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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, 2017

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)

**200 E. 5th Avenue Suite 100, Naperville, IL 60563**

(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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 1, 2018 was 10,462,433.

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Track Group, Inc.

FORM 10-Q

For the Quarterly Period Ended December 31, 2017

INDEX

	<u>Page</u>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>Item 1</u></b>	<b><u>Financial Statements</u></b>
	<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
<b><u>Item 2</u></b>	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> 17
<b><u>Item 3</u></b>	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b> 21
<b><u>Item 4</u></b>	<b><u>Controls and Procedures</u></b> 21
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>Item 1</u></b>	<b><u>Legal Proceedings</u></b> 23
<b><u>Item 2</u></b>	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b> 24
<b><u>Item 3</u></b>	<b><u>Defaults Upon Senior Securities</u></b> 24
<b><u>Item 4</u></b>	<b><u>Mine Safety Disclosures</u></b> 24
<b><u>Item 5</u></b>	<b><u>Other Information</u></b> 24
<b><u>Item 6</u></b>	<b><u>Exhibits</u></b> 25
<b><u>Signatures</u></b>	<b>26</b>

# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	December 31, 2017 (unaudited)	September 30, 2017
<b>Assets</b>		
<i>Current assets:</i>		
Cash	\$ 1,755,437	\$ 2,027,321
Accounts receivable, net of allowance for doubtful accounts of \$3,432,985 and \$3,268,095, respectively	5,526,000	5,438,564
Note receivable, current portion	234,733	234,733
Prepaid expenses and other	4,219,135	854,122
Inventory, net of reserves of \$26,934, respectively	172,347	261,810
Total current assets	11,907,652	8,816,550
Property and equipment, net of accumulated depreciation of \$1,862,347 and \$1,778,634, respectively	883,039	903,100
Monitoring equipment, net of accumulated amortization of \$4,767,061 and \$4,906,925, respectively	3,460,685	3,493,012
Intangible assets, net of accumulated amortization of \$10,444,569 and \$9,839,032, respectively	24,410,468	24,718,655
Goodwill	8,275,308	8,226,714
Other assets	785,195	2,989,101
Total assets	<u>\$ 49,722,347</u>	<u>\$ 49,147,132</u>
<b>Liabilities and Stockholders' Equity</b>		
<i>Current liabilities:</i>		
Accounts payable	2,529,632	2,769,835
Accrued liabilities	8,021,419	6,650,291
Current portion of long-term debt, net of discount of \$130,067 and \$185,811, respectively	30,322,191	30,270,531
Total current liabilities	40,873,242	39,690,657
Long-term debt, net of current portion	3,466,468	3,480,717
Total liabilities	44,339,710	43,171,374
<i>Stockholders' equity:</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 10,462,433 and 10,480,984 shares outstanding, respectively	1,046	1,048
Additional paid-in capital	300,978,608	300,717,861
Accumulated deficit	(295,109,920)	(294,067,329)
Accumulated other comprehensive loss	(487,097)	(675,822)
Total equity	5,382,637	5,975,758
Total liabilities and stockholders' equity	<u>\$ 49,722,347</u>	<u>\$ 49,147,132</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)

	<b>Three Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Monitoring services	\$ 7,350,805	\$ 7,265,013
Other	139,889	406,477
Total revenues	<u>7,490,694</u>	<u>7,671,490</u>
<b>Cost of revenues:</b>		
Monitoring, products and other related services	2,542,007	3,607,276
Depreciation & amortization included in cost of revenues	477,142	445,493
Impairment of monitoring equipment and parts	-	74,787
Total cost of revenues	<u>3,019,149</u>	<u>4,127,556</u>
<b>Gross profit</b>	4,471,545	3,543,934
<b>Operating expenses:</b>		
General & administrative	3,657,738	3,175,054
Restructuring costs	-	566,330
Selling & marketing	409,737	589,768
Research & development	163,946	488,178
Depreciation & amortization	564,740	575,111
Total operating expenses	<u>4,796,161</u>	<u>5,394,441</u>
<b>Loss from operations</b>	(324,616)	(1,850,507)
<b>Other income (expense):</b>		
Interest expense, net	(673,827)	(647,103)
Currency exchange rate loss	(55,072)	(116,442)
Other income/expense, net	10,924	293
<b>Total other income (expense)</b>	<u>(717,975)</u>	<u>(763,252)</u>
<b>Net loss attributable to common shareholders</b>	<u>(1,042,591)</u>	<u>(2,613,759)</u>
Foreign currency translation adjustments	188,725	(493,572)
<b>Comprehensive loss</b>	<u>\$ (853,866)</u>	<u>\$ (3,107,331)</u>
Net loss per common share, basic and diluted	<u>\$ (0.10)</u>	<u>\$ (0.25)</u>
Weighted average common shares outstanding, basic and diluted	10,476,346	10,333,516

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

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

	<b>Three Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,042,591)	\$ (2,613,759)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,041,882	1,020,604
Impairment of monitoring equipment and parts	-	74,787
Bad debt expense	186,910	359,551
Accretion of debt discount	55,744	55,743
Stock based compensation	787,590	225,374
Loss on monitoring equipment included in cost of sales	95,817	-
Other	(36,454)	-
Change in assets and liabilities:		
Accounts receivable, net	(354,633)	660,834
Inventories	69,836	57,700
Prepaid expenses and other assets	(1,009,813)	149,428
Accounts payable	(238,490)	684,987
Accrued expenses	772,412	1,461,547
Net cash provided by operating activities	<u>328,210</u>	<u>2,136,796</u>
<b>Cash flow from investing activities:</b>		
Purchase of property and equipment	(28,685)	(12,762)
Capitalized software	(254,899)	(570,093)
Purchase of monitoring equipment and parts	(311,142)	(818,600)
Net cash used in investing activities	<u>(594,726)</u>	<u>(1,401,455)</u>
<b>Cash flow from financing activities:</b>		
Principal payments on notes payable	(17,289)	(17,266)
Net cash used in financing activities	<u>(17,289)</u>	<u>(17,266)</u>
<b>Effect of exchange rate changes on cash</b>	11,921	(1,606)
<b>Net increase (decrease) in cash</b>	(271,884)	716,469
<b>Cash, beginning of period</b>	<u>2,027,321</u>	<u>1,769,921</u>
<b>Cash, end of period</b>	<u>\$ 1,755,437</u>	<u>\$ 2,486,390</u>
Cash paid for interest	\$ 10,708	\$ 4,587
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Non-cash transfer of inventory to monitoring equipment	\$ 81,893	\$ 62,193

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, 2017, and results of its operations for the three months ended December 31, 2017. These financial statements should be read in conjunction with the audited 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, 2017 filed with the SEC on December 19, 2017. The results of operations for the three months ended December 31, 2017 may not be indicative of the results for the fiscal year ending September 30, 2018.

*Reclassifications* – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income (loss) or shareholders’ equity (See Note 4).

*Business condition* - As of December 31, 2017 and 2016 the Company had an accumulated deficit of \$295,109,920 and \$291,955,262, respectively. The Company incurred a net loss of \$1,042,592 and \$2,613,759 for the three months ended December 31, 2017 and 2016, respectively. The Company may continue to incur losses and require additional financial resources. The Company also has debt maturing in the next 12 months. The Company’s successful development and transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support its cost structure. Management has evaluated the significance of these negative conditions and has determined that the Company can meet its operating obligations for a reasonable period of time. The Company expects to fund operations using cash on hand, through operational cash flows and the restructuring of its existing debt agreement. Management of the Company believes that the availability of financing from these sources is adequate to fund operations through the upcoming twelve months.

**(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) RECENT 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. During the three months ended December 31, 2017, there were no new accounting pronouncements that had a material impact on the Company’s consolidated financial statements.

Recently adopted accounting standards

In July 2015, the FASB issued ASU No. 2015-11, “*Inventory (Topic 330) - Simplifying the Measurement of Inventory*” (“ASU 2015-11”), which dictates that an entity should measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this standard in the first quarter of fiscal year 2018. The Company’s adoption of ASU 2015-11 did not have a material impact on its Consolidated Financial Statements.

Recently issued accounting standards

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment. The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance will be effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The amendment should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In August 2016, the FASB issued ASU 2016-15 - Statement of Cash Flows (Topic 230) classification of certain cash receipts and cash payments to conform the presentation in the statement of cash flows for certain transactions, including cash distributions from equity method investments, among others. The adoption of the new standard is required in 2019. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

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 does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*” which supersedes the guidance in “*Revenue Recognition (Topic 605)*” (“ASU 2014-09”) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company has evaluated the new standard and anticipates a change in the reporting of revenue as enhanced disclosures will be required. The Company does not anticipate a significant impact on our financial statements due to the nature of our revenue streams and our revenue recognition policy.

#### (4) IMMATERIAL ERROR CORRECTIONS

This Quarterly Report on Form 10-Q of the Company for the period ended December 31, 2017 includes the revision of the Company's previously filed consolidated income statements for the three months ended December 31, 2016.

Management concluded that the general and administrative section of the Condensed Consolidated Income Statement contained an error and that for comparative purposes in fiscal year 2017 filings, these figures should be revised but that the adjustments are not material modifications. Accordingly, the Company has determined that prior financial statements should be corrected, even though such revisions are immaterial. Furthermore, the Company has determined that correcting prior year financial statements for immaterial changes would not require previously filed reports to be amended.

Under general and administrative expense, we have reclassified costs related to repairs and maintenance of monitoring devices and certain other costs, including installation, communications and transportation costs that were previously recorded in general and administrative expense to cost of revenues, selling and marketing, and research and development. Net income (loss) and shareholders' equity were not affected by the reclassification. The effect of these revisions on the Company's results of operations for the three months ended December 31, 2016 previously reported are as follows:

	<b>Three months ended December 31, 2016 Previously Reported</b>	<b>Net Change</b>	<b>Three months ended December 31, 2016 (Revised)</b>
Cost of revenues:			
Monitoring, products & other related services	\$ 2,933,622	\$ 673,654	\$ 3,607,276
General & administrative expenses	3,768,099	(593,045)	3,175,054
Selling & marketing	627,749	(37,981)	589,768
Research & development	530,806	(42,628)	488,178

#### (5) 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 \$0 and \$74,787 of impairment expenses related to monitoring equipment for the three months ended December 31, 2017 and 2016, respectively.

#### (6) 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 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.

**(7) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Comprehensive income (loss) includes net income (loss) as currently reported under U.S. GAAP and other comprehensive income (loss). Other comprehensive income (loss) considers the effects of additional economic events, such as foreign currency translation adjustments, that are not required to be recorded in determining net income (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, 2017.

