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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2016

or

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

For the transition period from _____ to _____

Commission file number: 0-23153

Track Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-0543981

(I.R.S. Employer
Identification Number)

1215 W. Lakeview Court, Romeoville, IL 60446

(Address of principal executive offices) (Zip Code)

(877) 260-2010

(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of February 6, 2017 was 10,344,118.

Track Group, Inc.

FORM 10-Q

For the Quarterly Period Ended December 31, 2016

INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1</u>	<u>Financial Statements</u> 1
	<u>Condensed Consolidated Balance Sheets (Unaudited)</u> 1
	<u>Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)</u> 2
	<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> 3
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> 4
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 14
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 18
<u>Item 4</u>	<u>Controls and Procedures</u> 19
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1</u>	<u>Legal Proceedings</u> 19
<u>Item 2</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 20
<u>Item 3</u>	<u>Defaults Upon Senior Securities</u> 20
<u>Item 4</u>	<u>Mine Safety Disclosures</u> 20
<u>Item 5</u>	<u>Other Information</u> 20
<u>Item 6</u>	<u>Exhibits</u> 21
<u>Signatures</u>	22

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

Assets	December 31, 2016	September 30, 2016
<i>Current assets:</i>	(Unaudited)	
Cash	\$ 2,486,390	\$ 1,769,921
Accounts receivable, net of allowance for doubtful accounts of \$2,695,060 and \$2,335,508, respectively	5,920,597	6,894,095
Note receivable, current	334,733	334,733
Prepaid expenses and other	515,000	816,708
Inventory, net of reserves of \$98,150 and \$98,150, respectively	464,151	521,851
Total current assets	9,720,871	10,337,308
Property and equipment, net of accumulated depreciation of \$1,503,512 and \$1,421,389, respectively	1,075,212	1,226,461
Monitoring equipment, net of accumulated amortization of \$3,535,297 and \$3,438,074, respectively	4,583,890	4,358,117
Intangible assets, net of accumulated amortization of \$8,821,745 and \$8,233,659, respectively	25,286,897	25,540,650
Goodwill	7,841,220	7,955,876
Other assets	3,016,318	2,900,911
Total assets	<u>\$ 51,524,408</u>	<u>\$ 52,319,323</u>
Liabilities and Stockholders' Equity		
<i>Current liabilities:</i>		
Accounts payable	3,263,481	2,771,101
Accrued liabilities	5,637,673	3,976,192
Current portion of long-term debt, net of discount of \$222,973 and \$222,973, respectively	3,245,732	3,245,732
Total current liabilities	12,146,886	9,993,025
Stock payable - related party	3,289,879	3,289,879
Long-term debt, net of current portion and discount of \$130,068 and \$185,811, respectively	30,379,358	30,345,803
Total Liabilities	45,816,123	43,628,707
<i>Stockholders' equity:</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 10,333,516 outstanding at December 31 and September 30, 2016	1,034	1,034
Additional paid-in capital	299,001,399	298,876,399
Accumulated deficit	(291,955,262)	(289,341,503)
Accumulated other comprehensive income	(1,338,886)	(845,314)
Total equity	5,708,285	8,690,616
Total liabilities and stockholders' equity	<u>\$ 51,524,408</u>	<u>\$ 52,319,323</u>

The accompanying notes are an integral part of these condensed consolidated statements.

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended	
	December 31,	
	2016	2015
Revenues:		
Monitoring services	\$ 7,265,013	\$ 5,957,426
Other	406,477	360,178
Total revenues	<u>7,671,490</u>	<u>6,317,604</u>
Cost of revenues:		
Monitoring, products and other related services	2,933,622	1,880,212
Depreciation & amortization included in cost of revenues	445,493	488,967
Impairment of monitoring equipment and parts	74,787	60,000
Total cost of revenues	<u>3,453,902</u>	<u>2,429,179</u>
Gross profit	4,217,588	3,888,425
Operating expenses:		
General & administrative	3,768,099	3,411,643
Restructuring costs	566,330	-
Selling & marketing	627,749	620,029
Research & development	530,806	547,159
Depreciation & amortization	575,111	700,035
Total operating expenses	<u>6,068,095</u>	<u>5,278,866</u>
Loss from operations	(1,850,507)	(1,390,441)
Other income (expense):		
Loss on disposal of equipment	-	(33,805)
Interest expense, net	(647,103)	(694,508)
Currency exchange rate loss	(116,442)	(18,149)
Other income, net	293	9,665
Net loss attributable to common shareholders	(2,613,759)	(2,127,238)
Foreign currency translation adjustments	(493,572)	215,095
Comprehensive loss	\$ (3,107,331)	\$ (1,912,143)
Net loss per common share, basic and diluted	<u>\$ (0.25)</u>	<u>\$ (0.21)</u>
Weighted average common shares outstanding, basic and diluted	10,333,516	10,261,288

The accompanying notes are an integral part of these condensed consolidated statements.

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

	Three Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (2,613,759)	\$ (2,127,238)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,020,604	1,189,003
Impairment of monitoring equipment and parts	74,787	60,000
Bad debt expense	359,551	199,854
Amortization of debt discount	55,743	55,743
Stock based compensation	225,374	159,469
Vesting and re-pricing of stock options	-	196,114
Loss on disposal of property and equipment	-	33,805
Change in assets and liabilities:		
Accounts receivable, net	660,834	(836,330)
Notes receivable	-	(9,099)
Inventories	57,700	131,348
Prepaid expenses and other assets	149,428	(76,313)
Accounts payable	684,987	146,921
Accrued expenses	1,461,547	418,593
Net cash provided by (used in) operating activities	2,136,796	(458,130)
Cash flow from investing activities:		
Purchase of property and equipment	(12,762)	(46,970)
Capitalized software	(570,093)	(442,578)
Purchase of monitoring equipment and parts	(818,600)	(898,500)
Net cash used in investing activities	(1,401,455)	(1,388,048)
Cash flow from financing activities:		
Principal payments on notes payable	(17,266)	(587,608)
Net cash used in financing activities	(17,266)	(587,608)
Effect of exchange rate changes on cash	(1,606)	3,766
Net increase (decrease) in cash	716,469	(2,430,020)
Cash, beginning of period	1,769,921	4,903,045
Cash, end of period	\$ 2,486,390	\$ 2,473,025

The accompanying notes are an integral part of these condensed consolidated statements.

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

(1) BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial information of Track Group, Inc. and subsidiaries (collectively, the “*Company*” or “*Track Group*”) has been prepared in accordance with the Instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission (“*SEC*”). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“*GAAP*”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting only of normal recurring adjustments necessary to present fairly the Company’s financial position as of December 31, 2016, and results of its operations for the three months ended December 31, 2016. These financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2016. The results of operations for the three months ended December 31, 2016 may not be indicative of the results for the fiscal year ending September 30, 2017.

Certain prior year amounts in the Condensed Consolidated Financial Statements have been reclassified to conform with the current year presentation.

(2) PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of Track Group and its subsidiaries. All significant inter-company transactions have been eliminated in consolidation. Certain prior year amounts on the consolidated statement of operations have been reclassified to conform to the current period presentation. These reclassifications have no impact on the previously reported results.

(3) RECENTLY ISSUED ACCOUNTING STANDARDS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“*FASB*”) or other standard setting bodies, which are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its financial position or results of operations upon adoption.

In May 2016, the FASB issued ASU 2016-12. The amendments in this update affect the guidance in Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements for Topic 606 (and any other Topic amended by Update 2014-09). Accounting Standards Update 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, defers the effective date of Update 2014-09 by one year. Management is currently evaluating the impact that this amendment will have on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, (“*ASU 2016-10*”). This update was intended to clarify two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The effective date for ASU 2016-10 is the same as Topic 606, which begins for annual reporting periods beginning after December 15, 2017. Management is currently evaluating the impact of the pending adoption of ASU 2016-10 on the Company’s consolidated financial statements.

In March 2016, FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This update was intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The amendments in this update have the same effective date as ASC 606 as discussed above. Management is currently evaluating the impact of the pending adoption of ASU 2016-08 on the Company’s consolidated financial statements.

In March 2016, FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this update change the accounting for certain stock-based compensation transactions, including the income tax consequences and cash flow classification for applicable transactions. The amendments in this update are effective for annual periods beginning after December 31, 2016 and interim periods within those annual periods. Management is currently evaluating the impact that this amendment will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 841). For lessees, the amendments in this update require that for all leases not considered to be short term, a company recognize both a lease liability and right-of-use asset on its balance sheet, representing the obligation to make payments and the right to use or control the use of a specified asset for the lease term. The amendments in this update are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Management is currently evaluating the impact that this amendment will have on its consolidated financial statements.

In August 2014, FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The new guidance requires management to assess a company's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. Disclosures are required when conditions give rise to substantial doubt. Substantial doubt is deemed to exist when it is probable that the company will be unable to meet its obligations within one year from the financial statement issuance date. The new guidance is effective for our annual period beginning September 30, 2017, and all annual and interim periods thereafter. We are currently evaluating what impact the adoption of this guidance will have on our financial statements or disclosures in our financial statements.

(4) IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable and in the case of goodwill, at least annually. The Company evaluates whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. If the carrying amount of an asset exceeds its fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there is an identifiable fair value that is independent of other groups of assets. The Company recorded \$74,787 and \$60,000 of impairment expenses related to monitoring equipment for the three months ended December 31, 2016 and 2015, respectively.

(5) BUSINESS COMBINATIONS

The Company accounts for its business acquisitions under the acquisition method of accounting as indicated in ASC 805, Business Combinations, which requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree; and establishes the acquisition date as the fair value measurement point. Accordingly, the Company recognizes assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities and non-controlling interest in the acquiree, based on fair value estimates as of the date of acquisition. In accordance with ASC 805, the Company recognizes and measures goodwill as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

Acquired Assets and Assumed Liabilities

Pursuant to ASC No. 805-10-25, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, but during the allowed measurement period not to exceed one year from the acquisition date, the Company retrospectively adjusts the provisional amounts recognized at the acquisition date, by means of adjusting the amount recognized for goodwill.

Contingent Consideration

In certain acquisitions, the Company has agreed to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain future goals which may include revenue milestones, new customer accounts, and earnings targets. The Company records contingent consideration based on its estimated fair value as of the date of the acquisition. The Company evaluates and adjusts the value of contingent consideration, if necessary, at each reporting period based on the progress toward and likely achievement of certain targets on which issuance of the contingent consideration is based. Any differences between the acquisition-date fair value and the changes in fair value of the contingent consideration subsequent to the acquisition date are recognized in current period earnings until the arrangement is settled. If there is too much uncertainty surrounding the value of contingent consideration, then the Company's policy is to wait until the end of the measurement period before making an adjustment.

