parolee sales and reagent stains. Under applicable accounting principles, revenue, less reserves for returns, is recognized upon shipment to the customer. For the two fiscal years ended September 30, 2006 and 2005 the provision for sales returns was not material. Amounts received in advance of shipment are recorded as deferred revenue. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of goods sold.

Impairment of Long-lived Assets

The Company reviews its long-lived assets, other than goodwill, for impairment when events or changes in circumstances indicate the book value of an asset may not be recoverable. An evaluation is made at each balance sheet date, to determine whether events and circumstances have occurred which indicate possible impairment. An estimate is made of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life of in measuring whether the assets are recoverable.

Accounting for Stock-based Compensation

The Company accounts for stock-based compensation issued to employees and directors under Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under APB No. 25, compensation related to stock options, if any, is recorded if an option's exercise price on the measurement date is below the fair value of the Company's common stock and amortized to expense over the vesting period. Compensation expense for stock awards or purchases, if any, is recognized if the award or purchase price on the measurement date is below the fair value of the common stock and is recognized on the date of award or purchase. Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation," requires pro forma information regarding net loss and net loss per common share as if the Company had accounted for its stock options granted under the fair value method. This pro forma disclosure is presented in Note 11 to the audited financial statements.

The Company accounts for stock-based compensation issued to persons other than employees using the fair value method in accordance with SFAS No. 123 and related interpretations. Under SFAS No. 123, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of either the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient's performance is complete.

Allowance for Doubtful Accounts

The Company must make estimates of the collectibility of accounts receivables. In doing so, we analyze accounts receivable and historical bad debts, customer credit-worthiness, current economic trends and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 123 (revised 2004), “Shared-Based Payment” (“Statement 123(R)”). Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise’s equity instruments or that may be settled by the issuance of such equity instruments. Statement 123(R) requires an entity to recognize the grant-date fair value of stock options and other share-based compensation issued to employees in the statement of operations. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25, “Accounting for Stock Issued to Employee”, which was permitted under Statement 123, as originally issued.

The revised Statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements.

Statement 123(R) is effective as of October 1, 2006 for the Company. All public companies must use either the modified prospective or the modified retrospective transition method. The Company has not yet evaluated the impact of adoption of this pronouncement, but believes it may have a material impact on the consolidated financial statements.

In November 2004, the FASB issued Statement No. 151, “Inventory Costs”, to amend the guidance in Chapter 4, “Inventory Pricing”, of FASB Accounting Research Bulletin No. 43, “Restatement and Revision of Accounting Research Bulletins.” Statement No. 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The Statement requires that those items be recognized as current-period charges. Additionally, Statement 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Statement No. 151 is effective for fiscal years beginning after June 15, 2005. The Company is currently evaluating the impact of the adoption of this Statement which is required to be adopted in the fiscal year 2006.

Risk Factors

Caution Regarding Forward-looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company may from time to time make written or oral statements that are forward-looking, including statements contained in this report and other filings with the Securities and Exchange Commission and in reports to our shareholders. Such statements may, for example, express expectations or projections about future actions that we may take including restructuring or strategic initiatives or about developments beyond our control. The terms "anticipate", "believe", "estimate", "expect", "objective", "plan", "might," "should," "may," "project," and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to inherent risks and uncertainties that may cause actual results or events to differ materially from those contemplated by the forward-looking statements. These statements are made on intention of management’s views and assumptions as of the time the statements are made and we disclaim any obligation to update these statements. There can be no assurance however that our expectations will necessarily come to pass. The factors that could materially affect future developments and performance include those set forth below.

The financial statements contained in our annual report on Form 10-KSB for the year ended September 30, 2006 have been prepared on the basis that the Company will continue as a going concern, notwithstanding the fact that its financial performance and condition during the past few years raise substantial doubt as to our ability to do so. There is no assurance the Company will ever be profitable.

In fiscal year 2006, the Company incurred a net loss of \$23,797,745, negative cash flow from operating activities of \$11,397,627, and an accumulated deficit of \$106,726,375.

These factors, as well as the risk factors set out elsewhere in this report raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements included in this report do not include any adjustments that might result from the outcome of this uncertainty. Our 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.

As a result of our increased focus on a new business market, our business is subject to many of the risks of a new or start-up venture.

The change in our business goals and strategy subjects us to the risks and uncertainties usually associated with start-ups. Our business plan involves risks, uncertainties and difficulties frequently encountered by companies in their early stages of development. If the Company is to be successful in this new business direction, it must accomplish the following, among other things:

- Develop and introduce functional and attractive product and service offerings;
- Increase awareness of our brand and develop consumer loyalty;
- Respond to competitive and technological developments;
- Build an operational structure to support our business; and
- Attract, retain and motivate qualified personnel.

If the Company fails to achieve these goals, that failure would have a material adverse effect on its business, prospects, financial condition and operating results. Because the market for its new product and service offerings is new and evolving, it is difficult to predict with any certainty the size of this market and its growth rate, if any. There is no assurance that a market for these products or services will ever develop or that demand for our products and services will emerge or be sustainable. If the market fails to develop, develops more slowly than expected or becomes saturated with competitors, our business, financial condition and operating results would be materially adversely affected.

Our management group owns or controls a significant number of our outstanding shares.

Certain of our directors, executives and principal shareholders or persons associated with them beneficially own approximately 23% of our outstanding common stock. In addition, these individuals are the beneficial owners of preferred stock convertible into a significant number of shares of common stock. As a result, these persons have the ability, acting as a group, to effectively control our affairs and business, including the election of our directors and, subject to certain limitations, approval or preclusion of fundamental corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change of control or making other transactions more difficult or impossible without their support. See Item 9 “Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act,” and Item 11 “Security Ownership of Certain Beneficial Owners and Management.”

There is no certainty that the market will accept our new products and services.

Our targeted markets may never accept our new products or services. Governmental organizations may not use our products unless they determine, based on experience, advertising or other factors, that those products are a preferable alternative to currently available methods of tracking. In addition, decisions to adopt new tracking devices can be influenced by government administrators, regulatory factors, and other factors largely outside our control. No assurance can be given that key decision-makers will accept our new products, which could have a material adverse effect on our business, financial condition and results of operations.

Our relationship with our majority shareholders presents potential conflicts of interest, which may result in decisions that favor them over our other shareholders.

Our principal beneficial owners, David Derrick and James J. Dalton, provide management and financial services and assistance to the Company. When their personal investment interests diverge from our interests, they and their affiliates may exercise their influence in their own best interests. Some decisions concerning our operations or finances may present conflicts of interest between us and these shareholders and their affiliated entities.

During the two most recent fiscal years the Company has been dependent upon certain major customers, the loss of which would adversely affect its results of operations and business condition. Certain of these customers now purchase product from distributors owned and controlled by our former executives and consultants, which will reduce our revenues from consumer electronics in future operating periods.

During fiscal year 2006, one customer accounted for more than 10% of sales. Fisher Scientific accounted for approximately 21% (\$228,437) of sales. The loss of this customer would result in lower revenues and limit the cash available to grow our business and to achieve profitability. We have no arrangements or contracts with this customer that would require them to purchase a specific amount of product from us.

The Company also relies on significant suppliers for other key products and cellular access. If the Company does not renew these agreements when they expire it may not continue to have access to these suppliers' products or services at favorable prices or in volumes as it has in the past, which would reduce revenues and could adversely affect results of operations or financial condition.