**(8) NET INCOME (LOSS) PER COMMON SHARE**

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

Diluted net income (loss) per common share ("*Diluted EPS*") is computed by dividing net income (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, 2017 and 2016, there were 570,467 and 526,901 outstanding common share equivalents, respectively, that were not included in the computation of Diluted EPS for the three months ended December 31, 2017 and 2016, respectively, as their effect would be anti-dilutive. The common stock equivalents outstanding as of December 31, 2017 and 2016 consisted of the following:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Exercisable common stock options and warrants	570,467	526,901
Total common stock equivalents	570,467	526,901

**(9) PREPAID EXPENSES AND OTHER**

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, 2017, and September 30, 2017, the outstanding balance of prepaid and other expenses was \$4,219,135 and \$854,122, respectively. The \$4,219,135 as of December 31, 2017 is comprised largely of performance bond deposits, tax deposits, vendor deposits and other prepaid supplier expenses. The increase in prepaid and other expenses at December 31, 2017 was primarily due to a cash collateralized performance bond for an international customer of \$2,860,358, which is scheduled to be repaid in the third fiscal quarter and has been re-classified as a short-term asset in the three-month period ended December 31, 2017, as well as increases in prepaid taxes, vendor deposits and insurance.

## (10) INVENTORY

Inventory is valued at the lower of the cost or net realizable value. Cost is determined using the first-in, first-out (“FIFO”) method. Net realizable value is determined based on the estimated selling prices on the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. 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, 2017 and September 30, 2017, respectively, inventory consisted of the following:

	December 31, 2017	September 30, 2017
Finished goods inventory	\$ 199,281	\$ 288,744
Reserve for damaged or obsolete inventory	(26,934)	(26,934)
Total inventory, net of reserves	<u>\$ 172,347</u>	<u>\$ 261,810</u>

## (11) PROPERTY AND EQUIPMENT

The following table summarizes property and equipment at December 31, 2017 and September 30, 2017, respectively:

	December 31, 2017	September 30, 2017
Equipment, software and tooling	\$ 1,045,090	\$ 1,028,081
Automobiles	40,048	52,230
Leasehold improvements	1,351,025	1,307,802
Furniture and fixtures	309,223	293,621
Total property and equipment before accumulated depreciation	2,745,386	2,681,734
Accumulated depreciation	(1,862,347)	(1,778,634)
Property and equipment, net of accumulated depreciation	<u>\$ 883,039</u>	<u>\$ 903,100</u>

Property and equipment depreciation expense for the three months ended December 31, 2017 and 2016 was \$114,417 and \$50,291, respectively.

## (12) MONITORING EQUIPMENT

The Company leases monitoring equipment to agencies for offender tracking under contractual service agreements. The monitoring equipment is amortized using the straight-line method over an estimated useful life of one to five years. Monitoring equipment as of December 31, 2017 and September 30, 2017 was as follows:

	December 31, 2017	September 30, 2017
Monitoring equipment	\$ 8,227,746	\$ 8,399,937
Less: accumulated amortization	(4,767,061)	(4,906,925)
Monitoring equipment, net of accumulated depreciation	<u>\$ 3,460,685</u>	<u>\$ 3,493,012</u>

Amortization of monitoring equipment for the three months ended December 31, 2017 and 2016 was \$353,027 and \$332,993, respectively. These expenses were recognized in cost of revenues.

### (13) INTANGIBLE ASSETS

The following table summarizes intangible assets at December 31, 2017 and September 30, 2017, respectively:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
Other intangible assets:		
Patent & royalty agreements	21,170,565	21,170,565
Developed technology	11,410,921	11,116,738
Customer relationships	1,860,000	1,860,000
Trade name	335,350	332,183
Website	78,201	78,201
Total intangible assets	34,855,037	34,557,687
Accumulated amortization	(10,444,569)	(9,839,032)
Intangible assets, net	<u>\$ 24,410,468</u>	<u>\$ 24,718,655</u>

The intangible assets summarized above were purchased or developed on various dates from January 2010 through December 2017. The assets have useful lives ranging from three to twenty years. Amortization expense for the three months ended December 31, 2017 and 2016 was \$574,438 and \$637,320, respectively.

### (14) GOODWILL

The following table summarizes the activity of goodwill at December 31, 2017:

	<b>Three months ended December 31, 2017</b>
Balance - beginning of period	\$ 8,226,714
Effect of foreign currency translation on goodwill	48,594
Balance - end of period	<u>\$ 8,275,308</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 was recognized through December 31, 2017.

### (15) OTHER ASSETS

As of December 31, 2017 and September 30, 2017, the outstanding balance of other assets was \$785,195 and \$2,989,101, respectively. A cash collateralized performance bond for an international customer, which is expected to be repaid in the third fiscal quarter has been re-classified as a current asset in the three-month period ended December 31, 2017.

## (16) ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 31, 2017 and September 30, 2017:

	December 31, 2017	September 30, 2017
Accrued payroll, taxes and employee benefits	\$ 1,573,440	\$ 943,066
Accrued consulting	8,954	11,631
Accrued taxes - foreign and domestic	573,322	529,926
Accrued settlement costs	50,000	200,000
Accrued board of directors fees	275,000	125,000
Accrued other expenses	151,804	178,092
Accrued legal costs	57,394	116,824
Accrued cellular costs	25,000	81,100
Accrued manufacturing costs	100,000	137,884
Accrued bond guarantee	304,270	23,548
Accrued interest	4,902,235	4,303,220
Total accrued liabilities	<u>\$ 8,021,419</u>	<u>\$ 6,650,291</u>

## (17) RESTRUCTURING

In the first quarter of fiscal year 2017, the Company approved a plan to restructure our business (the “*Restructuring Plan*”) to streamline operations by consolidating our headquarters from Salt Lake City, Utah into our existing Chicagoland office. The Restructuring Plan, which was completed in fiscal 2017, also included outsourcing the Company’s monitoring center which allowed a significant head count reduction and lower future expenses, and improved the Company’s ability to align workforce costs with customer demands. During the twelve-months ended September 30, 2017, the Company recognized expenses for the Restructuring Plan of \$558,833, including \$435,643 of severance expense and \$123,190 of lease and moving costs, all of which were paid in the fiscal year ended September 30, 2017.

Total restructuring charges for the three-months ended December 31, 2016 and their utilization are summarized as follows:

	Employee -related	Other costs	Total
Liability at September 30, 2016	\$ -	\$ -	\$ -
Accrued expenses	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 “*Sapinda Loan Agreement*”) with Sapinda Asia Limited (“*Sapinda*”), a related party, 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 Sapinda Loan Agreement, available funds may be drawn down at the Company’s request at any time prior to the maturity date of 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 Sapinda Loan Agreement prior to the Maturity Date without penalties or fees.

On March 13, 2017 (the “*Execution Date*”), the Company and Sapinda entered into Amendment Number One to the Sapinda Loan Agreement. Amendment Number One extends the maturity date of all loans made pursuant to the Sapinda Loan Agreement to September 30, 2020. In addition, Amendment Number One eliminates the requirement that the Company pay Sapinda the 3% Interest, and forgives the 3% interest due to Sapinda for all undrawn funds under the Sapinda Loan Agreement through the Execution Date. Further, Amendment Number One provides that all failure to fund penalties (“*Lender Penalties*”) accrued under the Sapinda Loan Agreement through the Execution Date are forgiven. Per Amendment Number One, Lender Penalties shall begin to accrue again provided Sapinda has not funded the amount of \$1.5 million on or before March 31, 2017. In breach of Amendment Number One, Sapinda failed to fund the \$1.5 million by March 31, 2017. The Company formally notified Sapinda of the breach by letter dated April 4, 2017. The Company is again accruing Lender Penalties, amounting to \$275,000 at December 31, 2017, under Section 6.3 of the Sapinda Loan Agreement, as amended. We did not draw on this line of credit, nor did we pay any interest during the three months ended December 31, 2017. The undrawn balance of this line of credit at December 31, 2017 was \$1,600,356. Further advances under the Sapinda Loan Agreement are not currently expected to be forthcoming.

On May 1, 2016, the Company entered into an unsecured Loan Agreement with Conrent Invest S.A., a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg (“*Conrent*”), acting with respect to its Compartment Safety III (the “*Conrent Loan Agreement*”). Pursuant to its terms, available borrowing capacity under the Conrent Loan Agreement was \$5.0 million; however, due to the failure of the lender to satisfy certain conditions precedent to its obligation to fund, the Company has not received funds under the Conrent Loan Agreement as of December 31, 2017, and no proceeds thereunder are anticipated.

On October 9, 2017, the Company entered into a Debt Exchange Agreement with Conrent Invest S.A. regarding total debt and unpaid interest of approximately \$34.7 million as of October 31, 2017 (the “*Debt*”) (the “*Debt Exchange*”). The Debt Exchange called for the Company to exchange newly issued shares of preferred stock for the entire Debt subject to approval by the investors who purchased securities from Conrent to finance the Debt (the “*Noteholders*”). On November 2, 2017, Conrent convened a meeting of the Noteholders to approve the Debt Exchange; however, the quorum required to approve the Debt Exchange was not achieved. Management continues to negotiate with Conrent regarding terms for the Debt Exchange acceptable to Noteholders with the objective of reaching an agreement acceptable to both Conrent and the Noteholders before the Debt matures on July 31, 2018.

Debt obligations as of December 31, 2017 and September 30, 2017, respectively, are comprised of the following:

	<b>December 31, 2017</b>	<b>September 30, 2017</b>
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, 2017, the remaining debt discount was \$130,067. We did not pay interest on this loan during the three months ended December 31, 2017.	\$ 30,269,933	\$ 30,214,189
Loan Agreement whereby the Company can borrow up to \$5.0 million at 8% interest per annum on borrowed funds maturing on September 30, 2020.	3,399,644	3,399,644
Non-interest bearing notes payable to a Canadian governmental agency assumed in conjunction with the G2 acquisition.	105,593	123,393
Capital lease with effective interest rate of 12%. Lease matures August 15, 2019.	13,489	14,022
Total debt obligations	33,788,659	33,751,248
Less current portion	(30,322,191)	(30,270,531)
Long-term debt, net of current portion	<u>\$ 3,466,468</u>	<u>\$ 3,480,717</u>

The following table summarizes our future maturities of debt obligations, net of the amortization of debt discounts as of December 31, 2017:

<b>Fiscal Year</b>	<b>Total</b>
2018	\$ 30,452,258
2019	43,842
2020	3,422,626
2021	-
2022	-
Debt discount	(130,067)
Total	<u>\$ 33,788,659</u>

## (19) RELATED-PARTY TRANSACTIONS

### Related-Party Loan Agreement

On September 25, 2015, the Company entered into the Sapinda Loan Agreement with Sapinda, a related party, 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 Sapinda Loan Agreement, available funds may be drawn down at the Company's request at any time prior to the maturity date of 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 Sapinda Loan Agreement prior to the Maturity Date without penalties or fees.