(6) ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net loss as currently reported under U.S. GAAP and other comprehensive loss. Other comprehensive loss considers the effects of additional economic events, such as foreign currency translation adjustments, that are not required to be recorded in determining net loss, but rather are reported as a separate component of stockholders' equity. The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the following operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars (USD) at the prevailing exchange rate at December 31, 2016.

(7) NET LOSS PER COMMON SHARE

Basic net loss per common share ("*Basic EPS*") is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period.

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

Common share equivalents consist of shares issuable upon the exercise of common stock options and warrants. As of December 31, 2016 and 2015, there were 526,901 and 411,390 outstanding common share equivalents, respectively, that were not included in the computation of Diluted EPS for the three months ended December 31, 2016 and 2015, respectively as their effect would be anti-dilutive. The common stock equivalents outstanding as of December 31, 2016 and 2015 consisted of the following:

	December 31, 2016	December 31, 2015
Exercise of outstanding common stock options and warrants	526,901	411,390
Total common stock equivalents	<u>526,901</u>	<u>411,390</u>

(8) ACQUISITION

Track Group Analytics Limited

On November 26, 2014, the Company entered into a Share Purchase Agreement to purchase from the shareholders of Track Group Analytics Limited, formerly G2 Research Limited ("*TGA*"), all issued and outstanding shares of TGA for an aggregate purchase price of up to CAD\$4,600,000 (the "*TGA Acquisition*"), of which CAD\$2,000,000 was paid in cash to the TGA shareholders on the Closing Date with the remainder of the purchase price to be paid as follows: (i) CAD\$600,000 to the former TGA shareholders in shares of common stock of which one-half of the shares were issued on the one-year anniversary of the closing and the balance was issued on the two-year anniversary of the closing; and (ii) up to CAD\$2,000,000 to the former TGA shareholders in shares of common stock over a two-year period beginning as of the closing, subject to the achievement of certain milestones set forth in the purchase agreement. The Company has paid approximately USD\$880,000 of milestone payments through stock issuances through December 31, 2016 and the final milestone payment of 10,602 shares of common stock was paid on January 31, 2017.

[Table of Contents](#)

The fair value of patents, developed technology, customer contracts/relationship, tradename and trademarks were capitalized as of the acquisition date and will be subsequently amortized using a straight-line method to depreciation and amortization expense over their estimated useful lives.

(9) PREPAID AND OTHER EXPENSES

The carrying amounts reported in the balance sheets for prepaid expenses and other current assets approximate their fair market value based on the short-term maturity of these instruments. As of December 31, 2016 and September 30, 2016, the outstanding balance of prepaid and other expenses was \$515,000 and \$816,708, respectively. The \$515,000 as of December 31, 2016 is comprised largely of prepayments toward inventory purchases, vendor deposits and other prepaid supplier expenses.

(10) INVENTORY

Inventory is valued at the lower of the cost or market. Cost is determined using the first-in, first-out (“FIFO”) method. Market is determined based on the estimated net realizable value, which generally is the item’s selling price. Inventory is periodically reviewed in order to identify obsolete, damaged or impaired items.

Inventory consists of finished goods that are to be shipped to customers and parts used for minor repairs of ReliAlert™, Shadow, and other tracking devices. Completed and shipped ReliAlert™, and other tracking devices are reflected in Monitoring Equipment. As of December 31, 2016 and September 30, 2016, respectively, inventory consisted of the following:

	December 31,	September 30,
	2016	2016
Finished goods inventory	\$ 562,301	\$ 620,001
Reserve for damaged or obsolete inventory	(98,150)	(98,150)
Total inventory, net of reserves	<u>\$ 464,151</u>	<u>\$ 521,851</u>

(11) PROPERTY AND EQUIPMENT

The following table summarizes property and equipment at December 31, 2016 and September 30, 2016, respectively:

	December 31,	September 30,
	2016	2016
Equipment, software and tooling	\$ 1,003,659	\$ 1,028,173
Automobiles	79,814	87,313
Leasehold improvements	1,245,329	1,279,500
Furniture and fixtures	249,921	252,864
Total property and equipment before accumulated depreciation	<u>2,578,723</u>	<u>2,647,850</u>
Accumulated depreciation	(1,503,512)	(1,421,389)
Property and equipment, net of accumulated depreciation	<u>\$ 1,075,211</u>	<u>\$ 1,226,461</u>

Property and equipment depreciation expense for the three months ended December 31, 2016 and 2015 was \$50,291 and \$176,088, respectively.

(12) MONITORING EQUIPMENT

The following table summarizes monitoring equipment at December 31, 2016 and September 30, 2016, respectively:

	December 31, 2016	September 30, 2016
Monitoring equipment	\$ 8,119,187	\$ 7,796,191
Less: accumulated amortization	(3,535,297)	(3,438,074)
Monitoring equipment, net of accumulated depreciation	<u>\$ 4,583,890</u>	<u>\$ 4,358,117</u>

The Company began leasing monitoring equipment to agencies for offender tracking in April 2006 under contractual service agreements. The monitoring equipment is amortized using the straight-line method over an estimated useful life of three to five years.

Amortization of monitoring equipment for the three months ended December 31, 2016 and 2015 was \$332,993 and \$376,467, respectively. These expenses were recognized in cost of revenues.

(13) INTANGIBLE ASSETS

The following table summarizes intangible assets at December 31, 2016 and September 30, 2016, respectively:

	December 31, 2016	September 30, 2016
Other intangible assets:		
Patent & royalty agreements	21,170,565	21,170,565
Technology	10,009,880	9,651,074
Customer relationships	2,535,721	2,555,086
Trade name	314,275	319,383
Website	78,201	78,201
Total intangible assets	34,108,642	33,774,309
Accumulated amortization	(8,821,745)	(8,233,659)
Intangible assets, net of accumulated amortization	<u>\$ 25,286,897</u>	<u>\$ 25,540,650</u>

The intangible assets summarized above were purchased on various dates from January 2010 through December 2016. The assets have useful lives ranging from three to ten years. Amortization expense of intangible assets for the three months ended December 31, 2016 and 2015 was \$524,820 and \$523,948, respectively.

(14) GOODWILL

The following table summarizes the activity of goodwill at December 31, 2016 and September 30, 2016, respectively:

	December 31, 2016	September 30, 2016
Balance - beginning of period	\$ 7,955,876	\$ 7,782,903
Effect of foreign currency translation on goodwill	(114,656)	172,973
Balance - end of period	<u>\$ 7,841,220</u>	<u>\$ 7,955,876</u>

Goodwill is recognized in connection with acquisition transactions in accordance with ASC 805. The Company performs an impairment test for goodwill annually or more frequently if indicators of potential impairment exist. No impairment of goodwill had been recognized through December 31, 2016.

(15) OTHER ASSETS

As of December 31, 2016 and September 30, 2016, the outstanding balance of other assets was \$3,016,318 and \$2,900,911, respectively. Other assets are comprised largely of a cash collateralized performance bond for an international customer. The Company anticipates this restricted cash will be unrestricted and available to the Company upon completion of its relationship with the customers, unless mutually agreed otherwise.

(16) ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 31, 2016 and September 30, 2016:

	December 31, 2016	September 30, 2016
Accrued royalties	\$ 11,070	\$ 16,977
Accrued payroll, taxes and employee benefits	1,772,606	1,424,812
Accrued consulting	96,708	123,114
Accrued taxes - foreign and domestic	115,824	311,614
Accrued board of directors fees	119,468	96,000
Accrued other expenses	156,880	143,101
Accrued cellular costs	77,280	84
Accrued outside services	216,413	13,768
Accrued restructuring costs	566,330	-
Accrued warranty and manufacturing costs	156,025	103,441
Accrued interest	2,349,069	1,743,281
Total accrued liabilities	<u>\$ 5,637,673</u>	<u>\$ 3,976,192</u>

(17) RESTRUCTURING

In the first quarter of fiscal year 2017, the Company approved a plan to restructure its business (the “*Restructuring Plan*”) to streamline operations by consolidating its headquarters from Salt Lake City, Utah into its existing Chicagoland office. The Restructuring Plan, which is expected to be completed in fiscal 2017, also included outsourcing its monitoring center that allowed the Company to reduce its headcount significantly, lower future expenses and improve its ability to align workforce costs with customer demands. The Company recognized expenses for the Restructuring Plan of \$566,330, including \$448,330 of severance expense and \$118,000 of lease and moving costs, all of which will be paid in fiscal 2017.

Total fiscal year 2017 restructuring charges and their utilization are summarized as follows:

	Employee -related	Other costs	Total
Liability at September 30, 2016	\$ -	\$ -	\$ -
Accrued	448,330	118,000	566,330
Payments	-	-	-
Liability at December 31, 2016	<u>\$ 448,330</u>	<u>\$ 118,000</u>	<u>\$ 566,330</u>

(18) DEBT OBLIGATIONS

On September 25, 2015, the Company entered into a Loan Agreement (the “*Loan Agreement*”) with one of the Company’s related parties, Sapinda Asia Limited (“*Sapinda*”) to provide the Company with a \$5.0 million line of credit that accrues interest at a rate of 3% per annum for undrawn funds, and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the Loan Agreement, available funds may be drawn down at the Company’s request at any time until the Loan Agreement matures on September 30, 2017 (the “*Maturity Date*”), when all borrowed funds, plus all accrued but unpaid interest will become due and payable. The Company, however, may elect to satisfy any outstanding obligations under the Loan Agreement prior to the Maturity Date without penalties or fees. The Company did not draw on this line of credit nor did it pay any interest during the three months ended December 31, 2016. The undrawn balance of this line of credit at December 31, 2016 was \$1,600,356.

On May 1, 2016, the Company entered into an unsecured Loan Agreement with Conrent Invest S.A., acting with respect to its Compartment Safety III (the “*Conrent Loan Agreement*”). Under the Conrent Loan Agreement, the Company can borrow \$5.0 million for working capital, repayment of debt, and operating purposes. When funded, the unsecured loan will bear interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued unpaid interest due on July 31, 2018. In addition, the Company anticipates paying the lender an arrangement fee of \$112,500 when it receives proceeds from this loan. As of December 31, 2016, the Company had not received the funds under the Conrent Loan Agreement.

