United States Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-K /A

Amendment No. 1

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission File No. 000-50343

INTEGRATED ALARM SERVICES GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**42-1578199**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
99 Pine Street, 3rd Floor, Albany, New York	**12207**
(Address of principal executive offices)	(Zip code)

(518) 426-1515
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:
NONE
Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2005, was $108,351,618.

The number of shares outstanding of the registrant's common stock as of March 14, 2006 was 24,368,836 shares.

DOCUMENTS INCORPORATED BY REFERENCE
None

Integrated Alarm Services Group, Inc.

FORM 10-K /A

For The Fiscal Year Ended December 31, 2005

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PART I

This Annual Report on Form 10-K/A contains forward-looking statements. The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

- general economic and business conditions;
- our business strategy for expanding our presence in our industry, including acquisitions;
- anticipated trends in our financial condition and results of operations;
- the impact of competition and technological change;
- existing and future regulations affecting our business; and
- other risk factors set forth under Item 9A - Risk Factors below.

You can identify forward-looking statements generally by the use of forward-looking terminology such as "believes," "expects," "may," "will," "intends," "plans," "should," "could," "seeks," "pro forma," "anticipates," "estimates," "continues," or other variations thereof, including their use in the negative, or by discussions of strategies, opportunities, plans or intentions. These forward-looking statements necessarily depend upon assumptions and estimates that may prove to be incorrect.

Although we believe that the assumptions and estimates reflected in the forward-looking statements contained in this Annual Report on Form 10-K are reasonable, we cannot guarantee that we will achieve our plans, intentions or expectations. The forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ in significant ways from any future results expressed or implied by the forward-looking statements.

EXPLANATORY NOTE

This Annual Report on Form 10-K/A (“Form 10-K/A”) is being filed as Amendment No. 1 to the Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2005. This Form 10-K/A is filed with the Securities and Exchange Commission (the “Commission”) solely for the purpose of amending Item 7 and Items 10-14 of the filing. Item 7 was revised to conform the format of the presentation of results of operations for 2004 to the format used for the 2005 discussion. Items 10-14 were revised to include information that had been incorporated by reference to the Registrant’s definitive proxy statement to be delivered to the shareholders in connection with the Registrant’s 2006 Annual Meeting of Shareholders. This amendment was necessary since the definitive proxy statement will not be filed with the Commission within the prescribed 120 day period from the Registrant’s fiscal year-end.

Unaffected items have not been repeated in this Form 10-K/A.

PART II

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

Executive Overview

The Company conducts business in the security industry through two segments:

- **Criticom International (Wholesale Segment)**
  The primary business activity is monitoring security alarms for customers of the independent alarm dealers that it serves. This division also offers administrative services such as billing and collection to dealers. Criticom also provides monitoring services to our other divisions.

- **Integrated Alarm Services and Protection Service Industries (Retail Segment)**
  The primary business activity of these divisions is servicing their residential and commercial customer bases respectively, with whom they have a contractual relationship to provide monitoring services. These divisions provide customer service, billing and collection functions to the portfolio of accounts. Revenue growth comes in the form of organic sales as well as the acquisition of customer contract portfolios. The monitoring of the customer’s system is performed primarily by Criticom International.

  This segment also provides financing to Dealers for acquisition and working capital.

Management’s approach to each of its security businesses is similar, with a focus on quality service, risk management and a patient and disciplined approach to markets. Management believes each business is a premium provider of services in the markets that it serves. The Company’s marketing and sales efforts are enhanced by its brands so the Company seeks to protect their value. Since the Company’s services focus on protecting people and valuables, its employees strive to understand and manage risk. Overlaying management’s approach is an understanding that the Company must be disciplined and patient enough to charge fair prices that reflect the value provided, the risk assumed and the need for an appropriate return on invested capital.

The business environments in which the Company’s security businesses operate throughout the United States are constantly changing. Management continually adapts to changes in the competitive landscapes, economic conditions in different parts of the country and each customer’s level of business. As a result, the Company operates largely on a decentralized basis so local management can adjust operations to its unique circumstances.

For the same reasons that the Company operates on a decentralized basis, short-term forecasts of performance are difficult to make with precision. As a result, the Company does not provide detailed earnings forecasts.

The Company measures financial performance on a long-term basis. The key financial factors on which it focuses are:

- Growth in revenues and earnings
- Attrition minimization
- Generation of cash flow
- Creation of value through portfolio growth

These and similar measures are critical components of the Company's employee performance evaluations.

The following discussion and analysis of our financial condition and results of operations should be read together with the Consolidated Financial Statements and Notes thereto.

Overview

We are one of the largest providers of monitoring, financing, and business support services to independent security alarm Dealers, which we refer to as "Dealers", in the United States. We offer our services to Dealers competing in both the residential and commercial security alarm markets. We believe our services better allow Dealers to compete with larger, self-monitoring national alarm companies. The major categories of services we provide include:

- Monitoring. We monitor alarm systems on behalf of Dealers who do not have the capital resources or critical mass to economically establish their own monitoring facilities and for our own accounts. We believe we are the largest wholesale alarm monitoring company in the United States, monitoring approximately 569,000 alarm systems on behalf of approximately 5,000 independent Dealers. We refer to this as our wholesale business and we currently receive approximately $3.1 million of revenue per month to monitor contracts owned by Dealers. Our alarm monitoring services are provided through two, state-of-the-art, redundant alarm monitoring centers located in New Jersey and California. The acquisition of FSS discussed below provided us with 50,000 new monitored alarm systems and approximately 140 new Dealer relationships (these are included in the above totals) as well as an alarm monitoring center in Minnesota.

- Financing. Since 1993, we have provided financing for Dealers in the form of loans or alarm monitoring contract purchases of approximately $501 million in the aggregate. As of December 31, 2005, we owned and monitored a portfolio of approximately 159,000 retail alarm monitoring contract equivalents. A contract equivalent is equal to $30 per month in RMR ("Recurring Monthly Revenue") from a typical residential customer. We refer to this as our retail business and we currently receive approximately $4.8 million of revenue per month from this portfolio. In addition, we hold approximately 45,000 contracts as collateral against loans we have made to Dealers. The FSS acquisition added approximately 34,000 contracts as collateral against loans made to Dealers (which we assumed in the acquisition) and these are included in the above totals.

- Business Support Services. For many of our Dealers, we provide billing, collection and marketing services as well as access to equipment discount programs. Because of our scale, we can generally provide these services on a more cost-effective basis for Dealers than they can for themselves. In addition, our equipment discount program allows Dealers who use our monitoring services to automatically receive preferential pricing for certain alarm equipment.

Our retail portfolio is comprised of both residential subscribers, which represent approximately 79% of our revenue in this segment, and commercial subscribers, which represent approximately 21% of our revenue in this segment. We believe maintaining an appropriate balance between residential and commercial customers will be important going forward.

We believe our package of services allows Dealers to compete against self-monitoring national providers in the security alarm market by giving them access to technical sophistication, financing, back office and other services that they would not otherwise have, while allowing them to remain the local and visible contact with their customer, the end-user of the security alarm system. We intend to continue to expand the number of Dealers for which we provide these services through direct marketing of our services as well as acquisitions of alarm contracts and alarm monitoring companies.

Our revenues are derived primarily from our portfolio of retail alarm monitoring contracts and providing wholesale alarm monitoring services to Dealers for the benefit of the end-user of the alarm system. We typically enter into contracts with our Dealers to provide alarm monitoring services for periods ranging from one to five years. The majority of monitoring contracts entered into by end-users with our Dealers generally permit cancellation with notice of 30-60 days before the end of the original, or any renewal, contract term. Some alarm monitoring contracts with Dealers have longer, more definitive terms. However, essentially all alarm monitoring contracts may be broken for non-performance. Our alarm monitoring contracts with Dealers may require the Dealer to place its entire portfolio of end-user alarm monitoring contracts in our monitoring centers. Our revenues will fluctuate based upon changes in the net number of end-user alarm monitoring contracts and the timing of connections and disconnections that any one Dealer has with us. Our revenues will also fluctuate based upon the number of Dealers that are added or lost during any particular period. We may gain or lose Dealers based upon the quality, range or price of the services we provide relative to what is provided by our competitors and the effectiveness of our sales and marketing efforts. Our revenues may also be affected by the application of various pricing strategies we may choose to use with our Dealers.

In addition to our organic revenue growth, our revenues will increase because of acquisitions of retail alarm monitoring contracts and Dealer relationships and their related wholesale alarm monitoring business. Our RMR derived from acquired businesses are also subject to the standard risks associated with any acquisition and subsequent integration. We may suffer attrition because of differences in, among other things, the application of policies and procedures, or disruption caused by any conversion or consolidation activity.

The cost of services is primarily a function of labor, telecommunication, data processing and technical support costs. Labor costs are driven in part by the number and productivity of operators, supervisors and management within our alarm monitoring centers that provide alarm monitoring services on behalf of our Dealers' customers. Labor costs are also a function of the quality of our data processing, customer service and quality management functions. Labor costs also reflect the number of technical staff required to maintain and develop our state-of-the-art monitoring systems. Telecommunication costs reflect, among other things, the number of signals processed, the time required to process any particular signal, the number and type of lines, the design and functionality of our telecommunications network and the negotiated rate with our chosen telecommunication providers. We are constantly evaluating how to improve the quality of our services while lowering the cost of providing those services.

Our operating expenses are primarily comprised of general and administrative, selling and marketing and depreciation and amortization expenses. General and administrative expenses are comprised primarily of office staff and officer salaries, rent and professional fees. Fluctuations in general and administrative expenses generally reflect net increases in staff associated with acquisitions, changes in professional fees primarily associated with acquisition activity and audits of our books and records and merit compensation increases. Selling and marketing expenses are primarily driven by the size of our sales force, commissions based upon successful selling activities, travel and advertising. Depreciation and amortization expenses are primarily a function of the acquisition of Dealer relationships and alarm monitoring contracts, along with accelerated amortization.

Streamlining of Operations

Our November 2004 acquisition of NACC’s state of the art monitoring center, located in Irvine, California, substantially increased our capacity to provide monitoring services. During 2005, we consolidated our Minneapolis, Minnesota monitoring center into our existing monitoring centers. Additionally, during 2005, we reduced the number of dealer care centers from six to three.

Acquisitions

On October 1, 2005, we purchased substantially all of the assets and assumed certain liabilities of Financial Security Services, Inc. for approximately $23.1 million in cash. FSS primarily engages in alarm dealer financing along with wholesale monitoring and billing services. On the date of acquisition, FSS was generating approximately $0.2 million of wholesale RMR and approximately $0.2 million of monthly interest income on notes receivable from Dealers. The acquisition has been accounted for as a purchase business combination and the results of the acquirees are included in our results of operations from the date of acquisition.

On November 19, 2004, we acquired substantially all of the assets and assumed certain liabilities of NACC, a subsidiary of Tyco, for approximately $50.6 million in cash, subject to certain closing adjustments. NACC engages in the wholesale and retail alarm monitoring business and also provides secured financing to Dealers. At November 19, 2004, NACC contributed approximately $0.8 million of wholesale RMR, $0.4 million of retail RMR and $0.2 million of monthly interest income on notes receivable from Dealers collateralized by retail contracts to us. The acquisition has been accounted for as a purchase business combination and the results of the acquirees are included in our results of operations from the date of acquisition.

In May 2004, we acquired the alarm portfolio and certain other assets of Alliant Protection Services, Inc. (“Alliant”) for a total cash purchase price of approximately $14.5 million, which included accounts receivable (approximately $0.8 million), customer contracts (approximately $8.7 million), goodwill (approximately $5.8 million), non-compete agreement (approximately $.3 million) and current liabilities (approximately $1.1 million). The acquisition has been accounted for as a purchase business combination and the results of the acquirees are included in our results of operations from the date of acquisition.

In December 2003, we acquired all of the capital stock of Lane Security Inc. (“Lane Security”) for approximately $43.0 million in cash, net of holdbacks for severance payments and attrition of customer contracts. The principal operating unit of Lane Security is Protection Service Industries, L.P. (“PSI”) whose assets included customer accounts with RMR of approximately $1.8 million at December 31, 2003. PSI installs and services commercial and residential alarm systems in the western United States. The acquisition has been accounted for as a purchase business combination and the results of the acquirees are included in our results of operations from the date of acquisition.

On November 21, 2003, we acquired all of the outstanding stock of American Home Security, Inc. ("AHS") and certain assets of Emergency Response Network, Inc. ("ERN"), (collectively referred to as the acquirees) for approximately $15.0 million, inclusive of direct acquisition costs. The seller received approximately $455,000 and 140,000 stock options in 2005 based upon the financial results of AHS for fiscal 2004. This additional purchase consideration was charged to goodwill. The acquirees install and service residential alarm monitoring systems in the Nevada area. The acquisition has been accounted for as a purchase business combination and the results of the acquirees are included in our results of operations from the date of acquisition.

Furthermore, we entered into a three year employment agreement with the former owner of AHS. The agreement provides for annual compensation of $420,000 and an annual bonus commencing in 2004 equal to 19% of the amount by which AHS's pre-tax income (as defined therein) for such year exceeds $1.3 million. We have the option to make a one-time payment up to 125% of AHS' pre-tax income to the employee under a bonus buy-out provision as defined in the agreement, at which time we would have no further annual bonus obligation to the employee. The employee for calendar years 2006-2009 has the right to elect a bonus buy-out. Furthermore, the bonus buy-out shall automatically trigger upon the expiration of the employment term, and under other circumstances as defined in the agreement. The agreement also provides that during the employment term, the employee on an annual basis will be granted options to acquire our common stock if AHS achieves certain earnings levels. The contingent consideration, which includes our common stock and stock options issuable upon the achievement of certain earnings levels, may result in future charges to earnings. Based on the 2004 results, a bonus of approximately $145,000 was paid and 15,000 options were granted, of which 7,500 options went to Mr. Beer and the remaining 7,500 were granted to other various AHS employees. On December 8, 2005, the former owner of AHS was terminated for cause. The former employee has brought an action against us (see litigation) and a bonus buy-out has been recorded.