During the fall of 2001, the Company entered into a cellular switching access agreement under which it purchases substantially all of its cellular access requirements. That agreement expired in 2004. However the Company has entered into an agreement with a national cellular access company for these services. If any of these significant suppliers were to cease providing product or services to us, we would be required to seek alternative sources. There is no assurance that alternate sources could be located or that the delay or additional expense associated with locating alternative sources for these products or services would not materially and adversely affect our business and financial condition.

Our proposed business plan subjects our research, development and ultimate marketing activities to current and possibly to future government regulation. The cost of compliance or the failure to comply with this regulation could adversely affect our business, results of operations and financial condition.

The products we currently distribute and sell are not subject to specific approvals from any governmental agency, although our products using cellular and GPS products must be manufactured in compliance with applicable rules and regulations of the Federal Communications Commission. The FDA requires governmental clearance of all medical devices and drugs before they can be marketed in the United States. Similar approvals are required from other regulatory agencies in most foreign countries. The regulatory processes established by these government agencies are lengthy, expensive, and uncertain and may require extensive and expensive clinical trials. There can be no assurance that any future products developed by us that are subject to the FDA's authority will prove to be safe and effective and meet all of the applicable regulatory requirements necessary to be marketed. The results of testing activities could be susceptible to varied interpretations that could delay, limit or prevent required regulatory approvals. In addition, we may encounter delays or denials of approval based on a number of factors, including future legislation, administrative action or changes in FDA policy made during the period of product development and FDA regulatory review. We may encounter similar delays in foreign countries. Furthermore, approval may entail ongoing requirements for, among other things, post-marketing studies. Even if we obtain regulatory approval of a marketed product, our manufacturer and its manufacturing facility are subject to on-going regulation and inspections. Discovery of previously unknown problems with a product, manufacturer or facility could result in FDA sanctions, restrictions on a product or manufacturer, or an order to withdraw and/or recall a specific product from the market. There can also be no assurance that changes in the legal or regulatory framework or other subsequent developments will not result in limitation, suspension or revocation of regulatory approvals granted to us. Any such events, were they to occur, could have a material adverse effect on our business, financial condition and results of operations.

We may also be required to comply with FDA regulations for manufacturing practices, which mandate procedures for extensive control and documentation of product design, control and validation of the manufacturing process and overall product quality. Foreign regulatory agencies have similar manufacturing standards. Any third parties manufacturing our products or supplying materials or components for such products may also be subject to these manufacturing practices and mandatory procedures. If we, our management or our third party manufacturers fail to comply with applicable regulations regarding these manufacturing practices, we could be subject to a number of sanctions, including fines, injunctions, civil penalties, delays, suspensions or withdrawals of market approval, seizures or recalls of product, operating restrictions and, in some cases, criminal prosecutions.

Our products and related manufacturing operations may also be subject to regulation, inspection and licensing by other governmental agencies, including the Occupational Health and Safety Administration.

The Company faces intense competition, including competition from entities that are more established and have greater financial resources than it does, which may make it difficult for it to establish and maintain a viable market presence.

Our current and expected markets are rapidly changing. Existing products and services and emerging products and services will compete directly with the products we are seeking to develop and market. Our technology will compete directly with other technology, and, although we believe our technology has or will have advantages over these competing systems, there can be no assurance that our technology will have advantages that are significant enough to cause users to adopt its use. Competition is expected to increase.

Many of the companies currently in the remote medical monitoring and diagnostic market may have significantly greater financial resources and expertise in research and development, marketing, manufacturing, pre-clinical and clinical testing, obtaining regulatory approvals, and marketing than those available to us. Smaller companies may also prove to be significant competitors, particularly through collaborative arrangements with large third parties. Academic institutions, governmental agencies, and public and private research organizations also conduct research, seek patent protection, and establish collaborative arrangements for product and clinical development and marketing in the medical diagnostic arena. Many of these competitors have products or techniques approved or in development and operate large, well-funded research and development programs in the field. Moreover, these companies and institutions may be in the process of developing technology that could be developed more quickly or be ultimately more effective than our planned products.

We face competition based on product efficacy, the timing and scope of regulatory approvals, availability of supply, marketing and sales capability, reimbursement coverage, price and patent position. There can be no assurance that our competitors will not develop more effective or more affordable products, or achieve earlier patent protection or product commercialization.

Our business plan is subject to the risks of technological uncertainty, which may result in our products failing to be competitive or readily accepted by our target markets.

We may not realize revenues from the sale of any of our new products or services for several years, if at all. Some of the products we are currently evaluating likely will require further research and development efforts before they can be commercialized. There can be no assurance that our research and development efforts will be successful or that we will be successful in developing any commercially successful products. In addition, the technology which we integrate or that we may expect to integrate with our product and service offerings is rapidly changing and developing. We face risks associated with the possibility that our technology may not function as intended and the possible obsolescence of our technology and the risks of delay in the further development of our own technologies. Cellular coverage is not uniform throughout our current and targeted markets and GPS technology depends upon “line-of-sight” access to satellite signals used to locate the user. This limits the effectiveness of GPS if the user is in the lower floors of a tall building, underground or otherwise located where the signals have difficulty penetrating. Other difficulties and uncertainties normally associated with new industries or the application of new technologies in new or existing industries also threaten our business, including the possible lack of consumer acceptance, difficulty in obtaining financing for untested technologies, increasing competition from larger well-funded competitors, advances in competing or other technologies, and changes in laws and regulations affecting the development, marketing or use of our new products and related services.

The Company is dependent upon its strategic alliances, the loss of which would limit its success.

Our strategy for the identification, development, testing, manufacture, marketing and commercialization of our products and services includes, entering into various collaborations through corporate alliances. We have entered into collaborative relationships with a significant engineering and product commercialization firm and a multi-national manufacturing corporation, and we believe that these relationships provide us with strong strategic alliances for the design and engineering of our products. There can be no assurance however, that these relationships will succeed or that we will be able to negotiate strategic alliances with other parties on acceptable terms, if at all, or that any of these collaborative arrangements will be successful. To the extent we choose or are unable to establish or continue such arrangements we could experience increased capital requirements as a result of undertaking such activities. In addition, we may encounter significant delays in introducing products currently under development into the marketplace or find that the development, manufacture or sale of our proposed products is adversely affected by the absence of successful collaborative agreements.

The Company has a history of losses and anticipates significant future losses and may be unable to project its revenues and expenses accurately.

The Company will incur significant expenses associated with the development and deployment of our new products and promoting our brand. It intends to enter into additional arrangements through current and future strategic alliances that may require it to pay consideration in various forms and in amounts that may significantly exceed current estimates and expectations. The Company may also be required to offer promotional packages of hardware and software to end-users at subsidized prices in order to promote its brand, products and services. These guaranteed payments, promotions and other arrangements would result in significant expense. If it does achieve profitability, it cannot be certain that it will be able to sustain or increase profitability in the future. In addition, because of its limited operating history in its newly targeted markets, the Company may be unable to project revenues or expenses with any degree of certainty. Management expects expenses to increase significantly in the future as the Company continues to incur significant sales and marketing, product development and administrative expenses. The Company cannot guarantee that it will be able to generate sufficient revenues to offset operating expenses or the costs of the promotional packages or subsidies described above, or that it will be able to achieve or maintain profitability. If revenues fall short of projections, our business, financial condition and operating results would be materially adversely affected.

Our business plan anticipates significant growth through sales and acquisitions: To manage the expected growth the Company will require capital and there is no assurance it will be successful in obtaining necessary additional funding.

