COMPANY INTERVIEW

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SECTOR – SECURITY & PROTECTION SERVICES

(AET616) TWST: Would you give us a brief historical sketch of the company and a picture of the things you’re doing at the present time?

Mr. Vana: The company has actually been around since 1995. It was founded for the purpose of developing GPS-enabled tracking devices for the criminal justice industry. Our current product was deployed in 2002. We have units in the field today in 46 states. We are in the process of developing our next generation product, a prototype of which was introduced last month at the APPA Show in Chicago. Currently, we’re very heavily invested in research and development, sales, and customer support because we see the market today as having reached a tipping point.

TWST: Would you comment on the size and the outlook for the market?

Mr. Vana: At the beginning of the year, there were approximately 10,000 to 11,000 GPS units in the field. Now, in electronic monitoring in total, there are approximately 150,000 electronic monitoring devices, most of those being RF or traditional house arrest devices. What’s happening in the market is that the technology has matured to the point where it works very well for GPS, with the integration of GPS in cellular technology as well as the awareness of the technology. It seems like you can’t do a Google search or pick up a newspaper or turn on a national newscast without hearing about GPS monitoring, especially in the area of sex offender monitoring. So the market has really started to take off. We see around 100% growth in the number of GPS units for 2006, and we see that growth rate being extended into 2007.

TWST: Would you describe your current products and tell us what the next generation product might look like?
Mr. Vana: The current product is basically made up of three components. The first component is a tracking device or a personal tracking unit (PTU), if you will, that the offender wears on their hip much like a cell phone or a PDA. It has the GPS receiver, the cellular modem, the co-processor, and memory chip. What that device does is it stores scheduling and geofencing information on the offender. It takes a GPS tracking point every 10 seconds and compares that tracking point against their scheduling and geofencing information to determine whether or not the offender has violated the terms of their release. If the offender is somewhere where they are not supposed to be, the tracking unit itself knows it. It knows within 10 seconds and it will immediately provide notification back to the parole officer or probation officer, also providing the location information and what type of violation the offender committed.

There is also a transmitter, much like what is used in the traditional house arrest environment and this transmitter, which is affixed to the offender’s ankle, is on the offender for the entire time the offender is on the program. It emits a continual RF signal that is picked up by the personal tracking unit. So it acts as a tether to the personal tracking unit to make sure that the offender has the tracking unit with him because, if the offender were to leave the tracking unit behind somewhere, the tracking unit would stop picking up the transmission from the ankle bracelet and an alert notification would be provided back to the parole officer or probation officer.

The third component is the base unit, which acts as a recharger. When the offender gets home at night, they put the tracking unit into the base unit and it recharges the battery.

TWST: What is your next generation product?

Mr. Vana: I am not going to go into too much detail about our next generation product yet because we haven’t released it yet to production. We’ve kind of kept that close to the vest, but it will revolutionize the GPS monitoring of offenders. It will be, far and away, the smallest device in the industry, the most functional and feature rich, and the easiest to use. It will be about the size of an iPod.

TWST: Is much co-operation required on the part of the offender who is wearing it? And how does it affect the offender?

Mr. Vana: Part of the concept of GPS monitoring is that if the offender knows that they are being watched 24/7, if they know that a tracking point is being taken every 10 seconds and notifications are being provided if they violate the terms of their release, then that in itself will incent compliance. Studies have been done that support this. I guess the most well known is the Florida Study, which I believe was done in 2002. It showed 50% reduction in recidivism for offenders who were on electronic monitoring versus a controlled group that was not. So there is certainly quite a bit of evidence out there that shows that the re-offense rate and the recidivism rate are greatly reduced with offenders who are being electronically monitored.