In January 2003, we acquired all of the capital stock of Integrated Alarm Services, Inc. and affiliates in exchange for an aggregate of 864,192 shares of our common stock of which 525,452 shares were issued to minority interests for an estimated total fair value of approximately $11.6 million. The acquisition has been accounted for as a purchase business combination and the results of the acquirees are included in our results of operations from the date of acquisition.

Prior to the acquisition of Integrated Alarm Services, Inc., Messrs. Timothy M. McGinn and David L. Smith controlled 41 trusts and three limited liability companies which were principally created to acquire alarm monitoring contracts. Approximately 62% of the trust certificates of the 41 trusts were exchanged for promissory notes of Integrated Alarm Services, Inc. and some of these notes were repaid with proceeds from our initial public offering. Approximately 38% of the trust certificates were not exchanged and were subsequently repaid out of the proceeds of our initial public offering. An additional $9.5 million of bank debt relating to these contract acquisitions was also repaid with proceeds from our initial public offering. Messrs. McGinn and Smith were residual beneficiaries of these trusts but have contributed their residual benefits in the trusts to us. The three limited liability companies, Palisades Group, LLC, Payne Security Group, L.L.C. and Guardian Group, LLC were acquired by us in January 2003 and Payne Security Group, L.L.C. and Guardian Group, LLC are now our wholly owned subsidiaries. Palisades Group, LLC was dissolved on July 22, 2004.

Operations

We have completed the consolidation of our alarm monitoring centers. Key expenses such as payroll and telecommunication costs have been reduced. We believe that our costs per subscriber will continue to decline as additional subscriber accounts are added.

Our RMR may include amounts billable to customers or Dealers with past due balances which we believe are collectible. We seek to preserve the revenue stream associated with each end-user alarm monitoring contract, primarily to maximize our return on the investment we made to generate each alarm monitoring contract or Dealer relationship. As a result, we actively work to collect amounts owed to us and to retain the end-user at the same time.

In some instances, we may allow more than six months to collect past due amounts, while evaluating the ongoing customer or Dealer relationship. After we have made every reasonable effort to collect past due balances, we will disconnect the customer.

Customer creation and marketing
Our current customer acquisition strategy relies on both internally generated sales and acquiring Dealer relationships and alarm monitoring contract rights to monitor security systems. We currently have a salaried and commissioned sales force in select markets which perform end-user sales activities across the United States. The internal sales program generated in the wholesale segment 64,472, 79,191 and 126,617 new monitoring contracts in 2003, 2004 and 2005, respectively.

Attrition

Wholesale Business Segment

End-user attrition has a direct impact on our results of operations since it affects our revenues, amortization expense and cash flow. We define attrition in the wholesale alarm monitoring business as the number of end-user accounts lost, expressed as a percentage, for a given period. In some instances, we use estimates to derive attrition data. We monitor end-user attrition each month, each quarter and each year. In periods of end-user account growth, end-user attrition may be understated and in periods of end-user account decline, end-user attrition may be overstated. Our actual attrition experience shows that the relationship period with any individual Dealer or end-user can vary significantly. Dealers discontinue service with us for a variety of reasons, including but not limited to, the sale of their alarm monitoring contracts, performance issues and receipt of lower pricing from competitors. End-users may discontinue service with the Dealer and therefore with us for a variety of reasons, including, but not limited to, relocation, service issues and cost. A portion of Dealer and end-user relationships, whether acquired or originated via our sales force, can be expected to discontinue service every year. Any significant change in the pattern of our historical attrition experience would have a material effect on our results of operations, financial position or cash flows.

For the years ended December 31, 2003, 2004 and 2005 our trailing annual end-user account growth rates in the wholesale monitoring segment, including acquisitions were 12.3%, 31.7% and 1.2%, respectively. For the years ended December 31, 2003, 2004, and 2005 our trailing annual end-user account growth rates in the wholesale monitoring segment, excluding acquisitions, were (3.2%), (6.1%), and (7.4%), respectively. For the years ended December 31, 2003, 2004, and 2005 our trailing annual end-user attrition rates in the wholesale monitoring segment, calculated as end-user losses divided by the sum of beginning end-users, end-users added and end-users acquired, was 12.7%, 13.1%, and 19.8% respectively. Included in these totals for 2003, 2004, 2005 are approximately 137,000, 149,000 and 159,000 contracts, respectively, that are owned by our retail monitoring segment.

Following is a summary of our end-user accounts:

	2003	2004	2005
Beginning balance, January 1,	486,650	546,649	719,881
Reporting discrepancy adjustments (see Note)	-	(26,592)	-
End-users added, excluding acquisitions	64,472	79,191	126,617
End-users acquired	75,375	232,984	61,837
End-user losses	(79,848)	(112,351)	(180,112)
Ending balance, December 31,	546,649	719,881	728,223

Note: As a result of the discovery of a discrepancy in the reporting mechanism for the number of wholesale accounts, an adjustment of 26,592 to the January 1, 2004 beginning balance is necessitated and is reflected in the table above.

Attrition for acquired Dealer customer relationships and alarm monitoring contracts may be greater in the future than the attrition rate assumed or historically incurred by us. In addition, because some Dealer customer relationships and acquired alarm monitoring contracts are prepaid on an annual, semi-annual or quarterly basis, attrition may not become evident for some time after an acquisition is consummated.

Retail Business Segment

We employ, for contracts purchased on a bulk basis subsequent to January 31, 2003, an amortization methodology which is the total of the charges calculated by a straight line, 18 year life; together with charges incurred as a result of actual contract attrition. For bulk contracts purchased prior to that date, we employ an amortization methodology which uses 150% declining balance over a life of 8 years.

The annualized attrition rates, based upon customer accounts cancelled or becoming significantly delinquent, during the periods presented are as follows:

	Quarter Ended				Year Ended
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005
Legacy and flow	13.69%	17.79%	19.99%	18.30%	16.34%
Residential since IPO	11.71%	12.88%	22.39%	17.54%	15.20%
Commercial since IPO	5.24%	12.29%	2.56%	6.16%	6.42%
Total	**10.85%**	**13.82%**	**17.76%**	**15.25%**	**13.67%**

The 2005 portfolio retail attrition rate of 13.67% compares to the 2004 portfolio retail attrition of 11.59%.

The attrition for a given period is calculated as the quotient of: (i) the sum of (a) cancelled RMR plus (b) the increase (or minus the decrease) in “disqualified RMR” (i.e., RMR with related account receivable balances over 90 days from invoice date) minus (c) “replacement RMR” (i.e., cancelled or disqualified RMR that has been replaced by the selling Dealer with new RMR as required by the original sales contract with the Dealer); divided by (ii) “qualified RMR” (i.e., RMR with no related account receivable balances over 90 days from invoice date).

Critical Accounting Policies

Our discussion and analysis of results of operations, financial condition and cash flows are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. These estimates are evaluated on an on-going basis, including those related to revenue recognition and allowance for doubtful accounts, valuation to allocate the purchase price for a business combination, notes receivable reserve and fair value of customer contracts on foreclosed loans, fair value and forecasted data to access recoverability of intangible assets and goodwill, income taxes and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Note 2 of the "Notes to Financial Statements" includes a summary of the significant accounting policies and methods used in the preparation of our financial statements. The following is a brief description of the more significant accounting policies and methods we use.

Revenue Recognition and Allowance for Doubtful Accounts

All revenue is recognized on an accrual basis. Accounts receivable are recorded at the invoiced amount and do not bear interest. Credit is extended based upon an evaluation of the customer’s financial condition and history. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We review our allowance for doubtful accounts monthly. Customer accounts, including accounts with balances over 90 days from the invoice date are reserved based on historical trends. Account balances are charged-off against the allowance when we feel it is probable the receivable will not be recovered. We do not have any off-balance-sheet credit exposure related to our customers.

Revenue from providing monitoring only service to the customers of our dealers and our retail owned customer contracts is recognized as the monitoring service is provided over the term of the contract.

Revenue from sales of installed equipment without monitoring is recognized upon the completed installation of the equipment.

We sell bundled arrangements to our commercial and residential customers which consist of equipment, installation services and ongoing monitoring services generally under three to five year contracted terms. These bundled arrangements generally require an upfront payment and recurring monthly revenue (RMR) payments over the term of the contract. Amounts assigned to each component are based on the component’s objectively determined fair value. If fair value can not be determined for a sale involving multiple elements, upfront non-refundable deposits are deferred and recognized over the expected life of the customer relationship. The RMR is recognized monthly over the term of the contract.

Notes Receivable Reserve and Fair Value of Customer Contracts on Foreclosed Loans

We make loans to Dealers, which are collateralized by the Dealers’ portfolio of end-user alarm monitoring contracts. Loans to Dealers are carried at the lower of the principal amount outstanding or if non-performing, the net realizable value of the portfolio underlying the loan. Loans are generally considered non-performing if they are 120 days in arrears of contractual terms.

Management periodically evaluates the loan portfolio to assess the collectibility of Dealer notes and adequacy of allowance for loan losses. Management reviews certain criteria in assessing the adequacy of the allowance for loan losses, including our past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions. Loan impairment is identified when a portfolio's cash flow is materially below the minimum necessary to service the loan. In most cases, loans will be foreclosed and valued at the lower of cost (loan carrying value) or fair value of end-user contracts using recent transaction prices and industry benchmarks.

Unearned discount on acquired notes that are prepaid within the first year of acquisition is offset to goodwill.

Notes receivable consists primarily of loans to Dealers which are collateralized by a portfolio of individual end-user monitoring contracts. When a Dealer becomes delinquent, we generally foreclose on and take ownership of the portfolio of end-user monitoring contracts.

At December 31, 2005, we had non-performing loans to Dealers aggregating approximately $1.7 million. Currently, the cash flows from the underlying collateral support the carrying value of the loans. However, if the cash flow from the underlying collateral deteriorates, it may result in a future charge to earnings.

Deferred customer acquisition costs, net

The direct incremental costs associated with obtaining a new customer including the installation of the monitoring systems, to the extent of deferred revenue (upfront non-refundable deposits), are capitalized and amortized over the expected life of the customer relationship. Excess direct incremental costs over deferred revenue (upfront non-refundable deposits) are being amortized over the term of the contract.

Deferred issuance costs

Debt issuance costs represent direct costs incurred in connection with obtaining financing with related parties, banks and other lenders. Debt issuance costs are being amortized over the life of the related obligations using the effective interest method.

Intangible Assets and Goodwill

Alarm monitoring services for Dealers' end-users are outsourced to us. We acquire such Dealer relationships from our internally generated sales efforts and from other monitoring companies. Acquired Dealer relationships are recorded at cost, which management believes approximates fair value. End-user alarm monitoring contracts are acquired from the Dealers' pre-existing portfolios of contracts or assumed upon the foreclosure on Dealers' loans.

Acquired end-user alarm monitoring contracts are recorded at cost which management believes approximates fair value. End-user alarm monitoring contracts assumed as a result of foreclosure on dealer loans are recorded at the lower of cost (loan carrying value) or the fair value of such contracts using recent transaction prices and industry benchmarks at the time of foreclosure.

End-user alarm monitoring contracts are amortized over the term that such end-users are expected to remain as our customer. We, on an ongoing basis, conduct comprehensive reviews of our amortization policy for end-user contracts and, when deemed appropriate, use an independent appraisal firm to assist in performing an attrition study.

Amortization methods for end-user contracts below consider the average estimated life and historical and projected attrition rates determined from actual experience and consists of the following portfolios:

Acquired as a result of the IASI merger:

Existing at January 31, 2003	Accelerated method	Period
Existing portfolio accounts (bulk)	150% Declining balance	8 years
Dealer acquired new accounts (flow)	160% Declining balance	8 years
Contracts assumed from dealers	160% Declining balance	4 years

Acquired subsequent to the IASI merger:

Acquired after January 31, 2003	Accelerated method	Period
Existing portfolio accounts (bulk)	Straight-line plus attrition	18 years
Dealer acquired new accounts (flow)	200% Declining balance	12 years
Contracts assumed from dealers	200% Declining balance	8 years

Dealer relationships and end-user contracts are amortized using methods and lives which are management's estimates, based upon all information available (including industry data, attrition studies, current portfolio trends), of the life (attrition pattern) of the underlying contracts and relationships. If actual results vary negatively (primarily attrition) from management assumptions, amortization will be accelerated, which will negatively impact results from operations. If amortization is not accelerated or conditions deteriorate dramatically, the asset could become impaired. For existing portfolio accounts purchased subsequent to January 31, 2003, we amortize such accounts using the straight-line method over an 18-year period plus actual attrition. This methodology may cause significant variations in amortization expense in future periods. Dealer relationships and end-user alarm monitoring contracts are tested for impairment on a periodic basis or as circumstances warrant. Recoverability of Dealer relationship costs and end-user alarm monitoring contracts are highly dependent on our ability to maintain our Dealers. Factors we consider important that could trigger an impairment review include higher levels of attrition of dealers and/or end-user alarm monitoring contracts and continuing recurring losses.

SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires that the assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the assets to be held and used is measured by a comparison of the carrying amount of the assets with the future net cash flows expected to be generated. Cash flows of Dealer relationships and retail customer contracts are analyzed at the same group level (acquisition by acquisition and portfolio grouping, respectively) that they are identified for amortization, the lowest level for which independent cash flows are identifiable. All other long-lived assets are evaluated for impairment at the company level, using one asset grouping. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2005, our long-lived assets aggregate approximately $132.0 million.