If we are successful in implementing our business plan, we may be required to raise additional capital to manage anticipated growth. Our actual capital requirements will depend on many factors, including but not limited to, the costs and timing of our ongoing development activities, the number and type of clinical or other tests we may be required to conduct in seeking government or agency approval of these products, the success of our development efforts, the cost and timing of establishing or expanding our sales, marketing and manufacturing activities, the extent to which our products gain market acceptance, our ability to establish and maintain collaborative relationships, competing technological and market developments, the progress of our commercialization efforts and the commercialization efforts of our marketing alliances, the costs involved in preparing, filing, prosecuting, maintaining and enforcing and defending patent claims and other intellectual property rights, developments related to regulatory issues, and other factors, including many that are outside our control. To satisfy our capital requirements, we may seek to raise funds through public or private financings, collaborative relationships or other arrangements. Any arrangement that includes the issuance of equity securities or securities convertible into our equity securities may be dilutive to shareholders (including the purchasers of the shares), and debt financing, if available, may involve significant restrictive covenants that limit our ability to raise capital in other transactions. Collaborative arrangements, if necessary to raise additional funds, may require that we relinquish or encumber our rights to certain of our technologies, products or marketing territories. Any inability or failure to raise capital when needed could also have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that any such financing, if required, will be available on terms satisfactory to us, if at all.

The Company currently lacks experienced sales and marketing capability for all of its product and service lines.

We currently have limited staff with experience in sales, marketing or distribution in our intended markets. We will be required to develop a marketing and sales force with technical expertise and with supporting distribution capability. Alternatively, we may obtain the assistance of other companies with established distribution and sales forces, in which case we would be required to enter into agreements regarding the use and maintenance of these distribution systems and sales forces. There can be no assurance that we will be able to establish in-house sales and distribution capabilities, or that we will be successful in gaining market acceptance for our products through the use of third parties. There can be no assurance that we will be able to recruit, train and maintain successfully the necessary sales and marketing personnel, or that the efforts of such personnel will be successful.

Our products are subject to the risks and uncertainties associated with the protection of intellectual property and related proprietary rights.

We believe that our success depends in part on our ability to obtain and enforce patents, maintain trade secrets and operate without infringing on the proprietary rights of others in the United States and in other countries. We have received several additional patents; we have also applied for several additional patents and those applications are awaiting action by the Patent Office. There is no assurance those patents will issue or that when they do issue they will

include all of the claims currently included in the applications. Even if they do issue, those new patents and our existing patents must be protected against possible infringement. The enforcement of patent rights can be uncertain and involve complex legal and factual questions. The scope and enforceability of patent claims are not systematically predictable with absolute accuracy.

The strength of our own patent rights depends, in part, upon the breadth and scope of protection provided by the patent and the validity of our patents, if any. Our inability to obtain or to maintain patents on our key products could adversely affect our business. We own seven patents and have filed and intend to file additional patent applications in the United States and in key foreign jurisdictions relating to our technologies, improvements to those technologies and for specific products we may develop. There can be no assurance that patents will issue on any of these applications or that, if issued, any patents will not be challenged, invalidated or circumvented. The prosecution of patent applications and the enforcement of patent rights are expensive, and the expense may adversely affect our profitability and the results of our operations. In addition, there can be no assurance that the rights afforded by any patents will guarantee proprietary protection or competitive advantage.

Our success will also depend, in part, on our ability to avoid infringing the patent rights of others. We must also avoid any material breach of technology licenses we may enter into with respect to our new products and services. Existing patent and license rights may require us to alter the designs of our products or processes, obtain licenses or cease certain activities. In addition, if patents have been issued to others that contain competitive or conflicting claims and such claims are ultimately determined to be valid and superior to our own, we may be required to obtain licenses to those patents or to develop or obtain alternative technology. If any licenses are required, there can be no assurance that we will be able to obtain any necessary licenses on commercially favorable terms, if at all. Any breach of an existing license or failure to obtain a license to any technology that may be necessary in order to commercialize our products may have a material adverse impact on our business, results of operations and financial condition. Litigation that could result in substantial costs may also be necessary to enforce patents licensed or issued to us or to determine the scope or validity of third party proprietary rights. If our competitors prepare and file patent applications in the United States that claim technology also claimed by us, we may have to participate in proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention, which could result in substantial costs, even if we eventually prevail. An adverse outcome could subject us to significant liabilities to third parties, require disputed rights to be licensed from third parties or require that we cease using such technology.

We rely on trade secrets laws to protect portions of our technology for which patent protection has not yet been pursued or is not believed to be appropriate or obtainable. These laws may protect us against the unlawful or unpermitted disclosure of any information of a confidential and proprietary nature, including but not limited to our know-how, trade secrets, methods of operation, names and information relating to vendors or suppliers and customer names and addresses.

We intend to protect this unpatentable and unpatented proprietary technology and processes, in addition to other confidential and proprietary information in part, by entering into confidentiality agreements with employees, collaborative partners, consultants and certain contractors. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, or that our trade secrets and other confidential and proprietary information will not otherwise become known or be independently discovered or reverse-engineered by competitors.

The existence of certain anti-dilution rights applicable to our Series B Preferred Stock might result in increased dilution inasmuch as the Company has offered and sold shares of common stock or securities convertible into shares of common stock at prices below the initial conversion rate of \$3.00 per common share, unless those rights are waived.

The investors in our Series B preferred stock have the right to an automatic adjustment of the conversion price of the Series B preferred shares held by them in the event we sell shares of common stock or securities convertible into common stock at a price below the original conversion price of \$3.00 per share. We have issued shares and options to purchase shares to certain creditors to convert debt to equity at prices that are below the \$3.00 conversion price. We have also issued promissory notes that are convertible into shares of common stock at conversion prices below the original Series B conversion price of \$3.00. Certain holders of the Series B preferred stock have waived their right to receive the adjustment but there is no assurance that any holder of Series B preferred stock will waive those rights as to issuances of common stock. Accordingly, we may be required to issue additional shares of common stock to comply with anti-dilution adjustments to the conversion rights of present or former preferred shareholders. Any increase in the

number of shares of common stock issued upon conversion of Series B preferred shares would compound the risks of dilution to existing shareholders.

The obligation to issue shares of common stock upon the exercise of outstanding options and warrants or upon conversion of outstanding shares of preferred stock or conversion of outstanding notes or debentures, increases the potential for short sales.

Downward pressure on the market price of our common stock that likely would result from issuances of common stock upon conversion of preferred stock or convertible debentures, or upon the exercise of options and warrants, could encourage short sales of common stock by the holders of the preferred stock or others. A significant amount of short selling could place further downward pressure on the market price of the common stock, reducing the market value of the securities held by our shareholders.

Payment of dividends in additional shares of Series A preferred stock or in shares of common stock will result in further dilution.

Under the terms of the Series A preferred stock, our board of directors may elect to pay dividends by issuing additional shares of Series A preferred stock or common stock. Dividends accrue from the date of the issuance of the preferred stock, subject to any intervening payments in cash. Each share of Series A preferred stock is convertible into 370 shares of common stock. The issuance of additional shares of Series A preferred stock or common stock as dividends could result in a substantial increase in the number of shares issued and outstanding and could result in a decrease of the relative voting control of the holders of the common stock issued and outstanding prior to such payment of dividends and interest.

Payment of dividends in additional shares of Series C preferred stock or in shares of common stock will result in further dilution.

Under the terms of the Series A preferred stock, our board of directors may elect to pay dividends by issuing additional shares of Series A preferred stock or common stock. Dividends accrue from the date of the issuance of the preferred stock, subject to any intervening payments in cash. Each share of Series A preferred stock is convertible into 370 shares of common stock. The issuance of additional shares of Series A preferred stock or common stock as dividends could result in a substantial increase in the number of shares issued and outstanding and could result in a decrease of the relative voting control of the holders of the common stock issued and outstanding prior to such payment of dividends and interest.

