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

# FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2016

or

**[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ___________

**Commission file number**: 000-23153

## TRACK GROUP, INC.

(Exact name of registrant as specified in its charter)

| Delaware | 87-0543981 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**1215 W. Lakeview Court Romeoville, Illinois 60446**
(Address of principal executive offices, Zip Code)

**(877) 260-2010**
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:** None

**Securities registered pursuant to Section 12(g) of the Act: Common Stock**, $0.0001 par value

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

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

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 [X] 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | [ ] | Non-Accelerated Filer | [ ] |
| Accelerated Filer | [ ] | Smaller Reporting Company | [X] |

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

The aggregate market value of the registrant’s Common Stock held by non-affiliates of the registrant computed by reference to the closing price on March 31, 2016 was $20.6 million. As of December 6, 2016, there were 10,333,516 shares of Common Stock issued and outstanding.

**Track Group, Inc.**
**FORM 10-K**
**For the Fiscal Year Ended September 30, 2016**

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## FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "*Securities Act*") and Section 21E of the Securities Exchange Act of 1934 (the "*Exchange Act*"), as amended, relating to our operations, results of operations, and other matters that are based on our current expectations, estimates, assumptions, and projections. Words such as "may," "will," "should," "likely," "anticipates," "expects," "intends," "plans," "projects," "believes," "estimates," and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties, and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that might not prove to be accurate. Actual outcomes and results could differ materially from what is expressed or forecast in these forward-looking statements. Risks, uncertainties, and other factors that might cause such differences, some of which could be material, include, but are not limited to the factors discussed under the section of this Annual Report entitled "Risk Factors."

## PART I

### Item 1. Business

Track Group, Inc., a Delaware corporation, formerly SecureAlert, Inc., was incorporated in 1995 as a Utah corporation. Our principal place of business is located at 1215 W. Lakeview Court, Romeoville, Illinois 60446. Our telephone number is (877) 260-2010. We maintain a corporate website at www.trackgrp.com. Our common stock, par value $0.0001 ("*Common Stock*"), is currently listed for quotation on the OTCQX Premier marketplace ("*OTCQX*") under the symbol TRCK. Unless specified otherwise, as used in this Form 10-K, "we," "us," "our," "Track Group" or the "Company" refer to Track Group, Inc. and its subsidiaries.

### Company Background

The Company designs, manufactures, and markets location tracking devices and develops and sells a variety of related software, services, accessories, networking solutions, and monitoring applications. The Company's products and services include ReliAlert™ XC3 ®, Shadow™, TrackerPAL™, TrackerPAL Mobile™, a portfolio of software applications including predictive analytics, a device-agnostic operating systems, and a variety of accessory, service and support offerings. In January 2016, the Company announced Shadow™, which is currently available worldwide, and Track Group Analytics™, which became available in late 2015. The Company sells its products worldwide through its direct sales force, as well as through value-added resellers. The Company sells to government customers on federal, state and local levels in the US and to members of the Ministry of Justice (MOJ) Internationally.

### Business Strategy

The Company is committed to increasing public safety by helping its customers improve offender rehabilitation and re-socialization outcomes through its innovative hardware, software and services. The Company treats its business as a service business. Although they still manufacture patented tracking technology, they see the physical goods as only a small part of the integrated offender monitoring solutions they provide. So, rather than receiving a stream of ongoing revenue just for a piece of manufactured equipment, the Company is now receiving a steady stream of revenue for ongoing device agnostic subscription contracts that help make the administration of justice better, faster, and less expensive for taxpayers. As part of its strategy, the Company continues to expand its device-agnostic platform to not only collect, but store, analyze, assess and correlate location data for reasons of both accountability and auditing as well as to use for predictive analytics and assessment of effective and emerging techniques in criminal behavior and rehabilitation. The Company believes a high-quality customer experience with knowledgeable salespersons who can convey the value of the Company's products and services greatly enhances its ability to attract and retain customers. Therefore, the Company's strategy also includes building and expanding its own direct sales force and its third-party distribution network to effectively reach more customers and provide them with a world-class sales and post-sales support experience. The Company believes continual investment in research and development ("*R&D*"), marketing and branding is critical to the development and sale of innovative technologies and integrated solutions.

**Recent Developments**

*Reincorporation to Delaware*

On August 5, 2016 (the "*Effective Date*"), the Company filed the following documents to change its state of incorporation from the State of Utah to the State of Delaware (the "*Reincorporation*"): (i) articles of transfer (the "*Utah Articles of Transfer*") with the Utah Division of Corporations and Commercial Code, and (ii) a certificate of conversion (the "*Delaware Certificate of Conversion*") and a certificate of incorporation (the "*Delaware Certificate of Incorporation*") with the Delaware Division of Corporations. In connection with the Reincorporation, the Company also adopted new bylaws, which became effective on the Effective Date (the "*Delaware Bylaws*"). In addition to the adoption of the Delaware Certificate of Incorporation and the Delaware Bylaws, the following changes took effect as a result of the Reincorporation on the Effective Date:

- the affairs of the Company ceased to be governed by the Utah Revised Business Corporation Act, the Company's Amended and Restated Articles of Incorporation under Utah law and the Company's Amended and Restated Bylaws under Utah law, and the affairs of the Company became subject to the Delaware General Corporation Law, the Delaware Certificate of Incorporation and the Delaware Bylaws;

- each outstanding share of common stock of the Company as incorporated in Utah converted into an outstanding share of common stock of the Company as incorporated in Delaware;

- each outstanding option, right or warrant to acquire shares of common stock of the Company as incorporated in Utah converted to an option, right or warrant to acquire under the same terms and conditions an equal number of shares of common stock of the Company as incorporated in Delaware; and

- the directors and officers of the Company immediately prior to the Reincorporation continued to serve as the directors and officers of the Company following the Reincorporation.

Certain rights of the Company's shareholders changed on the Effective Date as a result of the Reincorporation, which are more fully described in the Company's Definitive Information Statement on Schedule 14C, filed with the Securities and Exchange Commission on July 5, 2016.

The Reincorporation did not involve any change in the business, properties, corporate headquarters or management of the Company and there was no change in the operations, assets, liabilities or obligations of the Company as a result of the Reincorporation.

*Marion County Agreement*

On May 5, 2016, the Company executed an agreement with Marion County Community Corrections (*"Agency"*), the largest county in the state of Indiana, to provide electronic monitoring services across the full range of sentences under the Agency's oversight. Under the terms of the Agreement, the Company will provide solutions based on GPS and alcohol monitoring technology to monitor over 2,300 offenders and defendants. This includes the Company's newest tracking device, Shadow, which is the smallest, lightest and most advanced device. The term of the Agreement is eighteen months, and is expected to contribute over $4.0 million in revenue over the 18 month term of the agreement.

*Conrent Loan Agreement*

On May 1, 2016 we entered into an unsecured Loan Agreement with Conrent Invest S.A., acting with respect to its Compartment Safety III (the *"Conrent Loan Agreement")*. Under the Conrent Loan Agreement, the Company can borrow $5.0 million for working capital, repayment of debt, and operating purposes. The Conrent Loan Agreement contains a condition precedent, which provides that the lender is not obligated to fund the loan until it has received total proceeds of $5.0 million from the sale of fixed rate notes, which are to be issued by the lender through its Compartment Safety III. As of September 30, 2016 this condition precedent has not been satisfied. When funded, the loan will bear interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued unpaid interest due on July 31, 2018. In addition, the Company anticipates paying the lender an arrangement fee of $112,500 when it receives proceeds from this loan. As of September 30, 2016, the Company had not received the funds under the Conrent Loan Agreement.

*Increase in Authorized Common Stock.*

On February 26, 2016, our Board of Directors and the holder of a majority of our outstanding voting stock, acting by written consent, approved an amendment to our Amended and Restated Articles of Incorporation to increase the total number of shares of Common Stock authorized thereunder from 15.0 million shares to 30.0 million.

**Products and Services**

***Devices***

**ReliAlert™XC 3**
ReliAlert™XC3 is the Company's flagship GPS device that sets the standard for reliability and performance in the offender monitoring industry. Advanced features enable agencies to more effectively track offender movements and communicate directly with offenders in real-time, through a patented, on-board two/three-way voice communication technology. This device includes an enhanced GPS antenna and GPS module for higher sensitivity GPS, enhanced voice audio quality, increased battery performance of 50+ hours, 3G cellular capabilities, improved tamper sensory and durability enhancements.

**Shadow™**
Driven by customer demand to improve the performance and affordability of offender tracking devices, Shadow™ is the smallest and lightest device of its kind with a sleek, modern design featuring an enhanced mobile charging capability that makes it easier to use. The device is 3G compliant and fully supported by all global mobility providers.

***Operating System Software***

**TrackerPAL™**
TrackerPAL™ is a secure, cloud-based monitoring system that gives customers the ability to not only collect, but store, analyze, assess and correlate offender data for reasons of both accountability and auditing as well as to use with predictive analytics applications and assess criminal behavior and rehabilitation opportunities.

***Application Software***

**TrackerPAL™ Mobile**
A mobile application of the TrackerPAL™ software is available for Android and iOS devices.

**Data Analytics**
Track Group's data analytics services help facilitate the discovery and communication of meaningful patterns in diverse data that address strategic and tactical information needs. The Company's analytics applications use various combinations of statistical analysis procedures, data and text mining, and predictive modeling to proactively analyze information on community-released offenders to discover hidden relationships and patterns in their behaviors and to predict future outcomes.

**Real-Time Alcohol Monitoring**
BACtrack is the world's first smartphone-based remote alcohol monitoring system. The award-winning BACtrack Mobile integrates a smartphone app and police-grade breathalyzer to bring blood-alcohol content (BAC) wirelessly to a mobile device. We can quickly and easily estimate an enrollee's blood alcohol content (BAC) and track the results over time. The smartphone monitoring application allows supervisors to send scheduled or random notifications to enrollees to take BAC tests, providing photo/location-verified and time stamped results. There's also an onboard calendar reminding an enrollee of court dates, testing dates, medications to take, mandatory events to attend and other matters.

**Victim and Survivor Support**
Track Group's Domestic Violence Smartphone Application creates a mobile geo-zone around a survivor of domestic abuse and communicates with the offender's tracking device – providing an early-warning notification to survivor if they are in proximity of the offender or group of offenders.

***Accessories***

**SecureCuff™**

The SecureCuff™ is a patented, optional accessory available exclusively for ReliAlert™XC3 and is the only uncuttable strap in the industry specifically made for high-risk offenders. SecureCuff™ has encased, hardened steel bands that provide extreme cut-resistance and includes the same fiber-optic technology as the standard strap for tampering notification.

**RF Beacon™**

The Beacon™ is a completely self-contained, short-range transmitting station that provides a Radio Frequency (RF) signal communicating with assigned offender GPS devices to increase the ability to maintain critical offender location information and provide agencies with an effective way to more accurately "tether" an offender to a specific location.

***Product Support and Services***

**Monitoring Center**

The Company's monitoring center provides live 24/7/365 monitoring of all alarms generated from our devices, as well as customer and technical support. Our monitoring center operators play a vital role, and as such, we staff our centers with highly trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery backup and triple redundancy in voice, data, and IP. The Company has established monitoring centers in Salt Lake City, Utah USA, and Santiago, Chile, SA. In addition the Company has assisted in the establishment of monitoring centers for customers and local partners in the Bahamas and in Puerto Rico.

**Customer Care**

The Company offers a range of support options for its customers. These include assistance that is built into software products, printed and electronic product manuals, online support including comprehensive product information as well as technical assistance.

**Research and Development Program**

During the fiscal year ended September 30, 2016, we incurred research and development expense of $2,627,228 compared to those costs recognized during fiscal year 2015 totaling $1,562,566. The $1,064,622 increase in research and development cost reflects costs to (i) streamline our device hardware, therefore expediting manufacturing time, and (ii) enhance both the firmware and software of our devices to improve the overall user experience. As a result of these improvements, $1,949,813 was capitalized as developed technology during the twelve months ended September 30, 2016. A portion of these expenses would have been recognized as research and development expense, absent the software enhancements.

**Competition**

The markets for the Company's products and services are highly competitive and the Company is confronted by aggressive competition in all areas of its business. These markets are characterized by frequent product introductions and technological advances. The Company's competitors who sell tracking devices have aggressively cut prices and lowered their product margins to gain or maintain market share. The Company's financial condition and operating results can be adversely affected by these and other industry-wide downward pressures on gross margins. Principal competitive factors important to the Company include price, product features, relative price/performance, product quality and reliability, design innovation, a strong software ecosystem, service and support and corporate reputation.

The Company is focused on expanding its market opportunities related to offender monitoring. These markets are highly competitive and include many large, well-funded and experienced participants. The Company expects competition in these markets to intensify significantly as competitors attempt to imitate some of the features of the Company's products and applications within their own products or, alternatively, collaborate with third-party providers to offer solutions that are more competitive than those they currently offer. These markets are characterized by aggressive pricing practices, frequent product introductions, evolving design approaches and technologies, rapid adoption of technological and product advancements by competitors and price sensitivity on the part of customers.

The Company's future financial condition and operating results depend on the Company's ability to continue to win large contracts and develop and offer new innovative products and services in the markets in which it competes. The Company believes it offers superior innovation and integration of the entire offender monitoring solution including the hardware (ReliAlert and Shadow), software (TrackerPAL), and applications (Analytics, Domestic Violence, and Alcohol). Some of the Company's current and potential competitors have substantial resources and may be able to provide such products and services at little or no profit or even at a loss to compete with the Company's offerings.

**Dependence on Major Customers**

We had sales to entities, one of which represents more than ten percent of gross revenues as follows for the years ended September 30, 2016 and 2015

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Customer A | $ 7,543,116 | 28% | $ 3,930,167 | 19% |
| Customer B | $ 2,013,929 | 7% | $ - | 0% |
| Customer C | $ 1,449,500 | 5% | $ 1,437,033 | 7% |
| Customer D | $ 1,178,439 | 4% | $ 1,535,203 | 7% |

Concentration of credit risk associated with our total and outstanding accounts receivable as of September 30, 2016 and 2015, respectively, are shown in the table below:

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Customer A | $ 2,476,168 | 36% | $ 1,127,044 | 19% |
| Customer B | $ 899,428 | 13% | $ - | 0% |
| Customer C | $ 1,151,859 | 17% | $ 900,834 | 15% |
| Customer D | $ 512,800 | 7% | $ 498,944 | 8% |

**Dependence on Major Suppliers**

We purchase cellular services from several suppliers. The cost to us for these services during the fiscal years ended September 30, 2016 and 2015 was approximately $790,829 and $718,333, respectively. The 10% increase in cellular service expense in 2016 compared to 2015 resulted from increased costs associated with higher revenue and resulting cost of sales.

During the years ended September 30, 2016 and 2015, we also purchased a significant portion of our inventory and monitoring equipment from certain suppliers. The cost of these purchases was $1,488,515 and $1,095,903, respectively. The 36% increase was due to higher demand for products purchased from these suppliers.

**Intellectual Property**

The Company currently holds rights to patents and copyrights relating to certain aspects of its hardware devices, accessories, software and services. The Company has registered or has applied for trademarks and service marks in the U.S. and a number of foreign countries. Although the Company believes the ownership of such patents, copyrights, trademarks and service marks is an important factor in its business and that its success does depend in part on the ownership thereof, the Company relies primarily on the innovative skills, technical competence and marketing abilities of its personnel.

The Company regularly files patent applications to protect innovations arising from its research, development and design, and is currently pursuing thousands of patent applications around the world. Over time, the Company has accumulated a large portfolio of issued patents around the world. The Company holds copyrights relating to certain aspects of its products and services. No single patent or copyright is solely responsible for protecting the Company's products. The Company believes the duration of its patents is adequate relative to the expected lives of its products.

Many of the Company's products are designed to include intellectual property obtained from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of its products, processes and services. While the Company has generally been able to obtain such licenses on commercially reasonable terms in the past, there is no guarantee that such licenses could be obtained in the future on reasonable terms or at all. Because of technological changes in the industries in which the Company competes, current extensive patent coverage and the rapid rate of issuance of new patents, it is possible that certain components of the Company's products, processes and services may unknowingly infringe existing patents or intellectual property rights of others. From time to time, the Company has been notified that it may be infringing certain patents or other intellectual property rights of third parties.