Debt obligations as of December 31, 2016 and September 30, 2016, respectively, are comprised of the following:

	December 31, 2016	September 30, 2016
Unsecured facility agreement with an entity whereby, as of June 30, 2015, the Company may borrow up to \$30.4 million bearing interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued and unpaid interest due on July 31, 2018. A \$1.2 million origination fee was paid and recorded as a debt discount and will be amortized as interest expense over the term of the loan. As of December 31, 2016, the remaining debt discount was \$353,041. The Company did not pay interest on this loan during the three months ended December 31, 2016.	\$ 30,046,959	\$ 29,991,216
Loan Agreement whereby the Company can borrow up to \$5.0 million at 8% interest per annum on borrowed funds maturing on September 30, 2017.	3,399,644	3,399,644
Non-interest bearing notes payable to a Canadian governmental agency assumed in conjunction with the G2 acquisition.	161,227	182,002
Capital lease with effective interest rate of 12%. Lease matures August 15, 2019.	17,260	18,673
Total debt obligations	33,625,090	33,591,535
Less current portion	<u>(3,245,732)</u>	<u>(3,245,732)</u>
Long-term debt, net of current portion	<u>\$ 30,379,358</u>	<u>\$ 30,345,803</u>

The following table summarizes the Company’s future maturities of debt obligations, net of the amortization of debt discounts as of December 31, 2016:

Fiscal Year	Total
2017	\$ 3,468,705
2018	30,448,018
2019	42,250
2020	19,158
2021 & thereafter	-
Debt discount	(353,041)
Total	<u>\$ 33,625,090</u>

(19) RELATED-PARTY TRANSACTIONS

Related-Party Loan Agreement

On September 25, 2015, the Company entered into a Loan Agreement (the “*Loan Agreement*”) with one of the Company’s related parties, Sapinda Asia Limited (“*Sapinda*”) to provide the Company with a \$5.0 million line of credit that accrues interest at a rate of 3% per annum for undrawn funds, and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the Loan Agreement, available funds may be drawn down at the Company’s request at any time until the Loan Agreement matures on September 30, 2017 (the “*Maturity Date*”), when all borrowed funds, plus all accrued but unpaid interest will become due and payable. The Company, however, may elect to satisfy any outstanding obligations under the Loan Agreement prior to the Maturity Date without penalties or fees. The Company did not draw on this line of credit nor did it pay any interest during the three months ended December 31, 2016. The undrawn balance of this line of credit at December 31, 2016 was \$1,600,356.

Stock Payable – Related Party

Changes in the stock payable liability are shown below:

	December 31, 2016	September 30, 2016
Beginning balance	\$ 3,289,879	\$ 3,501,410
Payment of shares for achieving performance milestones	-	(211,531)
Ending balance	<u>\$ 3,289,879</u>	<u>\$ 3,289,879</u>

Shares of common stock valued at up to \$3,000,000, included in the beginning balance shown above, can be earned by the former owner of GPS Global Tracking and Surveillance System, Ltd., now a wholly-owned subsidiary of the Company, subject to achieving certain milestones. The measurement period of the milestones ends April 1, 2017.

In connection with the acquisition of TGA (See Note 8), the Company recognized a liability for stock payable to the former owners of the entity acquired. In conjunction with the respective purchase agreements, shares of the Company’s common stock are payable based on the achievement of certain milestones on or before November 26, 2016. The final milestone payment of 10,602 shares of common stock related to the TGA acquisition was paid in the second fiscal quarter of 2017.

Each of the foregoing related-party transactions was reviewed and approved by disinterested and independent members of the Company’s Board of Directors.

(20) PREFERRED AND COMMON STOCK

The Company is authorized to issue up to 30,000,000 shares of common stock, \$0.0001 par value per share. During the three months ended December 31, 2016, the Company issued no additional shares of common stock. The Company accrued fees for payment to an individual for their services as a member of the Board of Directors in the fourth quarter 2016 that is expected to be issued as stock in 2017.

The Company is authorized to issue up to 20,000,000 shares of preferred stock, \$0.0001 par value per share. The Company’s Board of Directors has the authority to amend the Company’s Articles of Incorporation, without further shareholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the preferred stock before any issuance of the preferred stock, and to create one or more series of preferred stock. As of December 31, 2016, there were no shares of preferred stock outstanding.

(21) STOCK OPTIONS AND WARRANTS

Stock Incentive Plan

At the annual meeting of shareholders on March 21, 2011, the shareholders approved the 2012 Equity Compensation Plan (the “2012 Plan”). The 2012 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who provide services to the Company in lieu of cash. A total of 90,000 shares were initially authorized for issuance pursuant to awards granted under the 2012 Plan. At the 2015 annual meeting of shareholders held on May 19, 2015, our stockholders approved a 713,262 share increase to the total number of shares authorized under the 2012 Plan. As of December 31, 2016, 108,784 shares of common stock were available for future grants under the 2012 Plan.

All Options and Warrants

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. During the three months ended December 31, 2016 and 2015, the Company granted 154,410 and 40,261 warrants to purchase shares of common stock. The warrants for Board members vest immediately and expire two years from grant date and warrants issued to employees vest annually over either a two to three year period and expire two years after the final vesting date of the grant. During the three months ended December 31, 2016, and December 31, 2015 no options were issued under the 2012 Plan. The Company recorded expense of \$200,374 and \$95,968 for the three months ended December 31, 2016 and 2015, respectively, related to the issuance and vesting of outstanding stock options and warrants.

The option and warrant grants for three months ended December 31, 2016 were valued using the Black-Scholes model with the following weighted-average assumptions:

	Three Months Ended December 31	
	2016	2015
Expected stock price volatility	119%	51%
Risk-free interest rate	0.60%	0.64%
Expected life of options/warrants	2 years	2 years

The expected life of stock options (warrants) represents the period of time that the stock options or warrants are expected to be outstanding based on the simplified method allowed under GAAP. The expected volatility is based on the historical price volatility of the Company’s common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options (warrants). The dividend yield represents the Company’s anticipated cash dividends over the expected life of the stock options (warrants).

A summary of stock option activity for the three months ended December 31, 2016 is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of September 30, 2016	504,991	\$ 10.78	1.15 years	\$ 182,095
Granted	154,410	\$ 4.97		
Expired/Cancelled	(32,500)	\$ (19.58)		
Exercised	-	\$ -		
Outstanding as of December 31, 2016	626,901	\$ 8.90	1.34 years	\$ 75,000
Exercisable as of December 31, 2016	526,901	\$ 9.87	0.89 years	\$ -

The intrinsic value of options outstanding and exercisable is based on the Company’s share price of \$4.50 at December 31, 2016.

(22) INCOME TAXES

The Company recognizes deferred income tax assets or liabilities for the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. Deferred income tax assets or liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to apply when the differences are expected to be settled or realized. Deferred income tax assets are reviewed periodically for recoverability and valuation allowances are provided as necessary. Interest and penalties related to income tax liabilities, when incurred, are classified in interest expense and income tax provision, respectively.

For the three months ended December 31, 2016 and 2015, the Company incurred net losses for income tax purposes of \$2,613,759 and \$2,127,238, respectively. The amount and ultimate realization of the benefits from the net operating losses is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined. The Company has established a valuation allowance for all deferred income tax assets not offset by deferred income tax liabilities due to the uncertainty of their realization. Accordingly, there is no benefit for income taxes in the accompanying statements of operations.

(23) COMMITMENTS AND CONTINGENCIES

Legal Matters

We are, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

Lazar Leybovich et al. v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. The plaintiffs subsequently withdrew the complaint. The plaintiffs filed an amended complaint on November 15, 2012. On May 2, 2016, the Court resolved this case in favor of the Company by granting the Company's motion for summary judgment. The plaintiffs filed a notice of appeal on June 1, 2016 challenging the court's ruling on the motion for summary judgment.

Boggs et al. v. Judicial Electronic Monitoring, SecureAlert, Inc. et al. On December 3, 2015, Candace Boggs et al. filed a complaint in the State Court of Dougherty County, Georgia, alleging breach of contract and negligence in monitoring of certain offenders in Dougherty County, Georgia, as well as a request for punitive damages. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. We believe the allegations are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016, the Company filed a complaint in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas Co. Ltd ("ICS"). We believe we will be successful in this action to for amounts owed under the loan agreement and promissory note; however, the Company may encounter challenges enforcing a favorable judgment in the foreign jurisdiction where ICS resides.

Track Group Inc. v. I.C.S. of the Bahamas Co. Ltd. On September 26, 2016 the Company filed a Notice of Arbitration with the International Centre for Dispute Resolution, alleging breach of contract by I.C.S. of the Bahamas Co. Ltd. ("ICS"). Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the "C&M Agreement") between the Company and ICS any dispute must be resolved by binding arbitration. The Company asserts that ICS had failed to pay the Company fees owed to it under the C&M Agreement. The Company is confident it will be successful in the arbitration; however, the Company may encounter challenges enforcing a successful arbitration award in the foreign jurisdiction where ICS resides.

John Merrill v. Track Group, Inc. and Guy Dubois. On November 30, 2016, the Company was served with a complaint filed by John Merrill, the former Chief Financial Officer of the Company filed in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, among other causes of action, related to Mr. Merrill's termination of employment. Mr. Merrill is seeking not less than \$590,577 plus interest, attorney fees and costs. Mr. Merrill's employment with the Company was terminated effective September 27, 2016. We believe the allegations and claims are unfounded, are without merit, and we have submitted counterclaims against Mr. Merrill. We intend to defend the case vigorously and believe the probability of incurring a material loss to be remote.

(24) SUBSEQUENT EVENTS

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted that no subsequent events have occurred that are reasonably likely to impact the financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Report contains information that constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act"). Generally, the statements contained in this Quarterly Report on Form 10-Q that are not purely historical can be considered to be "forward-looking statements." These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as "believes," "expects," "intends," "anticipates," "should," "plans," "estimates," "projects," "potential," and "will," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund future operations and capital spending needs. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in "Risk Factors" in our most recent Annual Report on Form 10-K, and those described from time to time in our reports filed with the SEC.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, for the fiscal year ended September 30, 2016, and Current Reports on Form 8-K that have been filed with the SEC through the date of this Report. Except as otherwise indicated, as used in this Report, the terms "the Company," "Track Group," "we," "our," "us," refer to Track Group, Inc., a Delaware corporation.

General

Our core business is based on the manufacture and leasing of patented tracking and monitoring solutions to federal, state and local law enforcement agencies, both in the U.S and abroad, for the electronic monitoring of offenders and offering unique data analytics services on a platform-as-a-service (PaaS) business model. Currently, the Company deploys offender based management services that combine patented GPS tracking technologies, fulltime 24/7/365 global monitoring capabilities, case management, and proprietary data analytics. We offer customizable tracking solutions that leverage real-time tracking data, best-practices monitoring, and analytics capabilities to create complete, end-to-end tracking solutions.

Our devices consist principally of the ReliAlert product line, which is supplemented by the ancillary Shadow and R.A.D.A.R product lines. These devices are generally leased on a daily rate basis and may be combined with our monitoring center services, proprietary software and data analytics subscription to provide an end-to-end PaaS.