We account for goodwill under Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is not amortized, but it is tested for impairment at least annually. Each year we test for impairment of goodwill according to a two-step approach. In the first step, we test for impairment of goodwill by estimating the fair values of our reporting units using the present value of future cash flows approach, subject to a comparison for reasonableness to our market capitalization at the date of valuation. If the carrying amount exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss, if any. In the second step the implied fair value of the goodwill is estimated as the fair value of the reporting unit used in the first step less the fair values of all other net tangible and intangible assets of the reporting unit. If the carrying amount of the goodwill exceeds its implied fair market value, an impairment loss is recognized in an amount equal to that excess, not to exceed the carrying amount of the goodwill. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We perform our annual impairment test in the third quarter of each year and to date have not been required to record an impairment charge. During the second quarter of 2004, our common stock began trading below its book value and has continued to do so through the fourth quarter. Management, after evaluating current financial forecasts and operating trends, continues to believe that goodwill was not impaired at December 31, 2005. A non-cash goodwill impairment charge may result in a future period if there is a decline in estimated future earnings and cash flows. Our goodwill balance at December 31, 2005 is approximately $94.9 million.

Income taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimates of our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes.

Litigation

See Part I, Item 3 Legal Proceedings.

The following table sets forth, for the periods indicated, selected statements of operations data for IASG:

	Years Ended December 31,		
	2003	2004	2005
	(in thousands, except per share data)		
Total revenue	$ 40,868	$ 80,369	$ 99,234
Expenses:			
Cost of revenue (excluding depreciation and amortization)	16,393	32,748	43,381
Selling and marketing	1,109	4,357	4,977
Depreciation and amortization	12,323	23,013	28,572
Loss (gain) on disposal of equipment	-	(184)	1,032
General and administrative	14,692	22,562	29,790
Total expenses	44,517	82,496	107,752
Income (loss) from operations	(3,649)	(2,127)	(8,518)
Other income (expense):			
Other income, net	296	11	-
Amortization of debt issuance costs	(3,169)	(1,750)	(1,080)
Interest expense	(13,570)	(8,886)	(17,009)
Interest income	1,614	1,453	4,838
Income (loss) before income taxes	(18,478)	(11,299)	(21,769)
Income tax expense (benefit)	3,527	418	563
Net income (loss)	$ (22,005)	$ (11,717)	$ (22,332)
Basic and diluted income (loss) per share	$ (1.95)	$ (0.47)	$ (0.91)

The following table sets forth, for the periods indicated, selected statements of operations data as a percentage of revenues:

	Years Ended December 31,		
	2003	2004	2005
Total revenue	100.0 %	100.0%	100.0%
Expenses:			
Cost of revenue (excluding depreciation and amortization)	40.1%	40.7%	43.7%
Selling and marketing	2.6%	5.4%	5.0%
Depreciation and amortization	30.2%	28.6%	28.8%
Loss (gain) on disposal of equipment	-	(0.2)%	1.0%
General and administrative	36.0 %	28.1%	30.0%
Total expenses	108.9%	102.6%	108.6%
Income (loss) from operations	(8.9)%	(2.6)%	(8.6)%
Other Income (expense):			
Other income, net	0.8%	0.0%	-
Amortization of debt issuance costs	7.8 %	(2.2)%	(1.1)%
Interest expense	33.2%	(11.1)%	(17.1)%
Interest income	3.9%	1.8%	4.9%
Income (loss) before benefit from income taxes	(45.2)%	(14.1)%	(21.9)%
Income tax expense (benefit)	8.6%	0.5%	0.6%
Net income (loss)	(53.8)%	(14.6)%	(22.5)%

2005 COMPARED TO 2004

Consolidated. Year ended December 31, 2005

The following chart and discussion reflects the impact of the elimination of intersegment revenue and cost of revenue:

	For the Year Ended December 31,		Dollar	Percent
	2004	2005	Variance	Variance
		(in thousands)		
Total revenue	$ 80,369	$ 99,234	$ 18,865	23.5%
Expenses:				
Cost of revenue (excluding depreciation and amortization)	32,748	43,381	10,633	32.5%
Selling and marketing	4,357	4,977	620	14.2%
Depreciation and amortization	23,013	28,572	5,559	24.2%
Loss (gain) loss on sale or disposal of assets	(184)	1,032	1,216	(660.9)%
General and administrative	22,562	29,790	7,228	32.0%
Total expenses	82,496	107,752	25,256	30.6%
Income (loss) from operations	(2,127)	(8,518)	(6,391)	300.5%
Other income (expense):				
Other income, net	11	-	(11)	(100.0)%
Amortization of debt issuance costs	(1,750)	(1,080)	670	(38.3)%
Interest expense	(8,886)	(17,009)	(8,123)	91.4%
Interest income	1,453	4,838	3,385	233.05
Income (loss) before income taxes	$ (11,299)	$ (21,769)	$ (10,470)	(92.7)%

Revenue

The increase in total revenue was primarily a result of the incremental revenues associated with the November 2004 NACC acquisition and the October 2005 FSS acquisition of approximately $13,842,000 and $1,077,000, respectively. The remaining increase was due to an increase in the retail segment revenue of approximately $6,128,000, offset by decreases in the wholesale segment revenue of approximately $2,182,000 addressed in the individual segment discussions below.

Cost of Revenue (excluding Depreciation and Amortization)
Our cost of revenue increase for the year ended December 31, 2005 was primarily due to incremental expenses related to the November 2004 NACC acquisition and the October 2005 FSS acquisition of approximately $7,006,000 and $543,000, respectively. The remaining increase was due to an increase in the retail segment cost of revenue of approximately $3,140,000, offset by a decrease in the wholesale segment cost of revenue of approximately $56,000 addressed in the individual segment discussions below.

Expenses
Selling and marketing expense increased primarily due to the incremental costs associated with the November 2004 NACC acquisition of approximately $479,000, which consists primarily of increases in advertising and trade shows of approximately $411,000. The remaining increase in sales and marketing expense was primarily due to an increase in the wholesale segment sales salaries of approximately $195,000.

The depreciation and amortization expense increase was mainly caused by increases in customer contract amortization and dealer relationship amortization of approximately $4,870,000 and $653,000, respectively. The increase in the customer contract amortization, including attrition reserve offsets, was a result of both an increase in the number of customer contracts acquired and the accelerated amortization due to attrition. The increase in dealer relationship amortization was primarily due to the incremental increase related to NACC's dealer relationships of approximately $1,371,000, offset by decreases in existing dealer relationships of approximately $796,000 from the effects of accelerated depreciation methods.

The increase in the loss on sale or disposal of assets was due to approximately $682,000 relating to fixed asset disposals and write-downs from various wholesale segment closures during 2005. The remaining increase was primarily due to write-offs of assets in our retail segment.

The increase in general and administrative expense was primarily due to increases in corporate segment expenses. The majority of corporate general and administrative expense increase was from an increase in accounting, legal and other professional fees of approximately $3,760,000, of which approximately $2,505,000 relates to Sarbanes-Oxley compliance. An increase in corporate salaries, benefits and other compensation accounted for approximately an additional $1,067,000 of the increase and approximately $560,000 in litigation settlement expense. The increase in corporate salaries reflects 3 finance professionals hired during 2004 (not a full year of salary in 2004) and 6 finance and management professionals hired during 2005. Incremental expenses associated with NACC and FSS acquisitions accounted for approximately $701,000 and $447,000 of the total general and administrative increase. Excluding NACC and FSS, the remaining increase primarily consists of approximately $676,000 in retail, offset by a decrease in the wholesale segment of approximately $141,000.

Amortization of Debt Issuance Costs
The decrease in amortization of debt issuance costs was primarily due to the amortization acceleration in 2004 on early pay-offs of debt using the proceeds from the issuance of the $125,000,000 Senior Secured Notes in the fourth quarter of 2004, offset in part, by the amortization of the issuance costs related to the Senior Secured Notes.

Interest Expense
The increase in interest expense was primarily due to the expense associated with the issuance of the $125,000,000 Senior Secured Notes in the fourth quarter of 2004, offset in part by the decrease in interest associated with the retirement of certain debt in the later half of 2004.

Interest Income
Incremental interest income relating to NACC of approximately $2,653,000 and FSS of approximately $697,000 contributed to the majority of the total interest income increase in 2005. The interest income from these two acquisitions was primarily attributable to interest earned from their notes receivable portfolios, including interest income as a result of the amortization of the discount on notes receivable.

Taxes
Income tax expense totaled approximately $563,000 for the year ended December 31, 2005 compared with an expense of approximately $418,000 for the year ended December 31, 2004. The expense recorded in 2004 and 2005 represents state taxes attributable to subsidiaries of the Company which conduct business in separate taxing jurisdictions and deferred taxes related to business acquisitions.

Results of Operations by Segment
The comparable financial results for the Company's operating segments; Alarm-Monitoring, Wholesale Services and Alarm-Monitoring, Retail Services for the year ended December 31, 2004 compared with the year ended December 31, 2005 are discussed below.

The following charts and discussions include intersegment revenue and cost of revenue that are eliminated in the consolidated financial statements. Those amounts for the year ended December 31, 2004 and 2005 are approximately $3,416,000 and $4,796,000, respectively. The Retail segment incurs expense for the monitoring services provided by the Wholesale segment. The inclusion of the intersegment activity provides a more realistic presentation of how these segments would operate on a stand alone basis.

Alarm Monitoring, Wholesale Segment. Year ended December 31, 2005

	For the Year Ended December 31,		Dollar	Percent
	2004	2005	Variance	Variance
	(in thousands)			
Total revenue	$ 27,690	$ 36,406	$ 8,716	31.5%
Expenses:				
Cost of revenue (excluding depreciation and amortization)	17,629	24,920	7,291	41.4%
Selling and marketing	798	1,574	776	97.2%
Depreciation and amortization	4,896	5,708	812	16.6%
Loss on sale or disposal of assets	-	682	682	N/A
General and administrative	1,986	2,070	84	4.2%
Total expenses	25,309	34,954	9,645	38.1%
Income from operations	2,381	1,452	(929)	-39.0%
Other income (expense):				
Other income, net	12	-	(12)	-100.0%
Interest expense	(34)	(20)	14	-41.2%
Income before income taxes	$ 2,359	$ 1,432	$ (927)	-39.3%

The increase in Alarm Monitoring, Wholesale segment total revenue in 2005 was primarily due to the incremental revenue of approximately $8,898,000 associated with NACC (including approximately $514,000 of intersegment revenue), which was purchased in November 2004 and approximately $620,000 from the FSS acquisition in October 2005. Additionally, approximately $866,000 was due to an increase in intersegment revenue (incremental to the NACC intersegment revenue). The offsetting decrease was due primarily to a decrease in the aggregate number of accounts (not owned by the Company, or "external") monitored during 2005. This decrease in external accounts monitored, of approximately 26,000 resulted in a decrease in revenue of approximately $1,668,000.

The decrease in wholesale segment income from operations was primarily due to the increases in cost of revenue and other operating expenses offset by the revenue increase described above. Cost of revenue increased approximately $6,904,000 due to the incremental costs associated with the November 2004 NACC acquisition. An additional $443,000 was due to the October 2005 acquisition of FSS. The sales and marketing expense increase was primarily due to increases in advertising and trade show expenses of approximately $491,000, of which approximately $411,000 related to the incremental costs of NACC. Additionally, approximately $195,000 of the increase was due to increases in salaries, benefits and other compensation. The increase in depreciation and amortization was primarily due to NACC's incremental increase in depreciation expense of approximately $235,000 and dealer relationship amortization related to NACC of approximately $1,371,000, offset by decreases in existing dealer relationships of approximately $796,000 from the effects of accelerated depreciation methods. The $682,000 increase in loss on sale or disposal of fixed assets was caused by disposals and write-downs of fixed assets as a result of the closure of various wholesale facilities during 2005.

The decrease in the income before income taxes was primarily due to the decrease in the income from operations discussed above.

Alarm Monitoring, Retail Segment. Year ended December 31, 2005

	For the Year Ended December 31, 2004	For the Year Ended December 31, 2005	Dollar Variance	Percent Variance
	(in thousands)			
Total revenue	$ 56,095	$ 67,624	$ 11,529	20.6%
Expenses:				
Cost of revenue (excluding depreciation and amortization)	18,535	23,257	4,722	25.5%
Selling and marketing	3,559	3,403	(156)	(4.4)%
Depreciation and amortization	18,117	22,864	4,747	26.2%
Loss (gain) on sale or disposal of assets	(184)	350	534	(290.2)%
General and administrative	15,376	16,974	1,598	10.4%
Total expenses	55,403	66,848	11,445	20.7%
Income from operations	692	776	84	12.1%
Other income (expense):				
Other income, net	(1)	-	1	(100.0)%
Amortization of debt issuance costs	(1,471)	-	1,471	(100.0)%
Interest expense	(6,484)	(54)	6,430	(99.2)%
Interest income	1,362	4,353	2,991	219.6%
Income (loss) before income taxes	$ (5,902)	$ 5,075	$ 10,977	186.0%

Alarm Monitoring, Retail segment total revenue increased approximately $4,944,000 due to incremental revenues relating to the November 2004 NACC acquisition while an additional $457,000 of the increase was due to the October 2005 FSS acquisition. Additional revenue of approximately $3,243,000 was generated due to an increase of approximately 7,000 in the average number of retail contracts owned per month along with an increase of approximately $157,000 which was due to an increase in the average revenue per contract of $0.11 per month. Additionally, installation revenue increased approximately $2,753,000.