Trademarks. We have developed and use trademarks in our business, particularly relating to our corporate and product names. We own 11 trademarks that are registered with the United States Patent and Trademark Office, plus one trademark registered in Mexico and one in Canada. In addition, we have one trademark registered in Europe.

We will file additional applications for the registration of our trademarks in foreign jurisdictions as our business expands under current and planned distribution arrangements. Protection of registered trademarks in some jurisdictions may not be as extensive as the protection provided by registration in the United States.

The following table summarizes our trademark registrations and applications:

| Trademark | Application Number | Registration Number | Status/ Next Action |
|---|---|---|---|
| Mobile911 Siren with 2-Way Voice Communication & Design® | 76/013,886 | 2,595,328 | Registered |
| PAL Services® | 78/514,514 | 3,100,192 | Registered |
| TrackerPAL® | 78/843,035 | 3,345,878 | Registered |
| Mobile911® | 78/851,384 | 3,212,937 | Registered |
| TrackerPAL® | CA 1,315,487 | 749,417 | Registered |
| TrackerPAL® | MX 805,365 | 960954 | Registered |
| Foresight® | 77/137/822 | 3481509 | Registered |
| ReliAlert™ | 85/238,049 | 4200738 | Registered |
| HomeAware™ | 85/238,064 | 4111064 | Registered |
| SecureCuff™ | 85/238,058 | 4271621 | Registered |
| TrueDetect™ | 85/237,202 | 4365120 | Registered |
| SecureAlert™ | 86/031,550 | 4623370 | Registered |
| TrackGroup™ | 86/301716 | 4701636 | Registered |
| Track Group™ and Design | 86/469103 | 4793747 | Registered |
| Track Group™ and Design | 1257077 | 1257077 | Registered |

*Patents*. We have 21 patents issued and two patents pending in the United States. At foreign patent offices we have seven patents issued and 16 patents pending. We are also preparing patents that will be filed in other countries in the coming year.

The following tables summarize information regarding our patents and patent applications. There is no assurance given that the pending applications will be granted or that they will, if granted, contain all of the claims currently included in the applications.

| US Patents | Application Serial No. | Date Filed | Patent No. | Issue Date |
|---|---|---|---|---|
| Remote Tracking and Communication Device | 11/202427 | 10-Aug-05 | 7330122 | 12-Feb-08 |
| Remote Tracking and Communications Device | 12/028088 | 8-Feb-08 | 7804412 | 28-Sep-10 |
| Remote Tracking and Communications Device | 12/875,988 | 3-Sep-10 | 8031077 | 4-Oct-11 |
| Alarm and Alarm Management System for Remote Tracking Devices | 11/486992 | 14-Jul-06 | 7737841 | 15-Jun-10 |
| Alarm and Alarm Management System for Remote Tracking Devices | 12/792,572 | 2-Jun-10 | 8013736 | 6-Sep-11 |
| A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between the Device and a Monitoring Center | 11/486989 | 14-Jul-06 | 8797210 | 5-Aug-14 |
| A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between the Device and a Monitoring Center | 14/323,831 | 3-Jul-14 | 9491289 | 8-Nov-16 |
| A Remote Tracking System with a Dedicated Monitoring Center | 11/486976 | 14-Jul-06 | 7936262 | 3-May-11 |
| Remote Tracking System and Device With Variable Sampling and Sending Capabilities Based on Environmental Factors | 11/486991 | 14-Jul-06 | 7545318 | 9-Jun-09 |
| Tracking Device Incorporating Enhanced Security Mounting Strap | 12/818,453 | 18-Jun-10 | 8,514,070 | 20-Aug-13 |
| Tracking Device Incorporating Cuff with Cut Resistant Materials | 14/307,260 | 17-Jun-14 | 9129504 | 8-Sep-15 |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device | 12/399151 | 6-Mar-09 | 8232876 | 31-Jul-12 |
| Panic Button Phone | 09/044497 | 19-Mar-98 | 6044257 | 28-Mar-00 |
| Emergency Phone for Automatically Summoning Multiple Emergency Response Services | 09/173645 | 16-Oct-98 | 6226510 | 1-May-01 |
| Combination Emergency Phone and Personal Audio Device | 09/185191 | 3-Nov-98 | 6285867 | 4-Sep-01 |
| Emergency Phone with Single-Button Activation | 11/174191 | 30-Jun-05 | 7251471 | 31-Jul-07 |
| Biometric Identification System Using Pulse Waveform (PWId) | 13/079,219 | 4-Apr-11 | 8,773,239 | 8-Jul-14 |
| Breath Alcohol Sampling System With Spirometric Client Identity Confirmation (Breath Print) | 13/169,603 | 27-Jun-11 | 9,192,324 | 24-Nov-15 |
| System for Biometric Identity Confirmation (BPWId) | 13/739,224 | 11-Jan-13 | 9,274,509 | 1-Mar-16 |
| System for Biometric Identity Confirmation (U-Key) | 13/706,610 | 6-Dec-12 | TBD | Allowed |
| Biometric Identification System Using Pulse Waveform (PWId CIP) | 13/916,818 | 13-Jun-13 | 9,223,298 | 29-Dec-15 |
| Removable Tamper-Resistant Breath Alcohol Sampling System | 14/729,361 | 3-Jun-15 | | Pending |
| System for Biometric Identity Confirmation | 15/051,935 | 16-Jun-16 | | Pending |

| International Patents | Application Serial No. | Date Filed | Patent No. | Issue Date |
|---|---|---|---|---|
| Remote Tracking and Communication Device - Brazil | PI0614742.9 | 4-Aug-06 | | Pending |
| Remote Tracking and Communication Device - Canada | 2617923 | 4-Aug-06 | 2617923 | 7-Jun-16 |
| Remote Tracking and Communication Device - Mexico | MX/a/2008/001932 | 4-Aug-06 | 278405 | 24-Aug-10 |
| A Remote Tracking System with a Dedicated Monitoring Center - EPO | 07812596.0 | 3-Jul-07 | | Pending |
| A Remote Tracking System with a Dedicated Monitoring Center - Brazil | PI0714367.2 | 3-Jul-07 | | Pending |
| Secure Strap Mounting System For an Offender Tracking Device - EPO | 10009091.9 | 9-Jan-10 | | Pending |
| Secure Strap Mounting System For an Offender Tracking Device - Brazil | PI11001593 | 28-Feb-11 | | Pending |
| Secure Strap Mounting System For an Offender Tracking Device - Mexico | MX/a/2011/002283 | 28-Feb-11 | 319057 | 4-Apr-14 |
| Secure Strap Mounting System For an Offender Tracking Device - Mexico - DIV | MX/a/2013/12524 | 28-Feb-11 | | Pending |
| Secure Strap Mounting System For an Offender Tracking Device - Canada | 2732654 | 25-Oct-13 | | Pending |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Brazil | PI0909172-6 | 1-Sep-10 | | Pending |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Canada | 2717866 | 3-Sep-10 | 2717866 | 17-May-16 |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - EPO | 09 716 860.3 | 6-Oct-10 | 2260482 | 9-Jan-13 |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - United Kingdom | Refer to EP Patent # 2260482 | | | |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Mexico | MX/a/2010/009680 | 2-Sep-10 | 306920 | 22-Jan-13 |
| System for Biometric Identity Confirmation - Australia | 2012-240307 | 3-Apr-12 | | Pending |
| System for Biometric Identity Confirmation - Canada | 2,832,315 | 3-Apr-12 | | Pending |
| System for Biometric Identity Confirmation - Israel | 228,691 | 3-Apr-12 | | Pending |
| System for Biometric Identity Confirmation - Europe | 12-768-677.2 | 3-Apr-12 | | Pending |
| Biometric Identification System Using Pulse Waveform - Australia | 2014278558 | 5-Jun-14 | | Pending |
| Biometric Identification System Using Pulse Waveform - Canada | 2,915,265 | 3-Apr-12 | | Pending |
| Biometric Identification System Using Pulse Waveform - Israel | 228,691 | 3-Apr-12 | | Pending |
| Biometric Identification System Using Pulse Waveform - Europe | 12-768-677.2 | 3-Apr-12 | | Pending |

*Trade Secrets*. We own certain intellectual property, including trade secrets that we seek to protect, in part, through confidentiality agreements with employees and other parties. Even where these agreements exist, there can be no assurance that these agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known to or independently developed by competitors.

We intend to protect our legal rights concerning intellectual property by all appropriate legal action. Consequently, we may become involved from time to time in litigation to determine the enforceability, scope, and validity of any of the foregoing proprietary rights. Any patent litigation could result in substantial cost and divert the efforts of management and technical personnel.

**Seasonality**

Given the consistency in recurring domestic monitoring revenues by customers throughout 2016, we detected no apparent seasonality in our business. However, as in previous years, incremental domestic device deployment opportunities typically slow down in the months of July and August. We believe this is due to the unavailability of judicial and corrections officials who observe a traditional vacation season during this period.

**Employees**

As of November 25, 2016, we had 223 full-time employees and 10 part-time employees. None of the employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and management believes that relations with employees are good.

**Additional Available Information**

We make available, free of charge, at our corporate website copies of our annual reports filed with the United States Securities and Exchange Commission ("*SEC*") on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and all amendments to these reports, as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Exchange Act. We also provide copies of our Forms 8-K, 10-K, 10-Q, and proxy statements at no charge to investors upon request.

All reports filed by us with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we have filed with the SEC at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549.

**Item 1A. Risk Factors**

Our business is subject to significant risks. You should carefully consider the risks described below and the other information in this Annual Report on Form 10-K, including our financial statements and related notes, before you decide to invest in our Common Stock. If any of the following risks or uncertainties actually occurs, our business, results of operations or financial condition could be materially harmed, the trading price of our Common Stock could decline and you could lose all or part of your investment. The risks and uncertainties described below are those that we currently believe may materially affect us; however, they may not be the only ones that we face. Additional risks and uncertainties of which we are unaware or currently deem immaterial may also become important factors that may harm our business. Except as required by law, we undertake no obligations to update any risk factors.

**Risks Related to Our Business, Operations and Industry**

***We face risks related to our substantial indebtedness, including the risk related to the repayment of our short-term indebtedness.***

As of September 30, 2016, we had $34,000,319 of indebtedness outstanding, of which approximately $3,468,705 becomes due and payable within the next 12 months. Our significant indebtedness could adversely affect our ability to raise additional capital to fund our operations, make interest payments as they come due, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our outstanding debt instruments. As a result, we may have to raise additional capital or restructure such indebtedness during the next 12 months, and no assurances can be given that we may be successful in that regard.

***Our high degree of leverage could have adverse consequences to us, including:***

- making it more difficult for us to make payments on our debt;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged.

***We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

***If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness.***

These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity difficulties and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions or the proceeds that we realize from them may not be adequate to meet the debt service obligations then due.

***There is no certainty that the market will continue to accept or expand the use of our products and services.***

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

***Budgetary issues faced by government agencies could adversely impact our future revenue.***

Our revenues are primarily derived from contracts with state, local and county government agencies in the United States and governments of Caribbean and Latin American nations. Many of these government agencies are experiencing budget deficits and may continue to do so. As a result, we may experience delays in payment on customer invoices, the amount spent by our current clients on equipment and services that we supply may be reduced or grow at rates slower than anticipated, and it may be more difficult to attract additional government clients. Furthermore, the industry has experienced a general decline in average daily lease rates for GPS tracking devices. As a result of these factors, our ability to maintain or increase our revenues may be negatively affected.

***Certain individuals and groups own or control a significant number of our outstanding shares.***

Certain groups or persons beneficially own a substantial number of shares of our outstanding Common Stock or securities and debt instruments. As a result, these persons have the ability, acting as a group, to effectively control our affairs and business, including the election of our directors and, subject to certain limitations, of fundamental corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change of control or making other transactions more difficult or impossible without their support. In addition, these equity holders may have an interest in pursuing acquisitions, divestitures, financing or other transactions that, in their judgment, could enhance their equity investments, even though such transactions may involve significant risk to us or our other shareholders. Additionally, they may make investments in businesses that directly or indirectly compete with us, or may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

***We were without a chief financial officer subsequent to the end of the fiscal year and were dependent upon the services of our senior management team; the failure to retain members of our senior management team could adversely affect our operations.***

We are dependent on the services, abilities and experience of our executive officers. The permanent loss of the services of any of these senior executives and any change in the composition of our senior management team may have a negative impact on our ability to execute on our business and operating strategies. In addition, in September 2016, our chief financial officer’s employment was terminated and his successor resigned for personal reasons as of November 15, 2016. Mr. Guy Dubois, our current chief executive officer, will execute the responsibilities of the Company’s principal financial and accounting officer until a new chief financial officer begins work on January 6, 2017. A failure to retain senior management could negatively affect our operations, and challenge our ability to obtain financing.

***The lack of segregation between our principal executive officer and principal accounting and financial officer may cause our internal controls over financial reporting to be ineffective.***

As a result of the resignation of our Chief Financial Officer, our Chief Executive Officer now acts as both our principal executive officer and principal financial and accounting officer. This has caused a lack of segregation between the duties typically assigned to the principal executive officer and principal financial and accounting officer and may lead to inadequate supervision within the bookkeeping and accounting operations of the Company, which could give rise to lack of proper internal controls over financial reporting, which, in turn, would cause our internal controls over financial reporting to be ineffective. If we are unable to maintain effective internal control over financial reporting or implement controls sufficient to provide reasonable assurance with respect to the preparation and fair presentation of our financial statements, we could be unable to file accurate financial reports on a timely basis, which may have an impact on our results of operations. We have hired a new chief financial officer who will formally join the Company on January 6, 2017 and assume the role of principle financial and accounting officer.

***We rely on significant suppliers for key products and cellular access. If we do not renew these agreements when they expire we may not continue to have access to these suppliers’ products or services at favorable prices or in volumes as we have in the past, which could adversely affect our results of operations or financial condition.***

We have entered into an agreement with three national providers for cellular services. We also rely currently on a single source for the large majority of the manufacturing of our products. If any of these significant suppliers were to cease providing products or services to us, we would be required to seek alternative sources. No assurances can be provided that alternate sources could be located or that the delay or additional expense associated with locating alternative sources for these products or services would not materially and adversely affect our business and financial condition.

***Our research, development and marketing activities are subject to government regulations. The cost of compliance or the failure to comply with these regulations could adversely affect our business, results of operations and financial condition.***

Our products and services are not subject to specific approvals from any governmental agency, although our products using cellular and GPS technologies for use in the United States or internationally must be manufactured in compliance with applicable rules and regulations of specific governmental agencies. There can be no assurance that changes in the legal or regulatory framework or other subsequent developments will not result in limitation, suspension or revocation of regulatory approvals granted to us. Any such events, were they to occur, could have a material adverse effect on our business, financial condition and results of operations. We may be required to comply with regulations for manufacturing practices, which mandate procedures for extensive control and documentation of product design, control and validation of the manufacturing process and overall product quality. If we, our management or our third-party manufacturers fail to comply with applicable regulations regarding these manufacturing practices, we could be subject to a number of sanctions, including fines, injunctions, civil penalties, delays, suspensions or withdrawals of market approval, seizures or recalls of product, operating restrictions and, in some cases, criminal prosecutions.

***We face intense competition, including competition from entities that are more established and may have greater financial resources than we do, which may make it difficult for us to establish and maintain a viable market presence.***

Our current and expected markets are rapidly changing. Although we believe our technology has advantages over competing systems, there can be no assurance that those advantages are significant. Many of our competitors have products or techniques approved or in development and operate large, well-funded research and development programs in the field. Moreover, competitors may be in the process of developing technology that could be developed more quickly or be ultimately more effective than our products. There can be no assurance that our competitors will not develop more effective or more affordable products, or achieve earlier patent protection or product commercialization.

***We are dependent upon certain customers, the loss of which may adversely affect our results of operations and business condition.***

During fiscal year 2016, four of our customers in aggregate accounted for 45% of total sales. The loss of any of these customers may have a material adverse effect on our business (See Note 2 and Note 13 to the Consolidated Financial Statements).

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

There can be no assurance that our research and development efforts will be successful. In addition, the technology which we integrate or that we may expect to integrate with our product and service offerings is rapidly changing and developing. We face risks associated with the possibility that our technology may not function as intended and the possible obsolescence of our technology and the risks of delay in the further development of our own technologies. Cellular coverage is not uniform throughout our current and targeted markets. GPS technology depends upon "line-of-sight" access to satellite signals used to locate the user, which, under some circumstances may limit the effectiveness of GPS tracking.