On March 13, 2017, the Company and Sapinda entered into Amendment Number One to the Sapinda Loan Agreement. Amendment Number One extends the maturity date of all loans made pursuant to the Sapinda Loan Agreement to September 30, 2020. In addition, Amendment Number One eliminates the requirement that the Company pay Sapinda the 3% interest, and forgives the 3% interest due to Sapinda for all undrawn funds under the Sapinda Loan Agreement through the Execution Date. Further, Amendment Number One provides that all Lender Penalties accrued under the Sapinda Loan Agreement through the Execution Date are forgiven. Per Amendment Number One, Lender Penalties shall begin to accrue again provided Sapinda has not funded the amount of \$1.5 million on or before March 31, 2017. In breach of Amendment Number One, Sapinda failed to fund the \$1.5 million by March 31, 2017. The Company formally notified Sapinda of the breach by letter dated April 4, 2017. The Company is again accruing Lender Penalties, amounting to \$275,000 at December 31, 2017, under Section 6.3 of the Sapinda Loan Agreement, as amended. We did not draw on this line of credit, nor did we pay any interest during the three months ended December 31, 2017. The undrawn balance of this line of credit at December 31, 2017 was \$1,600,356. Further advances under the Sapinda Loan Agreement are not currently expected to be forthcoming, and therefore no assurances can be given that the Company will obtain additional funds to which it is entitled under the Sapinda Loan Agreement, or that the penalties accruing will ever be paid.

**Additional Related-Party Transactions and Summary of All Related-Party Obligations**

	<b>Dec. 31, 2017</b>	<b>Sept. 30, 2017</b>
Related party loan with an interest rate of 3% and 8% per annum for undrawn and borrowed funds, respectively.		
Principal and interest due September 30, 2020.	\$ 3,399,644	\$ 3,399,644
Total related-party debt obligations	<u>\$ 3,399,644</u>	<u>\$ 3,399,644</u>

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, 2017, no shares of common stock were issued to Board of Director members for their services earned in the first quarter of 2018. The Company has deferred the issuance of shares of common stock and warrants since the fourth quarter of 2017, and \$275,000 for unpaid Board of Director fees has been accrued at December 31, 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 Certificate 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, 2017, there were no shares of preferred stock outstanding.

In November 2017, the Board of Directors approved the grant of 241,935 shares of common stock valued at \$300,000, as compensation for services rendered to the Company, which have not yet been issued. In addition, the Company issued 30,797 warrants to a member of the Company's Board of Directors in exchange for 18,551 shares of common stock the director previously received for services provided during the period of October 2016 to June 2017, which shares were thereby cancelled in the three month period ended December 31, 2017.

**(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. Warrants for Board members vest immediately and warrants issued to employees vest annually over either a two or three-year period after the grant date.

As of December 31, 2017, 27,218 shares of common stock were available for future grants under the 2012 Plan.

***All Options and Warrants***

On November 30, 2017, the Board of Directors unanimously approved the adjustment of the exercise price of 605,678 unexercised warrants, with original exercise prices ranging from \$1.81 to \$19.46, issued under the 2012 Plan to \$1.24, resulting in incremental stock-based compensation of \$149,088, which was expensed in the three-month period ending December 31, 2017.

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, 2017 and 2016, the Company granted 30,797 and 154,410, respectively, options and warrants to purchase shares of common stock under the 2012 Plan. Excluding the incremental stock-based compensation mentioned above, the Company recorded expense of \$638,502 and \$200,374 for the three months ended December 31, 2017 and 2016, respectively, related to the issuance and vesting of outstanding stock options and warrants.

The option and warrant grants for three months ended December 31, 2017 were valued using the Black-Scholes model with the following weighted-average assumptions:

	Three Months Ended December 31	
	2017	2016
Expected stock price volatility	120%	119%
Risk-free interest rate	1.92%	0.60%
Expected life of options/warrants	5 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 (warrant) activity for the three months ended December 31, 2017 is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of September 30, 2017	600,842	\$ 8.51	4.90 years	\$ -
Granted	30,797	\$ 4.87		
Expired/Cancelled	(1,172)	\$ (19.29)		
Exercised	-	\$ -		
Outstanding as of December 31, 2017	630,467	1.78	4.63	\$ -
Exercisable as of December 31, 2017	570,467	1.84	4.67	\$ -

The intrinsic value of options and warrants outstanding and exercisable is based on the Company's share price of \$1.05 at December 31, 2017.

## (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, 2017 and 2016, the Company incurred a net loss for income tax purposes of \$1,042,591 and \$2,613,759, 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.

In computing income tax, we recognize an income tax provision in tax jurisdictions in which we have pre-tax income for the period and are expecting to generate pre-tax book income during the fiscal year.

## (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. 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. Plaintiff's appeal succeeded and will result in a trial occurring within the next four to eight months. We intend to defend the case vigorously.

*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 in an amount sufficient to deter similar conduct in the future. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. The Company's motion for Summary Judgment was denied on February 27, 2017 and a Notice of Appeal was filed by The Company's counsel on April 15, 2017. We are awaiting a ruling on an oral argument that took place on December 13, 2017 regarding a new statute which exempts vendors who assist law enforcement officials. 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 the 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"). The Company's damages of unpaid principal and interest on the Promissory Note are in the amount of \$230,000.00, plus per annum interest. The Defendant's initial Counterclaims were dismissed; however, the Court granted the Defendant leave to amend. The Amended Counter Claims were filed on June 23, 2017. The Company's Motion to Dismiss the Amended Counterclaims was denied on September 19, 2017. The Company filed an Answer to the Amended Counterclaims on October 3, 2017. Once the discovery period ends on March 30, 2018, the Company will proceed with a Motion for Summary Judgment. We believe we will be successful in this action 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.

*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 ICS. Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the "C&M Agreement") by and between the Company and ICS, any dispute must be resolved by binding arbitration. The Company asserts that ICS has failed to pay the Company fees owed to it under the C&M Agreement. The amount owed to the Company is approximately \$1.0 million. Depositions were completed in August of 2017. The arbitration hearing took place on January 31, 2018 and we expect a ruling within 30 days. 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, 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. The Company filed an Answer with Counter Claims on December 21, 2016. The Company filed a motion for Summary Judgment on January 16, 2018 and we expect a ruling within six months. We intend to defend the case vigorously and believe the allegations and claims are without merit.

*Michael Anthony Johnson v. Community Corrections of Marion County and Track Group, Inc.* On February 28, 2017, the Company was notified that Mr. Johnson, the Plaintiff, had filed a *pro se* complaint in the United States District Court for the Southern District of Indiana, asserting violations of his rights under 28 U.S.C. Sec.1331. Mr. Johnson alleges damages of at least \$250,000. We believe the allegations and claims are unfounded and without merit. The Company plans to file a motion for Summary Judgment before the end of February 2018. We will defend the case vigorously and believe the probability of incurring a material loss to be remote.

*SecureAlert, Inc. v. Federal Government of Mexico (Department of the Interior).* On March 24, 2017, SecureAlert Inc. filed a complaint before the Federal Administrative Tribunal, asserting the failure by Defendants to pay claimant amounts agreed to, and due under, the Pluri Annual Contract for the Rendering of Monitoring Services of Internees, through Electric Bracelets, in the Islas Marias Penitentiary Complex dated July 15, 2011, entered into by and between the Organo Administrativo Desconcentrado Prevencion y Readaptacion Social of the then Public Security Department, and presently, an agency of the National Security Commission of the Department of the Interior, and SecureAlert, Inc., presently Track Group, Inc. The Company's claim amount is upwards of \$6.0 million. On March 28, 2017, the Federal Administrative Tribunal rejected our claim, based on its determination that this case should be resolved by a Civil Court and not by the Federal Administrative Tribunal. For that reason, on April 25, 2017, the Company filed an appeal before the Collegiate Tribunals against the decision of the Federal Administrative Tribunal. Counsel estimates the Tribunal should have a ruling on or before June 30, 2018. If the Company's appeal is successful, the case will be sent back to the Federal Administrative Tribunal for a resolution on the merits of the case.

*Inversiones Tecnologicas SpA v. Track Group Chile SpA.* On October 10, 2014, Inversiones Tecnologicas SpA (a.k.a. Position) filed a complaint before the Civil Court of Santiago, in order to collect \$1.0 million of fees for alleged services rendered with occasion of the public tender for the adjudication of the contract ID 634-66-LP13 labeled “Telematics Surveillance of Convicts.” On April 13, 2017, the Court issued its decision, rejecting the Plaintiff’s claim, under the consideration that insufficient evidence of a service agreement between Track Group Chile SpA (formerly Secure Alert Chile SpA) and Inversiones Tecnologicas SpA, was submitted to the Court. Moreover, the fact that Secure Alert Chile SpA was incorporated after the facts on which the lawsuit is based, led to the complete dismissal of the claim. Position filed an appeal on May 4, 2017. A hearing on the Appeal may be scheduled in late February, 2018. The Company expects the court to make a decision within three months of the hearing date.

*Pablo Gonzalez-Cruz, et al. v. Track Group-Puerto Rico, et al.* On June 9, 2017, the Plaintiff, Pablo Gonzalez-Cruz, and relatives of the Plaintiff, filed a Complaint in the Court of First Instance, San Juan Superior Court, Common Wealth of Puerto Rico against the Company, and associated parties alleging the death of his daughter was a direct and immediate result of the gross negligence and guilty indifferent actions and omissions of all the defendants. Plaintiff is requesting damages of no less than \$2.0 million. The Company’s Answer and Appearance were filed August 13, 2017. We are currently in the discovery period.

## **(23) SUBSEQUENT EVENTS**

Effective January 1, 2018, the Company entered into a multi-year Monitoring Services Agreement with Marion County Community Corrections Agency, by and through the Marion County Community Corrections Board (collectively, “*Marion County*”), pursuant to which the Company shall provide Marion County with GPS and alcohol monitoring equipment, certain services, and software to be used for offenders ordered into the Marion County Community Corrections program by the courts. In exchange for the products and services provided by the Company, Marion County shall make periodic payments, the sum of which shall be determined based on the duration of use of individual units of equipment.

On January 18, 2018, the Company entered into a Monitoring Services Agreement (the “*Gendarmeria Agreement*”) with Gendarmeria de Chile, the Republic of Chile’s uniform prison service (“*Gendarmeria*”), for services the Company began offering to Gendarmeria in October 2017. The Company currently provides Gendarmeria with GPS monitoring devices, certain services, and software to be used for offenders ordered into a corrections program by the Chilean courts. In exchange for the products and services provided by the Company, Gendarmeria shall make periodic payments, the sum of which shall be determined based on installation fees and the duration of use of individual units of equipment. Pursuant to its terms, the Gendarmeria Agreement will expire in October 2018.