“We have the best GPS product on the market today, but we’re not going to rest on our laurels and that’s why we’re coming out with the next generation unit. It will allow us to more deeply penetrate the GPS market and grow that market. Here at iSECUREtrac, we talk about our GPS product because that’s our flagship product, but we provide a full array of electronic monitoring products and services, including traditional RF, voice recognition, and breath alcohol monitoring.”
COMPANY INTERVIEW — iSECURERTRAC CORP.

TWST: Would you describe the competitive landscape? What are the advantages that your company enjoys within that landscape?

Mr. Vana: There are basically two types of companies out there. There are three companies that come from the traditional house arrest environment that have a large base of house arrest offenders that are being monitored. These companies have recently entered the GPS monitoring market and came out with GPS monitoring devices, but most of those are cell phone based units. They are consumer products that were modified for the offender monitoring market. Most of these products don’t have the tamper evident alerts and they are not as durable.

For example, with one of the products out there, the offender can remove the SIM card from the cell phone, put it in another cell phone to get the telephone number off of it and then put that SIM card back into the tracking device and then the offender can have all their friends call them on the tracking device. So there are certainly a number of issues with the cell phone-based unit.

There is also a one-piece unit that is being marketed by some companies. The problem with the one-piece unit is that it is easily defeated. Since there is no integration with curfew management functionality, all the offender needs to do is cover up — just wrap the one-piece device in tin foil to block the GPS signal — and the offender can go anywhere they want to. The parole officer would have no idea because it would block the unit from collecting the GPS signal. Since it’s affixed to the offender at all times, there is no motion detection. So you have no idea if the offender is on the move or not. In the two types of competitors out there, like I said, there is the traditional RF competitor that’s been in the RF business that is moving into the GPS and there are the companies that have started out as GPS monitoring, like iSECURERtrac. We were founded as a GPS offender monitoring company. We developed our unit for the offender monitoring industry. So it has 26 different alerts that could be generated from violation notifications or tamper notifications. It is virtually impossible to defeat our unit.

TWST: What is the company’s strategy for the next few years? You’re introducing this next generation product. What follows from that then?

Mr. Vana: It’s kind of a twofold strategy. Number one is that, currently, we have the best GPS product on the market today, but we’re not going to rest on our laurels and that’s why we’re coming out with the next generation unit. It will allow us to more deeply penetrate the GPS market and grow that market. Here at iSECURERtrac, we talk about our GPS product because that’s our flagship product, but we provide a full array of electronic monitoring products and services, including traditional RF, voice recognition, and breath alcohol monitoring. We also have a 24/7 monitoring center, and we provide install/de-install services. So we’re really widening the net. Historically, iSecureTac has led with our GPS and really just pretty much talked about our GPS. Now, what we’re starting to do is talk about the full array of services that we offer. We offer offender billing services, we offer install/de-install services, and we offer program management services. So we’ve really widened the net and are really poised to take advantage of the explosive growth in this market.

TWST: What are the feelings at the company regarding mergers and acquisitions?

Mr. Vana: The company is always looking at opportunities to grow through M&A as well as organically. We acquired a company back in 2003, which added our 24/7 monitoring as well as some
additional products to our offering. We believe that there will be some consolidation in this industry as the market matures. So we’re always open to that, but we are looking for opportunities that are accretive to shareholder value.

**TWST:** What possible challenges or problems might concern you over the next few years?

**Mr. Vana:** Obviously, as the market heats up, there will be new entrants into the market space. Mostly what we see are new entrants that don’t fully understand the electronic monitoring of offenders. Probably, the biggest challenge right now is the confusion that they add to the market space. There is quite a bit of confusion, for example, that comes from the one-piece device. Now, we’re addressing that by talking to people about the risks of using one-piece devices. So that is how we are combating that. But as we move forward and the market grows, there will be additional competition, but we are poised to take on that competition.

**TWST:** How does the cost of your devices compare to the cost of other devices?

**Mr. Vana:** The cost of our device is higher than some and lower than most because our device is so manufacturable; it is almost fully automated and there is very little assembly required for our device. So that significantly reduces the manufacturing cost. In addition, it significantly reduces the out-of-box failure rate, as well as the ongoing maintenance and repair of our devices. The operating cost of our unit is far and away the lowest in the industry.