***We face risks of litigation and regulatory investigation and actions in connection with our operations.***

Lawsuits, including regulatory actions, may seek recovery of large, indeterminate amounts or otherwise limit our operations, and their existence and magnitude may remain unknown for substantial periods of time. Relevant authorities in the markets in which we operate may investigate us in the future. These investigations may result in significant penalties in multiple jurisdictions, and we may become involved in disputes with private parties seeking compensation for damages resulting from the relevant violations. Such legal liability or regulatory action could have a material adverse effect on our business, results of operations, financial condition, cash flows, reputation and credibility. In addition, our business activities are subject to various governmental regulations in countries where we operate, which include investment approvals, export regulations, tariffs, antitrust, anti-bribery, intellectual property, consumer and business taxation, foreign trade, exchange controls, and environmental and recycling requirements. These regulations limit, and other new or amended regulations may further limit, our business activities or increase operating costs. In addition, the enforcement of such regulations, including the imposition of fines or surcharges for violation of such regulations, may adversely affect our results of operations, financial condition, cash flows, reputation and credibility.

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

We believe that our success depends in part on our ability to obtain and enforce patents, maintain trade secrets and operate without infringing on the proprietary rights of others, both in the United States and in other countries. Our inability to obtain or to maintain patents on our key products could adversely affect our business. We currently own 23 patents issued and have filed and intend to file additional patent applications in the United States and in key foreign jurisdictions relating to our technologies, improvements to those technologies and for specific products we may develop. There can be no assurance that patents will issue on any of these applications or that, if issued, any patents will not be challenged, invalidated or circumvented. The enforcement of patent rights can be uncertain and involve complex legal and factual questions. The scope and enforceability of patent claims are not systematically predictable with absolute accuracy. The strength of our own patent rights depends, in part, upon the breadth and scope of protection provided by the patent and the validity of our patents, if any.

Our success will also depend, in part, on our ability to avoid infringing the patent rights of others. We must also avoid any material breach of technology licenses we may enter into with respect to our new products and services. Existing patent and license rights may require us to alter the designs of our products or processes, obtain licenses or cease certain activities. If patents have been issued to others that contain competitive or conflicting claims and such claims are ultimately determined to be valid and superior to our own, we may be required to obtain licenses to those patents or to develop or obtain alternative technology. If any licenses are required, there is no assurance given that we will be able to obtain any necessary licenses on commercially favorable terms, if at all. Any breach of an existing license or failure to obtain a license to any technology that may be necessary in order to commercialize our products may have a material adverse impact on our business, results of operations and financial condition.

We also rely on trade secrets laws to protect portions of our technology for which patent protection has not yet been pursued or is not believed to be appropriate or obtainable. These laws may protect us against the unlawful or unpermitted disclosure of any information of a confidential and proprietary nature, including but not limited to our know-how, trade secrets, methods of operation, names and information relating to vendors or suppliers and customer names and addresses. We seek to protect this un-patentable and unpatented proprietary technology and processes, in addition to other confidential and proprietary information in part, by entering into confidentiality agreements with employees, collaborative partners, consultants and certain contractors. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, or that our trade secrets and other confidential and proprietary information will not otherwise become known or be independently discovered or reverse-engineered by competitors.

***We conduct business internationally with a variety of sovereign governments.***

Our business is subject to a variety of regulations and political interests that could affect the timing of payment for services and the duration of our contracts. We face the risk of systems interruptions and capacity constraints, possibly resulting in adverse publicity, revenue loss and erosion of customer trust. The satisfactory performance, reliability and availability of our network infrastructure are critical to our reputation and our ability to attract and retain customers and to maintain adequate customer service levels. In addition, because our customers in these foreign jurisdictions are sovereign governments or governmental departments or agencies, it may be difficult for us to enforce our agreements with them in the event of a breach of those agreements, including, but not limited to, the failure to pay for services rendered or to complete projects that we have commenced.

***We may experience temporary service interruptions for a variety of reasons, including telecommunications or power failures, fire, water damage, vandalism, computer bugs or viruses, malicious cyber-attacks or hardware failures.***

Any service interruption that results in the unavailability of our system or reduces its capacity could result in real or perceived public safety issues that may affect customer confidence in our services. Historically, we have experienced temporary interruptions of telecommunications or power outages, which were promptly mitigated. Such instances may result in loss of customer accounts or similar problems if they occur again in the future. Given rapidly changing technologies, we are not certain that we will be able to adapt the use of our services to permit, upgrade, and expand our systems or to integrate smoothly with new technologies. Network and information systems and other technologies are critical to our business activities. Network and information systems-related events, including those caused by us, our service providers or by third parties, such as computer hacking, cyber-attacks, computer viruses, or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities or any combination of the foregoing could result in a degradation or disruption of our services. These types of events could result in a loss of customers and large expenditures to repair or replace the damaged properties, networks or information systems or to protect them from similar events.

## Risks Related to Acquisitions

***The success of our business depends on achieving our strategic objectives, including acquisitions, dispositions and restructurings.***

Our acquisitions, as well as potential restructuring actions, may not achieve expected returns and other benefits as a result of various factors, including integration and collaboration challenges, such as personnel and technology. In addition, we may not achieve anticipated cost savings from restructuring actions, which could result in lower operating margins. If we decide to sell assets or a business, we may encounter difficulty in finding buyers or alternative exit strategies on acceptable terms in a timely manner, which could delay the accomplishment of our strategic objectives. After reaching an agreement with a buyer or seller for the acquisition or disposition of a business, we are subject to satisfaction of pre-closing conditions as well as to necessary regulatory and governmental approvals on acceptable terms, which may prevent us from completing the transaction.

***We may not be able to grow successfully through our recent acquisitions or through future acquisitions, we may not successfully manage future growth, and we may not be able to effectively integrate businesses that we may acquire.***

We plan to continue to grow organically as well as through strategic acquisitions of other businesses. In order to complete acquisitions, we would expect to require additional debt and/or equity financing, which may increase our interest expense, leverage, and increase the number of shares outstanding. Businesses that we acquire may not perform as expected. Future revenues, profits and cash flows of an acquired business may not materialize due to the failure or inability to capture expected synergies, increased competition, regulatory issues, changes in market conditions, or other factors beyond our control. In addition, we may not be successful in integrating these acquisitions into our existing operations. Competition for acquisition opportunities may escalate, increasing our cost of making further acquisitions or causing us to refrain from making additional acquisitions. Additional risks related to acquisitions include, but are not limited to:

- the potential disruption of our existing business;
- entering new markets or industries in which we have limited prior experience;
- difficulties integrating and retaining key management, sales, research and development, production and other personnel or diversion of management attention from ongoing business concerns to integration matters;
- difficulties integrating or expanding information technology systems and other business processes or administrative infrastructures to accommodate the acquired businesses;
- complexities associated with managing the combined businesses due to multiple physical locations;
- risks associated with integrating financial reporting and internal control systems; and
- whether any necessary additional debt or equity financing will be available on terms acceptable to us, or at all, and the impact of such financing on our operating performance and results of operations.

## Risks Related to International Operations

***We are exposed to fluctuations in currency exchange rates.***

Our financial results are reported in U.S. dollars, but operations are conducted internationally. Currency exchange rates have, and may continue to have, a significant impact on our operating results. The Company does not utilize hedging techniques to minimize its exposure. As a result, an investment in our Common Stock may expose shareholders to fluctuations in exchange rates.

***The dollar cost of our operations internationally could increase to the extent of increases or decreases in the rate of inflation or devaluation in relation to the dollar, which may harm our results of operations.***

The dollar cost of our international operations is expected to be influenced by any increase in inflation or is not offset by the devaluation of the local currency in relation to the dollar. As a result, we are exposed to the risk that foreign currencies will appreciate in relation to the dollar. We cannot predict whether the foreign currencies will appreciate or depreciate against the dollar in the future.

***International political, economic and military instability may impede our ability to execute our plan of operations.***

Political, economic and military conditions internationally may affect our business. We cannot predict whether or in what manner these problems may occur. Acts of random terrorism periodically occur which could affect our operations or personnel. Ongoing or revived hostilities or other factors could harm our operations and could impede our ability to execute our plan of operations. Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products. In addition, our business insurance may not cover losses that may occur as a result of events associated with the security situation. Any losses or damages incurred by us could have a material adverse effect on our business and financial condition.

**Risks Related to Our Common Stock**

***Our largest shareholder's beneficial ownership is over 50%, and is therefore able to exert control over us, which may limit your ability to influence corporate matters.***

Sapinda Asia Limited and Mr. Lars Windhorst (collectively "*Sapinda Asia*") beneficially own more than 50% of the outstanding voting securities of the Company. As a result, Sapinda Asia will control the outcome of any shareholders' meeting for the foreseeable future, including having the power to determine the composition of our board of directors and control the outcome of the voting on any significant corporate transactions or other matters submitted to our shareholders for approval. The interests of Sapinda Asia may not be aligned with or be in the best interests of other shareholders. This concentration of voting power could also have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to other shareholders.

***Our Board of Directors may authorize the issuance of preferred stock and designate rights and preferences that will dilute the ownership and voting interests of existing shareholders without their approval.***

Our Articles of Incorporation authorize us to issue up to 20,000,000 shares of preferred stock, par value $0.0001. The Board of Directors is authorized to designate, and to determine the rights and preferences of any series or class of preferred stock. The Board of Directors may, without shareholder approval, issue shares of preferred stock with dividend, liquidation, conversion, voting or other rights which are senior to the Common Stock or which could adversely affect the voting power or other rights of the existing holders of outstanding shares of preferred stock or Common Stock. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of the Common Stock and reduce the likelihood that common shareholders will receive dividend payments and payments upon liquidation. The issuance of additional shares of preferred stock may also adversely affect an acquisition or change in control of the Company. As of September 30, 2016, there were no outstanding shares of preferred stock issued or contemplated for issuance.

***Sales by certain of our shareholders of a substantial number of shares of our Common Stock in the public market could adversely affect the market price of our Common Stock.***

A large number of outstanding shares of our Common Stock are held by several of our principal shareholders. If any of these principal shareholders were to decide to sell large amounts of stock over a short period of time such sales could cause the market price of our Common Stock to decline.

***A decline in the price of our Common Stock could affect our ability to raise additional working capital and adversely impact our operations and would severely dilute existing or future investors if we were to raise funds at lower prices.***

A prolonged decline in the price of our Common Stock could result in a reduction of our ability to raise capital. Because our operations have been financed in part through the sale of equity securities, a decline in the price of our Common Stock could be especially detrimental to our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If our stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations. We believe the following factors could cause the market price of our Common Stock to continue to fluctuate widely:

- actual or anticipated variations in our interim or annual results;
- announcements of new services, products, acquisitions or strategic relationships within the industry;
- changes in accounting treatments or principles;
- changes in earnings estimates by securities analysts and in analyst recommendations; and
- general political, economic, regulatory and market conditions.

Any failure to meet these expectations, even if minor, could materially adversely affect the market price of our Common Stock.

***If we issue additional shares of Common Stock in the future, it will result in the dilution of our existing shareholders.***

Our Articles of Incorporation authorize the issuance of 30,000,000 shares of Common Stock. Our Board of Directors has the authority to issue additional shares of Common Stock up to the authorized capital stated in the Articles of Incorporation. The issuance of any such shares of Common Stock will result in a reduction in value of our outstanding Common Stock. If we do issue any such additional shares of Common Stock, such issuance also will cause a reduction in the proportionate ownership and voting power of all other shareholders. Further, any such issuance may result in a change of control of the Company.

***Trading of our Common Stock may be volatile and sporadic, which could depress the market price of our Common Stock and make it difficult for our shareholders to resell their shares.***

There is currently a limited market for our Common Stock and the volume of our Common Stock traded on any day may vary significantly from one day to the other. Our Common Stock is quoted on the OTCQX. Trading in stock quoted on the OTCQX is often thin, volatile, and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with the issuer's operations, results or business prospects. The availability of buyers and sellers represented by this volatility could lead to a market price for our Common Stock that is unrelated to operating performance. Moreover, the OTCQX is not a stock exchange, and trading of securities quoted on the OTCQX is often more volatile than the trading of securities listed on a stock exchange like NASDAQ or NYSE:MKT.

## Item 2. Properties

Our headquarters is approximately 4,200 square feet of commercial office space located at 1215 Lakeview Court, Romeoville, Illinois. The original lease for this office space began on August 1, 2014 and expires on July 31, 2017. An amendment and expansion to the original lease began on December 18, 2014 and expires on July 31, 2017. Combined monthly lease payments are approximately $6,000 per month.

Our primary monitoring facility is housed in approximately 8,600 square feet of commercial office space located at 405 South Main Street, Suite 700, Salt Lake City, Utah. Lease payments are approximately $15,200 per month. This lease expires on August 31, 2017.

We lease commercial office space in Indianapolis, Indiana of approximately 2,000 square feet, which began on August 1, 2014 and terminating on July 31, 2016. Lease payments are approximately $3,600 per month. In addition, we lease a second location with approximately 2,000 square feet in Indianapolis, Indiana. This lease was executed on January 1, 2014 and expires on December 31, 2018. Monthly lease payments for this facility are approximately $3,200.

Track Group Analytics, Inc. operations are located in approximately 4,200 square feet of office space in Bedford, Nova Scotia, Canada. The lease for this office space began on July 1, 2015 and expires on June 30, 2020. Monthly lease payments are approximately $5,600.

## Item 3. Legal Proceedings

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

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

Larry C. Duggan v. Court Programs of Florida, Inc. and SecureAlert, Inc. On March 26, 2012, Mr. Duggan filed a complaint in the 9th Circuit Court in and for Orange County, Florida alleging malicious prosecution, abuse of process and negligent infliction of emotional distress against the Company and its subsidiary. The case resulted from actions of a former agent of the Company's subsidiary. The Company continues to defend itself in this matter. A trial date has been set for January 3, 2017. The Company has not accrued any potential loss as the probability of incurring a material loss is deemed remote by management, after consultation with outside legal counsel.

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

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016 the Company filed a complaint in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas. We believe we will be successful in this action to recover the unpaid balance and interest under the loan agreement and promissory note.

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

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

# PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

### *Market Information*

Our Common Stock is traded on the OTCQX under the symbol "TRCK." The following table sets forth the range of high and low sales prices of our Common Stock as reported on the OTCQX for the periods indicated.

| **Fiscal Year Ended September 30, 2016** | **High** | **Low** |
|---|---|---|
| First Quarter ended December 31, 2015 | **$ 9.50** | **$ 2.00** |
| Second Quarter ended March 31, 2016 | $ 9.00 | $ 3.15 |
| Third Quarter ended June 30, 2016 | $ 6.75 | $ 2.60 |
| Fourth Quarter ended September 30, 2016 | $ 8.45 | $ 3.51 |

| **Fiscal Year Ended September 30, 2015** | **High** | **Low** |
|---|---|---|
| First Quarter ended December 31, 2014 | $ 17.50 | $ 12.30 |
| Second Quarter ended March 31, 2015 | $ 14.99 | $ 10.05 |
| Third Quarter ended June 30, 2015 | $ 11.99 | $ 9.10 |
| Fourth Quarter ended September 30, 2015 | $ 10.50 | $ 7.10 |

### *Holders*

As of November 21, 2016 we had 1,001 holders of record of our Common Stock and 10,333,516 shares of Common Stock outstanding. We also have granted options and warrants for the purchase of 504,991 shares of Common Stock.

### *Dividends*

Since incorporation, we have not declared any cash dividends on our Common Stock. We do not anticipate declaring cash dividends on our Common Stock for the foreseeable future. The Series D Preferred is entitled to dividends at the rate equal to 8% per annum calculated on the purchase amount actually paid for the shares or amount of debt converted. The dividend is payable in cash or shares of Common Stock at the sole discretion of the Board of Directors. All dividends payable on our preferred stock outstanding have been paid by issuance of shares of common or preferred stock. At September 30, 2016, there were no shares of Series D Preferred issued and outstanding, as the remaining shares of Series D Preferred were repurchased during fiscal 2014. As a result, during the fiscal years ended September 30, 2016 and 2015, we recorded zero dividend expenses, payable with respect to our outstanding preferred stock.