ReliAlert and Shadow. Our tracking devices utilize patented technology and are securely attached around an offender's ankle with a tamper resistant strap that cannot be adjusted or removed without detection, unless by a supervising officer, and which is activated through services provided by our monitoring centers. The ReliAlert and Shadow units are intelligent devices with integrated computer circuitry, utilizing both GPS and RF, and constructed from case-hardened plastics designed to promptly notify the intervention centers of any attempt made to breach applicable protocols, or to remove or otherwise tamper with the device or optical strap housing. The ReliAlert platform also incorporates voice communication technology that provides officers with 24/7/365 voice communication with the offenders. Both devices are FCC, CE and PTCRB certified and protected by numerous patents and trademarks.

R.A.D.A.R. Our Real-Time Alcohol Detection and Recognition (R.A.D.A.R.) device is a comprehensive proprietary alcohol offender supervision and monitoring system with a fuel-cell based, breath-alcohol testing system that incorporates a number of safeguards to prevent tampering, including biometric user identification to provide accurate, actionable alcohol alerts. All breath-alcohol tests are time stamped and include a GPS fix. The web-enabled reporting center assures testing compliance with notifications via text or email.

Monitoring Center Services. Our monitoring center facilities provide live 24/7/365 monitoring of all alarms generated from our devices, as well as customer and technical support. Our monitoring center operators play a vital role, and as such, we staff our centers with highly-trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery back-up and triple redundancy in voice, data, and IP. The Company has established monitoring centers in the U.S. and Chile. In addition the Company has assisted in the establishment of monitoring centers for customers and local partners in other global locations. During the first and second fiscal quarters of 2017, the company has transitioned one of its monitoring centers to an independent vendor, whom we monitor closely. See Note 17 to the Condensed Consolidated Financial Statements.

Data Analytics Services. Our TrackerPAL software, TrackerPAL Mobile, combined with our Data Analytic analysis tools, provide an integrated platform allowing case managers and law enforcement officers' quick access views of a targets travel behavior, mapping, and provide inference on patterns. Our advanced data analytics service offers a highly complex predictive reporting mechanism that combines modern statistical methods, developed using computer science and used by intelligence agencies that separate noteworthy events from normal events, rank offender cases according to their need for supervision, and relate decision-relevant metrics to benchmarks in real-time.

Strategy

Our global growth strategy is to continue to expand service offerings on a subscription basis that empowers professionals in security, law enforcement, corrections and rehabilitation organizations worldwide with a single-sourced, real-time, end-to-end offender management solution that integrates reliable intervention technologies to support re-socialization, monitoring, and predictive analytics for offenders. To accomplish this objective, we have and will continue to innovate and grow our portfolio of proprietary and non-proprietary real-time monitoring and intervention products and services. These include GPS, RF, drug and alcohol testing for offenders, and predictive analytics. Given the flexibility of our platform, our device technology, tracking, monitoring, and analytical capabilities, we believe that our solutions may apply to other industry verticals that require tracking, monitoring and predictive analytics such as those entities responsible for individuals on parole or bail.

Critical Accounting Policies

From time to time, management reviews and evaluates certain accounting policies that are considered to be significant in determining our results of operations and financial position.

A description of the Company's critical accounting policies that affect the preparation of the Company's financial statements is set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2016. Such policies were unchanged during the three months ended December 31, 2016.

The preparation of financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. By their nature, these judgments are subject to an inherent degree of uncertainty. We assess the reasonableness of our estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, legal matters and income taxes. We base our estimates on historical experience as well as available current information on a regular basis. Management uses this information to form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

Three Months Ended December 31, 2016, Compared to Three Months Ended December 31, 2015

Revenue

For the three months ended December 31, 2016, the Company recognized revenue from operations of \$7,671,490 compared to \$6,317,604 for the three months ended December 31, 2015, an increase of \$1,353,886 or 21%. The increase in revenue was principally the result of (i) expansion and growth of offender monitoring in Chile, and (ii) increases in total growth of our North American monitoring operations driven by clients in Indiana and Virginia.

Other revenue for the three months ended December 31, 2016 increased to \$406,477 from \$360,178 in the same period in 2015 largely due to higher sales of consumable items. Notwithstanding, we will continue to focus on recurring subscription based opportunities and not equipment sales.

Cost of Revenue

During the three months ended December 31, 2016, cost of revenue totaled \$3,453,902 compared to cost of revenue during the three months ended December 31, 2015 of \$2,429,179, an increase of \$1,024,723 or approximately 42%. The increase in cost of revenue was largely the result of increases in total monitoring and analytics activity, which drove up monitoring center personnel costs by \$116,821, communication costs by \$411,222, repairs and maintenance by \$157,338, outside monitoring costs by \$321,704 and other incremental revenue related costs.

The Company is examining ways to lower device manufacturing costs and increase automation of our software system to offset other increases in cost of revenue. During the second fiscal quarter of 2017, the Company will complete the outsourcing of our monitoring centers to an independent vendor to lower monitoring costs.

Depreciation and amortization included in cost of revenue for the three months ended December 31, 2016 and 2015 totaled \$445,493 and \$488,967, respectively. Certain devices became fully depreciated in the first quarter of 2017. These costs represents depreciation of monitoring devices as well as the amortization of certain royalty agreements. Devices are depreciated over a three to five year useful life. Royalty agreements are being amortized over a ten year useful life. The Company believes these lives are appropriate due to rapid changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses estimates for useful lives of assets for appropriateness.

Impairment cost for equipment and parts for the three months ended December 31, 2016 and 2015 were \$74,787 and \$60,000, respectively. These costs relate to disposal of obsolete inventory, monitoring equipment and parts as we continue to make significant enhancements to our various devices and monitoring platform.

Gross Profit and Margin

During the three months ended December 31, 2016, gross profit totaled \$4,217,588, resulting in a gross margin of 55% compared to \$3,888,425 or a gross margin of 62% during the three months ended December 31, 2015. The increase in absolute gross profit is due to higher overall revenues. The decrease in gross margin is due to the increase in certain aspects of cost of revenue, including communication costs, internal and external monitoring costs and repairs and maintenance.

General and Administrative Expense

During the three months ended December 31, 2016, general and administrative expense totaled \$3,768,099 compared to \$3,411,643 for the three months ended December 31, 2015. The increase of \$356,456 or approximately 10% in general and administrative costs resulted largely from increases in bad debt expense, outside service fees, training and recruiting costs and board of director fees, partially offset by lower legal and professional fees and lower travel related expenses.

[Table of Contents](#)

Restructuring Costs

During the three months ended December 31, 2016, we recorded \$566,330 of costs related to the relocation of our headquarters from Salt Lake City, Utah to our existing Chicagoland office. These costs include the transfer of our own monitoring center activities to a highly-specialized third party, severance pay related to a reduction of approximately 65 monitoring center employees, as well as other support employees and moving costs. (See Note 17 to the Condensed Consolidated Financial Statements).

Selling and Marketing Expense

During the three months ended December 31, 2016, selling and marketing expense increased to \$627,749 compared to \$620,029 for the three months ended December 31, 2015. The \$7,720, or approximately 1% increase resulted from additional consulting and outside services, largely offset by lower wages and travel related expenses.

Research and Development Expense

During the three months ended December 31, 2016, research and development expense totaled \$530,806 compared to \$547,159 for the three months ended December 31, 2015, a decrease of \$16,353 or approximately 3%. The Company is significantly enhancing its technology platform to improve the efficiency of its software, firmware, user interface, and automation. As a result of these improvements, \$570,093 was capitalized as developed technology during the three months ended December 31, 2016 and \$442,578 was capitalized in the three months ended December 31, 2015. A portion of these expenses would have been recognized as research and development expense, absent the significant enhancements to the technology.

Depreciation and Amortization Expense

During the three months ended December 31, 2016, depreciation and amortization expense totaled \$575,111 compared to \$700,035 for the three months ended December 31, 2015. The \$124,924, or approximately 18% decrease was largely the result of certain property and equipment assets becoming fully depreciated.

Other Income and Expense

For the three months ended December 31, 2016, net interest expense was \$647,103 compared to \$694,508 for the three months ended December 31, 2015, a decrease of \$47,405 or approximately 7%. The decrease in net interest expense resulted primarily from a penalty due from the lender under the agreement, partially offset interest payable on the undrawn funds of the agreement and interest expense on drawn funds for the three months ended December 31, 2016.

Net Loss

The Company had a net loss of \$2,613,759 for the three months ended December 31, 2016, compared to a net loss of \$2,127,238 for the three months ended December 31, 2015, an increase of \$486,521. This increase in net loss is largely due to an increase in cost of revenues, restructuring costs and general and administrative costs.

Liquidity and Capital Resources

During prior fiscal years, the Company has supplemented cash flows to finance the business from borrowings under a credit facility, a revolving line of credit from one of its shareholders, receipt of certain disgorgement funds, and from the sale and issuance of debt securities. No such borrowings or sales of equity securities occurred during the three months ended December 31, 2016.

As of December 31, 2016, the Company had unrestricted cash of \$2,486,390 and a working capital deficit of \$2,426,015, compared to unrestricted cash of \$1,769,921 and a working capital surplus of \$344,283 as of September 30, 2016.

The Company provided \$2,136,796 from operating activities during the three months ended December 31, 2016, compared to a use of funds of \$458,130 in the three months ended December 31, 2015. The Company had a net loss of \$2,613,759 for the three months ended December 31, 2016, which included certain non-cash items, such as depreciation and amortization, stock-based compensation, and bad debt expense. In addition accounts receivable was \$660,834 lower and accounts payable and accrued expenses increased \$2,144,520 for the three months ended December 31, 2016.

The Company used cash of \$1,401,455 for investing activities during the three months ended December 31, 2016, compared to \$1,388,048 of cash used in investing activities in the three months ended December 31, 2015. Cash used for investing activities was spent on significant enhancements of the Company's next generation software platform and for purchases of monitoring and other equipment to meet demand during the three months ended December 31, 2016.

The Company used \$17,266 of cash for financing activities during the three months ended December 31, 2016, compared to \$587,608 in cash used in the three months ended December 31, 2015.