The Company has and will continue to have significant future capital needs and there is no assurance it will be successful in obtaining necessary additional funding.

We will be required to raise additional capital to fully implement our business plan. Our actual capital requirements will depend on many factors, including but not limited to, the costs and timing of our ongoing development activities, the number and type of clinical or other tests we may be required to conduct in seeking government or agency approval of these products, the success of our development efforts, the cost and timing of establishing or expanding our sales, marketing and manufacturing activities, the extent to which our products gain market acceptance, our ability to establish and maintain collaborative relationships, competing technological and market developments, the progress of our commercialization efforts and the commercialization efforts of our marketing alliances, the costs involved in preparing, filing, prosecuting, maintaining and enforcing and defending patent claims and other intellectual property rights, developments related to regulatory issues, and other factors, including many that are outside our control. To satisfy our capital requirements, we may seek to raise funds through public or private financings, collaborative relationships or other arrangements. Any arrangement that includes the issuance of equity securities or securities convertible into our equity securities may be dilutive to shareholders (including the purchasers of the shares), and debt financing, if available, may involve significant restrictive covenants that limit our ability to raise capital in other transactions. Collaborative arrangements, if necessary to raise additional funds, may require that we relinquish or encumber our rights to certain of our technologies, products or marketing territories. Any inability or failure to raise capital when needed could also have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that any such financing, if required, will be available on terms satisfactory to us, if at all.

The Company relies on third parties to manufacture its products. Therefore, it does not have direct control over the quality or other aspects of the manufacturing process, which could result in a loss of customer acceptance of its products and increased expense related to warranty claims or defective product returns.

We do not directly control the manufacturing facilities where our products are made and we must depend on third parties to make our products according to our standards for quality and reliability. We do not own any manufacturing facilities or equipment and do not employ any manufacturing personnel. We use third parties to manufacture our products on a contract basis. There is no assurance that we will be able to obtain qualified contract manufacturing services on reasonable terms. In addition, the manufacture of our products involves complex and precise processes. Changes in manufacturing processes by our contract manufacturer or our suppliers, or the use of defective components or materials, could significantly reduce our manufacturing yields and product reliability. For example, during the year ended September 30, 2003, we voluntarily recalled approximately 200 GPS devices that contained a defect causing the battery to drain power at an unacceptable rate. The problem was quickly resolved and the units replaced at the expense of our manufacturer. There is no assurance, however, that similar problems will not arise in the future with these other products.

Penny stock regulations may impose certain restrictions on marketability of the Company's securities.

The Securities and Exchange Commission (the "Commission") has adopted regulations which generally define a "penny stock" to be any equity security that has a market price (as defined) of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, the common stock is subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the Commission relating to the penny stock market. The broker-dealer must also disclose the commission payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell the Company's securities and may affect the ability of investors to sell the Company's securities in the secondary market and the price at which such purchasers can sell any such securities.

Investors should be aware that, according to the Commission, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- Control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer;
- Manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- "Boiler room" practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;
- Excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and
- The wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

The Company's management is aware of the abuses that have occurred historically in the penny stock market.

The holders of our Series B preferred stock have voting rights that are the same as the voting rights of holders of our common stock, which effectively dilutes the voting power of the holders of the common stock.

Holders of shares of Series B preferred stock are entitled to one vote per share of Series B preferred stock on all matters upon which holders of the common stock of the Company are entitled to vote. Therefore, without converting the shares of Series B preferred stock, the holders thereof enjoy the same voting rights as if they held an equal number of shares of common stock, as well as the liquidation preference described above. In addition, without the approval of holders of a majority of the outstanding shares of Series B preferred stock voting as a class, we are prohibited from (i) authorizing, creating or issuing any shares of any class or series ranking senior to the Series B preferred stock as to liquidation rights; (ii) amending, altering or repealing our Articles of Incorporation if the powers, preferences or special rights of the Series

B preferred stock would be materially adversely affected; or (iii) becoming subject to any restriction on the Series B preferred stock other than restrictions arising solely under the Utah Act or existing under our Articles of Incorporation as in effect on June 1, 2001.

The holders of our Series C preferred stock have voting rights that are the same as the voting rights of holders of our common stock, which effectively dilutes the voting power of the holders of the common stock.

Series C preferred stock has an 8% dividend that may be paid in cash or additional shares of Series C Convertible Preferred Stock at the option of the Company. During the years ended September 30, 2006 and 2005, the Company recorded \$294,379 and \$0 in dividends on Series C Preferred Stock, respectively. One share of Series C Convertible Preferred Stock is convertible into three shares of the Company's common stock, subject to adjustments.

The holders of record of the shares of Series C Preferred Stock, exclusively and as a separate class, shall be entitled to elect two directors of the Board of Directors of the Corporation (the "Series C Directors"). Any director elected as provided in the preceding sentence may be removed without cause by, and only by, the affirmative vote of the holders of the shares of the class or series of capital stock entitled to elect such director or directors, given either at a special meeting of such stockholders duly called for that purpose, or by written consent. The holders of record of the shares of Common Stock and of any other class or series of voting stock (including the Series C Preferred Stock), exclusively and voting together as a single class, shall be entitled to elect the balance of the total number of directors of the Corporation.

At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to elect such director shall constitute a quorum for the purpose of electing such director. A vacancy in any directorship filled by the holders of any class or series shall be filled only by vote of the holders of such class or series or by any remaining director or directors elected by the holders of such class or series pursuant to this Section.

Item 7. Financial Statements

Our audited financial statements and associated notes are included and set forth on pages F-3 through F-41 of this report.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 8A. 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, we conducted an evaluation, under the supervision of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of September 30, 2006. In our evaluation, we 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. The deficiencies were detected in the evaluation process and the transactions have been appropriately recorded and disclosed in this Form 10-KSB. 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 matters 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 Control over Financial Reporting. Other than as described above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls. A system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the system will meet its objectives. The design of a control system is based, in part, upon the benefits of the control system relative to its costs. Control systems can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. In addition, over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. In addition, the design of any control system is based in part upon assumptions about the likelihood of future events.

Item 8B. Other Information

None

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth information concerning our executive officers and directors and their ages as at September 30, 2006:

<u>Name</u>	<u>Age</u>	<u>Position</u>
David G. Derrick	54	Chief Executive Officer and Chairman (Director)
James J. Dalton	64	President and Vice Chairman (Director)
Michael G. Acton	43	Chief Financial Officer, Secretary-Treasurer
Bruce G. Derrick	49	Chief Technology Officer
Randy E. Olshen	43	President of SecureAlert, Inc.
Gary S. Horrocks	45	President of Volu-Sol Reagents, Inc.
Peter McCall	50	Director
Robert E. Childers	62	Director
David P. Hanlon	62	Director
Larry G. Schafran	68	Director

David Derrick – CEO and Chairman

Mr. Derrick has been our CEO and Chairman since February 2001. Previously he served as CEO and Chairman of the Board of Directors of Biomune Systems Inc. between 1989 and 1998. Biomune was a biotechnology company and was the former parent corporation of RemoteMDx, Inc. From 1996 to 1999, Mr. Derrick was Chairman of the Board of Directors of Purizer Corporation; during 2000 he served as a director of Purizer Corporation. 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 in 1975 and a Masters in Business Administration degree with an emphasis in Finance in 1976. Mr. Derrick has been a principal financier and driving force in many new businesses. During the early 1980’s he helped create the community of Deer Valley, an exclusive ski resort outside of Park City, Utah. In 1985 he founded and funded a company that pioneered the Smart Home concept – the computerized home. The company is known as Vantage Systems and is today a leader in this field.