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted that, other than as disclosed above, no additional 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, as amended (the "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, 2017, 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, we deploy 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 Shadow product line. 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.

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, bilingual 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

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 an offender's 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 empower 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. In selective circumstances, we will also assist agencies by operating offender pay programs. To accomplish these objectives, we have and will continue to innovate and grow our portfolio of proprietary and non-proprietary real-time monitoring and intervention products and services, including smartphone applications. These products include GPS, RF, drug and alcohol testing for offenders, domestic violence applications 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 pre-trial participants or individuals on 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, 2017, filed with the SEC on December 19, 2017. During the three months ended December 31, 2017 there have been no material changes to the Company's critical accounting policies.

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, estimated useful lives, 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, 2017, Compared to Three Months Ended December 31, 2016*

#### *Revenue*

For the three months ended December 31, 2017, the Company recognized revenue from operations of \$7,490,694 compared to \$7,671,490 for the three months ended December 31, 2016, a decrease of \$180,796 or 2%. The decrease in revenue was principally the result of (i) a loss of a Caribbean customer whose contract ended in November 2016, partially offset by (ii) an increase in total growth of our North American monitoring operations driven by clients in Indiana and Virginia, and (iii) growth of offender monitoring in Chile.

Other revenue for the three months ended December 31, 2017 decreased to \$139,889 from \$406,477 in the same period in 2016 largely due to lower sales of consumable items. We will continue to focus on recurring subscription based opportunities as opposed to equipment sales.

#### *Cost of Revenue*

During the three months ended December 31, 2017, cost of revenue totaled \$3,019,149 compared to cost of revenue during the three months ended December 31, 2016 of \$4,127,556, a decrease of \$1,108,407 or 27%. The decrease in cost of revenue was largely the result of decreases in device costs of \$437,307, lower communication costs of \$286,326, lower customs costs of \$189,879 and lower monitoring costs of \$158,554. During the three-month period ended December 31, 2016, we incurred one-time costs of \$371,144, which is reflected in monitoring, products and other related services in the condensed consolidated income statement, that did not reoccur in the three months ended December 31, 2017. Excluding these one-time costs, cost of revenue for the three-months ended December 31, 2017 would have decreased \$575,206, or 15%, compared to the same period in 2016.

Depreciation and amortization included in cost of revenue for the three months ended December 31, 2017 and 2016 totaled \$477,142 and \$445,493, respectively. These costs represent the depreciation of TrackerPAL™, ReliAlert™ and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. We believe this life is appropriate due to rapid changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses the useful life of the devices for appropriateness. Amortization of a patent related to GPS and satellite tracking is also included in cost of sales.

Impairment cost for equipment and parts for the three months ended December 31, 2017 and 2016 were \$0 and \$74,787, respectively. These costs relate to disposal of obsolete inventory, monitoring equipment and parts for enhancements to our various devices and monitoring platform.

#### *Gross Profit and Margin*

During the three months ended December 31, 2017, gross profit totaled \$4,471,545, representing an increase of \$927,611 or 26% compared to the same period last year and resulting in a gross margin of 60% compared to \$3,543,934 or a gross margin of 46% during the three months ended December 31, 2016. The increase in gross margin is largely due to the lower costs of revenue mentioned above. Excluding the one-time costs of revenue previously mentioned, gross profit for the three-months ended December 31, 2016 would have been \$3,915,078 and gross profit margin would have been 51%.

#### *General and Administrative Expense*

During the three months ended December 31, 2017, general and administrative expense totaled \$3,657,738 compared to \$3,175,054 for the three months ended December 31, 2016. The increase of \$482,684 or 15% in general and administrative costs resulted largely from an increase in stock-based compensation expense of \$562,216, higher legal and professional fees of \$147,903 and higher wages and benefit costs of \$137,161, partially offset by lower bad debt expense of \$172,642, lower recruiting costs of \$63,303, lower repair and maintenance costs of \$52,776, lower rent expense of \$36,125 and lower outside labor expenses of \$28,283.

#### *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. All costs related to the relocation were paid in the fiscal year ended September 30, 2017. See Note 17 to the Condensed Consolidated Financial Statements.

#### *Selling and Marketing Expense*

During the three months ended December 31, 2017, selling and marketing expense decreased to \$409,737 compared to \$589,768 for the three months ended December 31, 2016. The reduction in expenses of \$180,031, or approximately 31% decrease is principally the result of lower outside service costs of \$84,438, lower travel related expenses of \$41,489 and lower wages and benefits of \$31,546.

#### *Research and Development Expense*

During the three months ended December 31, 2017, research and development expense totaled \$163,946 compared to \$488,178 for the three months ended December 31, 2016, a decrease of \$324,232 or approximately 66%. The decrease resulted largely from lower wages and benefits of \$203,349 and lower outside service costs of \$96,078. In addition, we are significantly enhancing our technology platform to improve the efficiency of our software, firmware, user interface, and automation. As a result of these improvements, \$254,899 was capitalized as developed technology during the three months ended December 31, 2017 and \$570,093 was capitalized in the three months ended December 31, 2016. 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, 2017, depreciation and amortization expense totaled \$564,740 compared to \$575,111 for the three months ended December 31, 2016, a decrease of \$10,371 or approximately 2%.

#### *Other Income and Expense*

For the three months ended December 31, 2017, other income (expense) totaled \$717,975 compared to \$763,252 for the three months ended December 31, 2016, a decrease in net expense of \$45,277 or approximately 6%. The decrease in other income (expense) is due to positive currency exchange rate movements, partially offset by higher interest expense, net.

### *Net Loss Attributable to Common Shareholders*

The Company had Net loss attributable to common shareholders of \$1,042,591 for the three months ended December 31, 2017, compared to a Net loss attributable to common shareholders of \$2,613,759 for the three months ended December 31, 2016, a decrease of \$1,571,168 or 60%. This decrease in net loss is largely due to higher gross profit, the absence of restructuring costs, lower selling and marketing expense, lower research and development costs and lower currency exchange expense. These amounts were offset by higher stock-based compensation costs.

### **Liquidity and Capital Resources**

Historically, we have been unable to finance our business solely from cash flows from operating activities. During prior periods, the Company supplemented cash flows to finance the business from borrowings under a credit facility, a revolving line of credit from one of our shareholders, receipt of certain disgorgement funds, and from the sale and issuance of debt securities. As of December 31, 2017, excluding interest, \$3.4 million was owed to Sapinda under the Sapinda Loan Agreement and \$30.4 million was owed to Conrent under the Conrent Loan Agreement. No borrowings or sales of equity securities occurred during the three months ended December 31, 2017.

On October 9, 2017, the Company entered into a Debt Exchange Agreement with Conrent regarding total debt and unpaid interest of approximately \$34.7 million as of October 31, 2017 (the “*Debt*”) (the “*Debt Exchange*”). The Debt Exchange called for the Company to exchange newly issued shares of preferred stock for the entire Debt subject to approval by the investors who purchased securities from Conrent to finance the Debt (the “*Noteholders*”). On November 2, 2017, Conrent convened a meeting of the Noteholders to approve the Debt Exchange; however, the quorum required to approve the Debt Exchange was not achieved. Management continues to negotiate with Conrent regarding terms for the Debt Exchange acceptable to Noteholders with the objective of reaching an agreement acceptable to both Conrent and the Noteholders before the Debt matures on July 31, 2018.

### *Net Cash Flows from Operating Activities.*

During the three months ended December 31, 2017, we incurred a net loss of \$1,042,591 and we had cash flows from operating activities of \$328,210, compared to a net loss from continuing operations of \$2,613,759 and cash flows from operating activities of \$2,136,796 for the three months ended December 31, 2016. The decrease of cash from operations compared to the prior year period was largely the result of an increase in prepaid expenses and deposits, a decrease in accounts payable, and higher accounts receivable, partially offset by improved operating results.

### *Net Cash Flows from Investing Activities.*

The Company used \$594,726 of cash for investing activities during the three months ended December 31, 2017, compared to \$1,401,455 of cash used during the three months ended December 31, 2016. Cash used for investing activities was used for significant enhancements of our software platform and used for purchases of monitoring and other equipment to meet demand during the three months ended December 31, 2017.

### *Net Cash Flows from Financing Activities.*

The Company used \$17,289 of cash for financing activities during the three months ended December 31, 2017, compared to \$17,266 of cash used in financing activities during the three months ended December 31, 2016.

### *Liquidity, Working Capital and Management's Plan*

As of December 31, 2017, we had unrestricted cash of \$1,755,437, compared to unrestricted cash of \$2,027,321 as of September 30, 2017. As of December 31, 2017, we had a working capital deficit of \$28,965,590, compared to a working capital deficit of \$30,874,107 as of September 30, 2017. This increase in working capital is principally due to a transfer of a short-term bond from a long-term asset of \$2,860,358, partially offset by a decrease in cash due to additional capitalized software of \$254,899 and purchases of monitoring equipment of \$311,142.

On March 13, 2017, the Company successfully extended the Sapinda Loan Agreement from September 30, 2017 to September 30, 2020. In addition, management is currently exploring options to restructure the debt owed under the Conrent Loan Agreement, which may include exchanging debt for equity or extending the maturity of the Conrent Loan Agreement.



The Company incurred a net loss of \$1,042,591 and \$2,613,759 for the three months ended December 31, 2017 and 2016, respectively. The Company may continue to incur losses until it is able to achieve a level of revenues adequate to support its cost structure. In addition, although no assurances can be given, in the event that management is able to successfully restructure the debt owed under the Conrent Loan Agreement, management has evaluated the significance of all conditions and determined that it will have adequate cash flow from operations to meet its operating obligations and provide for its working capital requirements for the upcoming twelve months. However, in the event we are unable to successfully restructure the debt under the Conrent Loan Agreement, our available cash resources together with cash flow from operations will be inadequate to satisfy out working capital requirements.

### ***Inflation***

We do not believe that inflation has had a material impact on our historical operations or profitability.

### **Off-Balance Sheet Financial Arrangements**

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation that provides financing, liquidity, market risk, or credit risk support to the Company, except as described below.

	<b>Payments due in less than 1 year</b>	<b>Payments due in 1 – 3 years</b>	<b>Payments due in 3 – 5 years</b>	<b>Total</b>
Operating leases	\$ 329,252	\$ 479,023	\$ 58,808	\$ 867,083

As of December 31, 2017, the Company's total future minimum lease payments under noncancelable operating leases were \$867,083. The Company's facility leases typically have original terms not exceeding 5 years and generally contain multi-year renewal options.