### *Dilution*

The Board of Directors determines when and under what conditions and at what prices to issue stock. In addition, a significant number of shares of Common Stock are reserved for issuance upon exercise of outstanding options and warrants and achievement of certain milestones contained in acquisition agreements.

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

***Transfer Agent and Registrar***

The transfer agent and registrar for our Common Stock is American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York, 11219.

***Securities Authorized for Issuance under Equity Compensation Plans***

*The 2012 Stock Incentive Plan*

The Company's 2012 Equity Compensation Plan, as amended (the "*2012 Plan*"), was first approved by our Board of Directors and shareholders at the Annual Meeting of Shareholders held on December 21, 2011, and amended following our Annual Meeting of Shareholders on May 19, 2015. We believe that incentives and stock-based awards focus and align employees on the objective of creating shareholder value and promoting the success of the Company, and that incentive compensation plans like the 2012 Plan are an important attraction, retention and motivation tool for participants in the plan.

Under the 2012 Plan, up to 803,262 options or shares of Common Stock may be awarded. As of the date of this report, 135,012 shares of Common Stock and options for the purchase of 365,743 shares of Common Stock have been awarded under the 2012 Plan.

The following table includes information as of September 30, 2016 for our equity compensation plans:

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 365,743 | $ 10.35 | 668,250 |
| Equity compensation plans not approved by security holders | - | - | - |
| Total | 365,743 | $ 10.35 | 668,250 |

**Recent Sales of Unregistered Securities**

No securities were issued without registration under the Securities Act during the fiscal year ended September 30, 2016, nor were any securities issued subsequent to September 30, 2016.

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

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act. All statements contained in this Annual Report on Form 10-K other than statements of historical fact are forward-looking statements. When used in this report or elsewhere by management from time to time, the words "believe," "anticipate," "intend," "plan," "estimate," "expect," "may," "will," "should," "seeks" and similar expressions are forward-looking statements. Such forward-looking statements are based on current expectations, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors. For a more detailed discussion of such forward-looking statements and the potential risks and uncertainties that may impact upon their accuracy, see Item 1A., "Risk Factors" in Part I of this Form 10-K and the "Overview" and "Liquidity and Capital Resources" sections of this Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations." These forward-looking statements reflect our view only as of the date of this report. Except as required by law, we undertake no obligations to update any forward-looking statements. Accordingly, you should also carefully consider the factors set forth in other reports or documents that we file from time to time with the SEC.*

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("*MD&A*") is intended to help the reader better understand Track Group, our operations and our present business environment. Our fiscal year ends on September 30 of each year. Reference to fiscal year 2016 refers to the year ended September 30, 2016. This MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements for the fiscal years ended September 30, 2016 and 2015 and the accompanying notes thereto contained in this report. This introduction summarizes MD&A, which includes the following sections:

- Overview – a general description of our business and the markets in which we operate; our objectives; our areas of focus; and challenges and risks of our business.

- Results of Operations – an analysis of our consolidated results of operations for the last two fiscal years presented in our consolidated financial statements.

- Liquidity and Capital Resources – an analysis of cash flows; off-balance sheet arrangements and aggregate contractual obligations; and the impact of inflation and changing prices.

- Critical Accounting Policies – a discussion of accounting policies that require critical judgments and estimates.

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements.

**Overview**

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

**Recent Developments**

*Reincorporation to Delaware*

On August 5, 2016 (the "*Effective Date*"), the Company filed the following documents to change its state of incorporation from the State of Utah to the State of Delaware (the "*Reincorporation*"): (i) articles of transfer (the "*Utah Articles of Transfer*") with the Utah Division of Corporations and Commercial Code, and (ii) a certificate of conversion (the "*Delaware Certificate of Conversion*") and a certificate of incorporation (the "*Delaware Certificate of Incorporation*") with the Delaware Division of Corporations. In connection with the Reincorporation, the Company also adopted new bylaws, which became effective on the Effective Date (the "*Delaware Bylaws*"). In addition to the adoption of the Delaware Certificate of Incorporation and the Delaware Bylaws, the following changes took effect as a result of the Reincorporation on the Effective Date:

- the affairs of the Company ceased to be governed by the Utah Revised Business Corporation Act, the Company's Amended and Restated Articles of Incorporation under Utah law and the Company's Amended and Restated Bylaws under Utah law, and the affairs of the Company became subject to the Delaware General Corporation Law, the Delaware Certificate of Incorporation and the Delaware Bylaws;

- each outstanding share of common stock of the Company as incorporated in Utah converted into an outstanding share of common stock of the Company as incorporated in Delaware;

- each outstanding option, right or warrant to acquire shares of common stock of the Company as incorporated in Utah converted to an option, right or warrant to acquire under the same terms and conditions an equal number of shares of common stock of the Company as incorporated in Delaware; and

- the directors and officers of the Company immediately prior to the Reincorporation continued to serve as the directors and officers of the Company following the Reincorporation.

Certain rights of the Company's shareholders changed on the Effective Date as a result of the Reincorporation, which are more fully described in the Company's Definitive Information Statement on Schedule 14C, filed with the Securities and Exchange Commission on July 5, 2016.

The Reincorporation did not involve any change in the business, properties, corporate headquarters or management of the Company and there was no change in the operations, assets, liabilities or obligations of the Company as a result of the Reincorporation.

*Marion County Agreement*

On May 5, 2016, the Company executed an agreement with Marion County Community Corrections (*"Agency"*), the largest county in the state of Indiana, to provide electronic monitoring services across the full range of sentences under the Agency's oversight. Under the terms of the Agreement, the Company will provide solutions based on GPS and alcohol monitoring technology to monitor over 2,300 offenders and defendants. This includes the Company's newest tracking device, Shadow, which is the smallest, lightest and most advanced device. The term of the Agreement is eighteen months, and is expected to contribute over $4.0 million in revenue over the 18-month term of the agreement.

*Conrent Loan Agreement*

On May 1, 2016 we entered into an unsecured Loan Agreement with Conrent Invest S.A., acting with respect to its Compartment Safety III (the *"Conrent Loan Agreement")*. Under the Conrent Loan Agreement, the Company can borrow $5.0 million for working capital, repayment of debt, and operating purposes. The Conrent Loan Agreement contains a condition precedent, which provides that the lender is not obligated to fund the loan until it has received total proceeds of $5.0 million from the sale of fixed rate notes, which are to be issued by the lender through its Compartment Safety III. As of September 30, 2016 this condition precedent has not been satisfied. When funded, the loan will bear interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued unpaid interest due on July 31, 2018. In addition, the Company anticipates paying the lender an arrangement fee of $112,500 when it receives proceeds from this loan. As of September 30, 2016, the Company had not received the funds under the Conrent Loan Agreement.

*Increase in Authorized Common Stock.*

On February 26, 2016, our Board of Directors and the holder of a majority of our outstanding voting stock, acting by written consent, approved an amendment to our Amended and Restated Articles of Incorporation to increase the total number of shares of Common Stock authorized thereunder from 15.0 million shares to 30.0 million.

## Results of Operations

***Continuing Operations - Fiscal Year 2016 Compared to Fiscal Year 2015***

*Net Revenue*

During the fiscal year ended September 30, 2016, we had net revenues of $27,193,807 compared to net revenues of $20,792,715 for the fiscal year ended September 30, 2015, an increase of $6,401,092, or approximately 31%. Of these revenues, $25,684,097 and $20,067,966 were from monitoring and other related services during the 2016 and 2015 period, respectively, an increase of $5,616,131 or 28%. Growth in revenue during the year ended September 30, 2016 was principally due to (i) the expansion and growth of offender monitoring in Chile - both intensive probation and standard probation programs; (ii) increases in the total growth of our North American monitoring operations specifically Indiana and Virginia; and (iii) increases in our data analytics service offerings.

Product revenues decreased $288,043 from $666,536 for the year ended September 30, 2015, to $378,493 for the year ended September 30, 2016. The 43% decrease in product revenue is the result of a continued focus on recurring subscription based sales and not product sales events. The Company does not expect to eliminate product sales but anticipates a continued decline of product revenue for the foreseeable future as it continues to focus its sales efforts on a subscription based model.

*Cost of Revenue*

During the year ended September 30, 2016, cost of revenue totaled $10,533,229 compared to cost of revenue during the year ended September 30, 2015 of $8,282,106, an increase of $2,251,123. This increase is largely due to increases in total monitoring and other related services revenue recognized both domestically and internationally and, to a lesser extent, increases in analytics services. Increases in cost of revenue include but are not limited to personnel costs, commissions, SIM card charges and other incremental revenue related costs.

Although management expects the cost of revenue to continue to increase in subsequent periods due an increase in revenue generated by recently acquired operations, the Company expects the cost of revenue as a percentage of total revenue to decrease in the foreseeable future due to economies of scale of purchasing, lower device costs and efficiencies of our proprietary software, enabling each operator to monitor more devices resulting in lower monitoring center costs.

Depreciation and amortization included in cost of revenue for the fiscal years ended September 30, 2016 and 2015, totaled $2,009,437 and $1,467,410, respectively. These costs represent the depreciation of TrackerPAL™ and ReliAlert™ devices, and are based on a three to five-year useful life. The Company believes 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 fiscal years ended September 30, 2016 and 2015 were $80,000 and $225,523, respectively. These costs resulted from the disposal of obsolete inventory, monitoring equipment and parts as we continue to make enhancements to the device.

We expect the cost of revenue, excluding impairment of equipment and parts, as a percentage of revenue to decrease in the foreseeable future due to (i) lower manufacturing costs, (ii) procurement and fulfillment outsourcing, and (iii) efficiencies due to further increases in automation of our proprietary software.

*Gross Profit and Margin*

During the fiscal year ended September 30, 2016, gross profit totaled $16,660,578, resulting in a 61% gross margin, compared to $12,510,609, or a 60% gross margin during the fiscal year ended September 30, 2015, an increase of $4,149,969. The increase in absolute gross profit and percentage of gross profit is due to higher overall revenue. The Company anticipates that gross profit as a percentage of total revenue may improve in subsequent periods as initiatives currently in development are realized and deployed.

*General and Administrative Expense*

During the fiscal year ended September 30, 2016, our general and administrative expense totaled $14,712,650, compared to $14,057,657 for the fiscal year ended September 30, 2015. The increase of $654,993 (5%) in general and administrative cost resulted largely from an increase in bad debt expense and higher outside services, partially offset by decrease in wages and benefits, and Board of Director fees.

*Selling and Marketing Expense*

For the fiscal year ended September 30, 2016, our selling and marketing expense was $2,269,233 compared to $2,183,688 for the year ended September 30, 2015. The $85,545, or 4% increase was principally the result of increased sales resources related to the launch and communication of new products.

*Research and Development Expense*

During the fiscal year ended September 30, 2016, we incurred research and development expense of $2,627,228 compared to those costs recognized during fiscal year 2015 totaling $1,562,566. The increased investment in research and development costs were incurred to (i) streamline our device hardware, therefore expediting manufacturing time, and (ii) enhance both the firmware and software of our devices to improve the overall user experience. The Company is currently significantly enhancing its software platform. As a result of these improvements, $1,949,813 was capitalized as developed technology during the year ended September 30, 2016. A portion of these expenses would have been recognized as research and development expense, absent the software enhancements.

*Depreciation and Amortization Expense*

The Company maintains a significant portion of its tangible and intangible assets that are amortized or depreciated. During the fiscal year ended September 30, 2016, depreciation and amortization included in operating expense totaled $2,709,918, compared to $2,932,172 for the fiscal year ended September 30, 2015. This decrease of $222,254 (8%) was largely due to fully depreciated assets in 2016.

*Other Income and Expense*

Other income (expense) decreased by $5.5 million during the year ended September 30, 2016 largely due to the $4.9 million disgorgement profits received in 2015, an increase in interest expense of $138,599 and lower gains on disposal of equipment in 2016.

Other income (expense) improved by $4.9 million during the year ended September 30, 2015, as the result of a disgorgement of profits from one of our shareholders, pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), in January and April 2015. See Note 5, "Certain Relationships and Related Transactions" to the audited Consolidated Financial Statements included in this Annual Report on Form 10-K for more information on this disgorgement pursuant to Section 16(b).

*Net Loss*

We had a net loss for the fiscal year ended September 30, 2016 totaling $8,495,621 or ($0.83) loss per common share, compared to a net loss of $5,668,701 or ($0.56) per common share for the fiscal year ended September 30, 2015. The year over year increase in net loss is the result largely of $4,915,236 in disgorgement funds received in 2015, an increase in research and development costs related to enhancing the firmware and software of our devices of $1,064,662 in 2016 and an increase in bad debt in 2016 of $1,491,897. These amounts were offset by an increase in revenue of $6,401,092, and a corresponding increase in cost of goods sold of $2,251,123.

**Liquidity and Capital Resources**

The Company currently is unable to finance its business solely from cash flows from operating activities. During the current and prior years, the Company has supplemented cash flows to finance the business from borrowings under a credit facility, a revolving line of credit from one of its shareholders, receipt of certain disgorgement funds, and from the sale and issuance of debt securities. No such borrowings or sales of equity securities occurred during the year ended September 30, 2016. While the Company may be able borrow $5.0 million for working capital, repayment of debt, and operating purposes under an existing unused loan facility, there is no guarantee that the Company's cash flows from operations and collections of outstanding accounts receivables will be sufficient to meet the Company's cash requirements in 2017 (See Recent developments – Conrent Loan Agreement).

As of September 30, 2016, we had unrestricted cash of $1,769,921, compared to unrestricted cash of $4,903,045 as of September 30, 2015. As of September 30, 2016, we had a working capital surplus of $344,283, compared to a working capital surplus of $7,397,132 as of September 30, 2015. This decrease in working capital was largely due to an increase in short-term debt of $2,449,507 and a decrease in cash due to additional capitalized software of $2,090,962 and purchases of monitoring equipment of $2,861,000.

During fiscal year 2016, we provided $907,563 in cash from operating activities, compared to a use of cash of $915,225 in operating activities during fiscal year 2015. The increase of cash from operations in 2016 compared to 2015 was largely the result of an increase in accounts payable and accrued expenses.

The Company used $5,057,183 of cash for investing activities during the fiscal year ended September 30, 2016, compared to $4,238,945 of cash used during fiscal year 2015. Cash used for investing activities was used for significant enhancements of its software platform and used for purchases of monitoring and other equipment to meet demand during the twelve months ended September 30, 2016.

The Company provided $978,168 of cash for financing activities during the fiscal year ended September 30, 2016, compared to $986,711 of cash used in financing activities during fiscal year 2015. During the fiscal year ended September 30, 2016, we made principal payments of $1,021,832 on notes payable and we received cash proceeds totaling $2,000,000 from the issuance of notes payable.

During the fiscal year ended September 30, 2015, we made principal payments of $5,053,989 on notes and related–party notes payable. During fiscal year 2015, we received cash proceeds totaling $4,077,778 from the issuance of notes and related-party notes payable.

During the fiscal year ended September 30, 2016, we incurred a net loss of $8,495,621 and we had cash flows from operating activities of $907,563, compared to a net loss from continuing operations of $5,668,701 and negative cash flows from operating activities of $915,225 for fiscal year 2015. As of September 30, 2016, our stockholders' equity was $8,690,616 and the accumulated deficit totaled $289,341,503.

***Inflation***

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

**Critical Accounting Policies**

In Note 2, "Summary of Significant Accounting Policies" to the audited Consolidated Financial Statements included in this Annual Report on Form 10-K, we discuss those accounting policies that are considered to be significant in determining the results of operations and our financial position.

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 estimates and judgments are subject to an inherent degree of uncertainty. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, warranty obligations, product liability, revenue, and income taxes. We base our estimates on historical experience and other facts and circumstances that are believed to be reasonable, and the results form the basis for making judgments about the carrying value of assets and liabilities. The actual results may differ from these estimates under different assumptions or conditions.

With respect to inventory reserves, revenue recognition, impairment of long-lived assets and allowance for doubtful accounts receivable, we apply critical accounting policies discussed below in the preparation of our financial statements.