James Dalton – President and Vice Chairman

Mr. Dalton joined us as a director in 2001. He was named President of the Company in August 2003. From 1987 to 1997, Mr. Dalton was the owner and President of Dalton Development, a real estate development company. He served as the President and coordinated the development of The Pinnacle, an 86-unit condominium project located at Deer Valley Resort in Park City, Utah. Mr. Dalton also served as the President and equity owner of Club Rio Mar in Puerto

Rico, a 680-acre beach front property that includes 500 condominiums, beach club, numerous restaurants, pools and a Fazio-designed golf course. He was also a founder and owner of the Deer Valley Club, where he oversaw the development of a high-end, world-class ski project that includes 25 condominiums with a “ski-in and ski-out” feature. From 1996 to 2000, Mr. Dalton served as an officer and director of Biomune Systems, Inc. Prior to joining us and following his resignation from Biomune Systems, Mr. Dalton managed his personal investments.

Michael Acton – Secretary, Treasurer and Chief Financial Officer

Mr. Acton joined us as Secretary-Treasurer in March 1999. He has also served as our CFO since March 2001. From June 1998 until November 2000, Mr. Acton was Chief Executive Officer of Biomune Systems, Inc., where he also served as Principal Accounting Officer and Controller from 1994 to 1997. From 1989 through 1994, Mr. Acton was employed by Arthur Andersen, LLP in Salt Lake City, Utah, where he performed various tax, audit, and business advisory services. He is a Certified Public Accountant in the State of Utah.

Bruce G. Derrick – Chief Technology Officer

Mr. Derrick has extensive experience in management of custom solutions development and customer management in the wireless telecom marketplace. From 2001 to 2004 was a senior product development manager for WatchMark Corporation. WatchMark collects cellular network performance data for quality assurance and capacity planning. From 1997 to 2001, Mr. Derrick was responsible for forming and managing the Professional Services team for Marconi’s MSI division. From 1996 to 1997, Mr. Derrick provided technical project management of application scalability testing and quality control at Boeing and Western Wireless. From 1989 to 1996, Mr. Derrick built and managed the Corporate Computer and Network Operations department for Avaya’s Mosaix division. From 1983 to 1989, he served as Senior Programmer in applied research at the University of Utah’s Department of Medical Informatics where he developed and implemented medical informatics and physiological monitoring services for ICU care. He also participated in development of IEEE standards for automated physiological monitoring for NASA’s Space Station program. Mr. Derrick holds a Bachelor’s Degree in Computer Science from the University of Utah. Bruce Derrick is the brother of David Derrick, the Chairman and CEO of the Company.

Peter McCall – Director

Mr. McCall joined our board of directors in July 2001. Mr. McCall began his career in the mortgage finance business in 1982. As a Vice President of GE Mortgage Securities, he oversaw the first mortgage securities transactions between GE Capital Corporation and Salomon Brothers. For fifteen years, Mr. McCall structured and sold both mortgage and asset backed security transactions. In 1997 Mr. McCall founded McCall Partners LLC. McCall Partners is an investment vehicle for listed and non-listed equity securities. Mr. McCall is also a member of the Board of Directors of Premium Power Corporation of North Andover, MA. Mr. McCall is a member of the Audit Committee and the Compensation Committee of the board of directors.

Robert Childers – Director

Mr. Childers joined our board in July 2001. Since 1977, he has served as the Chief Executive Officer of Structures Resources Inc., a firm which he founded in 1972, and has more than 30 years of business experience in construction and real estate development. Mr. Childers has served or is currently serving as General Partner in 16 Public Limited Partnerships in the Middle Atlantic States. Partners include First Union Bank and Fannie Mae. Structures Resources has successfully completed over 300 projects (offices, hotels, apartments, and shopping centers) from New York to North Carolina. Recently Mr. Childers has been a partner for various projects in Baltimore and Philadelphia. He is a co-founder of Life Science Group, a boutique biotech investment-banking firm. Mr. Childers was also the founding President of Associated Building Contractors for the State of West Virginia and served as a director of The Twentieth Street Bank until its merger with City Holding Bank. He is a former naval officer serving in Atlantic fleet submarines. Mr. Childers is a member of the Audit Committee and Compensation Committee of the board of directors.

Larry G. Schafran - Director

Mr. Schafran is currently associated with Providence Recovery Partners, LP (“PRP, LP”) as a Managing General Partner. PRP, LP is a New York City-based activist investment fund. Mr. Schafran is also currently a Director and Audit Committee Chairman of PubliCard, Inc. and Tarragon Corporation, both publicly traded. Additionally, Mr. Schafran was Lead Director and Audit Committee Chairman and is now a Consultant to the Chairman of WorldSpace,

Inc., and a Director of Glasstech, Inc.

In recent years, Mr. Schafran served in several capacities, including, as a Trustee, Chairman/Interim-CEO/President and Co-Liquidating Trustee of Special Liquidating Trust of Banyan Strategic Realty Trust; Director and/or Chairman of the Executive Committees of Dart Group Corporation, Crown Books Corporation, TrakAuto Corporation, and Shoppers Food Warehouse, Inc. (Vice-Chairman); Director and Member of the Strategic Planning and Finance Committees of COMSAT Corporation., and Managing General Partner of L. G. Schafran & Partners, LP, a real estate investment and development firm. Mr. Schafran is the Audit Committee Chairman of the Company.

David P. Hanlon - Director

Mr. Hanlon is currently Chief Executive Officer and President of Empire Resorts, Inc., a public company in the gaming industry. 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. From 1994-1995, Mr. Hanlon served as President and Chief Executive Officer of International Game Technology, the world's leading manufacturer of microprocessor gaming machines. From 1988-1993, Mr. Hanlon served as President and Chief Executive Officer of Merv Griffin's Resorts International, and prior to that, Mr. Hanlon served as President of Harrah's Atlantic City (Harrah's Marina and Trump Plaza). 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 he completed the Advanced Management Program at the Harvard Business School.

Randy E. Olshen – President of SecureAlert, Inc.

Prior to joining SecureAlert, Inc., Mr. Olshen was the Executive Vice President for Elan Nutrition from 2001 to 2004. From 1998 to 2001, Mr. Olshen was the President of Optim Nutrition, a wholly-owned subsidiary of Biomune Systems (NASDAQ: BIME). From 1992 to 1998, Mr. Olshen was the Executive Vice President of Sales, Marketing and Operations at Nellson Nutraceutical. From 1987 to 1992 Mr. Olshen was the General Manager of the specialty products division of a \$500 million pharmaceutical company, McGaw, Inc. He currently serves as a director and a member of the compensation committee for two companies, Helios Nutrition and Dr. Soy Nutrition. Mr. Olshen earned his Bachelor's degree from Chapman College.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and persons who beneficially own more than 10% of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than 10% shareholders are required by regulation of the Securities and Exchange Commission to furnish us with copies of all Section 16(a) forms they file.

Based solely upon its review of the copies of such forms furnished to it, and representations made by certain persons subject to this obligation that such filings were not required to be made, RemoteMDx believes that all reports required to be filed by these individuals and persons under Section 16(a) were timely filed, except as follows: In 2005 prior to the Company trading, Mr. Derrick and Mr. Dalton filed late Forms 4 but all transactions were disclosed in subsequently filed Forms 5.