For the year ended December 31, 2005, the increase in the income from operations was primarily due to the above mentioned increase in revenue, offset by increases in cost of revenue, depreciation and amortization and general and administrative expenses. The increase in cost of revenue was attributable to the costs associated with the increases in revenue. Cost of revenue as a percentage of revenue for the year ended December 31, 2004 and 2005 was consistent at 33.0% and 34.4%, respectively. The increase in depreciation and amortization was primarily a result of an increase in customer contract amortization of approximately $4,870,000, including attrition reserve offsets, as a result of both an increase in the number of customer contracts acquired and the accelerated amortization due to attrition. The increase in general and administrative expenses was due, in part, to approximately $454,000 relating to NACC and approximately $469,000 from FSS. The remaining increase in general and administrative expenses in the retail segment are primarily due to increases in salaries, benefits and other compensation of approximately $1,328,000, postage and shipping of approximately $295,000, collections expense of approximately $228,000, offset in part by decreases in telephone expense of approximately $498,000, accounting, legal and other professional fees of approximately $344,000 and bad debt expense of approximately $465,000.

The increase in income before income taxes from a loss before income taxes in the prior year was partially due to a decrease in interest expense. Certain subsidiaries have entered into debt agreements with the parent. The interest income and offsetting interest expense related to these arrangements is not recognized in the above tables. Debt issued by IASI (Retail Services) was retired in 2004 using funds obtained by the parent. As a result, debt and interest expense were reallocated from IASI to corporate in late 2004, which was the primary cause of the decrease in retail segment interest expense. The amortization of debt issuance costs associated with the debt agreements reclassed to corporate are also now recorded in corporate, accounting for the approximate $1,471,000 decrease. Additionally, the increase in income before income taxes was caused by increases in NACC and FSS interest income of approximately $2,653,000 and $697,000, respectively, resulting primarily from interest earned on notes receivables, including interest income as a result of the amortization of the discount on notes receivable.

Corporate. Year ended December 31, 2005

	For the Year Ended December 31, 2004	2005	Dollar Variance	Percent Variance
	(in thousands)			
Expenses:				
General and administrative	$ 5,200	$ 10,746	$ 5,546	106.7%
Total expenses	5,200	10,746	5,546	106.7%
Income (loss) from operations	(5,200)	(10,746)	(5,546)	106.7%
Other income (expense):				
Amortization of debt issuance costs	(279)	(1,080)	(801)	287.1%
Interest expense	(2,368)	(16,935)	(14,567)	615.2%
Interest income	91	485	394	433.0%
Income (loss) before income taxes	$ (7,756)	$ (28,276)	$ (20,520)	(264.6)%

The increase in the loss from operations was due to an increase in general and administrative expenses. This increase was primarily due to an increase of approximately $3,760,000 in accounting, legal and other professional fees, of which $2,505,000 was related to Sarbanes-Oxley compliance and approximately $1,067,000 in salaries, benefits and other compensation.

Certain subsidiaries have entered into debt agreements with the parent. The interest income and offsetting interest expense related to these arrangements was not recognized in the above tables. Debt issued by IASI (Retail Services) was retired in 2004 using funds obtained by the parent. As a result, debt and interest expense were reallocated from IASI to corporate in late 2004.

Loss before income taxes increased primarily as a result of the above mentioned allocation of debt and interest expense to corporate. Additionally, the November 2004 $125,000,000 debt offering increased amortization of debt issuance costs and interest expense in 2005, offset in part, by an increase in interest income as a result of an increase in invested funds with the proceeds from the debt offering.

2004 COMPARED TO 2003

The following chart and discussion reflects the impact of the elimination of intersegment revenue and cost of revenue:

	For the Year Ended December 31, 2003	2004	Dollar Variance	Percent Variance
	(in thousands)			
Total revenue	$ 40,868	$ 80,369	$ 39,501	96.7%
Expenses:				
Cost of revenue (excluding depreciation and amortization)	16,393	32,748	16,355	99.8%
Selling and marketing	1,109	4,357	3,248	292.9%
Depreciation and amortization	12,323	23,013	10,690	86.7%
Loss (gain) on sale or disposal of assets	-	(184)	(184)	N/A
General and administrative	14,692	22,562	7,870	53.6%
Total expenses	44,517	82,496	37,979	85.3%
Income (loss) from operations	(3,649)	(2,127)	1,522	(41.7)%
Other income (expense):				
Other income, net	296	11	(285)	(96.3)%
Amortization of debt issuance costs	(3,169)	(1,750)	1,419	(44.8)%
Interest expense	(13,570)	(8,886)	4,684	(34.5)%
Interest income	1,614	1,453	(161)	(10.0)%
Income (loss) before income taxes	$ (18,478)	$ (11,299)	$ 7,179	38.9%

Revenue

The increase in total revenue was primarily due to the incremental increase from the Q4-2003 / Q2-2004 acquisitions and the fourth quarter 2004 NACC acquisition of approximately $32,777,000 and $1,954,000, respectively. The remaining increase was due to approximately $6,166,000 from the retail segment, offset by a decrease in the wholesale segment of approximately $1,396,000 addressed in the individual segment discussions below.

Cost of Revenue (excluding Depreciation and Amortization)

The increase in the cost of revenue was primarily due to approximately $10,859,000 of incremental costs from the Q4-2003 / Q2-2004 acquisitions. An additional $1,000,000 of the increase was due to the 2004 NACC acquisition. In addition, excluding the Q4-2003 / Q2-2004 and NACC acquisitions, the cost of revenue for the retail segment increased approximately $2,359,000 while the cost of revenue for the wholesale monitoring operations increased approximately $2,137,000 discussed in the individual segment discussions below.

Operating Expenses

The increase in operating expenses was primarily due to an increase of approximately $18,581,000 of expenses associated with the Q4-2003 / Q2-2004 acquisitions and approximately $368,000 of expenses associated with the 2004 NACC acquisition. Exclusive of the Q4-2003 / Q2-2004 and NACC acquisitions, the remaining increase consisted of approximately $166,000 from the wholesale segment, and approximately $2,509,000 in the retail segment.

Selling and marketing expenses increased primarily due to an increase in expenses associated with the Q4-2003 / Q2-2004 acquisitions of approximately $3,319,000. The increase in expenses related to the Q4-2003 / Q2-2004 acquisitions were comprised primarily of payroll, benefits and other compensation of approximately $2,887,000, vehicle and fuel expense of approximately $125,000, advertising of approximately $136,000 and travel and entertainment of approximately $61,000.

The depreciation and amortization expense increase was partially due to the expenses related to the Q4-2003/ Q2-2004 acquisitions of approximately $6,002,000 and expenses relating to the NACC acquisition of approximately $262,000. The remaining increase consisted of approximately $5,028,000 in retail operations, exclusive of the Q4-2003 / Q2-2004 and NACC acquisitions, offset, in part, by a decrease in expenses associated with the wholesale segment of approximately $602,000. The retail segment increase was due to an increase in the amortization of customer contract costs as a result of the purchase of a significant amount of contracts in the later half of 2003 and during 2004. The decrease in wholesale operations expense was attributable to a decrease in amortization of dealer relationship costs due to the Company’s use of declining balance accelerated methods of amortization.

The gain on disposal of assets increase was primarily due to the gain on sale of customer contracts of approximately $143,000 during 2004.

General and administrative expenses increased approximately $7,870,000. Approximately $3,525,000 of the expenses in 2003 related to a charge associated with transactions with the Capital Center Credit Corporation (“CCCC”). Absent this 2003 charge, the expenses for the 2004 period would have represented an increase of approximately $11,395,000 from the expenses for the same period of 2003. Approximately $9,260,000 of the increase was associated with the Q4-2003 / Q2-2004 acquisitions. This increase was comprised primarily of payroll, bonus and other compensation of approximately $4,480,000, facilities, utilities & maintenance $773,000, telephone expense of $932,000, bad debt expense of approximately $559,000, contract and third party services of $344,000, collection and billing of approximately $512,000, insurance and property taxes of approximately $504,000, office supplies and services (including equipment, postage and mailing) of approximately $499,000 and travel, entertainment, vehicle and fuel expenses of approximately $157,000. An additional $93,000 of the increase was due to the 2004 NACC acquisition. The remaining increase in expenses was due primarily to increases in payroll, employee benefits and other compensation of approximately $1,032,000, consulting and other fees associated with Sarbanes-Oxley assessment activities of approximately $641,000, directors and officers insurance of approximately $508,000, board fees of approximately $279,000 and rent and utilities of approximately $251,000, partially offset by decreases in bad debt expense of approximately $652,000 and legal, accounting and other professional fees of approximately $201,000.

Other Income/Expense

Other income for the year ended December 31, 2004 amounted to approximately $11,000 compared to other income for the same period in year 2003 of approximately $296,000. For the most part, the other income in 2003 was due to a settlement related to the acquisition of RTC Alarm Monitoring Services.

Amortization of Debt Issuance Costs

The decrease in amortization of debt issuance costs was primarily due to the acceleration of amortization in 2003 as a result of prepayment of certain debt from the IPO proceeds, which accounts for approximately $1,437,000 of the decrease. An additional decrease of $649,000 was due to normal amortization of debt in 2004. These decreases are offset in part by an increase of approximately $555,000 of amortization acceleration in 2004 as compared to 2003 due to the early payoff of debt using the $125,000,000 of proceeds from the notes offering and $113,000 increase from new debt in 2004.

Interest Expense

The decrease in interest expense was primarily due to debt payoff in 2003, therefore decreasing the interest paid in 2004.

Taxes

Income tax expense totaled approximately $418,000 for the year ended December 31, 2004 compared with an expense of approximately $3,527,000 for the year ended December 31, 2003. The income tax expense recorded during the year ended December 31, 2003 was due primarily to the merger of Integrated Alarm Services, Inc. and the Company in January 2003 and the change in tax status (S to C Corporation) for federal income tax purposes.

The expense recorded in 2004 represents state taxes attributable to subsidiaries of the Company which conduct business in separate taxing jurisdictions and deferred taxes related to business acquisitions.

Results of Operations by Segment

The comparable financial results for the Company's two operating segments; Alarm-Monitoring, Wholesale Services and Alarm-Monitoring, Retail Services for the year ended December 31, 2004 compared with the year ended December 31, 2003 are discussed below.

Alarm Monitoring, Wholesale Segment. Year ended December 31, 2004

	For the Year Ended December 31, 2003	2004	Dollar Variance	Percent Variance
	(in thousands)			
Total revenue	$ 25,685	$ 27,690	$ 2,005	7.8%
Expenses:				
Cost of revenue (excluding depreciation and amortization)	14,525	17,629	3,104	21.4%
Selling and marketing	926	798	(128)	(13.8)%
Depreciation and amortization	5,236	4,896	(340)	(6.5)%
General and administrative	2,569	1,986	(583)	(22.7)%
Total expenses	23,256	25,309	2,053	8.8%
Income from operations	2,429	2,381	(48)	(2.0)%
Other income (expense):				
Other income, net	360	12	(348)	(96.7)%
Amortization of debt issuance costs	(854)	-	854	(100.0)%
Interest expense	(2,787)	(34)	2,753	(98.8)%
Income (loss) before income taxes	$ (852)	$ 2,359	$ 3,211	(376.9)%

The increase in wholesale revenue was due primarily to an increase of approximately $1,228,000 generated by an increase in the average revenue per account per month of approximately $0.28 for 2004 as compared to the same period of 2003 and by an increase of approximately $1,278,000 from the 2004 NACC Acquisition. Additionally there was an increase of approximately $2,124,000 in intersegment revenue. This increase was offset, in part, by a decrease in the aggregate number of accounts (not owned by the Company, or "external") monitored during 2004. This decrease in external accounts monitored, of approximately 44,000 resulted in a decrease in revenue of approximately $2,625,000.

The wholesale segment income from operations decreased primarily due to an increase in cost of revenue, offset by decreases in selling and marketing, depreciation and amortization and general and administrative expenses along with the increase in revenue discussed above. The majority of the increase in the cost of revenue is directly related to the increase in the revenue.

The wholesale segment's income before income tax increased from a loss before income tax in the prior year primarily due to the decrease in interest expense. Certain subsidiaries have entered into debt agreements with the parent. The interest income and offsetting interest expense related to these arrangements was not recognized in the above tables. Debt issued by IASI (Retail Services) was retired in 2004 using funds obtained by the parent. As a result, debt and interest expense were reallocated from IASI to corporate in late 2004.

Alarm Monitoring, Retail Segment. Year ended December 31, 2004

	For the Year Ended December 31,			
	2003	2004	Dollar Variance	Percent Variance
		(in thousands)		
Total revenue	$ 17,212	$ 56,095	$ 38,883	225.9%
Expenses:				
Cost of revenue (excluding depreciation and amortization)	3,897	18,535	14,638	375.6%
Selling and marketing	183	3,559	3,376	1844.8%
Depreciation and amortization	7,087	18,117	11,030	155.6%
Loss (gain) on sale or disposal of assets	-	(184)	(184)	N/A
General and administrative	9,993	15,376	5,383	53.9%
Total expenses	21,160	55,403	34,243	161.8%
Income (loss) from operations	(3,948)	692	4,640	(117.5)%
Other income (expense):				
Other income, net	(64)	(1)	63	(98.4)%
Amortization of debt issuance costs	(2,315)	(1,471)	844	(36.5)%
Interest expense	(10,292)	(6,484)	3,808	(37.0)%
Interest income	918	1,362	444	48.4%
Income (loss) before income taxes	$ (15,701)	$ (5,902)	$ 9,799	62.4%

Retail segment total revenue increased by approximately $32,778,000 due to the Q4-2003 / Q2-2004 acquisitions. Additionally, the 2004 NACC acquisition accounted for approximately $676,000 of the increase. In addition, 2004 reflects incremental revenue of approximately $1,338,000 as a result of the merger of IASI which occurred in January 31, 2003. Additional revenue, of approximately $2,654,000, was generated due to an increase of approximately 7,800 in the average number of retail contracts owned per month and the balance of approximately $2,174,000 was due to an increase in the average revenue per contract of $3.30. These increases were offset by a decrease in intersegment revenue of approximately $737,000.