***Inventory Reserves***

The nature of our business requires maintenance of sufficient inventory on hand at all times to meet the requirements of our customers. We record inventory and raw materials at the lower of cost, or market, which approximates actual cost. General inventory reserves are maintained for the possible impairment of the inventory. Impairment may be a result of slow moving or excess inventory, product obsolescence or changes in the valuation of the inventory. In determining the adequacy of reserves, management analyzes the following, among other things:

- Current inventory quantities on hand;
- Product acceptance in the marketplace;
- Customer demand;
- Historical sales;
- Forecast sales;
- Product obsolescence; and
- Technological innovations.

Any modifications to these estimates of reserves are reflected in cost of revenues within the statement of operations during the period in which such modifications are determined necessary by management.

**Revenue Recognition**

Our revenue is historically derived from two sources: (i) monitoring services, and (ii) product sales.

*Monitoring Services*

Monitoring services include two components: (i) lease contracts in which we provide monitoring services and lease devices to distributors or end users and we retain ownership of the leased device; and (ii) monitoring services purchased by distributors or end users who have previously purchased monitoring devices and opt to use our monitoring services.

We typically lease our devices under multi-year contracts with customers that opt to use our monitoring services. However, some of these contracts may be cancelled by either party at any time upon 30 days' notice. Under our standard leasing contract, the leased device becomes billable on the date of activation or seven to 21 days from the date the device is assigned to the lessee, and remains billable until the device is returned. We recognize revenue on leased devices at the end of each month that monitoring services have been provided. In those circumstances in which we receive payment in advance, we record these payments as deferred revenue.

*Product Sales*

We may sell monitoring devices in certain situations to our customers. In addition, we may sell equipment in connection with the building out and setting up a monitoring center on behalf of customers. We recognize product sales revenue when persuasive evidence of an arrangement with the customer exists, title passes to the customer and the customer cannot return the devices or equipment, prices are fixed or determinable (including sales not being made outside the normal payment terms) and collection is reasonably assured. When purchasing products (such as TrackerPAL, ReliAlert, Shadow or R.A.D.A.R. devices), customers may, but are not required to, enter into one of our monitoring service contracts. We recognize revenue on monitoring services for customers that have previously purchased devices at the end of each month that monitoring services have been provided.

We sell and install standalone tracking systems that do not require our ongoing monitoring. We have experience in component installation costs and direct labor hours related to this type of sale and can typically reasonably estimate costs, therefore we recognize revenue over the period in which the installation services are performed using the percentage-of-completion method of accounting for material installations. We typically use labor hours or costs incurred to date as a percentage of the total estimated labor hours or costs to fulfill the contract as the most reliable and meaningful measure that is available for determining a project's progress toward completion. We evaluate our estimated labor hours and costs and determine the estimated gross profit or loss on each installation for each reporting period. If it is determined that total cost estimates are likely to exceed revenues, we accrue the estimated losses immediately.

*Multiple Element Arrangements*

The majority of our revenue transactions do not have multiple elements. However, on occasion, we enter into revenue transactions that have multiple elements. These may include different combinations of products or services that are included in a single billable rate. These products or services are delivered over time as the customer utilizes our services. For revenue arrangements that have multiple elements, we consider whether the delivered devices have standalone value to the customer, there is objective and reliable evidence of the fair value of the undelivered monitoring services, which is generally determined by surveying the price of competitors' comparable monitoring services, and the customer does not have a general right of return. Based on these criteria, we recognize revenue from the sale of devices separately from the services provided to the customer as the products or services are delivered.

*Other Matters*

We consider an arrangement with payment terms longer than our normal terms not to be fixed or determinable, and we recognize revenue when the fee becomes due. Normal payment terms for the sale of products and services are due upon receipt to 30 days. We sell our devices and services directly to end users and to distributors. Distributors do not have general rights of return. Also, distributors have no price protection or stock protection rights with respect to devices we sell to them. Generally, title and risk of loss pass to the buyer upon delivery of the devices.

We estimate our product returns based on historical experience and maintain an allowance for estimated returns, which is recorded as a reduction to accounts receivable and revenue.

Shipping and handling fees charged to customers are included as part of net revenues. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of revenues.

***Impairment of Long-lived Assets***

We review our long-lived assets including goodwill and intangibles 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. We evaluate whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. We use an equity method of the related asset or group of assets in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its market 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 are an identifiable fair market value that is independent of other groups of assets.

***Allowance for Doubtful Accounts***

We must make estimates of the collectability of accounts receivable. In doing so, we analyze accounts receivable and historical bad debts, customer credit-worthiness, current macroeconomic and geopolitical trends, and changes in customer payment patterns when evaluating the adequacy of the allowance for doubtful accounts.

***Recent Accounting Pronouncements***

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 us as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

***Accounting for Stock-Based Compensation***

We recognize compensation expense for stock-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. We estimate the fair value of stock options using a Black-Scholes option pricing model which requires us to make estimates for certain assumptions regarding risk-free interest rate, expected life of options, expected volatility of stock and expected dividend yield of stock.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

We had $9,530,240 and $7,092,497 in revenue from sources outside the United States for the fiscal years ended September 30, 2016 and 2015, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange loss of $151,258 and $214,402 in fiscal years 2016 and 2015, respectively. Changes in currency exchange rates affect the relative prices at which we sell our products and purchase goods and services. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition. We 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 8. Financial Statements and Supplementary Data

The Financial Statements and Supplementary Data required by this Item are set forth at the pages indicated at Item 15 below.

## Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

## Item 9A. 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 September 30, 2016 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 September 30, 2016.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed under the supervision of our principal executive officer and principal financial officer to provide reasonable assurance regarding the reliability of financial reporting and preparation of our financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate as a result of changes in conditions or deterioration in the degree of compliance.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission *("COSO")* issued in May 2013 and related COSO guidance. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of September 30, 2016.

This report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this Annual Report on Form 10-K.

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our fourth fiscal quarter ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. Other Information**

None.

# PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 30, 2017.

## ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 30, 2017.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 30, 2017.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 30, 2017.

## ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 30, 2017.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

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

1. *Financial Statements*



2. *Financial Statement Schedules.*

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

| Exhibit Number | Title of Document |
|---|---|
| 3(i)(1) | Articles of Transfer of Track Group, Inc., a Utah corporation, dated August 5, 2016 (previously filed on August 9 2016 as Exhibit 3(i)(3) to the Form 10-Q for the quarter ended June 30, 2016). |
| 3(i)(2) | Certificate of Conversion Converting Track Group, Inc., a Utah corporation, to Track Group, Inc., a Delaware corporation, dated August 5, 2016 (previously filed on August 9, 2016 as Exhibit 3(i)(4) to the Form 10-Q for the quarter ended June 30, 2016). |
| 3(i)(3) | Certificate of Incorporation of Track Group, Inc., a Delaware corporation (previously filed on August 9, 2016 as Exhibit 3(i)(5) to the Form 10-Q for the quarter ended June 30, 2016). |
| 3(ii)(2) | ByLaws of Track Group, Inc., a Delaware corporation (previously file on August 9, 2016 as Exhibit 3(ii)(2) to the Form 10-Q for the quarter ended June 30, 2016). |
| 4.01 | 2006 Equity Incentive Award Plan (previously filed in August 2006 as an Exhibit to the Form 10- Q for the nine months ended June 30, 2006). |
| 4.02 | 2012 Equity Incentive Award Plan (previously filed as Exhibit to Definitive Proxy Statement, filed October 25, 2011, and amended in accordance with the Company's Definitive Proxy Statement, filed April 9, 2015). |
| 10.1 | Facility Agreement between Tetra House Pte. Ltd. and SecureAlert, Inc., dated January 3, 2014 (incorporated by reference to our Current Report on Form 8-K, filed in January 2014). |
| 10.2 | Supplemental Settlement Agreement between Satellite Tracking of People, LLC and SecureAlert, Inc., effective March 1, 2014 (incorporated by reference to our Form 10-Q for the three months ended March 31, 2015). |

| | |
|---|---|
| 10.3 | Amended and Restated Facility Agreement, dated June 30, 2015, by and between Track Group, Inc. and Conrent Invest S.A, acting on behalf of its compartment "Safety 2" (incorporated by reference to our Current Report on Form 8-K, filed on July 15, 2015). |
| 10.4 | Loan Agreement between Sapinda Asia Limited and Track Group, Inc., dated September 14, 2015 (incorporated by reference to our Current Report on Form 8-K, filed on September 28, 2015). |
| 10.5 | Agreement between the Virginia Department of Corrections and the Company dated September 21, 2015 (incorporated by reference to our Current Report on Form 8-K, filed on October 2, 2015). |
| 10.6 | Executive Employment Agreement, by and between Track Group, Inc. and John Merrill, dated November 20, 2014 (incorporated by reference to our Current Report on Form 8-K, filed November 25, 2014. |
| 10.7 | Loan Agreement, by and between Conrent Invest S.A., acting with respect to its Compartment Safety III, and Track Group, Inc., dated May 1, 2016 (previously filed in August 2016 as an Exhibit to the Form 10-Q for the nine months ended June 30, 2016). |
| 10.8 | Employment Agreement, by and between Track Group, Inc. and Mark Attarian, dated September 13, 2016 (incorporated by reference to our Current Report on Form 8-K, filed October 1, 2016.) |
| 10.9 | Employment agreement, by and between Track Group Inc. and Peter Poli, dated December 12, 2016 (incorporated by reference to our Current Report on Form 8-K, filed December 16, 2016). |
| 14.1 | Code of Ethics (incorporated by reference from Exhibit 14.1 to our Annual Report on Form 10-K filed January 14, 2014). |
| 21 | Subsidiaries of the Registrant (incorporated by reference from Exhibit 21 to our Annual Report on Form 10-K filed January 14, 2014). |
| 31(i) | Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31(ii) | Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32 | Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith). |
| 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 |

**SIGNATURES**

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

Track Group, Inc.

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

Date: December 20, 2016

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

| Signature | Title | Date |
|---|---|---|
| /s/ Guy Dubois<br>Guy Dubois | Director,<br>(Principal Executive Officer, Acting Principal Financial and Accounting Officer) | December 20, 2016 |
| /s/ David S. Boone<br>David S. Boone | Director | December 20, 2016 |
| /s/ Dirk K. van Daele<br>Dirk K. van Daele | Director | December 20, 2016 |
| /s/ Karen Macleod<br>Karen Macleod | Director | December 20, 2016 |
| /s/ Eric Rosenblum<br>Eric Rosenblum | Director | December 20, 2016 |
| /s/ Ray Johnson<br>Ray Johnson | Director | December 20, 2016 |

**Index to Consolidated Financial Statements**

EideBailly

CPAs & BUSINESS ADVISORS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and
Shareholders of Track Group, Inc.

We have audited the accompanying consolidated balance sheets of Track Group, Inc. and Subsidiaries (collectively the Company) as of September 30, 2016 and 2015 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Track Group, Inc. as of September 30, 2016 and 2015 and the consolidated results of its operations, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Salt Lake City, Utah
December 20, 2016

**TRACK GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**AS OF SEPTEMBER 30, 2016 AND 2015**

| **Assets** | **2016** | **2015** |
|---|---|---|
| *Current assets:* | | |
| Cash | $ 1,769,921 | $ 4,903,045 |
| Accounts receivable, net of allowance for doubtful accounts of $2,335,508 and $4,150,000, respectively | 6,894,095 | 6,044,931 |
| Note receivable, current portion | 334,733 | 306,434 |
| Prepaid expenses and other | 816,708 | 1,266,277 |
| Inventory, net of reserves of $98,150 and $225,900, respectively | 521,851 | 741,514 |
| Total current assets | 10,337,308 | 13,262,201 |
| Property and equipment, net of accumulated depreciation of $1,421,389 and $2,822,166, respectively | 1,226,461 | 1,697,630 |
| Monitoring equipment, net of accumulated amortization of $3,438,074 and $2,225,480, respectively | 4,358,117 | 2,784,595 |
| Intangible assets, net of accumulated amortization of $8,233,659 and $5,628,308, respectively | 25,540,650 | 25,884,087 |
| Other assets | 2,900,911 | 2,619,035 |
| Goodwill | 7,955,876 | 7,782,903 |
| Total assets | $ 52,319,323 | $ 54,030,451 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| *Current liabilities:* | | |
| Accounts payable | 2,771,101 | 2,363,441 |
| Accrued liabilities | 3,976,192 | 2,705,403 |
| Current portion of long-term debt, net of discount of $222,973 and $222,973, respectively | 3,245,732 | 796,225 |
| Total current liabilities | 9,993,025 | 5,865,069 |
| Stock payable - related party | 3,289,879 | 3,501,410 |
| Long-term debt, net of current portion and discount of $185,811 and $408,784, respectively | 30,345,803 | 30,189,188 |
| Other long-term liabilities | - | 106,671 |
| Total liabilities | 43,628,707 | 39,662,338 |
| | | |
| *Stockholders' equity:* | | |
| Common stock, $0.0001 par value: 30,000,000 shares authorized; 10,333,516 and 10,261,288 shares outstanding, respectively | 1,034 | 1,026 |
| Additional paid-in capital | 298,876,399 | 297,591,034 |
| Accumulated deficit | (289,341,503) | (280,845,882) |
| Accumulated other comprehensive loss | (845,314) | (2,378,065) |
| Total equity | 8,690,616 | 14,368,113 |
| Total liabilities and stockholders' equity | $ 52,319,323 | $ 54,030,451 |

**TRACK GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| **Revenues:** | | |
| Products | $ 378,493 | $ 666,536 |
| Monitoring services | 25,684,097 | 20,067,966 |
| Other | 1,131,217 | 58,213 |
| Total revenues | 27,193,807 | 20,792,715 |
| | | |
| **Cost of revenues:** | | |
| Products | 559,887 | 518,155 |
| Monitoring and other related services | 7,883,905 | 6,071,018 |
| Depreciation and amortization included in cost of revenues | 2,009,437 | 1,467,410 |
| Impairment of monitoring equipment and parts (Note2) | 80,000 | 225,523 |
| Total cost of revenues | 10,533,229 | 8,282,106 |
| | | |
| **Gross profit** | 16,660,578 | 12,510,609 |
| | | |
| **Operating expenses:** | | |
| General & administrative | 14,712,650 | 14,057,657 |
| Selling & marketing | 2,269,233 | 2,183,688 |
| Research & development | 2,627,228 | 1,562,566 |
| Depreciation & amortization | 2,709,918 | 2,932,172 |
| **Loss from operations** | (5,658,451) | (8,225,474) |
| | | |
| **Other income (expense):** | | |
| Gain/loss on disposal of equipment | 15,655 | 339,858 |
| Interest income | 114,235 | 148,795 |
| Interest expense | (2,829,003) | (2,690,404) |
| Currency exchange rate loss | (151,258) | (214,402) |
| Disgorgement funds received (note 5) | - | 4,915,236 |
| Other income/expense, net | 13,201 | 78,046 |
| **Net loss before tax** | (8,495,621) | (5,648,345) |
| Income Tax | - | (20,356) |
| **Net loss attributable to common shareholders** | (8,495,621) | (5,668,701) |
| Foreign currency translation adjustments | 1,532,751 | (2,106,111) |
| **Comprehensive loss** | $ (6,962,870) | $ (7,774,812) |
| Net loss per common share, basic and diluted | $ (0.83) | $ (0.56) |
| Weighted average common shares outstanding, basic and diluted | 10,285,947 | 10,159,000 |

**TRACK GROUP, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2015 AND 2016**

| | Shares | Amount | Capital | Deficit | Comprehensive Loss | Total |
|---|---|---|---|---|---|---|
| **Balance as of October 1, 2014** | 10,093,130 | $ 1,009 | $295,364,173 | $(275,177,181) | $ (271,954) | $ 19,916,047 |
| Issuance of Common Stock for: | | | | | | |
| Acquisitions of subsidiaries | 98,777 | 10 | 1,148,731 | - | - | 1,148,741 |
| Services | 28,753 | 3 | 306,574 | - | - | 306,577 |
| Board of director fees | 40,628 | 4 | 438,413 | - | - | 438,417 |
| Vesting of stock options | - | - | 258,731 | - | - | 258,731 |
| Cash paid for repurchase of Series D preferred stock warrants | - | - | (10,500) | - | - | (10,500) |
| Issuance of Common Stock warrants for Board of Director fees | - | - | 84,912 | - | - | 84,912 |
| Foreign currency translation adjustments | - | - | - | - | (2,106,111) | (2,106,111) |
| Net loss | - | - | - | (5,668,701) | - | (5,668,701) |
| **Balance as of September 30, 2015** | 10,261,288 | $ 1,026 | $297,591,034 | $(280,845,882) | $ (2,378,065) | $ 14,368,113 |