The Board of Directors

Directors hold office until the next annual meeting of the shareholders and until their successors have been elected or appointed and duly qualified. Executive officers are elected by the board of directors and hold office until their successors are elected or appointed and duly qualified. Vacancies on the board which are created by the retirement, resignation or removal of a director may be filled by the vote of the remaining members of the board, with such new director serving the remainder of the term or until his successor shall be elected and qualify.

The holders of record of the shares of Series C Preferred Stock, exclusively and as a separate class, shall be entitled to elect two directors of the Board of Directors of the Corporation (the "Series C Directors"). Any director elected as provided in the preceding sentence may be removed without cause by, and only by, the affirmative vote of the holders of

the shares of the class or series of capital stock entitled to elect such director or directors, given either at a special meeting of such stockholders duly called for that purpose, or by written consent. The holders of record of the shares of Common Stock and of any other class or series of voting stock (including the Series C Preferred Stock), exclusively and voting together as a single class, shall be entitled to elect the balance of the total number of directors of the Corporation.

At any meeting held for the purpose of electing a director, the presence in person or by proxy of the holders of a majority of the outstanding shares of the class or series entitled to elect such director shall constitute a quorum for the purpose of electing such director. A vacancy in any directorship filled by the holders of any class or series shall be filled only by vote of the holders of such class or series or by any remaining director or directors elected by the holders of such class or series pursuant to this Section.

The board of directors met one time during fiscal year 2006. No director attended fewer than 75% of the meetings during the fiscal year. The board also acted three times during fiscal year 2006 by unanimous written consent in lieu of a meeting, as permitted by Utah law and our bylaws. The board has an Audit Committee, currently comprised of Mr. Schafran and Mr. McCall, and a Compensation Committee, currently comprise of Mr. Childers and Mr. McCall.

The functions of the Audit Committee are (1) to review and approve the selection of, and all services performed by, our independent auditors, (2) to review our internal controls, and (3) to review and report to the board of directors with respect to the scope of our audit procedures, accounting practices and internal accounting and financial controls. Mr. Schafran and Mr. McCall are independent directors within the meaning of that term under applicable Securities and Exchange Commission rules.

Audit Committee Financial Expert

Larry Schafran, a director of the Company, is the financial expert serving on the Audit Committee of the Board of Directors within the meaning of that term under applicable rules promulgated by the Securities and Exchange Commission.

Compensation Committee

Bob Childers, a director of the Company, is serving as the head of the Company's compensation committee. Peter McCall is also a member of the Compensation Committee. The Committee shall have responsibility for developing and maintaining an executive compensation policy that creates a direct relationship between pay levels and corporate performance and returns to shareholders. The Committee shall monitor the results of such policy to assure that the compensation payable to the Company's executive officers provides overall competitive pay levels, creates proper incentives to enhance shareholder value, rewards superior performance, and is justified by the returns available to shareholders.

Remuneration

Non-employee directors are entitled to receive \$5,000 per month and receive a grant of an option to acquire 50,000 shares of common stock for each completed year of service on the board. We also reimburse the reasonable travel expenses of members for their attendance at the meetings of the board and meetings of the shareholders.

Code of Ethics

The Company has established a Code of Business Ethics that applies to its officers, directors and employees. The Code of Business Ethics contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics, and is intended to qualify as a "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. The Code of Business Ethics is attached as Exhibit 14 to this Annual Report on Form 10-KSB.

There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors.

Item 10. Executive Compensation

The following table sets forth the compensation paid in each of the past three fiscal years to all individuals serving as our chief executive officer during the year ended September 30, 2006, as well as our three most highly compensated executive officers other than the CEO who were serving as executive officers at the end of the year ended September 30,

2006, whose total annual salary and bonus for the year then ended exceeded \$100,000 (the “Named Executive Officers”).

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation Awards	All other compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Securities Underlying Options/SARs (#)	
David G. Derrick, Chief Executive Officer Chairman of the Board of Directors (1)	2004	\$120,000	\$ 0	\$ 53,910	845,628/0	\$ 0
	2005	\$240,000	\$300,000 (6)	\$ 0	0/0	\$ 0
	2006	\$240,000	\$321,428(6)	\$ 0	0/0	\$ 0
James J. Dalton President and Vice Chairman (2)	2004	\$120,000	\$ 0	\$ 0	0/0	\$ 0
	2005	\$240,000	\$300,000 (6)	\$ 0	0/0	\$ 0
	2006	\$240,000	\$321,428(6)	\$ 0	0/0	\$ 0
Randy Olshen President of SecureAlert, Inc. (3)	2006	\$149,000	\$50,000	\$ 0	0/0	\$ 60,000(6)
Bryan Dalton Vice President of Sales (4)	2006	\$78,000	\$50,000	\$ 0	0/0	\$ 60,000(6)
Michael G. Acton Chief Financial Officer (5)	2004	\$100,000	\$25,000	\$ 4,192	0/0	\$ 0
	2005	\$100,000	\$25,000	\$ 0	0/0	\$ 35,000(6)
	2006	\$100,000	\$45,357	\$ 0	0/0	\$ 60,000

- (1) Mr. Derrick became Chief Executive Officer in February 2001. Amounts reported in the table do not include amounts recorded by the Company under applicable accounting principles for non-cash compensation paid to ADP Management, a company controlled by Mr. Derrick, in connection with financing transactions that were entered into by the Company and ADP Management during the years 2004, 2005 or 2006. Salary was accrued and included in amounts owed to ADP Management under various financing agreements. Mr. Derrick is the principal owner and control person of ADP Management. See “Certain Relationships and Related Party Transactions.”
- (2) During 2004, 2005 and 2006, Mr. Dalton was paid \$120,000, \$240,000 and \$240,000 a year under a consulting agreement. Mr. Dalton's annual salary as President is \$240,000. The consulting fees and salary owed to Dalton have historically been accrued as part of the ADP Management financing arrangements. Other amounts have been paid or accrued during 2006. See “Certain Relationships and Related Transactions.”
- (3) Mr. Olshen became President of SecureAlert during the 2006 fiscal year.
- (4) Mr. Bryan Dalton became Vice-President of Sales during the 2006 fiscal year.
- (5) Mr. Acton has served as an executive officer since March 2001.
- (6) These payments were made by issuing restricted common stock.

Employment Agreements

We have no employment agreements with any executive officers at this time.

Stock Option Grants in Fiscal Year 2006

During fiscal year 2006, the Company granted 750,000 warrants to each Mr. Derrick and Mr. Dalton with an exercise price ranging of \$0.54 to \$0.56 per share. All of these warrants are five-year warrants and expire in 2011. In addition, 1,250,000 options at \$0.54 per share vested during the fiscal year ended September 30, 2006 to Mr. Derrick and Mr. Dalton respectively.

Stock Options Outstanding and Options Exercised in Fiscal Year 2005

The following table sets forth certain information, including the fiscal year-end value of unexercised stock options held by the Named Executive Officers, as of September 30, 2006. We have not granted any stock appreciation rights (“SAR’s”).