The Company's Restructuring Plan approved in the quarter ended December 31, 2016 is intended to reduce certain expenses, and reduce the Company's dependence on external sources of financing. While the Restructuring Plan is intended to result in a reduction in operating losses and cash used in operations, the Company currently remains dependent on external sources of financing to continue operations. As a result, management intends to pursue certain options to reduce its dependence on external sources of capital, which may include refinancing certain debt, extending debt maturities, converting certain debt to equity, selling certain non-core assets, and/or raising additional capital, although no assurances can be given that management will be successful in consummating any of the foregoing. In addition to the foregoing, the Company intends to meet its working capital requirements by (i) requesting advances under the Loan Agreement with Sapinda Asia Limited ("*Sapinda*") ("*Sapinda Loan Agreement*") and Loan Agreement with Conrent Invest S.A. ("*Conrent*") ("*Conrent Loan Agreement*"), and (ii) further reducing operating and other costs under the Restructuring Plan; *provided, however*, advances under the Sapinda Loan Agreement and Conrent Loan Agreement may not be available to the Company. As of December 31, 2016, \$3.4 million and \$30.4 million were owed to Sapinda and Conrent under the Sapinda Loan Agreement and Conrent Loan Agreement (together, the "*Loan Agreements*"), respectively. Together with available cash and cash flow from operations, and assuming the Company is able to obtain further advances under the Loan Agreements, management believes that the Company may have adequate working capital to provide for its working capital requirements through the remainder of its fiscal year ending September 30, 2017, although no assurances can be given.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company footprint extends to several countries outside the United States, and we intend to continue to expand our foreign operations. As a result, our revenues and results of operations are affected by fluctuations in currency exchange rates, interest rates, and other uncertainties inherent in doing business in more than one currency. In addition, our operations are exposed to risks that are associated with changes in social, political, and economic conditions in the foreign countries in which we operate, including changes in the laws and policies that govern foreign investment, as well as, to a lesser extent, changes in United States laws and regulations relating to foreign trade and investment.

Foreign Currency Risks

We had \$2,795,781 and \$2,554,808 in revenue from sources outside the United States for the three months ended December 31, 2016 and 2015, respectively. Although we typically transact the sale of monitoring equipment and services in U.S. Dollars, we do receive payments in an equivalent value of foreign currencies which resulted in foreign exchange losses of \$116,442 and \$18,149 during the three months ended December 31, 2016 and 2015, respectively. Changes in currency exchange rates affect the relative prices at which we sell our products and purchase goods and services. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition.

We did not use foreign currency exchange contracts or derivative financial instruments for trading or speculative purposes. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement strategies which make use of these or other hedging instruments in order to minimize the effects of foreign currency exchange on our business.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer (our principal financial and accounting officer), to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2016.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There was no change in our internal control over financial reporting during our quarter ended December 31, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

Lazar Leybovich et al v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. The plaintiffs subsequently withdrew the complaint. The plaintiffs filed an amended complaint on November 15, 2012. On May 2, 2016, the Court resolved this case in favor of the Company by granting the Company’s motion for summary judgment. The plaintiffs filed a notice of appeal on June 1, 2016 challenging the court’s ruling on the motion for summary judgment.

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Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016, the Company filed a complaint in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas Co. Ltd (“ICS”). We believe we will be successful in this action to for amounts owed under the loan agreement and promissory note; however, the Company may encounter problems enforcing a favorable judgment in the foreign jurisdiction where ICS resides.

[Table of Contents](#)

Track Group Inc. v. I.C.S. of the Bahamas Co. Ltd. On September 26, 2016 the Company filed a Notice of Arbitration with the International Centre for Dispute Resolution, alleging breach of contract by I.C.S. of the Bahamas Co. Ltd. ("ICS"). Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the "C&M Agreement") between the Company and ICS any dispute must be resolved by binding arbitration. The Company asserts that ICS had failed to pay the Company fees owed to it under the C&M Agreement. The Company is confident it will be successful in the arbitration; however, the Company may encounter problems enforcing a successful arbitration award in the foreign jurisdiction where ICS resides.

John Merrill v. Track Group, Inc. and Guy Dubois. On November 30, 2016, the Company was served with a complaint filed by John Merrill, the former Chief Financial Officer of the Company filed in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, among other causes of action, related to Mr. Merrill's termination of employment. Mr. Merrill is seeking not less than \$590,577 plus interest, attorney fees and costs. Mr. Merrill's employment with the Company was terminated effective September 27, 2016. We believe the allegations and claims are unfounded, are without merit, and we have submitted counterclaims against Mr. Merrill. We intend to defend the case vigorously and believe the probability of incurring a material loss to be remote.

Item 1A. Risk Factors

We have identified the following risk factor in addition to the risk factors previously disclosed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2016:

We rely on significant suppliers and other third parties for key products, cellular access and monitoring services. If we do not renew these agreements when they expire, or if these suppliers or other third parties otherwise fail to comply with their contractual obligations, our results of operations or financial condition could be adversely affected.

We have entered into an agreement with three national providers for cellular services. We also rely currently on a single source for the large majority of the manufacturing of our products, as well as for our offender monitoring services provided to all of our U.S. and certain of our international customers. If any of these significant suppliers were to cease providing products or services to us, or if the service levels fall below levels required by our customers, we would be required to seek alternative sources. No assurances can be provided that alternate sources could be located or that the delay or additional expense associated with locating alternative sources for these products or services or otherwise addressing the deficiency in service levels would not materially and adversely affect our business and financial condition.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Title of Document
31(i)	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31(ii)	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
10.1	Employment Agreement by and between Track Group, Inc. and Derek Cassell dated, December 1, 2016.
10.2 +	Services Agreement, dated December 7, 2016.
10.3	Amendment to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated February 13, 2017.
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

+ Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission."

SIGNATURES

Pursuant to the requirements 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.

Track Group, Inc.

Date: February 14, 2017

By: /s/ Guy Dubois
Guy Dubois
Principal Executive Officer

Date: February 14, 2017

By: /s/ Peter K. Poli
Peter K. Poli, Chief Financial Officer
(Principal Accounting Officer)

EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (“Agreement”) is entered into as of this date of December 1, 2016, by and between TRACK GROUP, INC., a Delaware corporation (“Company”) and Derek Cassell, an individual resident of the State of Illinois (“Executive”).

WHEREAS, Executive has been employed by the Company since June 2014 and his employment has been governed by the Executive Employment Agreement dated December 1, 2012 between the Executive and Emerge Monitoring, Inc., which was acquired by the Company in June 2014 (the “Emerge Agreement”);

WHEREAS, the Company and the Executive are desirous of continuing Executive’s employment pursuant to the terms of this Agreement, superseding all previous agreements both oral and written.

NOW, THEREFORE, the parties hereto agree as follows:

1. **Employment.** Company hereby agrees to employ Executive as its President and Executive hereby accepts such employment in accordance with the terms of this Agreement and the terms of employment applicable to regular employees of Company. In the event of any conflict or ambiguity between the terms of this Agreement and terms of employment applicable to regular employees, the terms of this Agreement shall be definitive. Executive’s duties shall be performed at the Company’s offices in Romeoville, Illinois. The parties acknowledge that Executive will be required to travel in connection with the performance of his duties.

2. **Duties of Executive.** During the Employment Term as defined in Paragraph 5, Executive will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time during normal working hours to the Company. Executive will report to the Chief Executive Officer of the Company. Executive shall be responsible for duties typical of the office held by the Executive including but not limited to, worldwide sales, customer relations and operations for the Company’s products and services. Furthermore, Executive shall perform such other duties and projects as may be assigned by the Chief Executive Officer of the Company or the Board of Directors of the Company that are consistent with his position.

3. **Compensation.** Executive shall be paid compensation during the Employment Term as follows:

A. A base salary of \$240,000.00 per calendar year, payable in installments according to the Company’s regular payroll schedule. The base salary shall be effective retroactively to October 1, 2016.

B. Subject to the approval of the Board of Directors, you will be granted an incentive stock option/warrant to purchase One Hundred Thousand (100,000) registered shares of Company common stock issued pursuant to the Company’s 2012 Equity Compensation Plan. The option/warrant will be issued at an exercise price equal to the closing sale price of the Company’s common stock as shown on the OTC as of the date this Agreement is executed and ratified by the Board of Directors. The option will be subject to the terms and conditions of the warrant agreement, a copy of which is attached hereto as Exhibit “A”, and the Company’s 2012 Equity Compensation Plan, which will include, among other things, a vesting schedule. Vesting shall be as follows: fifty percent (50%) of the options shall vest on September 30, 2017 and the remaining options shall vest on September 30, 2018. The warrant agreement shall contain a cashless exercise provision and piggyback registrations rights. In the event of Executive’s death, vested options/warrants shall be exercisable by Executive’s estate.

C. Executive shall continue as a full participant in any Employee Bonus Plan and any Equity Compensation Plan instituted by the Company (“the Plans”). Such Plans shall allow Executive to earn: (i) a variable cash bonus based on individual and Company performance and achieving specific Company milestones, and (ii) additional restricted shares/units of the Company Common Stock based on individual performance and achieving specific Company milestones. Details the Plans are set forth on Exhibit “B” attached hereto.

4. Benefits.

A. Holidays and Personal Time. Executive shall be entitled to paid holidays and personal time off in accordance with the Company's holiday and personal time off policies but not less than twenty (20) days of each calendar year during the Employment Term, (as prorated for partial years) with the time and duration of any specific personal time off mutually and reasonably agreed to by the parties hereto.

B. Medical, Dental and Group Life Insurance. Company agrees to include Executive in the group medical, dental and hospital plan of the Company and provide group life insurance for Executive. These practices and procedures are subject to change upon mutual agreement.

C. Expense Reimbursement. Executive shall be entitled to reimbursement for all reasonable expenses, including travel, temporary housing, and entertainment, incurred by Executive in the performance of Executive's duties, including pre-employment travel expenses relating to interviewing that have been submitted to the Company. Executive will maintain records and written receipts and shall follow all Company policies and procedures for reimbursement of expenses.

5. Term, Termination and Severance.

A. Employment Term of Agreement. The Employment Term of this Agreement shall commence on October 1, 2016 and shall continue in effect until terminated by either party in accordance with the provisions of this Section 5.

B. Termination and Severance:

(I) Definitions:

(i) Cause. For purposes of this Agreement, "Cause" shall mean (a) Executive's continued violations of Executive's obligations which are demonstrably willful or deliberate on Executive's part after there has been delivered to Executive a written demand for performance from the Company which describes the basis for the Company's belief that Executive has not substantially performed his/her duties, (b) Executive's engagement in willful misconduct which is injurious to the Company or its subsidiaries, (c) Executive's commission of a felony, an act of fraud against or the misappropriation of property belonging to the Company or its subsidiaries, (d) Executive's breaching in any material respect, the terms of any confidentiality or proprietary information agreement between Executive and the Company, or (e) Executive's commission of a material violation of the Company's standards of employee conduct.