**TRACK GROUP, INC.**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2015 AND 2016 (continued)**

| | Shares | Amount | Capital | Deficit | Comprehensive Loss | Total |
|---|---|---|---|---|---|---|
| **Balance as of October 1, 2015** | 10,261,288 | $ 1,026 | $ 297,591,034 | $ (280,845,882) | $ (2,378,065) | $ 14,368,113 |
| Issuance of Common Stock for: | | | | | | |
| Recognition of milestone achievement | 32,490 | 3 | 211,528 | - | - | 211,531 |
| Services | 26,674 | 3 | 259,378 | - | - | 259,381 |
| Board of director fees | 13,064 | 2 | 97,167 | - | - | 97,169 |
| Vesting of stock options | - | - | 300,873 | - | - | 300,873 |
| Issuance of Common Stock warrants for Board of Director fees | - | - | 416,419 | - | - | 416,419 |
| Foreign currency translation adjustments | - | - | - | - | 1,532,751 | 1,532,751 |
| Net loss | - | - | - | (8,495,621) | - | (8,495,621) |
| **Balance as of September 30, 2016** | 10,333,516 | $ 1,034 | $ 298,876,399 | $ (289,341,503) | $ (845,314) | $ 8,690,616 |

**TRACK GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net Loss | $ (8,495,621) | $ (5,668,701) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 4,719,355 | 4,399,582 |
| Impairment of monitoring equipment and parts | 80,000 | 225,523 |
| Bad debt expense | 1,996,348 | 504,451 |
| Accretion of debt discount | 222,973 | 346,257 |
| Stock based compensation | 1,353,295 | 1,662,883 |
| Vesting and re-pricing of stock options | - | 39,929 |
| Gain/Loss on disposal of property and equipment | 39,290 | (339,858) |
| Gain/Loss on disposal of monitoring equipment included on cost of sales | 90,838 | 112,177 |
| Change in assets and liabilities: | | |
| Accounts receivable, net | (2,718,115) | (2,751,598) |
| Notes receivable | (28,299) | (32,470) |
| Inventories | 258,519 | (300,865) |
| Prepaid expenses and other assets | 190,951 | 170,094 |
| Accounts payable, accrued expenses and other | 3,198,029 | 717,371 |
| Net cash provided by (used in) operating activities | 907,563 | (915,225) |
| | | |
| **Cash flow from investing activities:** | | |
| Purchase of property and equipment | (105,121) | (265,065) |
| Capitalized software | (2,090,962) | (567,287) |
| Purchase of monitoring equipment and parts | (2,861,100) | (1,201,200) |
| Leasehold improvements | - | (422,544) |
| Payment related to acquisition | - | (1,782,849) |
| Net cash used in investing activities | (5,057,183) | (4,238,945) |
| | | |
| **Cash flow from financing activities:** | | |
| Principal payments on related-party notes payable | - | (2,700,000) |
| Proceeds from notes payable | 2,000,000 | 4,077,778 |
| Principal payments on notes payable | (1,021,832) | (2,353,989) |
| Repurchase of Series D Convertible preferred stock and options | - | (10,500) |
| Net cash provided by (used in) financing activities | 978,168 | (986,711) |
| | | |
| **Effect of exchange rate changes on cash** | 38,328 | (57,896) |
| | | |
| **Net decrease in cash** | (3,133,124) | (6,198,777) |
| **Cash, beginning of year** | 4,903,045 | 11,101,822 |
| **Cash, end of year** | $ 1,769,921 | $ 4,903,045 |

**TRACK GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

| | 2016 | 2015 |
|---|---|---|
| Cash paid for interest | $ 15,408 | $ 236,671 |
| | | |
| *Supplemental schedule of non-cash investing and financing activities:* | | |
| Issuance of warrants for accrued Board of Director fees | 416,419 | 84,912 |
| Issuance of common shares for the acquisition of a subsidiary | - | 531,900 |
| Issuance of common shares in recognition of certain milestone achievements | (211,528) | (668,590) |
| Stock payable recognized in connection with the acquisition of subsidiaries | - | 1,170,000 |

**TRACK GROUP, INC. AND SUBSIDIARIES**

*NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

## (1) Organization and Nature of Operations

### 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 PaaS business model. Currently, the Company deploys offender based management services that combines 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.

## (2) Summary of Significant Accounting Policies

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Track Group, Inc. and its subsidiaries. The Company acquired one subsidiary during the year ended September 30, 2015 (see Note 3 "*Acquisitions*" below). All intercompany balances and transactions have been eliminated in consolidation.

### Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the period presented. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates made in the accompanying consolidated financial statements include, but are not limited to, allowances for doubtful accounts, certain assumptions related to the recoverability of intangible and long-lived assets, and fair market values of certain assets and liabilities.

### Business Combinations

Business combinations are accounted for under the provisions of ASC 805-10, *Business Combinations* (ASC 805-10), which requires that the purchase method of accounting be used for all business combinations. Assets acquired and liabilities assumed at the date of acquisition at their respective fair values. ASC 805-10 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported apart from goodwill. Acquisition-related expenses are recognized separately from the business combinations and are expensed as incurred. If the business combination provides for contingent consideration, the contingent consideration is recorded at its probable fair value at the acquisition date. Any changes in fair value after the acquisition date are accounted for as measurement-period adjustments if they pertain to additional information about facts and circumstances that existed at the acquisition date and that we obtained during the measurement period. Changes in fair value of contingent consideration resulting from events after the acquisition date, such as performance measures, are recognized in earnings.

Goodwill represents costs in excess of purchase price over the fair value of the assets of businesses acquired, including other identifiable intangible assets.

**Foreign Currency Translation**

The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the 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 exchange rate prevailing at September 30, 2016. Their respective statements of operations have been translated into USD using the average exchange rates prevailing during the periods of each statement. The corresponding translation adjustments are part of accumulated other comprehensive income and are shown as part of shareholders' equity.

**Other Intangible Assets**

Other intangible assets principally consist of patents, royalty purchase agreements, developed technology acquired, customer relationships, trade name, capitalized software development costs, and capitalized website development costs. The Company accounts for other intangible assets in accordance with generally accepted accounting principles and does not amortize intangible assets with indefinite lives. The Company's intangible assets with finite useful lives are amortized over their respective estimated useful lives, which range from three to ten years. The Company's intangible assets are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate possible impairment.

**Fair Value of Financial Statements**

The carrying amounts reported in the accompanying consolidated financial statements for accrued liabilities and debt obligations approximate fair values because of the immediate or short-term maturities of these financial instruments. The carrying amounts of the Company's debt obligations approximate fair value as the interest rates approximate market interest rates.

**Concentration of Credit Risk**

In the normal course of business, the Company provides credit terms to its customers and requires no collateral. Accordingly, the Company performs credit evaluations of its customers' financial condition.

We had sales to entities, one of which represents more than ten percent of gross revenues as follows for the years ended September 30, 2016 and 2015.

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Customer A | $ 7,543,116 | 28% | $ 3,930,167 | 19% |
| Customer B | $ 2,013,929 | 7% | $ - | 0% |
| Customer C | $ 1,449,500 | 5% | $ 1,437,033 | 7% |
| Customer D | $ 1,178,439 | 4% | $ 1,535,203 | 7% |

No other customer represented more than 10 percent of the Company's total revenues for the fiscal years ended September 30, 2016 or 2015. In October 2016, one of these customers, which accounted for 5% our 2016 revenue, gave notice of non-renewal effective on November 19, 2016 (See Note 13).

Concentration of credit risk associated with the Company's total and outstanding accounts receivable as of September 30, 2016 and 2015, respectively, are shown in the table below:

| | 2016 | % | 2015 | % |
|---|---|---|---|---|
| Customer A | $ 2,476,168 | 36% | $ 1,127,044 | 19% |
| Customer B | $ 899,428 | 13% | $ - | 0% |
| Customer C | $ 1,151,859 | 17% | $ 900,834 | 15% |
| Customer D | $ 512,800 | 7% | $ 498,944 | 8% |

Based upon the expected collectability of its accounts receivable, the Company maintains an allowance for doubtful accounts.

**Cash Equivalents**

Cash equivalents consist of investments with original maturities to the Company of three months or less. The Company has cash in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company had $1,336,787 and $3,812,911 of cash deposits in excess of federally insured limits as of September 30, 2016 and 2015, respectively.

**Accounts Receivable**

Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. The allowance is estimated by management based on certain assumptions and variables, including the customer's financial condition, age of the customer's receivables and changes in payment histories. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when cash is received. A trade receivable is considered to be past due if any portion of the receivable balance has not been received by the Company within its normal terms. Interest income is not recorded on trade receivables that are past due, unless that interest is collected.

**Note Receivable**

Notes receivable are carried at the face amount of each note plus respective accrued interest receivable, less received payments. The Company does not typically carry notes receivable in the course of its regular business, but had entered into an agreement with one of its customers during the fiscal year ended September 30, 2012. Payments under the note are recorded as they are received and are immediately offset against any outstanding accrued interest before they are applied against the outstanding principal balance on the respective note. The note requires monthly payments of $15,000 and matured in May 2014. The note is currently in default and accrues interest at a rate of 17% per annum. As of September 30, 2016, the outstanding balance of the note was $120,824 and $113,908 of accrued interest. As of June 30, 2016, the Company no longer accrues interest on the note.

**Inventory**

Inventory is valued at the lower of the cost or market. Cost is determined using the first-in, first-out ("*FIFO*") method. Market is determined based on the estimated net realizable value, which generally is the item selling price. Inventory is periodically reviewed in order to identify obsolete or damaged items or impaired values. The Company impaired its inventory by $80,000 and $225,523 during the fiscal years ended September 30, 2016 and 2015, respectively.

Inventory consists of finished goods that are sold to customers and used for minor repairs of ReliAlert™, Shadow, and other tracking devices. Completed ReliAlert™ and other tracking devices are reflected in Monitoring Equipment. As of September 30, 2016 and 2015, respectively, inventory consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Finished goods inventory | $ 620,001 | $ 967,414 |
| Reserve for damaged or obsolete inventory | (98,150) | (225,900) |
| Total inventory, net of reserves | $ 521,851 | $ 741,514 |

During the year ended September 30, 2015, the Company began using a third-party fulfillment service provider. As a result of this service, the Company's employees no longer assemble, repair or process inventory or monitoring equipment being shipped directly from suppliers. Purchases of monitoring equipment are now recognized directly, rather than being transferred from inventory to monitoring equipment after their purchase. Management believes that this process will reduce maintenance and fulfillment costs associated with inventory and monitoring equipment in future periods.

**Property and Equipment**

Property and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization are determined using the straight-line method over the estimated useful lives of the assets, typically three to seven years. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the term of the lease. Expenditures for maintenance and repairs are expensed while renewals and improvements are capitalized.

Property and equipment consisted of the following as of September 30, 2016 and 2015, respectively:

| | 2016 | 2015 |
|---|---|---|
| Equipment, software and tooling | $ 1,028,173 | $ 2,823,685 |
| Automobiles | 87,313 | 33,466 |
| Leasehold improvements | 1,279,500 | 1,351,017 |
| Furniture and fixtures | 252,864 | 311,628 |
| Total property and equipment before accumulated depreciation | 2,647,850 | 4,519,796 |
| Accumulated depreciation | (1,421,389) | (2,822,166) |
| Property and equipment, net of accumulated depreciation | $ 1,226,461 | $ 1,697,630 |

Property and equipment to be disposed of is reported at the lower of the carrying amount or fair value, less the estimated costs to sell and any gains or losses are included in the results of operations. In 2016, we evaluated property and equipment that has become fully depreciated and wrote-off $1,842,321 of fully depreciated assets that were no longer in service. During the fiscal years ended September 30, 2016 and 2015, the Company recognized no losses on the disposal of property and equipment.

Depreciation expense recognized for property and equipment for the fiscal years ended September 30, 2016 and 2015 was $609,036 and $693,635, respectively.

**Monitoring Equipment**

The Company began leasing monitoring equipment to agencies for offender tracking in April 2006 under operating lease arrangements. The monitoring equipment is depreciated using the straight-line method over an estimated useful life of three years. Monitoring equipment as of September 30, 2016 and 2015 is as follows:

| | 2016 | 2015 |
|---|---|---|
| Monitoring equipment | $ 7,796,191 | $ 5,010,075 |
| Less: accumulated amortization | (3,438,074) | (2,225,480) |
| Monitoring equipment, net of accumulated depreciation | $ 4,358,117 | $ 2,784,595 |

Amortization expense for the fiscal years ended September 30, 2016 and 2015 was $1,559,437 and $1,017,409, respectively. These expenses were classified as a cost of revenues.

Monitoring equipment to be disposed of is reported at the lower of the carrying amount or fair value, less the estimated costs to sell. During the fiscal years ended September 30, 2016 and 2015, the Company disposed of leased monitoring equipment and parts of $90,838 and $112,177, respectively.

**Impairment of Long-Lived Assets and Goodwill**

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.

**Revenue Recognition**

The Company's revenue has historically been from two sources: (i) monitoring services, and (ii) product sales.

***Monitoring Services***

Monitoring services include two components: (a) lease contracts in which the Company provides monitoring services and leases devices to distributors or end users and the Company retains ownership of the leased device; and (b) monitoring services purchased by distributors or end users who have previously purchased monitoring devices and opt to use the Company's monitoring services.

The Company typically leases its devices under multi-year contracts with customers that opt to use the Company's monitoring services. However, some of these contracts may be cancelled by either party at any time with 30 days' notice. Under the Company's standard leasing contract, the leased device becomes billable on the date of activation or 7 to 21 days from the date the device is assigned to the lessee, and remains billable until the device is returned to the Company. The Company recognizes revenue on leased devices at the end of each month that monitoring services have been provided. In those circumstances in which the Company receives payment in advance, the Company records these payments as deferred revenue.

***Product Sales***

The Company may sell its monitoring devices in certain situations to its customers. In addition, the Company may sell equipment in connection with the building out and setting up a monitoring center on behalf of its customers. The Company recognizes product sales revenue when persuasive evidence of an arrangement with the customer exists, title passes to the customer and the customer cannot return the devices or equipment, prices are fixed or determinable (including sales not being made outside the normal payment terms) and collection is reasonably assured. When purchasing products (such as TrackerPAL® and ReliAlert™ devices) from the Company, customers may, but are not required to, enter into monitoring service contracts with the Company. The Company recognizes revenue on monitoring services for customers that have previously purchased devices at the end of each month that monitoring services have been provided.

The Company sells and installs standalone tracking systems that do not require ongoing monitoring by the Company. The Company has experience in component installation costs and direct labor hours related to this type of sale and can typically reasonably estimate costs, therefore the Company recognizes revenue over the period in which the installation services are performed using the percentage-of-completion method of accounting for material installations. The Company typically uses labor hours or costs incurred to date as a percentage of the total estimated labor hours or costs to fulfill the contract as the most reliable and meaningful measure that is available for determining a project's progress toward completion. The Company evaluates its estimated labor hours and costs and determines the estimated gross profit or loss on each installation for each reporting period. If it is determined that total cost estimates are likely to exceed revenues, the Company accrues the estimated losses immediately. All amounts billed have been earned.

***Multiple Element Arrangements***

The majority of the Company's revenue transactions do not have multiple elements. However, on occasion, the Company enters into revenue transactions that have multiple elements. These may include different combinations of products or monitoring services that are included in a single billable rate. These products or monitoring services are delivered over time as the customer utilizes the Company's services. For revenue arrangements that have multiple elements, the Company considers whether the delivered devices have standalone value to the customer, there is objective and reliable evidence of the fair value of the undelivered monitoring services, which is generally determined by surveying the price of competitors' comparable monitoring services, and the customer does not have a general right of return. Based on these criteria, the Company recognizes revenue from the sale of devices separately from the monitoring services provided to the customer as the products or monitoring services are delivered.

***Other Matters***

The Company considers an arrangement with payment terms longer than the Company's normal terms not to be fixed or determinable, and revenue is recognized when the fee becomes due. Normal payment terms for the sale of monitoring services and products are due upon receipt to 30 days. The Company sells its devices and services directly to end users and to distributors. Distributors do not have general rights of return. Also, distributors have no price protection or stock protection rights with respect to devices sold to them by the Company. Generally, title and risk of loss pass to the buyer upon delivery of the devices.