Name	Shares Acquired		Number of Securities Underlying Unexercised Options	
	on Exercise (#)	Value Realized (\$)	At 9/30/2006 Exercisable / Unexercisable	Value of Unexercised In-the-Money Options / SARs At 9/30/2006 (\$)
David G. Derrick (2)	-	-	4,886,155 / 0	\$6,954,925 / \$0
James J. Dalton (2)	-	-	4,886,155 / 0	\$6,954,925 / \$0
Randy Olshen (3)	-	-	25,000 / 975,000	\$34,570 / \$1,355,250
Bryan Dalton (4)	-	-	25,000 / 975,000	\$34,570 / \$1,355,250
Michael G. Acton (5)	-	-	200,000 / 500,000	\$274,000 / \$695,000

- (1) Value is based on the fair market value of our common stock on September 30, 2006 in the amount of \$1.99 per share.
- (2) Mr. Derrick and Mr. Dalton hold 3,250,000 options with exercise prices ranging from \$0.54 to \$0.60 per share respectively. In addition, 1,636,155 options ranging from \$0.54 to \$0.75 per share issued to ADP Management are included in both Mr. Derrick and Mr. Dalton’s options in the table above. “Certain Relationships and Related Transactions.”
- (3) The exercise price of these options are \$0.60 per share.
- (4) The exercise price of these options are \$0.60 per share.
- (5) The exercise prices of these options range from \$0.54 to \$0.70 per share.

Stock Plans

The 2006 RemoteMDx, Inc. Stock Incentive Plan

On July 10, 2006, the Board of Directors approved the 2006 RemoteMDx, Inc Stock Incentive Plan (“2006 Plan”). The shareholders approved this plan on July 10, 2006. Under the 2006 Plan, the Company may issue stock options, stock appreciation right, restricted stock awards and other incentives to our employees, officers and directors. The 2004 Plan provides for the award of incentive stock options to our key employees and directors and the award of nonqualified stock options, stock appreciation rights, bonus rights, and other incentive grants to employees and certain non-employees who have important relationships with us or our subsidiaries. A total of 10,000,000 shares are authorized for issuance pursuant to awards granted under the 2006 Plan. No grants have been made under this plan.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This Item 11 sets forth information known to us with respect to the beneficial ownership of our common stock as of December 10, 2006. We have determined beneficial ownership in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, we include shares of common stock subject to options, warrants, or convertible securities held by that person that are currently exercisable or will become exercisable within 60 days after December 10, 2006, while those shares are not included for purposes of computing percentage ownership of any other person. Unless otherwise indicated, the persons and entities named in the table have sole voting and investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

Security Ownership of Certain Beneficial Owners

The following table sets forth information for any person (including any “group”) who is known to us to be the beneficial owner of more than 5% of our common stock.

Title of Class	Name and Address of Beneficial Owner (1)	Amount Owned	Percent of Class
Common	VATAS Holdings GmbH(2)	11,785,717	14.39%
Common	David G. Derrick (3)	11,520,076	14.09%
Common	James Dalton (4)	11,291,365	13.81%
Common	J. Lee Barton (5) 196 No. Forest Ave. Hartwell, GA 30643	7,282,961	8.99%
Common	ADP Management Corp.(6)	6,259,691	7.68%

- (1) Unless otherwise indicated, the business address of the shareholder is the address of the Company, 150 West Civic Center Drive, Suite 400, Sandy, Utah 84070.
- (2) Includes 3,000,000 shares of common stock, 1,785,717 are issuable upon conversion of Series C preferred stock, and 7,000,000 shares issuable upon exercise of warrants.
- (3) Includes shares owned of record as follows: 3,278,527 shares held of record by ADP Management, 1,716,270 shares owned of record by Mr. Derrick, 1,345,009 shares issuable upon conversion of Series A preferred stock owned of record by ADP Management, 294,115 shares issuable upon conversion of Series B preferred stock owned of record by Mr. Derrick, 1,636,155 shares issuable upon exercise of stock options held by ADP Management, and 3,250,000 shares issuable upon exercise of stock options held by Mr. Derrick. Mr. Derrick is the secretary and treasurer of ADP Management.
- (4) Includes shares owned of record as follows: 3,278,527 shares held of record by ADP Management (by agreement with Mr. Derrick, Mr. Dalton shares control and beneficial ownership of the shares owned of record by ADP Management), 1,486,725 shares owned of record by Mr. Dalton, 294,949 shares issuable upon conversion of Series A preferred stock owned of record by Mr. Dalton,

1,345,009 shares issuable upon conversion of Series A preferred stock owned of record by ADP Management, 1,636,155 shares issuable upon exercise of stock options held by ADP Management, and 3,250,000 shares issuable upon exercise of stock options held by Mr. Dalton.

- (5) Includes 2,621,347 shares owned directly by Mr. Barton, 3,768,757 shares owned of record by Lintel, Inc., an entity owned and controlled by Mr. Barton, and 892,857 shares issuable upon conversion of 297,619 shares of Series C preferred stock owned of record by Lintel, Inc.
- (6) Includes 3,278,527 shares owned of record, 1,345,009 shares issuable upon conversion of Series A preferred stock, and 1,636,155 shares issuable upon exercise of stock options held by ADP Management.

Security Ownership of Management

We have three classes of voting equity securities, the common stock, Series B preferred stock and the Series C preferred stock. In addition, we have a class of nonvoting Series A preferred stock that is convertible into common stock. The following table sets forth information as of September 30, 2006, as to the voting securities beneficially owned by all directors and nominees named therein, each of the named executive officers, and directors and executive officers as a group.

Title of Class	Name and Address of Beneficial Owner(9)	Amount Owned	Percent of Class
Common	David G. Derrick (1)	10,175,067	12.65%
	James Dalton (2)	9,651,407	12.04%
	Michael G. Acton (4)	1,070,507	1.34%
	Peter McCall (5)	720,000	*
	Robert Childers (6)	725,514	*
	Larry Schafran (7)	1,200	*
	Randy Olshen (8)	1,000,000	1.25%
	David Hanlon	0	*
	Officers and Directors as a Group (6 persons) (9)	22,342,495	21.43%

-
- (1) Derrick's beneficial ownership of these shares is summarized in note (2) above.
 - (2) Dalton's beneficial ownership of these shares is summarized in note (3) above.
 - (3) ADP's beneficial ownership of these shares is summarized in note (5) above.
 - (4) Mr. Acton is the Chief Financial Officer of the Company. Includes 700,000 shares issuable under options granted to Mr. Acton, and 370,507 shares owned of record by Mr. Acton.
 - (5) Mr. McCall is a director. Includes 720,000 shares issuable upon exercise of stock options held by Mr. McCall.
 - (6) Mr. Childers is a director. Includes (a) 305,514 shares of common stock owned of record by the Robert E. Childers Living Trust, (b) 420,000 shares issuable upon exercise of stock options held by Mr. Childers.
 - (7) Mr. Schafran is a director. Includes 1,200 shares held in Mr. Schafran's retirement account.
 - (8) Mr. Olshen is the President of SecureAlert, Inc. Includes 1,000,000 shares issuable under options granted to Mr. Olshen.
 - (9) Duplicate entries eliminated.

Unless otherwise indicated, the business address of the shareholder is the address of the Company, 150 West Civic Center Drive, Suite 400, Sandy, Utah 84070.

*Less than 1% ownership percentage.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information as of the September 30, 2006, our most recently completed fiscal year, with respect to compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance, aggregated as follows:

- All compensation plans previously approved by security holders; and
- All compensation plans not previously approved by security holders.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	10,000,000	\$0.00	10,000,000

Item 12. Certain Relationships and Related Transactions and Director Independence

The following discussion summarizes transactions between the Company and related parties.