(ii) Involuntary Termination Other than for Cause. "Involuntary Termination Other than for Cause" shall mean (a) without the Executive's express written consent, a reduction in Executive's job title or reporting relationships, (b) without the Executive's express written consent a substantial reduction in Executive's duties, authority and responsibilities, as determined immediately prior to such reduction or removal of the Executive from such position and responsibilities, unless the Executive is provided with a comparable position (i.e., a position of equal or greater organization level, title, reporting relationship, duties, authority, compensation and status; (c) without the Executive's express written consent, a substantial reduction in the Executive's Base Salary, bonus or equity compensation, or benefits, of greater than ten percent (10%) compared to Executive's Base Salary, bonus or equity compensation, or benefits, in effect immediately prior to such reduction; (e) any termination of the Executive by the Company without Cause or any purported termination for which the grounds relied upon by the Company are not valid.; or (f) the expiration of, or decision of the Company, to not renew the Employment Term or any extension term; or

II. If Executive's employment with the Company terminates as a result of an Involuntary Termination Other than for Cause, in addition to Accrued Obligations as defined below, the Executive shall be entitled to receive the following severance and other benefits.

(i) Restricted Stock, Warrants and Option Vesting. All Restricted Stock, Warrants and Options shall become one hundred percent (100%) vested and fully exercisable and the Company shall have no repurchase right. All Restricted Stock, Warrants and Options shall contain a cashless exercise provision for Executive's acquisition of the Stock, Warrants and/or Options, and piggyback registrations rights.

(ii) **Severance Payment.** Executive shall receive a cash payment equal to twelve (12) months of Executive's Base Annual Salary (at the Executive's highest Base Annual Salary) plus annual bonus compensation, at the time of the Executive's highest compensation level, if such bonus is earned prior to his employment with the Company terminating. The Severance Payment shall be payable over 26 equal bi-weekly installments over a 52 week period in accordance with the Company's regular pay-roll schedule.

(iii) **COBRA Benefits.** "COBRA" as used herein shall mean the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended. Executive shall receive a lump sum payment in an amount equal to the cost of COBRA continuation for a period of not less than twelve (12) months.

Accrued Obligations means (i) any base salary earned but not paid through the date of termination; (ii) any compensation deferred by Executive prior to his termination of employment and not paid by the Company (all of which will be paid in accordance with the terms of and at the time provided in the underlying deferral arrangement); (iii) any amounts or benefits owing to Executive under the then applicable benefit plans of the Company; (iv) any bonus compensation earned, but not yet paid; and (v) any amounts owing to Executive for reimbursement of expenses properly incurred by Executive prior to the date of termination and which are reimbursable in accordance with Paragraph 4(c).

6. Voluntary Termination; Termination for Cause. If Executive's employment with the Company terminates voluntarily by Executive or for Cause by the Company, then Executive is not eligible for any benefits under this Agreement (except as to Accrued Obligations and amounts already earned and/or stock options, warrants and/or restricted stock already vested at that time). If Executive voluntarily terminates his employment with the Company he shall provide written notice to the Company Chief Executive Officer at least forty-five (45) days prior to terminating such employment.

7. Disability; Death. If Executive's employment terminates by reason of the Executive's death, or by reason of Executive's Disability, then Executive's estate or heirs shall be entitled to receive the Accrued Obligations and Severance Payment and other benefits set forth in paragraph 5 herein.

8. Proprietary Information. During the term of this Agreement and thereafter, Executive shall not, without the prior written consent of the Company's Board of Directors, disclose or use for any purpose (except in the course of his/her employment under this Agreement and in furtherance of the business of the Company or its subsidiaries) any confidential information or proprietary data of the Company. As an express condition of the Executive's employment with the Company, the Executive agrees to execute the confidentiality agreement attached hereto as Exhibit "C".

9. Non-Competition. Executive acknowledges that the nature of the Company's business is such that if Executive were to become employed by, or substantially involved in, the business of a competitor the Company during the twelve (12) months following the termination of Executive's employment, would cause substantial and irreparable harm to the Company. Thus, to protect the Company's goodwill, trade secrets and confidential information, Executive agrees and acknowledges that Executive will not directly or indirectly engage in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder, corporate officer, director or otherwise), nor have any ownership interest in or participation in the financing, operation, management or control of, consulting with, any firm, corporation or business that competes with the Company in the electronic, GPS or alcohol monitoring of people within the corrections or law enforcement sectors, such competitors include but are not limited to, the following entities and their respective subsidiaries: The Geo Group, Inc., Numerex Corp., 3M Company, Corrisoft LLC, Outreach Smartphone Monitoring, LLC, and Securus Technologies. For this purpose, ownership of no more than one-half of one percent (.5%) of the outstanding voting stock of a publicly traded corporation shall not constitute a violation of this provision.

10. Right to Advice of Counsel/Compliance with Code Section 409A. The Executive acknowledges that he has consulted with counsel and/or tax advisors and is fully aware of his/her rights and obligations under this Agreement. Notwithstanding any provision in this Agreement to the contrary: (i) the relevant provisions of this Agreement shall be construed in a manner so as to be exempt from or to comply with Section 409A of the Internal Revenue Code of 1986, as amended from time to time, and regulations and other interpretative guidance issued thereunder, including without limitation any regulations or other guidance that may be issued after the date of this Agreement. To the extent required to carry out such intent:

(a) The terms used herein will be interpreted to comply with the requirements of Section 409A, including (without limitation) that a termination of employment must constitute a "separation from service," as such term is defined in Section 409A.

(b) Neither the Company nor Executive shall have the right to accelerate or defer the delivery of payments except in accordance with Section 409A.

(c) Executive's right to receive installment payments will be treated as a right to receive a series of separate and distinct payments.

(d) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, and (iii) such payments shall be made on or before the last day of the taxable year following the taxable year in which the expense was incurred.

(e) No payment shall be subject to offset by any other payment unless otherwise permitted by Section 409A.

(f) Notwithstanding any other payment schedule provided herein, if Executive is identified on the date of termination as a "specified employee" within the meaning of Section 409A(a)(2)(B), then any payment that is considered nonqualified deferred compensation subject to Section 409A, and payable on account of a "separation from service," will be made on the date that is the earlier of (A) the expiration of the six (6)-month period beginning on the date of Executive's "separation from service", and (B) Executive's death (the "Delay Period") to the extent required under Section 409A. Upon the expiration of the Delay Period, all payments delayed pursuant to this subsection (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) will be paid to Executive in a lump sum, and all remaining payments due under this Agreement will be paid or provided in accordance with the normal payment dates specified for them herein. For purposes of Section 409A, Executive's right to receive any installment payment pursuant to this Agreement will be treated as a right to receive a series of separate and distinct payments.

11. Assignment. This Agreement and all rights under this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties hereto and their respective personal or legal representatives, executors, administrators, heirs, distributes, devisees, legatees, successors and assigns. This Agreement is personal in nature, and neither of the parties to this Agreement shall, without consent of the other (which consent will not be unreasonably withheld), assign or transfer this Agreement or any right or obligation under this Agreement to any other person or entity. If the Executive should die while any amounts are still payable to the Executive hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee, or other designee or, if there be no such designee, to the Executive's estate.

12. Notices. All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery, or if earlier (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) three (3) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Executive: Derek Cassell
{at Executive's most recent address on file with the Company}

If to the Company: Attn: Chief Executive Officer
Track Group, Inc.
1215 W. Lakeview Court
Romeoville, IL 60446

Or such other addresses or to the attention of such other person as the recipient party has previously furnished to the other party in writing in accordance with this paragraph.

13. Notice of Termination by the Company. Any termination by the Company of Executive's employment with the Company shall be communicated by a notice of termination to Executive at least forty-five (45) days prior to the date of such termination. Such notice shall indicate the specific termination provision or provision in this Agreement relied upon (if any), shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination under the indicated provisions, and shall specify the termination date, and shall specify the amounts and type of compensation and benefits to be provided to Executive as a result of the termination.

14. Waiver. Failure or delay on the part of either party hereto to enforce any right, power, or privilege hereunder shall not be deemed to constitute a waiver thereof. Additionally, a waiver by either party or a breach of any promise hereof by the other party shall not operate as or be construed to constitute a waiver of any subsequent waiver by such other party.

15. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

16. Integration. This Agreement, together with any attached exhibits, represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any provision of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto. In no way limiting the foregoing, the parties acknowledge and agree that the Emerge Agreement is null and void and this Agreement supersedes the Emerge Agreement.

17. Headings. The headings of the paragraphs contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of any provision of this Agreement.

18. Applicable Law and Dispute Resolution. This Agreement shall be governed by and construed in accordance with the internal and substantive laws, and not the choice of law rules, of the State of Delaware. Any controversy or claim arising out of relating to this Agreement which cannot be settled by good faith negotiation between the parties shall be settled by binding arbitration administered by the American Arbitration Association ("AAA") under its Employment Arbitration Rules and Procedures (such rules and procedures being incorporated herein by reference). Such arbitration shall be submitted to a single arbitrator appointed by the AAA. Such arbitrator must be an attorney with a minimum of 10 years of experience in employment matters. The prevailing party in the arbitration shall be entitled to recover its reasonable costs, attorney fees and out of pocket expenses relating to the arbitration. Both parties agree that the procedures outlined in this paragraph are the exclusive methods of dispute resolution. Unless otherwise agreed by the parties any arbitration shall be held in the Chicago, Illinois metro area.

19. Counterparts. This Agreement may be executed in one or more counterparts, none of which need contain the signature of more than one party hereto, and each of which shall be deemed to be an original, and all of which together shall constitute a single agreement.

20. Tax Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes so long as such withholding is reasonable and consistent with the Company's normal practices.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by their duly authorized officers, as of the day and year first above written.

Track Group, Inc.

Executive

By: /s/ _____
GuyDubois
Chief Executive Officer
Chairman of the Board

_____/s/_____
Derek Cassell

Date:

Date:

EXHIBIT "A"
Warrant Agreement Form

EXHIBIT "B"
Executive Bonus Formula

EXHIBIT "C"
Confidentiality Agreement

[*] INDICATES MATERIAL THAT WAS OMITTED AND FOR WHICH CONFIDENTIAL TREATMENT WAS REQUESTED. ALL SUCH OMITTED MATERIAL WAS FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO THE RULES APPLICABLE TO SUCH CONFIDENTIAL TREATMENT REQUEST.**

SERVICE AGREEMENT

Agreement No.

This agreement ("Agreement") is made between [***] and Track Group, Inc. with a place of business at 405 South Main Street, Suite 700, Salt Lake City, UT 84111 ("Track Group").

This Agreement by the stated parties is effective as of December 7, 2016 (the "Effective Date").

NOW, THEREFORE, in consideration of the mutual covenants herein contained, the parties agree as follows:

1. SERVICES

- 1.1 Services.** Provided that Track Group meets its obligations and responsibilities as set forth in this Agreement and Exhibit A, [***] shall provide the Monitoring Operations Services and Case Management Services set forth on Exhibit A. Exhibit A is attached hereto and incorporated herein (the "Services").
- 1.2 Service Levels.** [***] shall provide the Services in accordance with the key performance indicators set forth in Exhibit A, (the "KPIs") and as described in this Agreement.