### **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 examine international opportunities. As a result, our revenues and results of operations are affected by fluctuations in currency exchange rates, interest rates, transfer pricing changes, taxes 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 \$2,561,305 and \$2,795,781 in revenue from sources outside the United States for the three months ended December 31, 2017 and 2016, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange of \$55,072 and \$116,442 in the three months ended December 31, 2017 and 2016, 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 do not use foreign currency exchange contracts or derivative financial instruments for hedging 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 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 have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) to ensure that material information relating to the Company is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017 was completed pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of December 31, 2017.

***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, 2017 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. 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. Plaintiff's appeal succeeded and will result in a trial occurring within the next four to eight months. We intend to defend the case vigorously.

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 in an amount sufficient to deter similar conduct in the future. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. The Company's motion for Summary Judgment was denied on February 27, 2017 and a Notice of Appeal was filed by The Company's counsel on April 15, 2017. We are awaiting a ruling on an oral argument that took place on December 13, 2017 regarding a new statute which exempts vendors who assist law enforcement officials. 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 the 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"). The Company's damages of unpaid principal and interest on the Promissory Note are in the amount of \$230,000.00, plus per annum interest. The Defendant's initial Counterclaims were dismissed; however, the Court granted the Defendant leave to amend. The Amended Counter Claims were filed on June 23, 2017. The Company's Motion to Dismiss the Amended Counterclaims was denied on September 19, 2017. The Company filed an Answer to the Amended Counterclaims on October 3, 2017. Once the discovery period ends on March 30, 2018, the Company will proceed with a Motion for Summary Judgment. We believe we will be successful in this action 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.

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 ICS. Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the "C&M Agreement") by and between the Company and ICS, any dispute must be resolved by binding arbitration. The Company asserts that ICS has failed to pay the Company fees owed to it under the C&M Agreement. The amount owed to the Company is approximately \$1.0 million. Depositions were completed in August of 2017. The arbitration hearing took place on January 31, 2018 and we expect a ruling within 30 days. 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, 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. The Company filed an Answer with Counter Claims on December 21, 2016. The Company filed a motion for Summary Judgment on January 16, 2018 and we expect a ruling within six months. We intend to defend the case vigorously and believe the allegations and claims are without merit.

Michael Anthony Johnson v. Community Corrections of Marion County and Track Group, Inc. On February 28, 2017, the Company was notified that Mr. Johnson, the Plaintiff, had filed a *pro se* complaint in the United States District Court for the Southern District of Indiana, asserting violations of his rights under 28 U.S.C. Sec.1331. Mr. Johnson alleges damages of at least \$250,000. We believe the allegations and claims are unfounded and without merit. The Company plans to file a motion for Summary Judgment before the end of February 2018. We will defend the case vigorously and believe the probability of incurring a material loss to be remote.

*SecureAlert, Inc. v. Federal Government of Mexico (Department of the Interior)*. On March 24, 2017, SecureAlert Inc. filed a complaint before the Federal Administrative Tribunal, asserting the failure by Defendants to pay claimant amounts agreed to, and due under, the Pluri Annual Contract for the Rendering of Monitoring Services of Internees, through Electric Bracelets, in the Islas Marias Penitentiary Complex dated July 15, 2011, entered into by and between the Organo Administrativo Desconcentrado Prevencion y Readaptacion Social of the then Public Security Department, and presently, an agency of the National Security Commission of the Department of the Interior, and SecureAlert, Inc., presently Track Group, Inc. The Company's claim amount is upwards of \$6.0 million. On March 28, 2017, the Federal Administrative Tribunal rejected our claim, based on its determination that this case should be resolved by a Civil Court and not by the Federal Administrative Tribunal. For that reason, on April 25, 2017, the Company filed an appeal before the Collegiate Tribunals against the decision of the Federal Administrative Tribunal. Counsel estimates the Tribunal should have a ruling on or before June 30, 2018. If the Company's appeal is successful, the case will be sent back to the Federal Administrative Tribunal for a resolution on the merits of the case.

*Inversiones Tecnologicas SpA v. Track Group Chile SpA*. On October 10, 2014, Inversiones Tecnologicas SpA (a.k.a. Position) filed a complaint before the Civil Court of Santiago, in order to collect \$1.0 million of fees for alleged services rendered with occasion of the public tender for the adjudication of the contract ID 634-66-LP13 labeled "Telematics Surveillance of Convicts." On April 13, 2017, the Court issued its decision, rejecting the Plaintiff's claim, under the consideration that insufficient evidence of a service agreement between Track Group Chile SpA (formerly Secure Alert Chile SpA) and Inversiones Tecnologicas SpA, was submitted to the Court. Moreover, the fact that Secure Alert Chile SpA was incorporated after the facts on which the lawsuit is based, led to the complete dismissal of the claim. Position filed an appeal on May 4, 2017. A hearing on the Appeal may be scheduled in late February, 2018. The Company expects the court to make a decision within three months of the hearing date.

*Pablo Gonzalez-Cruz, et al. v. Track Group-Puerto Rico, et al.* On June 9, 2017, the Plaintiff, Pablo Gonzalez-Cruz, and relatives of the Plaintiff, filed a Complaint in the Court of First Instance, San Juan Superior Court, Common Wealth of Puerto Rico against the Company, and associated parties alleging the death of his daughter was a direct and immediate result of the gross negligence and guilty indifferent actions and omissions of all the defendants. Plaintiff is requesting damages of no less than \$2.0 million. The Company's Answer and Appearance were filed August 13, 2017. We are currently in the discovery period.

#### **Item 1A. Risk Factors**

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended September 30, 2017, filed on December 19, 2017. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of February 8, 2018, there have been no material changes to the disclosures made in the above-referenced Form 10-K.

#### **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*

<b>Exhibit Number</b>	<b>Title of Document</b>
<a href="#">10.1+</a>	Monitoring Services Agreement, dated December 18, 2017, by and between Track Group, Inc. and Marion County Community Corrections Agency, by and through Marion County Community Corrections Board (filed herewith).
<a href="#">31(i)</a>	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
<a href="#">31(ii)</a>	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
<a href="#">32</a>	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
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 8, 2018

By: /s/ Derek Cassell

Derek Cassell  
Principal Executive Officer

Date: February 8, 2018

By: /s/ Peter K. Poli

Peter K. Poli, Chief Financial Officer  
(Principal Accounting Officer)

**\*\*\*] 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.**

MONITORING SERVICES AGREEMENT  
Between  
MARION COUNTY COMMUNITY CORRECTIONS AGENCY  
By and through the  
MARION COUNTY COMMUNITY CORRECTIONS BOARD  
And TRACK GROUP

This Agreement for Community Corrections Monitoring Services (hereinafter referred to as "Agreement"), entered into by and between Track Group. (hereinafter referred to as "Contractor") and Marion County Community Corrections Agency, by and through the Marion County Community Corrections Board, (hereinafter referred to as "County"), is executed pursuant to the terms and conditions set forth herein. In consideration of those mutual undertakings and covenants, the parties agree as follows:

#### SECTION I. INTERPRETATION AND INTENT

- 1.01 The "Agreement", as referred to herein, shall mean this Agreement executed by County and Contractor, and shall include these Terms and Conditions, the Attachments described in Sections II and IV and attached hereto, all addenda issued prior to receipt of RFPs, quotes, or bids, whether or not receipt thereof has been acknowledged by Contractor, all conditions, plans, specifications and standards, instructions and notice to vendors, and any written supplemental agreement or modification entered into between County and Contractor, in writing, after the date of this Agreement.
- 1.02 This Agreement constitutes the entire agreement between the parties and supersedes all prior agreements, written or verbal, between County and Contractor. No statements, promises or agreements whatsoever, in writing or verbal, in conflict with the terms of the Agreement have been made by County or Contractor which in any way modify, vary, alter, enlarge or invalidate any of the provisions and obligations herein stated. This Agreement may be amended and modified only in writing signed by both County and Contractor.
- 1.03 In resolving conflicts, errors, discrepancies and disputes concerning the scope of the work or services to be performed by Contractor or other rights or obligations of County or Contractor the document or provision thereof expressing the greater quantity, quality or scope of service or imposing the greater obligation upon Contractor and affording the greater right or remedy to County, shall govern.
- 1.04 Any interpretation applied to this Agreement, by the parties hereto, by an arbitrator, court of law, or by any other third party, shall not be made against County solely by virtue of County or County's representatives having drafted all or any portion of this Agreement.
- 1.05 This Agreement shall include, and incorporate by reference, any provision, covenant or condition required or provided by law or by regulation of any state or federal regulatory or funding agency.

#### SECTION II. DUTIES OF CONTRACTOR

- 2.01 Contractor shall provide services as specified in Attachment A, Scope of Work, attached hereto and incorporated into this Agreement.
- 2.02 Contractor shall adhere to County protocols specified in Attachment C, Alert Handling and Notification, attached hereto and incorporated into this Agreement.

#### SECTION III. TERM

- 3.01 The term of this Agreement shall begin January 1, 2018, and shall terminate on [\*\*\*], unless terminated earlier in accordance with this Agreement.
- 3.02 This Agreement may be renewed by agreement of parties. The term of the renewal may be less but shall not be longer than the term of the original Agreement. A renewal shall be only by written instrument signed by both County and Contractor and attached hereto as an amendment. All other terms and conditions of the Agreement shall remain the same as set forth herein.

**\*\*\*] 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.**

#### SECTION IV. COMPENSATION

- 4.01 Contractor proposes to furnish all labor, materials and supplies in accordance with the conditions of this Agreement necessary to complete the work as defined in Attachment A. Revenue rates are set forth in Attachment B, attached hereto and incorporated herein.
- 4.02 Contractor shall submit properly itemized documentation for the services performed under this Agreement in the timeframe defined by County. Contractor shall cooperate with and provide any other necessary information to County needed to substantiate County or Contractor records.

#### SECTION V. GENERAL PROVISIONS

- 5.01 Independent Contractor. The parties agree that Contractor is an independent contractor as that term is commonly used and is not an employee of the Consolidated City of Indianapolis and/or Marion County. As such, Contractor is solely responsible for all taxes and none shall be withheld from the sums paid to Contractor. Contractor acknowledges that it is not insured in any manner by County for any loss of any kind whatsoever. Contractor has no authority, express or implied, to bind or obligate County in any way.
- 5.02 Subcontracting.
- 5.02.1 Approval required. The parties agree that Contractor shall not subcontract, assign or delegate any portion of this Agreement or the services to be performed hereunder without prior written approval of County. In the event that County approves of any such subcontracting, assignment or delegation, Contractor shall remain solely responsible for managing, directing and paying the person or persons to whom such responsibilities or obligations are sublet, assigned or delegated. County shall have no obligation whatsoever toward such persons. Contractor shall take sole responsibility for the quality and quantity of any services rendered by such persons. Any consent given in accordance with this provision shall not be construed to relieve Contractor of any responsibility for performing under this Agreement.
- 5.02.2 Minority, Women, Veterans, and Disability-Owned Business Enterprise Participation - To the extent Contractor uses subcontractors or other agents in the performance of services under this Agreement, Contractor shall either:
- (a) Use, at a minimum, fifteen percent (15%) Minority Business Enterprises, eight percent (8%) Women's Business Enterprises, three percent (3%) Veteran's Business Enterprises and one percent (1%) Disability-Owned Business Enterprises in the performance of services under this Agreement; or
  - (b) Demonstrate a good faith effort to achieve such percentages, in compliance with the policies and to the satisfaction of the City of Indianapolis' Department of Minority & Women Business Development.