The change from a loss in income from operations to income from operations was primarily due to approximately $3,339,000 of income from operations from the Q4-2003 / Q2-2004 acquisitions and $593,000 from the 2004 NACC acquisition.

The loss before income tax for the retail segment decreased from 2003 to 2004. In addition to the aforementioned improvement in income from operations, the remaining reduction of the loss before taxes was primarily due to a decrease of approximately $3,808,000 in interest expense and a decrease of approximately $844,000 in amortization of debt issuance costs. Certain subsidiaries have entered into debt agreements with the parent. The interest income and offsetting interest expense related to these arrangements was not recognized in the above tables. Debt issued by IASI (Retail Services) was retired in 2004 using funds obtained by the parent. As a result, debt and interest expense were reallocated from IASI to corporate in late 2004 which accounts for the majority of the decrease in amortization of debt issuance costs and interest expense in the retail segment.

Corporate. Year ended December 31, 2004

	For the Year Ended December 31,			
	2003	2004	Dollar Variance	Percent Variance
		(in thousands)		
Expenses:				
General and administrative	$ 2,130	$ 5,200	$ 3,070	144.1%
Total expenses	2,130	5,200	3,070	144.1%
Income (loss) from operations	(2,130)	(5,200)	(3,070)	144.1%
Other income (expense):				
Amortization of debt issuance costs	-	(279)	(279)	N/A
Interest expense	(491)	(2,368)	(1,877)	382.3%
Interest income	696	91	(605)	(86.9)%
Income (loss) before income taxes	$ (1,925)	$ (7,756)	$ (5,831)	(302.9)%

The increase in general and administrative expense is partially due to increases in salaries, benefits and other compensation of approximately $1,354,000. The remaining increase was primarily due to increases in accounting, legal and other professional fees of approximately $574,000, director and officer insurance of approximately $508,000 and board fees of approximately $279,000.

Certain subsidiaries have entered into debt agreements with the parent. The interest income and offsetting interest expense related to these arrangements was not recognized in the above tables. Debt issued by IASI (Retail Services) was retired in 2004 using funds obtained by the parent. As a result, debt and interest expense were reallocated from IASI to corporate in late 2004 which accounts for the majority of the increase in amortization of debt issuance costs and interest expense. The decrease in interest income is primarily due to a decrease in invested funds due to the Q4-2003 / Q2-2004 acquisitions.

Liquidity and Capital Resources

(bracketed amounts represent uses of funds)

Net cash provided by operating activities was approximately $8,099,000 for the year ended December 31, 2005 compared to net cash provided by operating activities of $14,149,000 for the year ended December 31, 2004, a decrease of approximately $(6,050,000). The decrease in cash provided by operations was primarily the result an increase in the net loss of approximately $(10,615,000) offset, in part, by an increase in depreciation and amortization of approximately $5,559,000; and a decrease in accounts payable of approximately $(1,414,000). Net cash provided by operating activities was approximately $14,149,000 for the year ended December 31, 2004 compared to net cash used by operating activities of approximately $(4,239,000) for the year ended December 31, 2003, an increase of approximately $18,388,000. The increase in cash provided by operations was primarily the result of a decrease in the net loss of approximately $10,288,000 and an increase in depreciation and amortization of approximately $10,690,000.

Net cash used in investing activities was approximately $(16,612,000) for the year ended December 31, 2005 compared to approximately $(77,634,000) for the year ended December 31, 2004, a decrease of approximately $62,449,000. The significant reduction in cash used in investing activities was primarily due to a reduction to business acquisitions, net of cash acquired, of approximately $42,402,000 and an increase in the repayment of loans to dealers of approximately $24,021,000 which was offset, in part, by a decrease in the proceeds from sale of customer contracts and accounts receivable of approximately $(4,123,000) and the reimbursement of the remaining attrition guarantees withheld as part of the final settlement of the PSI acquisition of approximately $(1,427,000). Net cash used in investing activities was approximately $(77,634,000) for the year ended December 31, 2004 compared to approximately $(57,984,000) for the year ended December 31, 2003. The increase in cash used in investing activities is primarily due to the increase in business acquisitions of approximately $(15,139,000), an increase in purchases of retail customer contracts of approximately $(3,919,000) and an increase in property and equipment expenditures of approximately $(3,414,000).

Net cash used by financing activities was approximately $(6,803,000) for the year ended December 31, 2005 compared to cash provided by financing activities of approximately $59,604,000 for the year ending December 31, 2004, or a change of approximately $(66,407,000). The increased use of funds in financing activities was primarily due to a decrease in proceeds from long-term debt issuance of $(125,000,000) and the purchase of treasury stock of approximately $(1,000,000) offset, in part, by a reduction in repayments on long-term debt and capital lease obligations of approximately $54,643,000 and a decrease in debt issuance costs of approximately $4,950,000. Net cash provided by financing activities was approximately $59,604,000 for the year ended December 31, 2004 compared to approximately $97,217,000 for the year ending December 31, 2003. The decrease was primarily due to the approximately $(195,857,000) of proceeds from our initial public offering in 2003, offset, in part, by an increase of approximately $118,161,000 in proceeds from long-term debt and a decrease of approximately $39,932,000 in repayment of long-term debt.

The balance sheet at December 31, 2005 reflects net working capital of approximately $9,127,000. As of December 31, 2005, we had recurring monthly revenue ("RMR") of approximately $4,775,000 in our retail monitoring segment and approximately $3,053,000 in our wholesale monitoring segment. Total debt was $125,000,000 as of December 31, 2005. The balance sheet at December 31, 2004 reflects net working capital of approximately $16,956,000. As of December 31, 2004, we had RMR of approximately $4,479,000 in our retail monitoring segment and approximately $3,100,000 in our wholesale monitoring segment. Total debt was approximately $130,225,000 as of December 31, 2004.

On November 16, 2004, we completed a private offering of $125 million aggregate principal amount of 12% Senior Secured Notes due November 15, 2011. The proceeds of this offering, net of issuance costs, were approximately $120.1 million.

On November 16, 2004, we entered into the LaSalle Credit Facility with LaSalle Bank. The maximum amount available of $30 million is limited to 10.0x RMR of eligible retail alarm contracts. The interest rate initially is LIBOR plus 3.50%. The minimum fixed charge coverage ratio is 2.0:1. There was no outstanding balance as of December 31, 2005. At December 31, 2005, we were not in compliance with certain administrative covenants of the LaSalle Credit Facility. On March 14, 2006, LaSalle permanently waived the administrative covenants which we were not in compliance with through March 13, 2006, at which time the $30 million became available to us. On April 24, 2006 we disclosed that Mr. Few's employment with the Company would cease April 30, 2006 and Mr. McGinn's would cease on May 31, 2006. This event would be an event of default under the terms of the LaSalle Credit Facility. On April 27, 2006 we obtained a permanent waiver of this default provision from LaSalle Bank.

Our capital expenditures anticipated over the next twelve months include equipment and software of approximately $2,690,000. In addition, our strategy calls for us to purchase monitoring contracts at an aggregate cost of approximately $38,000,000.

As part of the NACC and FSS Acquisitions, we agreed to assume obligations to provide open lines of credit to Dealers, subject to the terms of the agreements with the Dealers as of the date of purchase. We intend to fund these commitments with available funds and available capacity under the $30.0 million LaSalle Credit Facility. At December 31, 2005, open lines of credit to these Dealers were approximately $6.2 million.

We believe that our existing cash, cash equivalents, LaSalle Credit Facility and RMR are adequate to fund our operations for at least the next twelve months.

Recent Accounting Pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments, an amendment of FASB statements No. 133 and 140* ("FAS No. 155"). This Standard resolves and clarifies the accounting and reporting for certain financial instruments including, hybrid financial instruments with embedded derivatives, interest-only strips, and securitized financial instruments. FAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We will be required to adopt this Standard on January 1, 2007 and have not determined the effect that adopting FAS No. 155 will have on the financial statements.

In May 2005, the FASB issued FAS No. 154, *Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FAS Statement No. 3*. This Standard requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Standard also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. Indirect effects of a change in accounting principle, such as a change in nondiscretionary profit-sharing payments resulting from an accounting change, should be recognized in the period of the accounting change. In addition, this Standard requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. We adopted the Standard on January 1, 2006 and it did not have any effect on our financial statements.

In December 2004, the FASB issued FAS No. 123R, *Share-Based Payment*, an amendment of FAS No. 123, *Accounting for Stock-Based Compensation*. FAS 123R eliminates the ability to account for share-based payments using Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and instead requires companies to recognize compensation expense using a fair-value based method for costs related to share-based payments including stock options and employee stock purchase plans. The expense will be measured as the fair value of the award at its grant date based on the estimated number of awards that are expected to vest, and recorded over the applicable service period. In the absence of an observable market price for a share-based award, the fair value would be based upon a valuation methodology that takes into consideration various factors, including the exercise price of the award, the expected term of the award, the current price of the underlying shares, the expected volatility of the underlying share price, the expected dividends on the underlying shares and the risk-free interest rate. The requirements of FAS 123R are effective for our fiscal year beginning January 1, 2006 and apply to all awards granted, modified or cancelled after that date.

The standard also provides for different transition methods for past award grants, including the restatement of prior period results. We have elected to apply the prospective transition method to all past awards outstanding and unvested as of the effective date of January 1, 2006 and will recognize the associated expense over the remaining vesting period based on the fair values previously determined and disclosed as part of our pro-forma disclosures. We will not restate the results of prior periods.

The issuance of FAS123R will result in stock option-based compensation expense in 2006 for the unvested options as of December 31, 2005 of an immaterial amount.

In November 2004, the FASB issued FAS No. 151, *Inventory costs, an amendment of ARB No. 43, Chapter 4*. This Standard requires that items such as idle facility expense and excess spoilage be recognized as current period charges. Under ARB No. 43, such costs were considered inventoriable costs unless they were considered so abnormal as to require immediate expensing. We are required to adopt the Standard on January 1, 2006, and do not expect the adoption to have a material effect on our financial statements.

Disclosures About Market Risk

Our exposure to market risk is limited to interest income and expense sensitivity, which is affected by changes in the general level of interest rates. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. To minimize risk, we maintain our portfolio of cash, cash equivalents and short-term and restricted investments in a variety of interest-bearing instruments, including United States government and agency securities, high-grade United States corporate bonds, municipal bonds, mortgage-backed securities, commercial paper and money market accounts at established financial institutions. Due to the nature of our short-term and restricted investments, we believe that we are not subject to any material market risk exposure. We do not have any foreign currency risk. At December 31, 2005, we have no short-term investments and our cash and cash equivalents are invested in money market accounts.

Off Balance Sheet Arrangements

The Company is not a party to any off-balance sheet arrangements with the exception of commercial letters of credit totaling approximately $633,000. These letters of credit are collateralized with cash deposits which are included in restricted cash on our consolidated balance sheet.

Contractual Obligations and Commercial Commitments

The Company's significant contractual obligations as of December 31, 2005 are for approximately $220,236,000. Debt by year of maturity and future payments under operating and capital lease agreements and estimated interest expense are presented below. The Company has not engaged in off-balance sheet financing or commodity contract trading.

Contractual Obligations	**Payments due by Period**				
	Total	**less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
			(in thousands)		
Long-term debt	$ 125,000	$ -	$ -	$ -	$ 125,000
Capital leases	811	350	392	69	-
Operating leases	4,291	1,946	1,914	431	-
Interest expense (estimated)*	90,134	15,052	30,073	30,009	15,000
	$ 220,236	$ 17,348	$ 32,379	$ 30,509	$ 140,000

*Consists primarily of annual interest payments of approximately $15,000,000 on $125,000,000 million of senior secured notes bearing interest at 12.0%.

PART III

Item 10. Directors and Executive Officers of the Registrant

The names of our executive officers and directors as of December 31, 2005, together with a brief description of their employment histories, are provided below:

Name	Age	Position
Timothy M. McGinn	57	Chairman of the Board and Chief Executive Officer
Thomas J. Few, Sr.	59	Vice Chairman and President
Bruce E. Quay	48	Chief Operating Officer
Brian E. Shea	47	Executive Vice President
Robert B. Heintz	50	Executive Vice President-Monitoring COO
Michael T. Moscinski	54	Chief Financial Officer
Raymond C. Kubacki	61	Director
John W. Mabry	68	Director
Ralph S. Michael III	51	Director
David L. Smith	61	Director
Timothy J. Tully	42	Director
Arlene M. Yocum	48	Director

Mr. McGinn has served as our Chairman of the Board and Chief Executive Officer since January 2003. Mr. McGinn was the President of Integrated Alarm Services, Inc. Mr. McGinn is the non-executive Chairman of the Board of McGinn, Smith & Co., Inc. He has served as Chairman of the Board of McGinn, Smith since 1980 and was an executive officer from 1980 to 2003. He has also served as non-executive Vice Chairman of Pointe Financial Corp., a publicly traded commercial bank and non-executive Chairman of its affiliate Pointe Bank. Mr. McGinn also serves as a Director of Same Day Surgery, Inc. Mr. McGinn will cease being Chairman of the Board and Chief Executive Officer on May 31, 2006. He will continue to serve as a Director of our Company.