2. PRICING AND PAYMENT TERMS

2.1 Compensation

2.1.1. Monitoring Operations Services - As consideration for the Monitoring Operations Services provided hereunder, Track Group shall pay [***] per day, per active case in accordance with the pricing schedule set forth in Section I on Exhibit B, which is attached hereto and incorporated herein.

(a) Reports – Track Group shall provide the following reports related to Monitoring Operations Services:

1. Active Case Report – On a daily basis, [***] shall, by accessing the Track Group software, run a report (the "Active Case Report") setting forth the number of active cases from the prior day. The Active Case Report shall be delivered the basis for the billing calculations according to the Pricing Schedule on Exhibit B attached hereto.

2. [***] Staff Report - On a daily basis, [***] shall, by accessing the Track Group software, run a report (the "[***] Staff Report") showing the activity of [***] staff, on an individual basis, within Tracker Pal (Track Group's proprietary web-based software service) from the prior day.

(b) Records – Track Group shall keep and maintain at its regular place of business separate and complete books and records of the information relied upon to create the Active Case Reports and [***] Staff Reports. Track Group shall maintain such books and records, including information stored in databases or other computer systems, for a period of one (1) year from the date of final payment under this Agreement. [***] or its duly authorized agents or representatives shall have the right to inspect said books and records at Track Group's premises during Track Group's regular business hours upon reasonable prior notice to Track Group.

2.1.2. Case Management Services - As consideration for the Case Management Services provided hereunder, Track Group shall pay [***] per month, per active case in accordance with the pricing set forth in Section II on Exhibit B.

2.1.3. Software Development – [***] shall bill software development at a rate of [***] per hour.

2.1.4. Sales and Use Taxes – Notwithstanding Section 2.3 below, all pricing set forth in Sections 2.1.1, 2.1.2, 2.1.3 and Exhibit B shall be inclusive of all sales and use taxes, and Track Group shall not be responsible or liable for any additional taxes or fees.

[*] INDICATES MATERIAL THAT WAS OMITTED AND FOR WHICH CONFIDENTIAL TREATMENT WAS REQUESTED. ALL SUCH OMITTED MATERIAL WAS FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO THE RULES APPLICABLE TO SUCH CONFIDENTIAL TREATMENT REQUEST.**

2.2. Billing – [***] shall invoice Track Group monthly for services rendered. Payment shall be made by Track Group to [***] within thirty (30) days of the invoice date. Interest on any amount which is past due shall accrue at the rate of 1.5% per month, or if such rate exceeds the maximum rate allowed by law, then at such maximum rate, and shall be payable on demand.

2.3. Taxes – Except with respect to [***]'s net income and any sales or use taxes, Track Group will pay, as the same respectively come due, all taxes and governmental charges of any kind whatsoever together with any interest or penalties that may at any time be lawfully assessed or levied against or with respect to the equipment or services provided hereunder.

3. ADMINISTRATIVE FEE

Upon execution of this Agreement, Track Group will invoice [***] for a one-time administrative fee of \$60,000. Fifty percent (50%) shall be due within fifteen (15) days of the Effective Date and fifty percent (50%) shall be due thirty (30) days thereafter. In the event this Agreement is terminated for convenience by Track Group within the first six (6) months following the Effective Date, Track Group shall refund the administrative fee in full.

4. TERMINATION OF PRIOR AGREEMENT

Upon execution of this Agreement, the Services Agreement dated January 7, 2009 between [***], as successor in interest to [***], and Track Group, as successor in interest to [***], shall terminate at the end of the day on December 6, 2016.

5. INDEMNIFICATION

5.1 Both Parties Indemnification. Each Party shall defend and indemnify the other and their respective officers, directors, employees, suppliers, licensors, contractors, advisors and agents against and from any loss, debt, liability, damage, obligation, claim, demand, judgment or settlement of any nature or kind, known or unknown, liquidated or unliquidated, including without limitation, all reasonable costs and expenses incurred including all reasonable litigation costs and attorneys' fees arising out of or relating to claims, complaint, action, proceeding or suit of a third party (including any investigation or inquiry by a governmental agency or authority), that arise from or relate to, in whole or part, (i) the negligence or willful misconduct of or (ii) breach of this Agreement by the indemnifying Party, its employees, agents, contractors, licensors or suppliers. The indemnities provided for herein shall survive the termination of this Agreement.

5.2 Track Group Indemnification. Track Group shall defend and indemnify [***] and its respective officers, directors, employees, subsidiaries, suppliers, licensors, contractors and agents against and from any loss, debt, liability, damage, obligation, claim, demand, judgment or settlement of any nature or kind, known or unknown, liquidated or unliquidated, including without limitation, all reasonable costs and

expenses incurred including all reasonable arbitration and/or litigation costs and attorneys' fees arising out of or relating to claims, complaint, action, proceeding or suit of a third party (including any investigation by a governmental agency or authority), that arise from or relate to, in whole or in part, Track Group's electronic monitoring equipment, web-based software (i.e. TrackerPAL, TrackerPAL Mobile), or analytics software. Track Group's indemnification of [***] pursuant to this Section 5.2 shall not apply if the claims, complaint, action, proceeding or suit of a third party arises from or relates solely to software that is not part of Track Group's products and services referenced in this Section 5.2.

5.3 Procedure for Indemnification. The indemnified party promptly shall notify the indemnifying party of any claims that are subject to indemnification. The indemnified party shall have the right, at its own expense, to participate either directly or through counsel in any arbitration, litigation or settlement negotiations. The indemnified party shall provide reasonable assistance and cooperation in such defense at the indemnifying party's expense. The indemnifying party shall not agree to any settlement without the written consent of the indemnified party and such consent shall not be unreasonably withheld. The indemnification provided herein shall survive the termination of this Agreement.

[*] INDICATES MATERIAL THAT WAS OMITTED AND FOR WHICH CONFIDENTIAL TREATMENT WAS REQUESTED. ALL SUCH OMITTED MATERIAL WAS FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO THE RULES APPLICABLE TO SUCH CONFIDENTIAL TREATMENT REQUEST.**

6. LIMITATION OF LIABILITY

6.1. Limitation of Liability. Except as set forth in Section 5, in no event shall either party be liable to the other for (i) any indirect, special, exemplary, incidental or consequential damages of any kind (including without limitation, lost profits or revenues); or (ii) any punitive damages arising by virtue of any dealings between the parties. Except as set forth in Exhibit A, Section 2.3, [***]'s aggregate liability for damages (if any) of any kind or nature arising out of or in connection with this Agreement will not exceed the fees paid by Track Group for the services performed by [***] under this Agreement during the 12-month period immediately preceding the date of the loss.

7. INSURANCE

Each party shall procure and maintain insurance of the kinds and in the minimum amounts enumerated below.

7.1. Worker's Compensation Insurance as required by the laws of the state in which the services are to be performed, and Employer's Liability Insurance covering all employees acting within the course and scope of their employment.

7.2. Commercial General Liability Insurance written on ISO occurrence form GC 0001 10/93 or equivalent, covering premises operations, fire damage, independent contractors, products and completed operations, blanket contractual liability, bodily injury, with minimum limits as follows:

- (1) \$3,000,000 each occurrence;
- (2) \$3,000,000 general aggregate;
- (3) \$3,000,000 products and completed operations aggregate; and
- (4) \$100,000 any one fire.

If any aggregate limit in a party's primary and excess coverage is reduced below \$1,000,000 because of claims made or paid, such party shall immediately obtain additional insurance to restore the full aggregate limit and furnish to the other party a certificate or other document satisfactory to the other party showing compliance with this provision.

7.3. Automobile Liability Insurance covering any auto (including owned, hired and non-owned autos) with a minimum limit as follows: \$1,000,000 each accident combined single limit.

7.4. Professional Liability Insurance (if applicable) with minimum limits of liability of not less than \$3,000,000.

7.5. Each party shall provide certificates showing insurance coverage required by this contract to the other party within 7 business days of the effective date of this Agreement, but in no event later than the commencement of the services or delivery of the goods under this Agreement. At any time during the term of this contract, a party may make a written request from the other party for certificates showing continuing insurance coverage in compliance with the provisions of this section, and the other party shall thereupon within 10 days supply such certificates.

8. CONFIDENTIALITY OF AGREEMENT

Unless disclosure is required pursuant to court order, subpoena or other regulatory authority, neither party shall disclose the terms or existence of this Agreement without first obtaining the written consent of the other party.

[*] INDICATES MATERIAL THAT WAS OMITTED AND FOR WHICH CONFIDENTIAL TREATMENT WAS REQUESTED. ALL SUCH OMITTED MATERIAL WAS FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO THE RULES APPLICABLE TO SUCH CONFIDENTIAL TREATMENT REQUEST.**

9. CONFIDENTIALITY

9.1. Each party acknowledges that they will receive from the other party confidential information and trade secrets relating to the other party's business ("Confidential Information") in the course of performing its obligations under this Agreement. Accordingly, the parties hereby agree not to disclose or permit any third person or entity access to the Confidential Information without the other party's prior written permission, unless disclosure is required pursuant to court order, subpoena or other regulatory authority. The parties further agree to insure that each party's employees participating in the performance of such party's obligations hereunder are advised of the confidential nature of the Confidential Information and to insure by agreement that they are prohibited from disclosing Confidential Information. Confidential Information shall not include information in the public domain, information properly received by the parties from a third party, or information independently developed.

9.2. Each party's obligations under this section shall survive any expiration or termination of this Agreement.

10. OWNERSHIP OF CASE MANAGEMENT SOFTWARE SYSTEM

[***] shall retain all ownership and intellectual property interests in all parts of the System (as defined below) and Updates (as defined below), including title, copyright, patent rights, trademarks, trade secrets and any other proprietary rights and protections, whether currently existing or hereafter developed or acquired, and whether or not perfected, including all applications, disclosures and registrations with respect thereto. [***] shall not have any ownership interests in data supplied by Track Group. All rights owned by [***] that are not expressly granted by this Agreement, including the right to derivative works, are reserved to [***]. All rights, powers and privileges which arise out of this Agreement are, and shall remain at all times, the sole and exclusive property of [***]. Nothing contained in this Agreement shall be deemed to convey to Track Group any title, ownership or intellectual property interest in the System, Software or Updates.

"System" means, collectively: (a) the Software; (b) the server(s) presently located in [***] on which [***] has installed the Software for use by [***] and its customers; (c) all documentation and materials (whether written, printed, electronic or in another format) made available to Track Group that relate to or describe the System; and (d) all equipment and connections maintained by [***] to allow [***] and its customers to access the System.