**TWST:** Where are your devices manufactured?

**Mr. Vana:** Our devices are manufactured by Altron, which is a company based out of a suburb of Minneapolis.

**TWST:** What is the picture that you would reasonably expect to see for the company in about three years, and what might be some milestones along the way?

**Mr. Vana:** I want to be a little bit careful about the vision I give for the company for a couple of reasons, but right now, we have about 40% of the GPS market. I see the market over the next two years growing at 100% rate per year and I see us at least maintaining that 40% market growth. I also see us getting into some other services. We’re getting into other services and generating additional ancillary revenues from those other services.

**TWST:** Would you tell us about your own background and expertise, and the same for a couple of the other key people in the company?

**Mr. Vana:** My background and education is in accounting and finance predominantly. I spent about eight years doing SEC accounting and reporting for a company that had 15 publicly traded master partnerships. I also spent a number of years in project management and product development. In fact, I spent the first two and a half years at iSECUREtrac heading up the product development of our current product. I assumed the CFO role in February 2004. So I have pretty extensive experience in accounting, finance, project management, product development, and strategic planning.

Most of our executive team has actually been together for about five years, and so we work very well together. We complement each other very well.

**TWST:** How many employees do you have right now?

**Mr. Vana:** We have 72 employees.

**TWST:** Will that number have to go up, or could you increase the top line without adding too many employees?
Mr. Vana: That’s the beautiful part of this business. Our employee level can be leveraged greatly with this reoccurring revenue model. It does not require significant increase in our headcount. Aside from support personnel in our 24/7 monitoring and in our customer support organization, there is not significant employee increase requirements.

TWST: Do you see any need to improve the company’s capital structure?

Mr. Vana: I think the capital structure will take care of itself. From here on out, the only capital we need is for the financing of our revenue generating monitoring devices. We just recently inked a deal with a leasing company for a $2.25 million line. That will take us well into 2007. And from there, we will be profitable, and I have some other financing lines lined up behind that.

TWST: What are you doing with investor relations?

Mr. Vana: I have weekly conference calls with brokers, analysts, and portfolio managers. I also go on road shows about every three to four months. We line up 12 to 15 meetings with various brokers, analysts, and portfolio managers in New York, San Francisco, or Minneapolis — we will kind of vary it. We probably put out 20 investor kits a week. I field every shareholder who calls in or every prospective investor who calls in. I take the call personally or our investor relations firm will handle the calls. So we take the investor relations function very, very seriously.

TWST: What is the picture in other countries regarding GPS tracking?

Mr. Vana: The international market is very interesting. It’s about 18 months behind the US market. We are keeping our eye out on the international market. We don’t talk too much about it yet just because, first of all, we don’t want to tip the competition, being one of only two companies publicly traded in this market space, and secondly, real revenues won’t be generated from the international market until probably mid-to-late of next year. However, with that said, there are some very, very enticing things about the international market, the first one being that in the United States, there are some 5,000 criminal justice agencies, and so to sell to all of the United States, you have to deal with 5,000 different...
agencies. Internationally, the correctional systems in most countries are very centralized. So in many cases, you would deal with one agency for the entire country. So the transaction cost is much lower internationally, and so that is very enticing. With that said, we’ve just recently signed a contract with Nova Scotia and we see Canada as being a very good opportunity for us right now.

**TWST:** Is there anything that you would like to add, particularly regarding the company’s strategies and long-term objectives?

**Mr. Vana:** At some point in the future, the nice thing about our technology is that it’s highly overengineered for most GPS applications. Our ASP software model is easily adaptable to other verticals. When the time is right, we will take a look at some other verticals and that will be very exciting for us.

**TWST:** Thank you. (MC)

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