Mr. Few, Sr. is our Vice Chairman and President and has over 35 years of experience in the security alarm industry. Mr. Few, Sr. has been with IASG and its predecessors since 1985, where he started as Executive Vice President. Prior thereto, Mr. Few, Sr. held senior positions with Holmes Protection, Inc., ADEMCO, Guardian and ADT. Prior to his work with these firms, Mr. Few, Sr. owned and operated an independent alarm company and central station in New Jersey. Mr. Few, Sr. will cease being Vice Chairman and President on April 30, 2006. He will continue to serve as a Director of our Company.

Mr. Quay is our Chief Operating Officer. He joined the Company in April 2005. Prior to serving in his current role, Mr. Quay was Executive Vice President and Principal of Aquatic Development Group ("ADG"), a privately held company servicing the aquatics industry through its project services and equipment systems divisions from 2003 to 2005. Prior to ADG, from 1990 to 2002, Mr. Quay held various senior level positions at Cookson Plastic Molding Group where he served as President and Chief Executive Officer from 1998 to 2002. Cookson Plastic Molding Group is a wholly owned subsidiary of Cookson Group, PLC, which is a global leader in the supply of plastic products to the material handling, pool construction, office equipment and lawn and garden markets. Prior to Cookson Plastic Molding Group, Mr. Quay held various senior level management positions with Heldor Industries, a leading national manufacturer and distributor of swimming pool products.

Mr. Shea has served as an Executive Vice President since March 2003. In this role, he heads our retail account acquisition and loan division, including portfolio management, due diligence, performance monitoring and collections. Additionally Mr. Shea serves as our Corporate Secretary and Insider Trading Compliance Officer. Prior to serving in his current role, he was our Chief Financial Officer and had served as the Chief Financial Officer of IASI and its predecessor companies since 1992. Prior thereto, he was Vice President of Finance/Controller of Hiland Park, a real estate development company. Prior to joining Hiland Park, he was an Analyst at Galesi Group and a Financial Manager for General Electric Corporation, where he graduated from GE's Financial Management Training Program. Mr. Shea serves as a Board Member of McGinn, Smith & Co., Inc.

Mr. Heintz has served as our Executive Vice President-Monitoring Services since February 2005. Prior to serving in his current role, he was our Vice President, Finance and Administration—Monitoring Services since January 2003. He was previously our Chief Financial Officer, a position he held since April 2000. Prior to joining IASG, he was Vice President and Chief Financial Officer of Monital Signal Corporation, from January 1997 to April 2000, which we acquired in April 2000. Before working for Monital, he was Vice President Finance & Information Services for Brownstone Studio, Inc., a garment cataloger and manufacturer, where he worked from 1994 to 1996. Before Brownstone, he spent 14 years with the Dun & Bradstreet Corporation where he held several finance and accounting positions.

Mr. Moscinski has served as our Chief Financial Officer since March 2003. Prior to serving in his current role, Mr. Moscinski served IASG and its predecessor companies in various financial positions since April 2002. Prior to joining IASG, he served as Vice President, Corporate Controller and Interim Chief Financial Officer for United Road Services, Inc., a public company based in Albany, New York, where he worked from 1998 through 2001. From 1987 to 1998, Mr. Moscinski was the Director of Corporate Accounting for National Micronetics, Inc. From 1976 to 1987, Mr. Moscinski was with KPMG International and its predecessor firms, where he was a Senior Manager in audit. Mr. Moscinski is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the New York State Society of Certified Public Accountants.

Mr. Kubacki has served as a director since June 2004. Mr. Kubacki has been President and Chief Executive Officer of Psychemedics Corporation, a biotechnology company with a proprietary drug test product, since July 1991. He has also served as Chairman of the Board since November 2003. Prior to joining Psychemedics, he held senior management positions in marketing and operations with Reliance Electric Company and ACME Cleveland Corporation; and as an investment officer for Massachusetts Financial Services, a major mutual fund and investment management firm. He is also a trustee for the Center for Excellence in Education based in Washington, D.C.

Mr. Mabry has served as a director of IASG since March 2003. Mr. Mabry has approximately 35 years of experience in the alarm industry. In 1969 he founded and began building the American Alarm Company that was purchased by Honeywell in 1983. He remained with Honeywell through 1993 with responsibilities for operations, sales and business development. From 1993 to 2000, Mr. Mabry was President of Security Network of America. Mr. Mabry serves on numerous alarm industry associations' boards and was President of the National Burglary and Fire Alarm Association. Mr. Mabry will become our Non-Executive Chairman of the Board on June 1, 2006

Mr. Michael has served as a director of IASG since January 2003. He has been President and Chief Operating Officer of the Ohio Casualty Insurance Company since July 2005. From 2003 to 2005, Mr. Michael served as Executive Vice President of U.S. Bank, N.A. and President of U.S. Bank-Oregon. From 1979 to 2002, Mr. Michael held management and executive positions with PNC Financial Services Group. He also currently serves as a board member of Key Energy Services Inc., Cincinnati Bengals Inc., and Xavier University (OH). Mr. Michael is Chairman of the IASG audit committee.

Mr. Smith has served as a director of IASG since October 2002. Mr. Smith is the President and a Director of McGinn, Smith & Co., where he has served in this capacity since the company's founding in 1980. Previously he was with Paine Webber. Mr. Smith also serves on the board and as an executive officer of several privately held companies.

Mr. Tully has served as a director of IASG since January 2003. Mr. Tully is the managing member of Tully Capital Partners, LLC, a diversified private investment firm that he co-founded in 1997. Prior to Tully Capital Partners, Mr. Tully was President of Pioneer Investment Properties, which engaged in commercial real estate acquisitions/operations. He is a former Floor Official on the New York Options Exchange, where he traded equity and index options as an independent market maker. Mr. Tully serves as a board member on various charitable foundations and community based organizations. Mr. Tully is the IASG Compensation Committee Chairman and serves as a member of the Audit Committee.

Ms. Yocum has served as a director of IASG since October 2005. Ms. Yocum has been Executive Vice President, Managing Executive of PNC Advisors, Wealth Management and Institutional Investment Groups since 2003. From 2000 to 2003 Ms. Yocum was an Executive Vice President of the Institutional Investment Group of PNC Advisors. From 1993 to 2000 Ms. Yocum held management and executive positions with PNC Advisors. Ms Yocum is a Trustee and Vice President of the Philadelphia Community College Foundation and a member of American Bankers Association Wealth Management and Trust Conference Board.

Committees of the Board

The Audit Committee appoints and provides for the compensation of the Company’s independent auditors; oversees and evaluates the work and performance of the independent auditors; reviews the scope of the audit; examines the results of audits and quarterly reviews; considers comments made by the independent auditors with respect to accounting procedures and internal controls and the consideration given thereto by the Company’s management; approves all professional services to be provided to the Company by its independent auditors; reviews internal accounting procedures and controls with the Company’s financial and accounting staff; oversees a procedure that provides for the receipt, retention and treatment of complaints received by the Company and of confidential and anonymous submissions by employees regarding questionable accounting or auditing matters; and performs related duties as set forth in applicable securities laws, NASDAQ corporate governance guidelines, and the Audit Committee charter. The Board functions pursuant to the Audit Committee charter adopted by the Board in August 2003.

The members of the Company's Audit Committee are Messrs. Michael, Mabry, Tully and Kubacki. Mr. Ralph S. Michael III is the Audit Committee Chairman. The Audit Committee met sixteen (16) times during the fiscal year ended December 31, 2005. Each of Messrs. Michael, Mabry, Kubacki and Tully are independent Directors under the rules of the NASDAQ Stock Market. Each of the members of the Audit Committee are able to read and understand fundamental financial statements. While more than one member of the Company's Audit Committee qualifies as an "audit committee financial expert" under Item 401(h) of Regulation S-K, Mr. Michael is the designated audit committee financial expert.

The Compensation Committee has such powers as may be assigned to it by the Board of Directors from time to time and is currently charged with, among other things, reviewing and recommending compensation packages for our officers, administering our Stock Option Plan and establishing and reviewing general policies relating to compensation and benefits of the Company's employees. The Compensation Committee met four (4) times during fiscal 2005. In March 2005, the Board elected Mr. Kubacki to replace Mr. Allen on the Compensation Committee and Messrs. Tully and Mabry to remain on the Compensation Committee for fiscal 2005, each of whom are independent Directors under the rules of the NASDAQ Stock Market. Mr. Tully is the Compensation Committee Chairman.

The Board did not have a Nominating Committee during fiscal 2005; the nominees selected for the Board of Directors for fiscal 2005 were nominated by the independent Directors of the Company's Board. A Nominating/Governance Committee was formed in 2006.

We have adopted a Code of Ethics for our officers, including our principal executive officer, principal financial officer, principal accounting officer, persons performing similar functions and directors.

Shareholders may request a free copy of the Code of Ethics and/or Annual Report from:

Integrated Alarm Services Group, Inc.
Attn: Investor Relations
99 Pine Street, 3rd floor
Albany, NY 12207

Any amendment of our Code of Ethics or waiver thereof applicable to any of our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions will be disclosed on our website within 5 days of the date of such amendment or waiver. In the case of a waiver, the nature of the waiver, the name of the person to whom the waiver was granted and the date of the waiver will also be disclosed. A copy of our Code of Ethics is also available at our website at www.iasg.us.

Item 11. Executive Compensation

The following table sets forth certain information regarding compensation paid or accrued by us to our Chief Executive Officer and to each of our executive officers who were paid in excess of $100,000 in salary and bonus for all services rendered to us in all capacities during the years ended December 31, 2005, 2004 and 2003.

Name and Principal Position	Year	Salary	Other Annual Compensation (3)	Bonus
Timothy M. McGinn	2005	416,000	17,361	100,000 (1)
Chairman and Chief Executive Officer	2004	416,000	14,400	100,000 (1)
	2003	380,000	14,400	175,000 (1)
Thomas J. Few, Sr.	2005	416,000	16,932	100,000 (1)
Vice Chairman and President	2004	416,000	14,677	100,000 (1)
	2003	378,463	14,400	175,000 (1)
Bruce E. Quay	2005	270,000 (2)	2,306	-
Chief Operating Officer				
Brian E. Shea	2005	170,000	8,175	-
Executive Vice President	2004	170,000	4,440	-
	2003	129,923	3,500	22,500
Michael T. Moscinski	2005	157,178	5,373	-
Chief Financial Officer	2004	145,000	3,996	-
	2003	116,597	3,500	22,500
Other Highly Compensated Employees:				
William Romano	2005	178,708	6,000	-
Senior Vice President and General	2004	179,301	-	-
Manager of PSI	2003	3,803 (4)	-	-
David Spinner	2005	183,559	2,355	-
Vice President of Sales of AHS	2004	177,038	2,315	-
	2003	13,848 (5)	-	-

1) Includes a fixed contractual bonus of $100,000 and a discretionary merit bonus of $75,000 paid in 2004 for performance in 2003. No discretionary bonus was granted for performance in 2004 or 2005.
2) Mr. Quay was employed effective April 1, 2005. Upon employment he was issued 25,000 options which vest over three years.
3) Other compensation includes auto allowances, matching contributions und the 401(k) plan, and preferential health and dental insurance benefits.
4) Employment with the Company began December 15, 2003.
5) Employment with the Company began November 21, 2003.

Employment Agreements

We have entered into employment agreements with Messrs. McGinn, Few, Sr., Quay, Shea, and Moscinski. The employment agreements for Messrs. McGinn and Few, Sr., were entered into on January 31, 2003 and have a term of three years. Certain terms of their contracts were re-negotiated in November 2005. Their agreements expired in January 2006 and automatically extended for an additional three (3) month period. The Board has determined that Messr. Few Sr.'s employment will not be extended beyond April 30, 2006 and Messr. McGinn's employment will not be extended beyond May 31, 2006. The employment agreements with Messrs. Moscinski and Shea were entered into in March 2003 and had an initial term of three years. The employment agreement with Mr. Quay was entered into in April 2005 and also has a term of three years. The term of the employment agreements with Messrs. Quay, Shea and Moscinski automatically extend for additional one (1) year periods, unless either party elects, not less than 90 days prior to the annual anniversary date, not to extend the employment term. Under the agreements, Messrs. McGinn and Few, Sr. each receive an annual salary of $416,000, and Messrs. Quay, Shea, and Moscinski receive annual salaries of $360,000, $170,000, and $160,000, respectively. Messrs. McGinn, and Few, Sr. also receive a leased car paid for by us ranging from $1,000 to $1,200 per month. In addition, each of the employees may receive an annual bonus at the discretion of our Board of Directors. Messrs. McGinn and Few, Sr. had a minimum bonus guarantee of $100,000 per year through 2005. The Board of Directors may also provide additional benefits to the employees, including but not limited to, health insurance, disability insurance and life insurance.

We may terminate the agreements for Cause (as defined below) and in such event we will not be responsible for the payment of any compensation under the agreement other than amounts accrued as of the termination date. In the event of an employee's death, the agreement automatically terminates, except that the respective employee's estate shall receive any accrued salary or bonus as of the date of death. "Cause" is defined as: (i) employee's misconduct as could reasonably be expected to have a material adverse effect on our business and affairs; (ii) employee's disregard of lawful instructions of our Board of Directors consistent with employee's position relating to our business or neglect of duties or failure to act, which, in each case, could reasonably be expected to have a material adverse effect on our business and affairs; (iii) engaging by the employee in conduct that constitutes activity in competition with us; (iv) the conviction of employee for the commission of a felony; or (v) the habitual abuse of alcohol or controlled substances. In no event shall the alleged incompetence of an employee, in the performance of such employee's duties, be deemed grounds for termination for Cause.