ADP Management Line of Credit Arrangement

As of September 30, 2006, the Company owed \$44,549 to ADP Management, an entity owned and controlled by two of the Company's officers and directors, under a line-of-credit agreement. Outstanding amounts on the line of credit accrue at 5% and are due on July 31, 2007. During the year ended September 30, 2006, the line of credit increased \$662,282 due to a monthly management fee, including Mr. Derrick and Mr. Dalton's salary, owed to ADP Management and expenses incurred by ADP Management that are reimbursable by the Company. The Company made cash repayments during the year of \$635,348.

As of the date of this Report, the Company's common stock traded on the OTC Bulletin Board (the "Bulletin Board"). The Bulletin Board does not impose on the Company standards relating to director independence or the makeup of committees with independent directors, or provide definitions of independence. Nevertheless, the Company has undertaken to appoint four individuals to its Board of Directors, Messrs. Schafran, McCall, Childers and Hanlon, who are independent under the NASDAQ Marketplace Rules and those standards applicable to companies trading on NASDAQ.

Specifically, neither Mr. Schafran, Mr. Hanlon, Mr. Childers or Mr. McCall

- have been any time during the past three years was, employed by the Company or by any parent or subsidiary of the Company;
- have accepted or has a family member who accepted any compensation from the Company in excess of \$60,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:
 - (i) compensation for board or board committee service;
- is a family member of an individual who is, or at any time during the past three years was, employed by the Company as an executive officer;

- is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the Company made, or from which the company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more:
- is, or has a family member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the Company serve on the compensation committee of such other entity; or
- is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years.

The Company has the following committees comprised of the following directors:

Audit Committee:

Independent Directors: Mr. Schafran and Mr. McCall
 Non-Independent Directors: Mr. Derrick

Compensation Committee

Independent Directors: Mr. Childers and Mr. McCall
 Non-Independent Directors: Mr. Derrick

Item 13. Exhibits

The following exhibits are filed herewith or are incorporated by reference to exhibits previously filed with the Commission:

(a) Exhibits

<u>Exhibit Number</u>	<u>Title of Document</u>
3.01(1)	Articles of Incorporation dated July 27, 1995 and Articles of Amendment dated September 8, 1997 (incorporated by reference to Exhibit 3 to the Company's Registration Statement and Amendments thereto on Form 10-SB, filed October 1, 1997).
3.01(2)	Articles of Amendment dated July 31, 2001 to Articles of Incorporation, and changing name of Company to RemoteMDx, Inc.
3.01(3)	Certificate of Amendment to Designation of Rights and Preferences dated June 15, 2001, adopting Amended and Restated Designation of Rights and Preferences of Series A 10% Convertible Non-Voting Preferred Stock.
3.01(4)	Articles of Amendment dated July 31, 2001 to Articles of Incorporation adopting Designation of Rights and Preferences of Series B Convertible Preferred Stock.
3.01(5)	Certificate of Amendment dated January 16, 2002 to Designation of Rights and Preferences Related to Series A 10% Cumulative Convertible Preferred Stock of RemoteMDx, Inc., adopting Third Amended and Restated Designation of Rights and Preferences of Series A 10% Convertible Non-Voting Preferred Stock (incorporated by reference to Exhibit 3 to the Annual Report on Form 10-KSB of the Company filed January 22, 2002).
3.01(6)	Certificate of Amendment dated December 16, 2003 to Designation of Rights and Preferences Related to Series A 10% Cumulative Convertible Preferred Stock of RemoteMDx, Inc., increasing number of shares of Series A Preferred to 40,000.

- 3.01(7) Articles of Amendment to the Articles of Incorporation of the Company dated October 3, 2005, increasing number of shares of Common Stock to 100,000,000.
- 3.02 Bylaws of the Company adopted August 28, 1995 (incorporated by reference to Exhibit 3 to our Registration Statement on Form 10-SB, filed October 1, 1997)
- 10.01 Form of Senior Secured Convertible Promissory Note in aggregate principal amount of \$500,000 dated December 27, 2005.
- 10.02 1997 Stock Incentive Plan (incorporated by reference to our Registration Statement and Amendments thereto on Form 10-SB, effective December 1, 1997).
- 10.03 2004 RemoteMDx Stock Option Plan (incorporated by reference to the definitive proxy statement of the Company filed on May 19, 2004).
- 10.04 Agreement for cellular service with AT&T dated October 14, 2004.
- 10.05 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).
- 10.06 License Agreement between RemoteMDx, Inc. and SecureAlert, Inc. as licensor and Matsushita Electric Works, Ltd., as licensee (April 12, 2002; previously filed as an exhibit 10 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2002).
- 10.07 Agreement with ADP Management, Derrick and Dalton (April 2003; previously filed as an exhibit 10 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2003).
- 10.08 Form of Convertible Note Purchase Agreement between the Company and certain investors, together with exhibits including form of Convertible Note (previously filed as an exhibit to the Company Current Report on Form 8-K filed on November 2, 2005).
- 10.09 Form of Convertible Bridge Note purchase agreement between the Company and certain investors, together with exhibits including form of Convertible Bridge Note (previously filed as an exhibit to the Company Current Report on Form 8-K filed on November 2, 2005).
- 10.10 Form of Debenture Purchase Agreement between the Company and certain investors, together with exhibits including form of Debenture and Debenture Registration Rights Agreement (previously filed as an exhibit to the Company Current Report on Form 8-K filed on November 2, 2005).
- 14 Code of Ethics ([filed herewith](#)).
- 31.1 Certification of President and Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 ([filed herewith](#)).
- 31.2 Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 ([filed herewith](#)).
- 32 Certification under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. SECTION 1350) ([filed herewith](#)).

Item 14. Principal Accountant Fees and Services

For the years ended September 30, 2006 and 2005, Hansen, Barnett and Maxwell (HBM) provided audit services for the Company.

Audit Fees

Audit services consist of the audit of the annual consolidated financial statements of the Company, and other services related to SEC filings and registration statements filed by the Company and its subsidiaries and other pertinent matters. Audit fees paid to HBM for fiscal years 2006 and 2005 totaled approximately \$94,000 and \$50,000, respectively.

Tax Fees, Audit Related Fees, and All Other Fees

HBM has not provided any consulting services to the Company in fiscal years 2006 and 2005, including tax consultation and related services, nor did HBM perform any financial information systems design and implementation services for the Company in either period.

The Audit Committee of the Board of Directors considered and authorized all services provided by HBM and considered that the provision of non-audit services was compatible with maintaining auditor independence.

SIGNATURES

In accordance with Section 13 and/or 15(d) of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RemoteMDx, Inc.

By: _____
David G. Derrick, Chief Executive Officer

Dated: December ____, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ David G. Derrick	Director, Chairman, and Chief Executive Officer (principal executive officer)	December ____, 2006
_____ James Dalton	Director, Vice Chairman, President	December ____, 2006
_____ Peter McCall	Director	December ____, 2006
_____ Robert E. Childers	Director	December ____, 2006
_____ Larry G. Schafran	Director	December ____, 2006
_____ David P. Hanlon	Director	December ____, 2006
_____ Michael G. Acton	Chief Financial Officer (principal financial officer)	December ____, 2006

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David G. Derrick, certify that:

1. I have reviewed this annual report on Form 10-KSB 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) 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: December ____, 2006

David G. Derrick
Chief Executive Officer

CERTIFICATION OF CFO

I, Michael G. Acton, certify that:

1. I have reviewed this annual report on Form 10-KSB 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) 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: December ____, 2006

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 Annual Report of RemoteMDx, Inc. on Form 10-KSB for the period ended September 30, 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.

David G. Derrick
Chief Executive Officer
RemoteMDx, Inc.

Michael G. Acton
Chief Financial Officer

Dated: December ___, 2006