The Company estimates its product returns based on historical experience and maintains an allowance for estimated returns, which is recorded as a reduction to accounts receivable and revenue.

Shipping and handling fees charged to customers are included as part of net revenues. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of revenues.

**Geographical Information**

The Company recognized revenues from international sources from its products and monitoring services. Revenues are attributed to the geographic areas based on the location of the customers purchasing and leasing the products. The revenues recognized by geographic area for the fiscal years ended September 30, 2016 and 2015, are as follows:

| | Fiscal Years Ended September 30, | |
|---|---|---|
| **Country** | **2016** | **2015** |
| United States of America | $ 17,663,567 | $ 13,700,218 |
| Latin American countries | 7,717,399 | 3,930,167 |
| Caribbean countries and commonwealths | 1,546,359 | 2,972,235 |
| Other foreign countries | 266,482 | 190,095 |
| Total | $ 27,193,807 | $ 20,792,715 |

The long-lived assets, net of accumulated depreciation and amortization, used in the generation of revenues by geographic area as of September 30, 2016 and 2015, were as follows:

| | Net Property and Equipment | | Net Monitoring Equipment | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| United States of America | $ 284,768 | $ 501,543 | $ 2,912,328 | $ 1,747,174 |
| Latin American countries | 925,039 | 1,087,629 | 1,445,789 | 1,032,804 |
| Other foreign countries | 16,654 | 108,458 | - | 4,617 |
| Total | $ 1,226,461 | $ 1,697,630 | $ 4,358,117 | $ 2,784,595 |

**Research and Development Costs**

During the fiscal year ended September 30, 2016, we incurred research and development expense of $2,627,228 compared to those costs recognized during fiscal year 2015 totaling $1,562,566. The $1,064,662 increase in research and development cost reflect increased research and development costs to streamline our device hardware and enhance both the firmware and software of our devices. The Company is currently significantly enhancing its software platform.

**Advertising Costs**

The Company expenses advertising costs as incurred. Advertising expense for the fiscal years ended September 30, 2016 and 2015 was $19,440 and $103,506, respectively.

**Stock-Based Compensation**

The Company recognizes compensation expense for stock-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. The Company estimates the fair value of stock options using a Black-Scholes option pricing model which requires management to make estimates for certain assumptions regarding risk-free interest rate, expected life of options, expected volatility of stock and expected dividend yield of stock.

**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.

The tax effects from uncertain tax positions can be recognized in the financial statements, provided the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Company applied the foregoing accounting standard to all of its tax positions for which the statute of limitations remained open as of the date of the accompanying consolidated financial statements.

The Company's policy is to recognize interest and penalties related to income tax issues as components of other noninterest expense. As of September 30, 2016 and September 30, 2015, the Company did not record a liability for uncertain tax positions.

**Net Loss Per Common Share**

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

Diluted net loss per common share ("*Diluted EPS*") is computed by dividing net loss attributable to common stockholders 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 options and warrants to purchase shares of the Company's Common Stock, par value $0.0001 per share ("*Common Stock*"), and shares issuable upon conversion of preferred stock. As of September 30, 2016 and 2015, there were 504,991 and 381,656 outstanding common share equivalents, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive. The Common Stock equivalents outstanding as of September 30, 2016 and 2015 consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Exercise of outstanding Common Stock options and warrants | 504,991 | 381,656 |
| Exercise and conversion of outstanding Series D preferred stock warrants | - | - |
| Total Common Stock equivalents | 504,991 | 381,656 |

**Recent Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board ( *"FASB"*) issued a new standard 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 is currently evaluating the impact that this amendment will have on its consolidated financial statements.

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

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

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

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

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

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“*ASU 2015-17*“). Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this Update. The amendments in this update are effective for financial statements issued for annual periods beginning after March 15, 2016, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual reporting period. The adoption of ASU 2015-17 is not expected to have a material impact on the Company’s consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (“ *ASU 2015-16*“). ASU 2015-16 requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 will be effective for the Company’s fiscal year beginning March 1, 2017 and subsequent interim periods. The adoption of ASU 2015-16 is not expected to have a material effect on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, (“ *ASU 2015-11*“). ASU 2015-11 requires that an entity measure inventory at the lower of cost and net realizable value, unless the entity is using the LIFO or retail inventory method. ASU 2015-11 will be effective for the Company’s fiscal year beginning October 1, 2017 and subsequent interim periods, with early adoption permitted. Management is currently evaluating the impact of the pending adoption of ASU 2015-11 on the Company’s consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, (“ *ASU 2015-03*“). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU 2015-03 will be effective for the fiscal year beginning January 1, 2016 and subsequent interim periods, with earlier adoption permitted. ASU 2015-03 will be effective for the Company’s fiscal year beginning October 1, 2016 and subsequent interim periods. Management is currently evaluating the impact of the pending adoption of ASU 2015-03 on the Company’s consolidated financial statements.

**(3) Acquisitions**

**Track Group Analytics Limited**

On November 26, 2014 (the “*Closing Date*”), the Company entered into a Share Purchase Agreement (the “*TGA Purchase Agreement*”) to purchase from the shareholders of Track Group Analytics Limited, formerly G2 Research Limited (“*TGA*”), all issued and outstanding shares of TGA for an aggregate purchase price of up to CAD$4.6 million (the “*TGA Acquisition*”), of which CAD$2.0 million was paid in cash to the TGA shareholders on the Closing Date with the remainder of the purchase price to be paid as follows: (i) CAD$600,000 will be paid to the former TGA shareholders in shares of Common Stock of which one-half of the shares will be issued on the one-year anniversary of the Closing Date and the balance on the two-year anniversary of the Closing Date; and (ii) the CAD$2.0 million will be paid to the former TGA shareholders in shares of Common Stock over a two-year period beginning on the Closing Date, upon the achievement of certain milestones set forth in the TGA Purchase Agreement. As of September 30, 2015, the Company had issued 38,499 shares of Common Stock in connection to this acquisition and 63,777 shares of Common Stock to the TGA shareholders upon achieving certain performance milestones. For the twelve months ended September 30, 2016, the Company issued 32,490 shares of Common Stock to the TGA shareholders upon achieving performance milestones.

During the third quarter of fiscal 2015, the Company received the final valuation report for the TGA Acquisition. Our Consolidated Balance Sheet at June 30, 2015 was retrospectively adjusted to include the effect of the measurement period adjustments as required under ASC 805, Business Combinations (“*ASC 805*”). The revisions to the purchase price allocation for the acquisition resulted from the Company’s finalization of valuation of long-term and intangible assets with consideration of the valuation report obtained from a third party appraisal firm. The aforementioned adjustments resulted in a retrospective adjustment to goodwill by $2,384,000 and other intangibles by $1,817,000. The $1.653 million in goodwill recognized as a result of this acquisition is not deductible for income tax purposes. The Company included in its financial statements revenues generated by Track Group Analytics of $178,796 for the year ended September 30, 2016.

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

The Company has retrospectively adjusted the previously reported fair values to reflect these amounts as follows *(in thousands)*:

| | As Initially Reported | Measurement Period Adjustments | As Retrospectively Adjusted |
|---|---|---|---|
| Assets | | | |
| Current assets | $ 477 | $ (85) | $ 392 |
| Property and equipment | 5 | 2 | 7 |
| Intangible assets: | | | |
| Patents / developed technology | - | 975 | 975 |
| Customer contracts / relationships | - | 807 | 807 |
| Trade names / trademarks | - | 35 | 35 |
| Goodwill | 4,037 | (2,384) | 1,653 |
| Total assets acquired | 4,519 | (650) | 3,869 |
| | | | |
| Liabilities | | | |
| Current liabilities | 65 | (3) | 62 |
| Loans payable | 381 | (7) | 374 |
| Total liabilities assumed | 446 | (10) | 436 |
| | | | |
| Total purchase consideration | $ 4,073 | $ (640) | $ 3,433 |

***Summary of Unaudited Pro-Forma Information***

The unaudited pro-forma information below for the year ended September 30, 2015 gives effect to the acquisition described herein as, if the acquisition had occurred on October 1, 2014. The pro-forma financial information is not necessarily indicative of the results of operations if the acquisition had been effective as of this date.

| | 2015 |
|---|---|
| Revenues | $ 21,137,315 |
| Loss from operations | (8,380,490) |
| Net loss attributable to the Company | (5,421,800) |
| Basic income per share | (0.53) |
| Diluted income per share | (0.53) |
| Net loss attributable to common shareholders | (5,421,800) |
| Basic income per share | (0.53) |
| Diluted income per share | $ (0.53) |

**(4) Accrued Expenses**

Accrued expenses consisted of the following as of September 30, 2016 and 2015:

| | 2016 | 2015 |
|---|---|---|
| Accrued royalties | $ 16,977 | $ 7,077 |
| Accrued payroll, taxes and employee benefits | 1,424,812 | 1,154,168 |
| Accrued consulting | 123,114 | 367,906 |
| Accrued taxes - foreign and domestic | 311,614 | 93,407 |
| Accrued settlement costs | 35,000 | 30,000 |
| Accrued board of directors fees | 96,000 | 248,830 |
| Accrued other expenses | 93,553 | 69,478 |
| Accrued legal costs | 14,548 | 50,000 |
| Accrued cellular costs | 84 | 20,000 |
| Accrued outside services | 13,768 | 32,067 |
| Accrued warranty and manufacturing costs | 103,441 | 39,050 |
| Accrued interest | 1,743,281 | 593,420 |
| Total accrued expenses | $ 3,976,192 | $ 2,705,403 |

**(5) Certain Relationships and Related Transactions**

The Company entered into certain transactions with related parties during the fiscal years ended September 30, 2016 and 2015. These transactions consist mainly of financing transactions and service agreements. Transactions with related parties are reviewed and approved by the independent and disinterested members of the Board of Directors.

**Disgorgement Funds Received**

During January 2015, the Company received notice from a shareholder stating that it was returning realized profits from trades of the Company's Common Stock during the year ended September 30, 2014. The shareholder also indicated that during this time, the shareholder was subject to Section 16 of the Exchange Act because they owned more than 10% of the shares of Company Common Stock. As such, the shareholder complied with Section 16(b) of the Exchange Act by returning the realized profits to the Company in the amount of $4.7 million. The Company received these funds during January 2015.

During March 2015, the Company received notice from a shareholder stating that it was returning realized profits from trading of the Company's Common Stock during fiscal year 2014. During 2014, the shareholder was subject to Section 16 of the Exchange Act because the shareholder owned more than 10% of the shares of the Company's Common Stock. The shareholder, in compliance with Section 16(b) of the Exchange Act, returned those profits to the Company. The shareholder is also a creditor of the Company. On April 21, 2015 the Company and the shareholder entered into an agreement whereby $215,236, the realized profit recognized by the shareholder, would be deducted from accumulated interest on promissory notes between the shareholder and the Company. During the three months ended June 30, 2015, the Company deducted the amount from accumulated interest due to the shareholder. See the disclosure under "*Revolving Loan Agreement*" for more information.

**Related-Party Loan Agreement**

On September 25, 2015, the Company entered into a loan agreement with one of the Company's related parties, Sapinda Asia to provide the Company with a $5.0 million line of credit that accrues interest at a rate of 3% per annum for undrawn funds and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the loan agreement, available funds may be drawn down at the Company's request at any time until the loan agreement matures on September 30, 2017, when all borrowed funds, plus all accrued but unpaid interest will become due and payable. The Company, however, may elect to satisfy any outstanding obligations under the loan agreement prior to the maturity date without penalties or fees. No funds had been requested on this line of credit as of September 30, 2016.

**Stock Payable – Related Party**

In connection with the acquisitions during 2014 and 2015 described under Note 3 above, the Company recognized a liability for stock payable to the Sellers of the entities acquired. In conjunction with the respective purchase agreements, shares of the Company's stock are payable based on the achievement of certain milestones. Changes in the stock payable liability are shown below:

| | Sept. 30, 2016 | Sept. 30, 2015 |
|---|---|---|
| Beginning balance | $ 3,501,410 | $ 3,000,000 |
| Stock payable resulting from the acquisition of Track Group Analytics | - | 1,170,000 |
| Payment of shares for achieving performance milestones | (211,531) | (668,590) |
| Ending balance | $ 3,289,879 | $ 3,501,410 |

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

| | Sept. 30, 2016 | Sept. 30, 2015 |
|---|---|---|
| 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, 2017. | $ 3,399,644 | - |
| Total related-party debt obligations | $ 3,399,644 | $ - |

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

**(6) Debt Obligations**

Debt obligations as of September 30, 2016 and 2015 consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Unsecured facility agreement with an entity whereby, as of June 30, 2015, the Company may borrow up to 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 $1.2M 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 September 30, 2016, the remaining debt discount was $408,784. | $ 29,991,216 | $ 29,768,243 |
| Loan Agreement whereby the Company can borrow up to $5 million at 8% per annum on borrowed funds maturing on September 30, 2017. | 3,399,644 | - |
| The Company entered into an agreement whereby the Company was granted a non-exclusive, irrevocable, perpetual and royalty-free license to certain patents with an entity. The Company agreed to pay $4,500,000 over two years or $187,500 per month through February 2016. | - | 937,500 |
| Non-interest bearing notes payable to a governmental agency assumed in conjunction with the G2 acquisition. | 182,002 | 254,917 |
| Capital lease with effective interest rate of 12%. Lease matures August 15, 2019. | 18,673 | 24,754 |
| Total debt obligations | 33,591,535 | 30,985,414 |
| Less current portion | (3,245,732) | (796,225) |
| Long-term debt, net of current portion | $ 30,345,803 | $ 30,189,189 |

The following table summarizes the Company's future maturities of debt and related party obligations as of September 30, 2016:

| Fiscal Year | Total |
|---|---|
| 2017 | $ 3,245,732 |
| 2018 | 30,269,844 |
| 2019 | 42,250 |
| 2020 | 32,797 |
| 2021 & thereafter | 912 |
| Debt discount | (408,784) |
| Total | $ 33,182,751 |

The following table summarizes the Company's capital lease obligation included in the schedules of debt and debt obligations above as of September 30, 2016:

| Fiscal Year | Total |
|---|---|
| 2017 | $ 4,440 |
| 2018 | 4,440 |
| 2019 | 4,440 |
| 2020 | 4,440 |
| Thereafter | 913 |
| Total minimum lease payments | 18,673 |
| Less: amount representing interest | (3,705) |
| Present value of net minimum lease payments | 14,968 |
| Less: current portion | (4,440) |
| Obligation under capital leases - long-term | $ 10,528 |

As of September 30, 2016 and 2015, the Company had total capital lease obligations of $14,968 and $18,363, the current portion being $4,440 and $4,440, respectively. At September 30, 2016 and 2015, accumulated amortization of assets under capital leases was $79,300 and $75,702, respectively.

**(7) Preferred Stock**

The Company is authorized to issue up to 20,000,000 shares of preferred stock, $0.0001 par value per share. The Company's Board of Directors has the authority to amend the Company's Articles of Incorporation, without further shareholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the preferred stock before any issuance of the preferred stock and to create one or more series of preferred stock.

**Series D Convertible Preferred Stock**

The Company has designated 85,000 shares of its stock as Series D preferred stock ("*Series D Preferred*"). During the year ended September 30, 2016 and 2015, the Company did not issue any new shares of Series D Preferred. At September 30, 2016, there were no shares of Series D Preferred issued and outstanding, as the remaining shares of Series D Preferred were repurchased during fiscal 2014, when the Company exchanged the remaining 207 shares of Series D Preferred issued and outstanding for 16,907 shares of Common Stock, as discussed below. Additionally, the Company repurchased 42,000 warrants to purchase shares of Series D Preferred for $10,500 during the year ended September 30, 2015. As a result of these transactions, there were no shares of Series D Preferred or options to purchase Series D Preferred shares outstanding at September 30, 2015.

*Dividends.* The Series D Preferred is entitled to dividends at the rate equal to 8% per annum calculated on the purchase amount actually paid for the shares or amount of debt converted. The dividend is payable in cash or shares of Common Stock at the sole discretion of the Board of Directors. If a dividend is paid in shares of Common Stock of the Company, the number of shares to be issued is based on the average per share market price of the Common Stock for the 14-day period immediately preceding the applicable accrual date (i.e., March 31, June 30, September 30, or December 31, as the case may be). Dividends are payable quarterly, no later than 30 days following the end of the accrual period.