If an employee is terminated without Cause, or in breach of the agreement, or if an employee terminates following the occurrence of certain Events (as defined below), the effected employee is entitled to receive an amount equal to 12 months salary and payment of any previously declared bonus. An "Event" includes: (i) failure to be elected or appointed to the position then held by the employee; (ii) a material change in the employee's duties or responsibilities; (iii) a relocation of place of employment by more than 30 miles; (iv) a material reduction in the base compensation or other benefits to the employee; (v) failure by us to obtain the assumption of this Agreement by any successor, or, termination of employment following (a) a breach of the employment agreement by us, or (b) a change of control.

In the event that employment is terminated following a change of control or if such individuals are required to relocate to an unacceptable location within two years of the change of control, Messrs. McGinn, Few, Sr., Shea and Moscinski shall be entitled to: (i) a cash bonus, equal on an after-tax basis to two times their average compensation, including salary, bonus, and any other compensation, for the three previous fiscal years (with the exception of the agreements of Messrs. McGinn and Few, Sr. which call for a cash bonus equal to three times the employee's average compensation, including salary, bonus, and any other compensation, for the three previous fiscal years), and (ii) the vesting and acceleration of any stock options or warrants held by such person. In the event Mr. Quay is terminated within six months following a change in control, he would be entitled to: (i) a cash bonus, equal, on an after-tax basis to his average compensation for the previous three fiscal years, including salary, bonus and any other compensation hereto, and (ii) the vesting and acceleration of any stock options or warrants held by him.

In the event that any of the payments to be made thereunder or otherwise upon termination of employment are deemed to constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), we shall assume all liability for the payment of any exercise tax imposed on such parachute payment under the Code, and we shall immediately reimburse such person on a "gross-up" basis for any income taxes attributable to them from our payment of the exercise tax and reimbursements.

A "change in control" means: (i) the acquisition by any person or group of 50% or more of the combined voting power of our then outstanding securities, (ii) a majority of our Board of Directors-nominated slate of candidates for our Board of Directors is not elected, (iii) we consummate a merger in which we are not the surviving entity, (iv) the sale of substantially all of our assets, or (v) our stockholders approve the dissolution or liquidation of our company.

Under the employment agreements, the employee may terminate the agreement by providing 30 days written notice. In such event, the employee is only entitled to any accrued and unpaid compensation as of the date of the termination.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth certain information, as of the date hereof, with respect to the beneficial ownership of the common stock by each beneficial owner of more than 5% of the outstanding shares thereof, by each director and each executive named in the Summary Compensation Table and by all executive officers and directors. As of the date hereof, we had 24,368,836 shares of our common stock outstanding. Pursuant to the rules and regulations of the Securities and Exchange Commission, shares of common stock that an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding (excludes options with prices in excess of current market value of underlying security) for the purposes of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purposes of computing the percentage ownership of any other person shown in the table:

Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Beneficially Owned	Percentage of Outstanding Common Stock Beneficially Owned
Thomas J. Few, Sr. (2)	831,550	3.41%
Timothy M. McGinn (3) (7)	679,618	2.79%
David L. Smith (5) (7) (8)	541,840	2.22%
Bruce E. Quay (4)	15,000	*
Brian E. Shea (10)	3,000	*
Michael T. Moscinski (11)	1,000	*
Robert B. Heintz (10)	1,000	*
Timothy J. Tully (9)	33,000	*
Ralph S. Michael, III (9)	10,000	*
John W. Mabry (9)	10,500	*
Raymond C. Kubacki (6)	2,000	*
Arlene M. Yocum	5,000	*
All Executive Officers and Directors, as a Group 12 persons	2,133,508	8.94%
5% Stockholders		
Contrarian Capital Management, LLC	3,217,970	13.21%
411 West Putnam Avenue, Suite 225		
Greenwich, CT 06830		
Franklin Mutual Advisers LLC	2,619,600	10.75%
51 John F. Kennedy Parkway		
Short Hills, NJ 07078		
Eubel Brady & Suttman Asset Management	2,174,961	8.93%
7777 Washington Village Drive, Suite 210		
Dayton, OH 45459		
INVESCO Asset Management Ltd.	2,025,600	8.31%
4350 South Monaco St.		
Denver, CO 80237		
Boston Partner Asset Management LP	1,750,315	7.18%
28 State Street, 20th Floor		
Boston, MA 02109		
State Teachers Retirement System of Ohio	1,225,000	5.03%
275 East Broad Street		
Columbus, OH 43215		

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* represents persons who beneficially own less than 1% of our common stock.

(1) The address of each of such individuals is c/o Integrated Alarm Services Group, Inc., One Capital Center, 99 Pine Street, 3rd Floor, Albany, New York, 12207.

(2) Includes 63,600 shares of common stock owned by TJF Enterprises, LLC, which is owned by Mr. Few, Sr. does not include 890,876 shares issuable upon the exercise of options.

(3) Excludes 356,524 shares issuable upon the exercise of options.

(4) Includes 4,400 shares of common stock owned by his spouse. Excludes 16,666 shares issuable upon the exercise of options.

(5) Excludes 361,524 shares issuable upon the exercise of options.

(6) Excludes 5,000 shares of common stock issuable upon the exercise of currently exercisable options.

(7) Includes an aggregate of 227,715 shares owned by entities controlled Messrs. McGinn and Smith.

(8) Includes 10,000 shares owned by Mr. Smith's adult children.

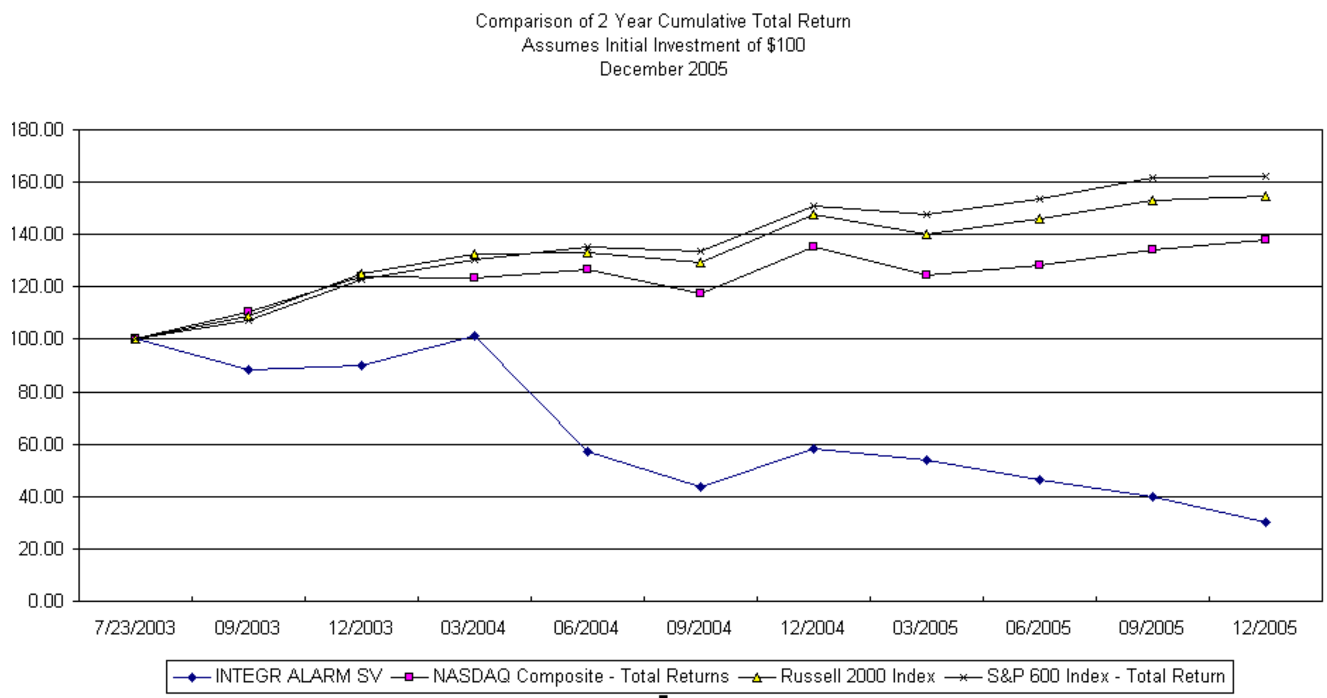
(9) Excludes 13,000 shares of common stock issuable upon the exercise of currently exercisable stock options.

(10) Excludes 2,666 shares issuable upon the exercise of options.

(11) Excludes 4,000 shares issuable upon the exercise of options.

STOCK PERFORMANCE GRAPH

The graph below provides an indicator of cumulative total return on the Company's common stock as compared with the Nasdaq Index and the S&P SmallCap 600 during the period from July 23, 2003 through the end of fiscal 2005. The graph shows the value, at the end of each fiscal quarter, of $100 invested in the Company's common stock or the indices on July 23, 2003 and assumes reinvestment of all dividends. The graph depicts the change in the value of the Company's common stock relative to the noted indices as of the end of each fiscal quarter and not for any interim period. Historical stock price performance is not necessarily indicative of future stock performance.



IASG cumulative total Return Versus Selected Equity Indices

		7/23/2003	09/2003	12/2003	03/2004	06/2004	09/2004	12/2004	03/2005	06/2005	09/2005	12/2005
IASG	Return%		-11.41	1.75	12.35	-43.46	-23.52	32.93	-7.29	-13.75	-14.58	-23.47
	Cum $	100.00	88.59	90.14	101.27	57.26	43.80	58.22	53.98	46.55	39.77	30.43
NASDAQ Composite	Return%		10.22	12.29	-0.35	2.80	-7.24	14.87	-7.95	3.07	4.78	2.73
	Cum $	100.00	110.22	123.77	123.33	126.78	117.61	135.09	124.35	128.17	134.30	137.96
Russell 2000 Index	Return%		9.07	14.53	6.27	0.47	-2.86	14.09	-5.34	4.32	4.69	1.13
	Cum $	100.00	109.07	124.92	132.74	133.37	129.56	147.82	139.93	145.97	152.82	154.55
S&P 600 Index	Return%		7.08	14.77	6.22	3.60	-1.37	13.00	-2.07	3.94	5.38	0.39
	Cum $	100.00	107.08	122.90	130.54	135.25	133.39	150.73	147.62	153.44	161.69	162.31

Options Granted in 2005

We issued 25,000 stock options to one of our executive officers during 2005.

Name	Number of Securites Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rate of Stock Price Appreciation for Option Term 5%	10%
Bruce E. Quay	25,000	59%	$4.86	4/4/2015	$ 76,411	$ 193,640

Aggregate Option Exercises in Last Fiscal Year and Fiscal Year-End Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at FY-End (Exercisable/Unexercisable)	Value of Unexercised In-the-Money Options/SARs at FY-End (Exercisable/Unexercisable)
Timothy M. McGinn	-	-	213,914 / 142,610	$0 / $0
Thomas J. Few, Sr.	-	-	534,525 / 356,351	$0 / $0
Bruce E. Quay	-	-	8,333 / 16,667	$0 / $0
Brian E. Shea	-	-	2,666 / 5,334	$0 / $0
Michael T. Moscinski	-	-	4,000 / 8,000	$0 / $0

Long Term Incentive Plans

The Integrated Alarm Services Group, Inc. 2003 Stock Incentive Plan

We have adopted, and our shareholders have approved, our equity compensation plan: The Integrated Alarm Services Group, Inc. 2003 Stock Option Plan (the "2003 Plan"). The purpose of the 2003 Plan is to attract, motivate retain and reward high quality executives and other employees, officers, director and affiliates by enabling such persons to acquire or increase a proprietary interest in us in order to strengthen the mutuality of interest between such persons and our shareholders and providing such persons with annual and long-term performance incentives to expend their maximum efforts in the creation of shareholder value.

The 2003 Plan permits the grant of options which may either be incentive stock options ("ISOs"), within the meaning of Section 422 of the Code or non-qualified stock options ("NSOs"), which do not meet the requirements of Section 422 of the Code. The total number of shares of our common stock that may be issued under the 2003 Plan may not exceed 150,000, subject to possible adjustment in the future as described below. As of December 31, 2005, 139,166 options have been granted and are outstanding under this plan.

All of our employees, officers, directors, consultants and independent contractors, or of any subsidiary or affiliate are eligible to be granted options. Within the limits of the 2003 Plan, the compensation committee has exclusive authority, among other things, to select those to whom options shall be granted, to determine the number of shares of common stock to be covered by each option and to determine the other terms of each option, including, but not limited to, the exercise price and duration. Only employees may be granted ISOs.

The exercise price of an option granted under the 2003 Plan may not be less than 100% of the fair market value of our common stock on the date of grant (110% of such fair market value in the case of an ISO granted to an optionee who owns or is deemed to own stock possessing more than 10% of the combined voting power of all classes of our stock).

Options are not transferable or assignable other than by will or the laws of descent and distribution and may be exercised during the holder's lifetime only by the holder.

The number of shares of common stock authorized for issuance under the 2003 Plan may be adjusted in the event our shares of common stock are changed into, or exchanged for cash, or securities of another entity through a reorganization, merger, recapitalization, reclassification, stock split, stock dividend, stock consolidation or combination or other similar transaction.

The Integrated Alarm Services Group, Inc. 2004 Stock Incentive Plan

We have adopted, and our shareholders have approved, our equity compensation plan: The Integrated Alarm Services Group, Inc. 2004 Stock Incentive Plan (the "2004 Plan"). Our Board of Directors believes that it is in our best interests and the best interests of our shareholders to adopt a new plan that will allow us to provide a variety of equity-based incentives to our key employees and consultants. The adoption and approval of the 2004 Plan did not amend or modify the 2003 Plan or adversely affect rights under any outstanding stock options previously granted under the 2003 Plan.