Violation of this Subsection shall constitute a breach of this Agreement

- 5.03 Necessary Documentation. Contractor certifies that it will furnish County, if requested, any and all documentation, certification, authorization, license, permit, or registration required by the laws or rules and regulations of the City of Indianapolis, the County of Marion, other units of local government, the State of Indiana, and the United States. Contractor further certifies that it is now and will remain in good standing with such governmental agencies and that it is now and will maintain its license, permit, registration, authorization, or certification, as applicable, in force during the term of this Agreement. Failure of Contractor to comply with this paragraph shall constitute a material breach of this Agreement.
- 5.04 Confidentiality.

**\*\*\*] 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.**

- 5.04.1 The obligations of this section shall survive the termination of this Agreement and shall be applicable to the full extent permissible under statutes governing access to public records. Contractor understands that the information provided to it or obtained from County during the performance of its services is confidential and may not, without prior written consent of County, be disclosed to a person not in County's employ except to employees or agents of Contractor who have a need to know in order to provide the services. Further, Contractor's work product generated during the performance of this Agreement is confidential to County. The failure to comply in all material respects with this section shall be considered a material breach of this Agreement. Confidential information shall not include information, that: (a) was known by Contractor at the time it was received; (b) is, as of the time of its disclosure or thereafter becomes, part of the public domain through a source other than Contractor; (c) is made known to Contractor by a third person who does not impose any obligation of confidence on Contractor with respect to such information; (d) is required to be disclosed pursuant to governmental authority, law, regulation, duly authorized subpoena or court order whereupon Contractor shall provide notice to County prior to such disclosure; or (e) information that is independently developed by Contractor without references to the confidential information.
- 5.04.2 Contractor shall not, under any circumstances, release information provided to it by, or on behalf of, County that is required to be kept confidential by County pursuant to Indiana law except as contemplated by Section 5.04.1(d), above.
- 5.04.3 Contractor acknowledges that County will not treat this Agreement as confidential information and will post the Agreement on the City of Indianapolis' website as required by Section 141-105 of the Revised Code of the Consolidated City of Indianapolis and Marion County. Use by the public of any document or the information contained therein, shall not be considered an act of County.
- 5.05 Records; Audit. Contractor shall maintain books, records, documents and other evidence directly pertinent to performance of services under this Agreement. Contractor shall make such materials available at its offices at all reasonable times during the Agreement period and for three (3) years from the date of final payment under this Agreement for inspection by County or any other authorized representative of the City of Indianapolis, Marion County, Indiana. Copies thereof, if requested, shall be furnished at no cost to County. County reserves the right to perform quarterly audits of Contractor's business as it relates to fulfilling the obligations of this Agreement. If the County deems it necessary, more frequent and/or more thorough audits may be performed. Should, as a result of the audit, the County deem the performance of the Contractor unsatisfactory, the Executive Director of Marion County Community Corrections may suspend referrals to the Contractor or the County may terminate this Agreement. The Executive Director will provide the Contractor with a written statement outlining the reasons for the suspension of referrals as well as a date/time to meet with the Contractor.
- 5.06 Ownership.
- 5.06.1 "Works" means works of authorship fixed in any tangible medium of expression by Contractor or its officers, employees, agents or subcontractors in the course of performing the services under this Agreement, including, but not limited to, computer programs, electronic art, computer generated art, notes, specifications, drawings, flow charts, memoranda, correspondence, records, notebooks, documentation, reports and charts, regardless of the medium in which they are fixed, and all copies thereof, as well as client data used to track clients through the use of Contractor's proprietary software. "Works" does not mean Contractor's proprietary software.
- 5.06.2 All Works made or created by Contractor, either solely or jointly with County, in the course of Contractor's performance of services under this Agreement shall be deemed to be works for hire and are and shall be the exclusive property of County. At County's request, Contractor will execute all documents reasonably required to confirm or perfect ownership of such Works and any corresponding copyright rights in and to such Works in County. Without the prior written consent of County, Contractor shall not use, copy or prepare derivative works of the Works, or any parts of them, other than as related to the performance of this Agreement. During the performance of this Agreement, Contractor shall be responsible for loss or damage to the Works while they are in Contractor's possession or control. Any loss or damage shall be restored at Contractor's expense. County shall have free and unlimited access to the Works at all times and, upon demand, shall have the right to claim and take possession of the Works and all copies. Notwithstanding the foregoing, Contractor shall be entitled to retain a set of its work papers for archival purposes only, in accordance with applicable professional standards.

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5.06.3 Contractor shall retain all rights in and to its know-how, methods, techniques, discoveries, concepts, and ideas, whether patentable or not, and whether possessed by Contractor prior to or acquired by Contractor during the performance of this Agreement. Contractor also shall retain all rights in and to all works of authorship fixed in a tangible medium of expression that were made, created or acquired by Contractor prior to the effective date of this Agreement ("Pre-Existing Works"), provided that a listing of such Pre-Existing Works is attached to this Agreement.

5.07 Insurance.

5.07.1 Contractor shall, as a condition precedent to this Agreement, purchase and thereafter maintain such insurance as will protect it and County from the claims set forth below which may arise out of or result from Contractor's operations under this Agreement, whether such operations be by Contractor or by its subcontractors or by anyone directly or indirectly employed by any of them, or by anyone directly for whose acts any of them may be liable:

- 1) Claims under Worker's Compensation and Occupational Disease Acts, and any other employee benefits acts applicable to the performance of the work;
- 2) Claims for damages because of bodily injury and personal injury, including death, and;
- 3) Claims for damages to property.

Contractor's insurance shall be not less than the amounts shown below:

A	Worker's Compensation & Disability	Statutory
B.	Employer's Liability Bodily Injury Accident	\$ 100,000 each accident
	Bodily Injury by Disease	\$ 500,000 policy limit
	Bodily Injury by Disease	\$ 100,000 each employee
C.	Excess Auto Liability	\$1,000,000 (single limit)
		(owned, hired & non-owned)
	Bodily injury & property damage	\$1,000,000 each accident



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D. Commercial General Liability

Bodily Injury, personal injury, property damage,  
Contractual liability, product/completed operations

General Aggregate Limit (other than Products Completed Operations)	\$2,000,000.00
Products/Completed Operations	\$1,000,000.00
Personal and Advertising Injury Limit	\$500,000.00
Each Occurrence Limit	\$1,000,000.00
Fire Damage (any one fire)	\$50,000.00
Medical Expense Limit	\$5,000.00

**NOTE: GENERAL AGGREGATE TO APPLY PER PROJECT**

E. Umbrella Excess Liability \$1,000,000 each occurrence and aggregate

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- 5.07.2 Certificates of Insurance, naming the City of Indianapolis/Marion County as an "additional insured," (C. D. and E. only) showing such coverage then in force (but not less than the amount shown above) shall be filed with County prior to commencement of any work. These certificates shall contain a provision that the policies and the coverage afforded will not be canceled until at least thirty (30) days after written notice has been given to County.
- 5.07.3 With the prior approval of County, Contractor may substitute different types of coverage for those specified as long as the total amount of required protection is not reduced. Contractor shall be responsible for all deductibles.
- 5.07.4 Nothing in the above provisions shall operate as or be construed as limiting the amount of liability of Contractor to the above enumerated amounts.
- 5.08 Termination for Cause or Convenience.
- 5.08.1 If Contractor becomes insolvent, or if it refuses or fails to perform the work and services provided by this Agreement, or if it refuses to perform disputed work or services as directed pending resolution of such dispute, or if it fails to make payments to subcontractors employed by it, or if it is deemed no longer competitive as the result of a County initiated Request for Proposal and/or Request for Quote process, or if it otherwise violates or fails to perform any term, covenant or provision of this Agreement, then County may, without prejudice to any other right or remedy, terminate this Agreement in whole or in part, in writing, provided that Contractor shall be given (1) not less than ten (10) calendar days written notice of County's intent to terminate, and (2) an opportunity for consultation with County prior to termination. In determining the amount of final payment to be made to Contractor upon such termination for default, if any, no amount shall be allowed for anticipated profit on unperformed services or other work; furthermore, an adjustment shall be made to the extent of any additional costs incurred or reasonably foreseen by County to be incurred by reason of Contractor's default.
- 5.08.2 This Agreement may be terminated in whole or in part in writing by County for County's convenience; provided that Contractor is given (1) not less than ten (10) calendar days written notice of intent to terminate and (2) an opportunity for consultation with County prior to termination. If County terminates for convenience, Contractor's compensation shall be equitably adjusted.
- 5.08.3 Upon receipt of notice of termination for default or for County's convenience, Contractor shall (1) promptly discontinue all services affected, unless the termination notice directs otherwise, and (2) deliver or otherwise make available to County all Works and such other information, materials or documents as may have been accumulated by Contractor in performing this Agreement, whether completed or in process.
- 5.08.4 If, after termination for Contractor's default, it is determined that Contractor was not in default, the termination shall be deemed to have been made for the convenience of County. In such event, adjustment of the price provided for in this Agreement shall be made as provided in Paragraph 5.08.2 and the recovery of such price adjustment shall be Contractor's sole remedy and recovery.
- 5.09 Termination for Failure of Funding. Notwithstanding any other provision of this Agreement, if funds for the continued fulfillment of this Agreement by County are at any time insufficient or not forthcoming through failure of any entity to appropriate funds or otherwise, then County shall have the right to terminate this Agreement without penalty by giving written notice documenting the lack of funding, in which instance this Agreement shall terminate and become null and void on the last day of the fiscal period for which appropriations were received. County agrees that it will make its best efforts to obtain sufficient funds, including but not limited to, requesting in its budget for each fiscal period during the term hereof sufficient funds to meet its obligations hereunder in full.
- 5.10 Indemnification. Contractor agrees to indemnify, defend, and hold harmless the City of Indianapolis, Marion County and their respective officers, agents, officials and employees for any and all third party claims, actions, causes of action, judgments and liens to the extent they arise out of any negligent or wrongful act or omission or breach of any provision of this Agreement by Contractor or any of its officers, agents, employees or subcontractors regardless of whether or not it is caused in part by the negligence of a party indemnified hereunder. Such indemnity shall include attorney's fees and all costs and other expenses arising therefrom or incurred in connection therewith and shall not be limited by reason of the enumeration of any insurance coverage required herein. County shall not provide such indemnification to Contractor, provided, however, that Contractor shall be relieved of its indemnification obligation to the extent any injury, damage, death or loss is attributable to the acts or omissions of County.