During the year ended September 30, 2015, the Company issued 1,249 shares of Common Stock to pay $24,012 of accrued dividends on the Series D Preferred earned during the nine months ended 2014. No similar transactions occurred during the year ended September 30, 2016.

*Convertibility.* Each share of Series D preferred stock may be converted into thirty (30) shares of Common Stock, commencing 90 days after the date of issue. During the year ended September 30, 2014, 207 shares of Series D Preferred were converted into 16,907 shares of Common Stock. No similar transactions occurred during the year ended September 30, 2016. As of September 30, 2016, there were no shares of Series D Preferred outstanding.

*Redemption.* On January 16, 2014, the Company sent out notices to Series D Preferred shareholders regarding the Company's election under the Amended and Restated Designation of the Rights and Preferences to redeem 261 shares of Series D preferred stock at 120% of the aggregate original investment of $260,007 through the payment of cash totaling $312,008. The redemption date was February 13, 2014.

*Series D Preferred Stock Warrants.* During the year ended September 30, 2015, the Company purchased 42,000 warrants to purchase Series D Preferred shares for $10,500 in cash. As of September 30, 2016 and 2015, zero warrants to purchase Series D preferred stock were issued and outstanding. During the fiscal years ended September 30, 2016 and 2015, no shares of Series D Preferred or warrants were issued or exercised.

**(8) Common Stock**

**Common Stock Issuances**

During the fiscal year ended September 30, 2016, the Company issued 72,228 shares of Common Stock. Of these shares, 26,674 shares were issued for services rendered to the Company valued at $259,380; 32,490 shares valued at $211,531 were issued in connection with the acquisition of a subsidiary and for that subsidiary meeting performance milestones; and 13,064 shares were issued to pay Board of Director fees of $97,168. See Note 9 for additional Common Stock issued under the 2012 Equity Compensation Plan.

During the fiscal year ended September 30, 2015, the Company issued 168,158 shares of Common Stock. Of these shares, 28,753 shares were issued for services rendered to the Company valued at $306,577; 97,777 shares valued at $1,148,741 were issued in connection with the acquisition of a subsidiary and for that subsidiary meeting performance milestones; and 40,628 shares were issued to pay Board of Director fees of $438,417. See Note 9 for additional Common Stock issued under the 2012 Equity Compensation Plan.

## (9) Stock Options and Warrants

**Stock Incentive Plan**

At the Annual Meeting of Shareholders on December 21, 2011, the shareholders approved the 2012 Equity Compensation Plan (the " *2012 Plan*"), and at the Annual Meeting of Shareholders on May 19, 2015, the Company's shareholders approved an amendment increasing the number of shares of Common Stock available for issuance under 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 have important relationships with the Company. A total of 803,262 shares are authorized for issuance pursuant to awards granted under the 2012 Plan. During the fiscal years ended September 30, 2016 and 2015, there were options to purchase 146,362 and 137,166 shares of Common Stock were issued under this 2012 Plan. During the year ended September 30, 2016, we issued 43,278 shares of Common Stock under this plan. Of the 43,278 shares of Common Stock issued during 2016, 23,674 shares valued at $238,080 were issued in accordance with an employee long-term incentive plan. Over the course of the next year, the Company will recognize approximately $164,400 in compensation expense associated with unvested stock awards under this employee long-term incentive plan. All shares issued under this employee long-term incentive plan are issued from the 2012 Plan. As of September 30, 2016, 302,507 shares of Common Stock were available for future grants under the 2012 Plan.

**All Options and Warrants**

During the fiscal year ended September 30, 2016, the Company granted 146,362 warrants to members of its Board of Directors, valued at $402,593. As of September 30, 2016, $68,217 of compensation expense associated with unvested stock options and warrants issued previously to members of the Board of Directors will be recognized over the next year.

During the fiscal year ended September 30, 2015, the Company granted 137,166 warrants to members of its Board of Directors, valued at $389,380. As of September 30, 2015, $266,396 of compensation expense associated with unvested stock options and warrants issued previously to members of the Board of Directors will be recognized over the next year.

The following are the weighted-average assumptions used for options granted during the fiscal years ended September 30, 2016 and 2015 using the Black-Scholes model, respectively:

| | Fiscal Years Ended September 30, | |
|---|---|---|
| | **2016** | **2015** |
| Expected stock price volatility | 92% | 51% |
| Risk-free interest rate | 0.74% | 0.30% |
| Expected life of options | 2 Years | 2 Years |

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. The expected life of stock options and 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. In fiscal year 2014, the Company changed from a daily to weekly volatility. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options and warrants. The dividend yield represents the Company's anticipated cash dividends over the expected life of the stock option and warrants.

A summary of the compensation-based options and warrants activity for the fiscal years ended September 30, 2016 and 2015 is presented below:

| | Shares Under Option | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding as of September 30, 2014 | 305,251 | $ 15.71 | 1.05 years | $ 487,402 |
| Granted | 137,166 | $ 11.17 | | |
| Expired | (60,761) | $ 24.75 | | |
| Exercised | - | $ - | | |
| Outstanding as of September 30, 2015 | 381,656 | $ 13.28 | 1.38 years | $ - |
| Granted | 146,362 | $ 6.15 | | |
| Expired | (23,027) | $ 10.55 | | |
| Exercised | - | $ - | | |
| Outstanding as of September 30, 2016 | 504,991 | $ 10.78 | 1.15 years | $ 182,095 |
| Exercisable as of September 30, 2016 | 504,991 | $ 10.78 | 1.15 years | $ 182,095 |

The fiscal year end intrinsic values are based on a September 30, 2016 closing price of $7.20 per share.

**(10) 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 fiscal years ended September 30, 2016 and 2015, the Company incurred net losses for income tax purposes of $8,495,621 and $5,648,369, 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.

At September 30, 2016, the Company had net carryforwards available to offset future taxable income of approximately $152,000,000, which will begin to expire in 2018. The utilization of the net loss carryforwards is dependent upon the tax laws in effect at the time the net operating loss carryforwards can be utilized. The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of these net operating loss carryforwards. An ownership change generally affects the rate at which NOLs and potentially other deferred tax assets are permitted to offset future taxable income. Since the Company maintains a full valuation allowance on all of its U.S. and state deferred tax assets, the impact of prior year ownership changes on the future realizability of its U.S. and state deferred tax assets did not result in an impact to our provision for income taxes for the year ended September 30, 2016, or on the Company’s net deferred tax asset as of September 30, 2016.

The deferred income tax assets (liabilities) were comprised of the following for the periods indicated:

| | Fiscal Years Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Net loss carryforwards | $ 56,716,000 | $ 52,797,000 |
| Accruals and reserves | 1,013,000 | 410,000 |
| Contributions | 24,000 | 23,000 |
| Depreciation | (470,000) | (326,000) |
| Stock-based compensation | 577,000 | 714,000 |
| Valuation allowance | (57,860,000) | (53,618,000) |
| Total | $ - | $ - |

Reconciliations between the benefit for income taxes at the federal statutory income tax rate and the Company's benefit for income taxes for the years ended September 30, 2016 and 2015 are as follows:

| | Fiscal Years Ended September 30, | |
|---|---|---|
| | 2016 | 2015 |
| Federal income tax benefit at statutory rate | $ 2,889,000 | $ 1,920,000 |
| State income tax benefit, net of federal income tax effect | 280,000 | 186,000 |
| Change in estimated tax rate and gain (loss) on non-deductible expenses | 1,073,000 | (5,771,000) |
| Change in valuation allowance | (4,242,000) | 3,665,000 |
| Benefit for income taxes | $ - | $ - |

During the fiscal year ended September 30, 2014, the Company began recognizing revenues from international sources from its products and monitoring services. During the fiscal year ended September 30, 2014, the Company began recognizing a liability for value-added taxes, which will be due upon collection. At September 30, 2016, the Company had a net receivable related to payments on VAT tax of $137,210.

The Company’s open tax years for its federal and state income tax returns are for the tax years ended September 30, 2012 through September 30, 2016.

**(11) Commitments and Contingencies**

**Legal Matters**

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

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

Larry C. Duggan v. Court Programs of Florida, Inc. and SecureAlert, Inc. On March 26, 2012, Mr. Duggan filed a complaint in the 9th Circuit Court in and for Orange County, Florida alleging malicious prosecution, abuse of process and negligent infliction of emotional distress against the Company and its subsidiary. The case resulted from actions of a former agent of the Company’s subsidiary. The Company continues to defend itself in this matter. A trial date has been set for January 3, 2017. The Company has not accrued any potential loss as the probability of incurring a material loss is deemed remote by management, after consultation with outside legal counsel.

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 breach of contract and negligence in monitoring of certain offenders in Dougherty County, Georgia, as well as a request for punitive damages. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. We believe the allegations are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016 the Company filed a complaint in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas. We believe we will be successful in this action to recover the unpaid balance and interest under the loan agreement and promissory note.

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

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

**Operating Lease Obligations**

The following table summarizes the Company's contractual obligations as of September 30, 2016:

| **Fiscal Year** | **Total** |
|---|---|
| 2017 | $ 389,881 |
| 2018 | 126,738 |
| 2019 | 100,960 |
| Thereafter | 95,907 |
| Total | $ 713,486 |

The total operating lease obligations of $713,486, related to facilities operating leases. During the years ended September 30, 2016 and 2015, the Company paid $543,068 and $589,809, in lease payment obligations, respectively.

**Intellectual Property Settlement**

In January 2010, the Company entered into an intellectual property settlement agreement with an entity whereby the Company agreed to begin paying the greater of a 6% royalty or $0.35 per activated device of monitoring revenues, subject to certain adjustments. The Company and other party disagreed with the methodology used to calculate such royalty; litigation was commenced by the Company in December 2013 to resolve the matter. During the year ended September 30, 2013, the Company negotiated a settlement of this litigation. Under the terms of the settlement, both parties restructured their relationship and provided reciprocal licenses for all patents listed in the settlement agreement effective January 29, 2010. In addition, each party provided the other with a reciprocal license for future patents awarded the respective party. The Company also agreed to pay the entity a total of $4,500,000 in 24 equal monthly installments of $187,500 in exchange for the granting of a non-exclusive, irrevocable, perpetual and royalty-free license to certain patents held by the entity.

**Indemnification Agreements**

The Company's Bylaws require the Company to indemnify any individual who is made a party to a proceeding because the individual is or was a director or officer of the Company against any liability or expense incurred in connection with such proceeding to the extent allowed under the Utah Revised Business Corporation Act (the "*UBCA*"), if the Company has properly authorized indemnification under Section 16.10a-906 of the UBCA. Section 16-10a-906(2) of the UBCA requires that the Company determine, before granting indemnification, that: (i) the individual's conduct was in good faith; (ii) the individual reasonably believed that the individual's conduct was in, or not opposed to, the Company's best interests; and (iii) in the case of any criminal proceeding, the individual had no reasonable cause to believe the individual's conduct was unlawful. The foregoing description is necessarily general and does not describe all details regarding the indemnification of officers and directors of the Company.

**(12) Intangible Assets**

The following table summarizes the activity of intangible assets for the years ended September 30, 2016 and 2015, respectively:

| 2016 | Weighted Average Useful Life (yrs) | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
|---|---|---|---|---|
| Patent & royalty agreements | 7.99 | $ 21,170,565 | $ (5,078,709) | $ 16,091,856 |
| Developed technology | 7.50 | 9,651,074 | (2,187,825) | 7,463,249 |
| Customer relationships | 8.06 | 2,555,086 | (708,494) | 1,846,592 |
| Trade name | 9.56 | 319,383 | (213,638) | 105,745 |
| Website | 3.00 | 78,201 | (44,993) | 33,208 |
| Total | | $ 33,774,309 | $ (8,233,659) | $ 25,540,650 |

| 2015 | Weighted Average Useful Life (yrs) | Gross Carrying Amount | Accumulated Amortization | Net Book Value |
|---|---|---|---|---|
| Patent & royalty agreements | 7.99 | $ 21,170,565 | $ (3,742,188) | $ 17,428,377 |
| Developed technology | 8.11 | 7,442,186 | (1,291,876) | 6,150,310 |
| Customer relationships | 8.05 | 2,538,496 | (387,385) | 2,151,111 |
| Trade name | 9.55 | 310,762 | (190,064) | 120,698 |
| Website | 3.00 | 50,386 | (16,795) | 33,591 |
| Total | | $ 31,512,395 | $ (5,628,308) | $ 25,884,087 |

The intangible assets summarized above were purchased on various dates from January 2010 through December 31, 2014. The assets have useful lives ranging from three to ten years. Amortization expense for the years ended September 30, 2016 and 2015 was $2,550,882 and $2,688,537, respectively.

The following table summarizes the future maturities of amortization of intangible assets as of September 30, 2016:

| Fiscal Year | Amortization | Patent | STOP Royalty |
|---|---|---|---|
| 2017 | $ 3,031,881 | $ 5,556 | $ 450,000 |
| 2018 | 3,008,694 | 5,556 | 450,000 |
| 2019 | 2,999,980 | 1,851 | 450,000 |
| 2020 | 2,908,498 | - | 450,000 |
| 2021 | 2,705,052 | - | 450,000 |
| Thereafter | 10,886,545 | - | 1,087,500 |
| Total | $ 25,540,650 | $ 12,963 | $ 3,337,500 |

***Goodwill*** – During the year ended September 30, 2016, the Company recognized goodwill as a result of acquisitions discussed in the Acquisitions footnote. In accordance with accounting principles generally accepted in the United States of America the Company does not amortize goodwill. These principles require the Company to periodically perform tests for goodwill impairment, at least annually, or sooner if evidence of possible impairment arises. The Company evaluated the goodwill for impairment as of September 30, 2016. Based on the evaluation made, the Company concluded that no impairment of goodwill was necessary.

Goodwill, as of September 30 consisted of the following:

| | **September 30,** | |
|---|---|---|
| | **2016** | **2015** |
| Balance - beginning of year | $ 7,782,903 | $ 6,577,609 |
| Additions resulting from acquisitions: | | |
| Acquisition of Track Group Analytics Limited | - | 1,653,815 |
| Effect of foreign currency translation on goodwill | 172,973 | (448,521) |
| Balance - end of year | $ 7,955,876 | $ 7,782,903 |

**(13) Subsequent Events**

On October 19, 2016 the Company received a notice of non-renewal of the Agreement for Extended Monitoring and Associated Serviced dated November 19, 2013 between I.C.S. of the Bahamas. Ltd., and the Company and International Surveillance Services Corp. and the Ministry of National Security of the Government of the Bahamas. The contract had been on a month-to-month status since November 19, 2013 and subject to a 30-day notice of termination. The contract formally ended on November 18, 2016. The Company expects all of its GPS monitoring equipment to be returned.

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

On December 16, 2016, the Company announced the appointment of Peter K. Poli, as the Company's Chief Financial Officer, effective January 6, 2017. Before joining the Company, Mr. Poli served as the Chief Financial Officer of Grand Banks Yachts Limited from August 18, 2014 through December 31, 2015. In addition, he served as an Executive Director of Grand Banks Yachts from March 31, 2008 through October 28, 2015. Refer to the Company's Current Report on Form 8K, filed December 16, 2016 for further details.

Management has reviewed and evaluated additional subsequent events and transactions occurring after the balance sheet date through the filing of this Annual Report on Form 10-K and determined that, other than as disclosed above, no subsequent events occurred.

**EXHIBIT 31**

**RULE 13a-14(a) CERTIFICATION IN ACCORDANCE WITH SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Guy Dubois, principal executive officer, and acting principal financial officer, of Track Group, Inc. (the "*Company*"), certify that:

1. I have reviewed this annual report on Form 10-K of the Company;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officer 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 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 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 and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 20, 2016

By: /s/ Guy Dubois

Guy Dubois
Principal Executive Officer and Acting Principal Financial Officer

**EXHIBIT 32**

**CERTIFICATION PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Track Group, Inc. (the "*Company*") on Form 10-K for the fiscal year ended September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Guy Dubois, the Principal Executive Officer, and Acting 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), as applicable, of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Guy Dubois

Guy Dubois
Principal Executive Officer and Acting Principal Financial Officer
December 20, 2016