"Software" means (a) the software programs, including third-party software programs, provided by [***] pursuant to this Agreement in connection with the System, including in connection with either the Monitoring Operations Services or the Case Management Services, (b) all firmware, operating systems, network transport and protocols, interpreters, and administration, management and database systems and applications used to support the functionality of the foregoing, and (c) all Updates to any of the foregoing or otherwise provided by [***] under this Agreement.

"Updates" means any new releases, improvements, modifications, upgrades, updates, fixes and additions to the System that [***] issues from time to time to correct deficiencies, improve or extend capabilities, comply with applicable law, and/or to meet then-current industry-accepted specifications or standards.

11. TERM OF AGREEMENT

The term of this Agreement shall be three (3) years beginning on the Effective Date and ending December 6, 2019 (the "Term"). Thereafter, this Agreement, its terms and conditions, and authorized amendments shall renew automatically for succeeding periods of one (1) year each on the anniversary of the Effective Date unless otherwise terminated as provided for herein. Either party hereto may terminate this Agreement for convenience upon one hundred and twenty (120) days written notice to the other party.

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12. CANCELLATION

Either party hereto may, in the event of a breach by the other party of a material provision of this Agreement, serve written notice to the offending party, of its intent to terminate this Agreement. The offending party shall have forty-five (45) days from the date of the notice to cure the deficiency (the "Cure Period"). In the event that the offending party is unable to cure the breach within the Cure Period, then the Agreement will terminate upon the expiration of the Cure Period.

13. GENERAL

13.1. Applicable Law – This Agreement shall be governed by and construed in accordance with the laws of the State of Illinois.

13.2. Assignment – This Agreement shall not be transferred or assigned by either party without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed.

13.3. Entire Agreement – This Agreement represents the entire agreement between the parties with respect to the subject matter hereof, and supersedes all other prior agreements, representations and understandings, oral and written.

13.4. Relationship of Parties – The relationship of [***] and its successors in interest, on the one hand, and Track Group and its successors in interest, on the other hand, is that of independent contractors, and not one of principal and agent, joint venture or partnership. Neither party shall have any authority to create or assume, in the name or on behalf of the other party, any obligation, express or implied, nor to act or purport to act as the agent or the legally empowered representative of the other party for any purpose whatsoever.

13.5. Notices – Any notice required to be given hereunder shall be deemed to have been given either when served personally or when sent by a recognized overnight courier service – signature required, certified U.S. mail addressed to the parties at the addresses set forth above.

13.6. Each party represents and warrants to the other that it has the full right, power and authority to enter into and perform this Agreement and that execution and performance of this Agreement will not place such party in violation of any other agreement or legal obligation.

13.7. Force Majeure - Neither party shall be liable to the other party for any delay in performance or nonperformance which is due to causes beyond such party's control, including, but not limited to, war, fire, floods, sabotage, civil unrest, strikes, embargoes or delays, acts of God, acts of third parties, acts of governmental authority or any agent or commission thereof, accident, breakdown of equipment, telecommunications services – both wireless and wire systems, differences with employees or similar or dissimilar causes beyond such party's reasonable control.

13.8. If any provision of this Agreement is held invalid, void or unenforceable under any applicable statute or rule of law, it shall be deemed omitted, and the balance of this Agreement shall be enforceable in accordance with its terms.

13.9. The Parties desire to resolve disputes arising out of or relating to this Agreement without litigation.

13.9.1 Billing Disputes. Track Group shall have the right to dispute [***] invoices, provided Track Group has paid all undisputed amounts in full when due. Track Group shall submit all disputes to [***] within forty-five (45) days of the invoice in question. If Track Group does not submit its dispute before the end of the forty-five (45) day period, then Track Group waives the right to dispute the charges. Track Group will submit all disputes via a written statement containing reasonably sufficient detail together with supporting documentation. Both parties shall use good faith efforts to resolve the dispute within forty-five (45) days from the date the dispute was delivered to [***] from Track Group. At the end of such forty-five (45) day period, or after [***] makes a decision on the dispute, whichever comes first, either party may file to immediately commence arbitration in accordance with Section 13.9.2 of this Agreement. Once [***] makes a decision on the dispute, the disputed amount shall be due or credited on the next invoice.

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13.9.2 Arbitration. Except for an action seeking a temporary restraining order or an injunction relating to the purposes of this Agreement, or suit to compel compliance with this dispute resolution process, the Parties agree to use the following alternative dispute resolution procedures as the sole remedy with respect to any controversy or claim arising out of or relating to this Agreement or its breach. At the written request of either Party, each Party will appoint a knowledgeable representative to meet and negotiate in good faith to resolve any dispute arising out of or relating to this Agreement. The representatives shall have the discretion to determine the location, format, frequency and duration of their negotiations, and to utilize other alternative dispute resolution procedures such as mediation to assist in the negotiations. All discussions and correspondence among the representative shall be treated as confidential information developed for the purposes of settlement, exempt from discovery, and shall not be admissible in the arbitration described below or in any lawsuit without the written agreement of the Parties. If the negotiations do not resolve the dispute within thirty (30) days of the initial written request, the dispute shall be submitted to binding arbitration by a single arbitrator experienced in the matters at issue and selected by the American Arbitration Association (“AAA”). The Parties acknowledge that this Agreement and any dispute shall be governed by the Commercial Arbitration Rules of the AAA, such rules being incorporated herein by reference. Any court with jurisdiction may enter judgment upon the award rendered by the arbitrator. The arbitration shall be held in Cook County, Illinois or such other location as is mutually agreed upon by the Parties. The Parties agree that the arbitration shall proceed *ex-parte* in the event that a party, after being duly notified refuses to participate in the arbitration. The prevailing party shall be entitled to all reasonable costs and attorneys’ fees related to the Dispute resolution process described herein including, but not limited to, the arbitration. The parties agree that any such arbitration must be completed by the arbitrator and parties within 120 days after appointment of the arbitrator.

13.10. No rule of construction requiring interpretation against the draftsman hereof shall apply in the interpretation of this Agreement.

14. ENTIRE AGREEMENT

The representations made in this Agreement constitute the entire agreement. No prior or contemporaneous negotiations, understandings, or agreements shall be valid unless in writing and signed by authorized representatives of each party.

15. COUNTERPARTS

This Agreement may be executed in any number of and by the different parties hereto on separate counterparts, each of which when so executed shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

16. RATIFICATION BY TRACK GROUP AUDIT COMMITTEE

The parties agree that the Track Group signature below is subject to ratification by the Audit Committee of the Track Group Board of Directors (“Ratification”). Notwithstanding the foregoing, the parties further agree that the terms of this Agreement shall govern the relationship of the parties and that Track Group without regard to Ratification shall pay any fees incurred for services provided by [***] under this Agreement. In addition, in the event that the Audit Committee of the Track Group Board of Directors fails to ratify this Agreement within 60 calendar days of the Effective Date, Track Group must abide by the provisions of Section 11 with regard to termination for convenience.

[Signatures on Following Page]

IN WITNESS WHEREOF, the parties have (subject to ratification of the Track Group, Inc. Audit Committee of its Board of Directors) executed this Agreement by their duly authorized representatives, effective as of the latest date set forth below.

TRACK GROUP, INC.

[***]

By: _____ Date _____

By: _____ Date _____

Printed Name: _____

Printed Name: _____

Printed Title: _____

Printed Title: _____

RATIFIED AND APPROVED

Track Group, Inc.

By: _____
Karen Macleod, Director and Chairman
Track Group Audit Committee

Date: _____

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EXHIBIT A – SERVICES

[***]

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EXHIBIT B – PRICING

[***]

**Amendment No. 1 to the
Executive Employment Agreement
Between Track Group, Inc. and Derek Cassell
Dated December 1, 2016**

THIS AMENDMENT NO. 1 to that certain Executive Employment Agreement by and between Track Group, Inc. (the “Company”) and Derek Cassell (the “Executive”) entered into as of February 13, 2017.

WHEREAS, the Company and the Executive entered into that certain Executive Employment Agreement dated December 1, 2016 (the “Employment Agreement”);

WHEREAS, the Company and the Executive desire to amend one provision of the Employment Agreement.

NOW, THEREFORE, the parties agree as follows:

1. Paragraph 3B. of the Employment Agreement shall be deleted in its entirety and replaced with the following:

“B. Subject to approval by the Board of Directors, you will be issued 60,000 unregistered restricted shares of Company common stock (the “Shares”). The Shares shall bear an applicable restrictive legend. The Shares shall vest as follows: (i) fifty percent (50%) of the Shares shall vest immediately upon issuance, and (ii) the remaining Shares shall vest on March 30, 2018. In the event of Executive’s death or permanent disability all of the Shares shall immediately vest. Prior to the transfer or any of the Shares during any period during which the Shares are not registered by the Company under an effective registration statement filed pursuant to the Securities Act of 1933, as amended, Executive shall comply with all laws and regulations for the transfer of restricted shares, as well as the Company’s trading policies and procedures as set forth in the Corporate Governance Manual. The Company covenants that in the event it proposes to file a registration statement to register shares with the U.S. Securities and Exchange Commission (“SEC”) and the Shares would be eligible for registration on such registration statement, the Company, with Executive’s written consent, shall include the Shares in such registration statement.

In the event Executive’s employment with the Company is terminated before all of the Shares are vested, Executive shall forfeit any unvested Shares.”

2. Exhibit “A” of the Employment Agreement is deleted in its entirety.

IN WITNESS WHEREOF, each of the parties has executed this Amendment No. 1 to the Executive Employment Agreement between Track Group, Inc. and Derek Cassell dated December 1, 2016, in the case of the Company by its duly authorized officer, as of the day and year first above written.

TRACK GROUP, INC.

EXECUTIVE

By: _____
Guy Dubois
Chief Executive Officer
Chairman of the Board

Derek Cassell



CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Guy Dubois, Principal Executive Officer of Track Group, Inc. (the “*Company*”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Track Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent three months (the registrant's fourth three months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2017

/s/ Guy Dubois
Guy Dubois
Principal Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Peter K. Poli, Chief Financial Officer, Principal Financial Officer, of Track Group, Inc. (the “*Company*”), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Track Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2017

/s/ Peter K. Poli
Peter K. Poli
Chief Financial & Principal Accounting Officer

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

In connection with the Quarterly Report of Track Group, Inc. on Form 10-Q for the period ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Guy Dubois, Chief Executive Officer (Principal Executive Officer), and Peter K. Poli, Chief Financial Officer (Principal Financial Officer), of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Guy Dubois
Guy Dubois
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Peter K. Poli
Peter K. Poli,
Chief Financial Officer
(Principal Accounting Officer)

Dated: February 14, 2017

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