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- 5.11 Notice. Any notice required to be sent under this Agreement shall be sent by internationally recognized overnight courier, certified mail, facsimile or other delivery method which provides confirmation of receipt and shall be directed to the persons and addresses specified below (or such other persons and/or addresses as any party may indicate by giving notice to the other party):

To Contractor:

Derek Cassell, President  
Track Group  
200 E 5th Ave.  
Suite 100  
Naperville, IL 60563

To County:

Tyler Bouma, Executive Director  
Marion County Community Corrections  
140 E. Washington Street  
Indianapolis, IN 46204

- 5.12 Disputes. Contractor shall carry on all work required under this Agreement and maintain the schedule for services during all disputes or disagreements with County. No work shall be delayed or postponed pending resolution of any disputes or disagreements except as Contractor and County may otherwise agree in writing. Should Contractor fail to continue to perform its responsibilities as regards all non disputed work without delay, any additional costs incurred by County or Contractor as a result of such failure to proceed shall be borne by Contractor, and Contractor shall make no claim against the County for such costs. County may withhold payments on disputed items pending resolution of the dispute.
- 5.13 Non-discrimination. Contractor and its officers, agents, employees, and subcontractors shall not discriminate against any employee or applicant for employment to be employed in the performance of this Agreement, with respect to her or his hire, tenure, terms, conditions, or privileges of employment, or any matter directly or indirectly related to employment, because of her or his race, sex, sexual orientation, gender identity, religion, color, national origin, ancestry, age, disability, or United States military service veteran status. Breach of this section shall be regarded as a material breach of this Agreement.
- 5.14 Conflict of Interest.
- 5.14.1 Contractor certifies and warrants to County that neither it nor any of its officers, agents, employees, or subcontractors who will participate in the performance of any services required by this Agreement has or will have any conflict of interest, direct or indirect, with County.
- 5.14.2 For purposes of compliance with IC 36-1-21, Contractor certifies and warrants to County that Contractor, or a person who wholly or partially owns Contractor, is not a relative, as that term is defined by IC 36-1-21-3, of either the Mayor of Indianapolis, Indiana, or a member of the City-County Council of Indianapolis and Marion County, Indiana.
- 5.15 Non-contingent Fees. Contractor warrants that no person or selling agency has been employed or retained to solicit or secure this Agreement upon an agreement or understanding for a commission, percentage, brokerage, or contingent fee, excepting bona fide employees. For breach or violation of this warranty, County shall have the right to annul this Agreement without liability or in its discretion to deduct from the Agreement price or consideration, or otherwise recover, the full amount of such commission, percentage, brokerage, or contingent fee.
- 5.16 Force Majeure. In the event that either party is unable to perform any of its obligations under this Agreement – or to enjoy any of its benefits – because of fire, explosion, power blackout, natural disaster, strike, embargo, labor disputes, war, terrorism, acts of God, acts or decrees of governmental bodies or other causes beyond such party's reasonable control (hereinafter referred to as Force Majeure Event), the party who has been so affected shall immediately give notice to the other and shall take commercially reasonable actions to resume performance. Upon receipt of such notice, all obligations under this Agreement shall immediately be suspended except for payment obligations with respect to service already provided. If the period of nonperformance exceeds sixty (60) days from the receipt of the Force Majeure Event, the party whose ability to perform has not been so affected may, by giving written notice, terminate this Agreement.

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5.17 Applicable Laws; Forum.

5.17.1 Contractor agrees to comply with all applicable federal, state and local laws, rules, regulations or ordinances, and all provisions required thereby to be included in this Agreement are hereby incorporated by reference. This includes, but is not limited to, the Federal Civil Rights Act of 1964 and, if applicable, the Drug-Free Workplace Act of 1988. The enactment of any state or federal statute or the promulgation of regulations thereunder after execution of this Agreement shall be reviewed by County and Contractor to determine whether the provisions of the Agreement require formal modification.

5.17.2 This Agreement shall be construed in accordance with the laws of the State of Indiana, and by all applicable Municipal Ordinance or Codes of the Consolidated City of Indianapolis, County of Marion. Suit, if any, shall be brought in the State of Indiana, County of Marion

5.18 Waiver. County's delay or inaction in pursuing its remedies set forth in this Agreement, or available by law, shall not operate as a waiver of any of County's rights or remedies.

5.19 Severability. If any provision of this Agreement is held to be invalid, illegal, or unenforceable by a court of competent jurisdiction, the provision shall be stricken, and all other provisions of this Agreement that can operate independently of such stricken provisions shall continue in full force and effect.

5.20 Attorneys' Fees. Contractor shall be liable to County for reasonable attorneys' fees incurred by County in connection with the collection or attempt to collect, any damages arising from the negligent or wrongful act or omission of Contractor, or from Contractor's failure to fulfill any provisions or responsibility provided herein.

5.21 Successors and Assigns. County and Contractor each binds itself and its partners, successors, executors, administrators and assigns to the other party of this Agreement and to the partners, successors, executors, administrators and assigns of such other party, in respect to all covenants of this Agreement; except as otherwise provided herein, Contractor shall not assign, sublet or transfer its interest in this Agreement without the written consent of County. Nothing herein shall be construed as creating any personal liability on the part of any officer or agent of County.

5.22 Authority to Bind Contractor. Notwithstanding anything in this Agreement to the contrary, the signatory for Contractor represents that he/she has been duly authorized to execute agreements on behalf of Contractor and has obtained all necessary or applicable approval from the home office of Contractor to make this Agreement fully binding upon Contractor when his/her signature is affixed and accepted by County.

5.23 Debarment and Suspension

5.23.1 Contractor certifies, by entering into this Agreement, that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from or ineligible for participation in any Federal assistance program by any Federal department or agency, or by any department, agency or political subdivision of the State of Indiana. The term "principal" for purposes of this Agreement means an officer, director, owner, partner, key employee, or other person with primary management or supervisory responsibilities, or a person who has a critical influence on or substantive control over the operations of Contractor.

5.23.2 Contractor shall provide immediate written notice to County if, at any time after entering into this Agreement, Contractor learns that its certification was erroneous when submitted, or Contractor is debarred, suspended, proposed for debarment, declared ineligible, voluntarily excluded from or becomes ineligible for participation in any Federal assistance program. Any such event shall be cause for termination of this Agreement as provided herein.

5.23.3 Contractor shall not subcontract with any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in any Federal assistance programs by any Federal department or agency, or by any department, agency or political subdivision of the State of Indiana.

5.23.4 Contractor certifies, by entering into this Agreement, that it does not engage in investment activities in Iran as more particularly described in IC 5-22-16.5.

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- 5.24 Key Persons. If the County has designated that certain individual(s) are essential to the services offered, the parties agree that should such individual(s) leave their employment during the term of this Contract for whatever reason, the City shall have the right to terminate this Agreement upon thirty (30) days' prior written notice.

In the event that the Contractor is an individual, that individual shall be considered a key person and, as such, essential to this Agreement. Substitution of another for the Contractor shall not be permitted without express written consent of the County.

Nothing in this paragraph shall be construed to prevent the Contractor from using the services of others to perform tasks ancillary to those tasks which directly require the expertise of the key person. Examples of such ancillary tasks include secretarial, clerical, and common labor duties. The Contractor shall, at all times, remain responsible for the performance of all necessary tasks, whether performed by a key person or others.

A Key person may be substituted for another Key person upon mutual written agreement of the parties. Key person(s) to this Agreement shall be identified below

N/A

- 5.25 Compliance With E-Verify Program. Pursuant to JC 22-5-1.7, Contractor shall enroll in and verify the work eligibility status of all newly hired employees of Contractor through the E-Verify Program ("Program"). Contractor is not required to verify the work eligibility status of all newly hired employees through the Program if the Program no longer exists.
- 5.25.1 Contractor and its subcontractors shall not knowingly employ or contract with an unauthorized alien or retain an employee or contract with a person that Contractor or its subcontractor subsequently learns is an unauthorized alien. If Contractor violates this Section 5.24, County shall require Contractor to remedy the violation not later than thirty (30) days after County notifies Contractor. If Contractor fails to remedy the violation within the thirty (30) day period, County shall terminate the contract for breach of contract. If County terminates the contract, Contractor shall, in addition to any other contractual remedies, be liable to County for actual damages. There is a rebuttable presumption that Contractor did not knowingly employ an unauthorized alien if Contractor verified the work eligibility status of the employee through the Program.
- 5.25.2 If Contractor employs or contracts with an unauthorized alien but County determines that terminating the contract would be detrimental to the public interest or public property, County may allow the contract to remain in effect until County procures a new contractor.
- 5.25.3 Contractor shall, prior to performing any work, require each subcontractor to certify to Contractor that the subcontractor does not knowingly employ or contract with an unauthorized alien and has enrolled in the Program. Contractor shall maintain on file a certification from each subcontractor throughout the duration of the Project. If Contractor determines that a subcontractor is in violation of this Section 5.24, Contractor may terminate its contract with the subcontractor for such violation.
- 5.25.4 Pursuant to IC 22-5-1.7 a fully executed affidavit affirming that the business entity does not knowingly employ an unauthorized alien and confirming Contractors enrollment in the Program, unless the Program no longer exists, shall be filed with County prior to the execution of this Agreement. This Agreement shall not be deemed fully executed until such affidavit is filed with the County.
- 5.26 Transition Plan: At the conclusion of this Agreement, Contractor shall assist County in planning and carrying out a plan to transition current participants from their program to any new vendor(s).
- 5.27 Ban the Box. Contractor acknowledges Sections 671-102 to 671-108 of the Revised Code of the Consolidated City of Indianapolis and Marion County and will make available its policies, practices and standards for the hiring of applicants with prior criminal convictions upon the City's request.
- 5.28 Post-Employment Restrictions. Contractor, providing supplies, real property, or services under this Agreement, certifies to City that no employee, contract employee, or sub-contractor of Contractor:

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- 5.28.1 Participated in any way in the solicitation, negotiation, or awarding of this Agreement while previously employed by an agency of the City of Indianapolis or Marion County for a period of one (1) year prior to the execution of this Agreement;
- 5.28.2 For a period of one (1) year after such employee ceased supervising the administration or performance of this contract or agreement on behalf of an agency of the City of Indianapolis or Marion County, shall perform any functions on behalf of Contractor under the contract or agreement with respect to the City, unless the employee's former agency has consented to the employee's performance for Contractor in writing;
- 5.28.3 Has violated any provision of Chapter 293 of the Revised Code of the Consolidated City of Indianapolis and Marion County, regarding the solicitation, negotiation, awarding, or performance of this Agreement;
- 5.28.4 Is currently an official or deputy mayor of, or has appointing authority to, any agency of the City of Indianapolis or Marion County; and
- 5.28.5 Was previously employed by the City of Indianapolis or Marion County within one (1) year of this Agreement and currently has the performance of lobbying activity (as that term is defined in Section 909-101 of this Code) related to an agency or an official as a responsibility of his or her employment or contractual relationship with Contractor.