The 2004 Plan is administered by our compensation committee. The compensation committee has the full authority to select the recipients of awards granted under the 2004 Plan, to determine the type and size of awards, and to determine and amend the terms, restrictions and conditions of awards. Eligibility for awards under the 2004 Plan is limited to our key employees (including employees who are also officers and/or directors) and consultants as selected by the committee based on, among other things, their duties and the compensation committee's assessment of their present and potential contributions to our success.

Awards under the 2004 Plan may be granted in the form of ISOs that qualify under Section 422 of the Code, NSOs, stock appreciation rights, restricted stock, deferred stock awards and performance awards. The number of shares of our common stock reserved for issuance under the 2004 Plan is 1,200,000, subject to adjustment. As of December 31, 2005, 79,250 options have been granted under the 2004 Plan.

The exercise price of options granted under the 2004 Plan is determined at the discretion of the compensation committee, but the exercise price per share generally may not be less than the fair market value of a share of our common stock on the grant date of the option. In the case of ISOs granted to any holder on the date of grant of more than 10% (directly or by attribution through relatives or entities in which the holder has an ownership interest) of the total combined voting power of all classes of our stock or a parent or subsidiary corporation (a "10% Shareholder"), the exercise price per share may not be less than 110% of the fair market value of a share of our common stock on the grant date.

The following table sets forth information regarding our existing compensation plans and individual compensation arrangements pursuant to which our equity securities are authorized for issuance to employees or non-employees (such as directors, consultants, advisors, vendors, customers, suppliers or lenders) in exchange for consideration in the form of goods or services.

	(a)	(b)	(c)
Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted-average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))**
Equity compensation plans approved by security holders - 2003 Plan	139,166	$6.96	10,834
Equity compensation plans approved by security holders - 2004 Plan	79,250	$5.39	1,120,750

Retirement Plans

We have a 401k plan under which we may, but are not obligated to, make matching contributions.

Compensation Committee Interlocks and Insider Participation

In March 2005, our Board of Directors elected to replace Mr. Allen with Mr. Kubacki on the Compensation Committee and Messrs Mabry and Tully to remain on the Compensation Committee for fiscal 2005, each of whom is an independent Director under the rules of the Nasdaq Stock Market. Mr. Tully became the Compensation Committee Chairman in May 2005.

During the fiscal year ended December 31, 2003, Mr. McGinn, our Chairman and CEO, served on the Compensation Committee of the Board of Directors of Pointe Financial Corp. Mr. Palmer, one of our Directors at the time was the Chairman and CEO of Pointe Financial Corp and had served as such since 1995. In January, 2004, Mr. McGinn resigned from the Compensation Committee of the Board of Directors of Pointe Financial Corp.; however, Mr. McGinn remained a member of the Board of Directors of Pointe Financial Corp. until its sale in May 2005.

Item 13. Certain Relationships and Related Transactions

IASG provides alarm monitoring services to related parties which are owned by stockholders of the Company. Revenue earned from these alarm monitoring services was approximately $122,000 for the year ended December 31, 2005.

During November 2005, we borrowed approximately $2,500,000 from and entity controlled by our stockholders for a seven day period at a 7.6% interest rate. This was done as the bank credit line was temporarily unavailable during a bank due diligence review. The total interest expense was approximately $4,000. The transaction was approved by the independent directors of our Board.

Suzanne Sweeney, the daughter of Mr. Few, Sr. (Vice Chairman and President), is Director of Legal Affairs, and has received aggregate compensation of approximately $121,000, $130,000, and $136,000 for fiscal years 2003, 2004 and 2005, respectively.

Jeffrey Few, the son of Mr. Few, Sr. is Vice President of Sales and has received aggregate compensation of approximately $112,000, $135,000, and $133,000 for fiscal years 2003, 2004 and 2005, respectively.

Thomas J. Few, Jr., the son of Mr. Few, Sr. is Vice President of Sales and Marketing, Monitoring and has received aggregate compensation of approximately $97,000, $127,000, and $154,000 for fiscal years 2003, 2004 and 2005, respectively.

Robert W. Few, the son of Mr. Few, Sr. is Vice President of Operations—Criticom International Corp. and has received aggregate compensation of approximately $80,000, $96,000, and $101,000 for fiscal years, 2003, 2004 and 2005, respectively.

Kathleen Few, the daughter of Mr. Few, Sr. is National Manager of Dealer Care Centers and has received aggregate compensation of approximately $43,000, $53,000 and $70,000 for fiscal years 2003, 2004 and 2005, respectively.

Mary Ann McGinn, the former wife of Mr. McGinn (Chairman of the Board and Chief Executive Officer), was Senior Vice President—Legal Affairs and remained a consultant to our Company through 2005. She has received aggregate compensation of approximately $95,000, $132,000 and $145,000 for fiscal years 2003, 2004 and 2005, respectively.

Policy Regarding Transactions with Affiliates

Although we believe the foregoing transactions were fair and in our best interests we did not have any formal policy in place. Our Board of Directors adopted a policy in May 2003, that any future transactions with affiliates, including without limitation, our officers, Directors, and principal stockholders, will be on terms no less favorable to us than we could have obtained from unaffiliated third parties. Any such transactions will be approved by a majority of our Board of Directors, including a majority of the independent and disinterested members, or, if required by law, a majority of our disinterested stockholders.

Item 14. Principal Accountant Fees and Services

The information presented below discloses the aggregated fees billed to us for each of the last two fiscal years by PricewaterhouseCoopers LLP.

Audit Fees

Fiscal 2005—$1,816,405. Fiscal 2004—$2,505,525.

This category includes fees for professional services rendered for the audit of our annual financial statements, the review of financial statements included in our Form 10-Q, the audit of our internal control over financial reporting as of December 31, 2005 and 2004, and services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements. The 2004 amount also includes fees related to our senior notes offering.

Audit Related Fees

There were no fees for products and services that were not disclosed in the previous categories.

Tax Fees

Fiscal 2005—$203,120. Fiscal 2004—$185,455.

This category includes fees for professional services that are rendered for tax compliance, tax advice, and tax planning. The nature of the services comprising the fees disclosed in this category are tax return preparation.

All Other Fees

There were no other fees for products and services that are not disclosed in the previous categories.

Audit Committee Pre-approval Policies and Procedures

The audit committee, or one of its members who has been delegated pre-approval authority, considers and has approval authority over all engagements of the independent auditors. If a decision on an engagement is made by an individual member, the decision is presented at the next meeting of the audit committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. The financial statements are not included as they have not been amended.

2. Financial statement schedules.

Schedules have been omitted since they are either not required, are not applicable or the required information is shown in the consolidated financial statements or related notes.

3. The following Exhibits:

Exhibit No.		Exhibit Description
2.1	(1)	Merger Agreement by and between KC Alarm Services Group (Delaware Corporation) and the registrant
2.2		Not used
2.3	(1)	Contribution Agreement between Morlyn Financial Group LLC and the registrant
2.4	(1)	Contribution Agreement by and between Payne Security Group LLC and the registrant
2.5	(1)	Contribution Agreement by and between Guardian Group, LLC and the registrant
2.6	(1)	Contribution Agreement by and between Palisades Group, LLC and the registrant
2.7	(1)	Merger Agreement between IASI, Inc., IASG Acquisition Corp. and the registrant
2.8		Stock Purchase Agreement dated as of December 15, 2003 between Integrated Alarm Services Group, Inc. and Lane Industries, Inc. (incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K filed by IASG dated December 22, 2003)
2.9		Purchase Agreement with Wells Fargo Bank, N.A., as trustee for the initial purchasers dated November 16, 2004 (incorporated by reference to Exhibit 2.11 to our annual report on Form 10-K for the year ended December 31, 2004 filed on June 13, 2005)
3.1	(1)	Certificate of Incorporation of registrant
3.1(a)	(1)	Certificate of Amendment to the Certificate of Incorporation
3.2	(1)	Amendment to Certificate of Incorporation of registrant
3.3(a)	(1)	Amended and Restated By-Laws of registrant
4.1	(3)	Indenture dated as of November 16, 2004 among Registrant, Additional Registrants and the Trustee relating to the 12% Senior Secured Notes due 2011
4.2	(3)	Registration Rights Agreement among Additional Registrants, Registrant and certain Initial Purchasers named therein, dated as of November 16, 2004
4.3	(3)	Security Agreement among LaSalle National Bank Association, Registrant and certain Additional Registrants dated as of November 16, 2004 (without schedules or exhibits)
4.4	(3)	Security Agreement among the Trustee, Registrant and the Additional Registrants dated as of November 16, 2004 (without schedules or exhibits)

Exhibit No.

4.5	(3)	Intercreditor Agreement among the Trustee, LaSalle National Bank Association and Registrant, dated as of November 16, 2004
4.6	(3)	Form of Senior Secured Note due 2011
4.7	(3)	Pledge Agreement by and among the Registrant, Madison Protection Inc. and LaSalle Bank National Association, dated November 16, 2004 (without schedule).
4.8	(3)	Pledge Agreement by and among the Registrant, Madison Protection Inc. and Wells Fargo Bank, N.A., dated November 16, 2004 (without schedule)
10.1**	(1)	2003 Stock Option Plan
10.2**	(1)	Amended and Restated Employment Agreement by and between the registrant and Timothy M. McGinn
10.3**	(1)	Employment Agreement by and between the registrant and Thomas J. Few, Sr.
10.4**		Not used
10.5**	(1)	Employment Agreement by and between the registrant and Brian E. Shea
10.6**	(1)	Employment Agreement by and between the registrant and Robert Heintz
10.7	(1)	Assignment and Assumption Agreement
10.8	(1)	Lease Agreement between the registrant and Pine Street Associates, LLC for the Albany, New York Office space
10.9	(1)	Lease Agreement between Morlyn and Robert Gallo for the Oakland, New Jersey Office
10.10	(1)	Form of Convertible Note
10.11	(1)	Form of Two-year Note
10.12	(1)	Form of Five-year Note
10.13	(1)	Form of Three-year Note
10.14	(1)	Form of One-year Note
10.15	(1)	$3 million principal amount promissory note issued by registrant to Lynn A. Smith
10.16	(1)	Right of First Refusal Agreement by and between registrant and Criticom IDC Corporation, and Royal Thoughts LLC
10.17	(1)	ADEMCO Letter
10.18	(1)	Installing company Monitoring Receivable Financing Agreement by and between the registrant and M&S Partners
10.19	(1)	Receivable Financing Purchase Agreement between McGinn, Smith Acceptance Corp., Pointe Bank, and King Trust 01
10.20**	(1)	Form of Indemnification Agreement between registrant and member of the Board of Directors
10.21	(1)	Form of note due April 2004
10.22**	(1)	Employment Agreement by and between the registrant and Michael Moscinski
10.23**		2004 Stock Incentive Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement filed by IASG dated April 29, 2004)
10.24	(3)	Mortgage in favor of LaSalle National Bank Association dated as of November 16, 2004
10.25	(3)	Second Mortgage in favor of Trustee dated as of November 16, 2004
10.26	(3)	Revolving Credit Facility Credit Agreement by and among Integrated Alarms Services Group, Inc., Criticom International Corporation, Monital Signal Corporation, Integrated Alarm Services, Inc., Payne Security Group, LLC, American Home Security, Inc. and the Guarantors Party Hereto and The Banks Party Hereto and LaSalle Bank National Association, as Agent dated November 16, 2004
10.27**	(3)	Employment Agreement by and between the registrant and Bruce E. Quay
11.1	(4)	Statement of computation of earning per share
14	(4)	Code of Ethics
21	(4)	List of Subsidiaries
23.3	(1)	Consent of Barnes & Associates
23.4	(1)	Consent of Standard & Poor's Corporate Value Consulting
31		Rule 13a-14 (a)/15d-14(a) Certifications
32(a)		Certification by the Chief Executive Officer relating to a periodic report containing financial statements
32(b)		Certification by the Chief Financial Officer relating to a periodic report containing financial statements

(1) Incorporated by reference to Exhibit of same number to the Registration Statement on Form S-1 (Registration Number 333-101159)

(2) Incorporated by reference to Exhibit of the same number to our annual report filed on Form 10-K for the year ended December 31, 2003 filed on March 30, 2004

(3) Incorporated by reference to Exhibit of the same number to our annual report or Form 10-K for the year ended December 31, 2004 filed on June 13, 2005

(4) Incorporated by reference to Exhibit of the same number to our annual report or Form 10-K for the year ended December 31, 2005 filed on March 16, 2006

** Constitutes a management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an Exhibit to this report pursuant to item 15(c) of Form 10-K

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Integrated Alarm Services Group, Inc.

Dated: May 1, 2006

By: /s/ Timothy M. McGinn

Timothy M. McGinn
Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Date	Title	Signature
Dated: May 1, 2006	Chairman of the Board, Director, Chief Executive Officer and Principal Executive Officer	By: /s/ Timothy M. McGinn Timothy M. McGinn
Dated: May 1, 2006	Chief Financial Officer and Principal Accounting Officer	By: /s/ Michael T. Moscinski Michael T. Moscinski
Dated: May 1, 2006	Director	By: /s/ Thomas J. Few, Sr. Thomas J. Few, Sr.
Dated: May 1, 2006	Director	By: /s/ Raymond C. Kubacki Raymond C. Kubacki
Dated: May 1, 2006	Director	By: /s/ John W. Mabry John W. Mabry
Dated: May 1, 2006	Director	By: /s/ Ralph S. Michael, III Ralph S. Michael, III
Dated: May 1, 2006	Director	By: /s/ David L. Smith David L. Smith
Dated: May 1, 2006	Director	By: /s/ Timothy J. Tully Timothy J. Tully
Dated: May 1, 2006	Director	By: /s/ Arlene M. Yocum Arlene M. Yocum