Violation of this certification shall constitute a material breach of the Agreement and, upon such a violation, City may terminate this Agreement. In addition, upon a violation of this certification, City shall report such violation to the Office of Corporation Counsel who may, at its discretion, debar Contractor from eligibility for future city and/or county purchasing, bids, contracts, and/or projects.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the dates subscribed below.

**CONTRACTOR NAME ("Contractor")**

By: /s/ Derek Cassell Date: 10-31-17  
Printed: Derek Cassell  
Title: President

**MARION COUNTY COMMUNITY CORRECTIONS ("County")**

By: /s/ Tyler Bouma Date: 10-17-17  
Printed: Tyler Bouma  
Title: Executive Director

Approved by the Marion County Community Corrections Advisory Board on \_\_\_\_\_, 2017

By: /s/ Col. Louis Dezelan Date: 10-19-17  
Printed: Colonol Louis A. Dezelan  
Title: Advisory Board Chair

**APPROVED AS TO FORM AND LEGALITY:**

By: /s/ Daniel Altman Date: 10-18-17  
Daniel Altman  
Corporation Counsel

**APPROVED AS TO AVAILABILITY OF FUNDING:**

By: /s/ Fady Qaddoura Date: 12-18-17  
Fady Qaddoura, City Controller  
City of Indianapolis and Marion County

**APPROVED BY INFORMATIONS SERVICES AGENCY:**

By: /s/ Ken Clark Date: 12-13-17  
Ken Clark, Chief Information Officer

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ATTACHMENT A: SCOPE OF SERVICES

1. **General Information:**

- a. Contractor shall provide and maintain equipment necessary for the provision of the services described herein. All Contractor equipment provided under this Agreement shall remain the sole and exclusive property of Contractor. Any Contractor's equipment in County's possession, custody or control shall be used in accordance with the instructions of Contractor
- b. Contractor shall provide County with
  - i. offender monitoring equipment,
  - ii. an appropriate number of employees to install, trouble shoot, and clean equipment and manage the inventory,
  - iii. training services, and
  - iv. any and all necessary reports.
- c. Contractor shall secure local facilities to perform the services described herein. Prior to the beginning of this Agreement, Contractor shall provide to County a list of its local facilities and all pertinent contact information. At County's discretion and if available, Contractor or an approved Subcontractor may use space in the County's office to carry out any or all of the required services under this Agreement. The Contractor shall provide his/her own telephones, internet services, copiers, printers and any other amenities needed to run their program in this space. Either party may modify or end this arrangement with 45 days advance written notice.
- d. The Contractor shall operate its offender tracking software twenty-four (24) hours per day, seven (7) days per week. Modified hours of operation may be arranged, at the discretion of the County, for County holidays. County will provide Contractor with two weeks advanced notice of any modification of the hours of operation.
- e. Contractor shall provide the County with enough electronic monitoring equipment for the County to successfully operate its program. Equipment will be stored and maintained at the Contractor office. The program participant will incur charges in daily increments from the time of equipment installation until the time of the equipment's removal.
- f. County will notify the Contractor's office of the need to perform all equipment installations and removals in order to maintain a correct billing record.
- g. Contractor shall be solely responsible for the cost of all lost, damaged, or stolen equipment. However, County agrees to reasonably assist in the retrieval process of deployed and/or outstanding equipment.
- h. County will use all of the proper paperwork and transmittals that are required in order to properly and efficiently monitor an offender. This includes, but is not limited to, providing complete offender information forms to the Contractor office when requesting that an offender be installed on electronic monitoring.
- i. County will provide Contractor with the permanent schedule to be in effect for the offender while monitored by Contractor.
- j. County will follow up on alert notifications sent by Contractor's National Monitoring Center according to protocol established with the local courts. County will act as the enforcement arm of the program. Contractor will agree to provide any data or reports necessary to assist with the enforcement of violations.
- k. Contractor shall not include County's name in listings of Contractor's customers, without the express written permission of County.
- I. Contractor shall provide a web based system that has the ability to provide data into County's case management system.



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**2. Basic Services**

**a. Installation Services:**

- i. Contractor shall provide GPS and Alcohol Monitoring equipment that will be used by County for offenders ordered into Marion County Community Corrections program by the courts.
- ii. Contractor's personnel will install and issue the appropriate equipment to individuals as directed by County and the courts.
- iii. Equipment installations and removal services will be conducted by Contractor at an agreed upon downtown location during the hours of. 12:00am-11:59pm, Monday-Friday and 8:00am-4:00pm, Saturday & Sunday.
  1. Equipment maintenance will be conducted by Contractor at an agreed upon downtown location during the hours of 12:00am-11:59pm, Monday-Friday and 8:00am-4:00pm, Saturday & Sunday.
  2. Hour for installations, maintenance, and removals will be 8:00am-4:00pm on County holidays.
- iv. Equipment Hook-up: County will receive all new clients from the courts, the Department of Correction, Parole, other counties and jurisdictions. County will notify Contractor via designated agreed upon method (e-mail, phone call) as to new cases. Offenders will then be instructed to report to Contractor's designated location and will then be placed on Contractor's monitoring equipment. Upon receiving notification from County that a new client has been instructed to report to Contractor, and physically retrieving the client from County, Contractor has sixty (60) minutes to complete the hook-up process and to initiate the monitoring process. Contractor shall notify County immediately if a new client does not arrive at Contractor's location in a timely manner.
  1. Contractor shall conduct off-site installations, maintenance, and removals upon request by County management staff. However, County shall make all attempts to have clients report on-site.

**b. Training Services:**

- i. Contractor shall provide the necessary training to County personnel prior to provision of the equipment. If required, Contractor shall provide training to other County personnel at a central facility as the program expands. All trainings provided by Contractor for County staff will be of no cost to County.
- ii. The initial training of County staff will take place no less than one (1) week prior to the start of the transition of offenders to Contractor's equipment. All County managers and designated staff members shall have ample time to prepare for the transition phase and to gain familiarity of Contractor's monitoring services.
- iii. The initial training shall include, but not be limited to the description, specification, installation, limitations and functionality of the following equipment: GPS and alcohol monitoring. The initial training shall cover all possible tamper alerts for equipment as well as troubleshooting minor maintenance issues as related to the equipment.

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- iv. The initial training shall also include:
  - 1) Monitoring Center location, contacts, reporting services;
  - 2) Current offender reports;
  - 3) Web-based monitoring system;
  - 4) Web-based scheduling; and
  - 5) Web-based GPS tracking.
- c. Maintenance Services:
  - i. Contractor shall assume responsibility for all maintenance and troubleshooting of equipment issues. Contractor will provide troubleshooting through Contractor staff at its local office and through its National Monitoring Center.
  - ii. Contractor staff shall be responsible for maintaining the inventory.
  - iii. County will notify Contractor of any equipment problems or issues as they arise. Contractor shall take immediate steps to rectify the situation to the satisfaction of County.
- d. Reports and Reporting Services:
  - i. To obtain report and activity information, Contractor shall ensure that the County is able to access the Contractor software through either a standard computer or laptop connection. The reports shall be capable of being printed for additional officer viewing as needed.
  - ii. Quarterly, at the request of County, Contractor shall provide a copy of an internal Monitoring Center Review of Notifications Report. This report serves to assure that established protocols are being adhered to.
  - iii. The Contractor shall be capable of providing the below-listed special reports.
    - 1) Database Interface: Contractor shall work with MCCC's case management system provider in developing software communication that shall provide a real time exchange of client information of the following:
      - A. Client Schedules
      - B. Any 'note' entered by Contractor staff transferred into County's case management system
      - C. Emergency contact information exchanged
      - D. Violation of electronic monitoring program Alerts
    - 2) Contractor shall work with County to develop additional reports during this term of this Agreement at no additional cost to County.
  - iv. Record Retention: All monitoring activity reports shall remain accessible for a period of five (5) years following initial contract commencement date. Retrieval of current client activity records shall be immediately accessible, while retrieval of records that may have been archived due to substantial completion may require a minimum of seventy-two (72) hours to retrieve and deliver to County personnel. This data and all offender records are property of the County. All records shall be turned over to County at the end 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.**

e.f. Miscellaneous

- i) Violation of Community Corrections Rules Hearings: At the request of County management staff, Contractor shall provide expert testimony to any Court Hearing that is necessary to defend the equipment and the monitoring of the equipment. Contractor shall have senior personnel in Marion County that will be able to testify in Court Hearings. Contractor shall fully comply with this requirement. A breach of this provision may be considered a material breach of this Agreement.
- ii) Contractor shall work with County to determine the level of inventory needed to ensure that all offenders are promptly hooked to his/her specific offender monitoring technology in an expeditious manner. Contractor shall work with County and its other vendors to constantly monitor the inventory levels and adjust the levels based on the need of County and other vendors. At no time will County or other vendors be charged with any shelf inventory. Contractor shall train its local personnel on inventory procedures as it relates to ordering and returning of equipment. Through the Contractor software system County shall be able to review inventory levels at any time.
- iii) Contractor shall provide details as to new hire background checks to County prior to making job offers. Failure to administer proper background checks shall be considered a material breach of this Agreement.
- iv) If requested by County, Contractor shall replace any employee and/or subcontractor providing services to County. Contractor will be afforded the opportunity to meet with County staff to review the request.
- v) Contractor shall bear the cost for all lost, damaged, or stolen equipment along with the retrieval of said equipment.
- vi) Contractor shall abide by all Alerts/Notifications Protocols that have been established by County.
- vii) Contractor shall provide County with Disaster Plans that pertain to the primary monitoring center and one for the Indianapolis-based location.

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**ATTACHMENT B - COMPENSATION TERMS**

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[\*\*] 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.

**Attachment C - Alert Notification and Handling**

**Alert Handling:** Contractor shall adhere to all alert handling protocols established by County in the course of providing services associated with the Agreement.

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Derek Cassell, 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 8, 2018

/s/ Derek Cassell  
Derek Cassell  
Principal Executive Officer

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## 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 8, 2018

/s/ Peter K. Poli

Peter K. Poli

Chief Financial & Principal Accounting Officer

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**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, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Derek Cassell, 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/ Derek Cassell  
Derek Cassell  
Chief Executive Officer  
(Principal Executive Officer)

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

Dated: February 8, 2018

*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.*

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