

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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: 0-23153

Track Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization

)

87-0543981

(I.R.S. Employer Identification Number)

405 S. Main Street, Suite 700, Salt Lake City, Utah 84111

(Address of principal executive offices) (Zip Code)

(801) 451-6141

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares outstanding of the registrant's common stock as of August 9, 2016 was 10,305,211.

Track Group, Inc.

FORM 10-Q

For the Quarterly Period Ended June 30, 2016

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

Assets	June 30, 2016 <u>(Unaudited)</u>	September 30, 2015
<i>Current assets:</i>		
Cash	\$ 2,007,852	\$ 4,903,045
Accounts receivable, net of allowance for doubtful accounts of \$4,997,938 and \$4,156,963, respectively	6,719,803	6,044,931
Note receivable, current portion	334,733	306,434
Prepaid expenses and other	548,151	1,266,277
Inventory, net of reserves of \$98,150 and \$225,900, respectively	580,269	741,514
Total current assets	10,190,808	13,262,201
Property and equipment, net of accumulated depreciation of \$3,200,720 and \$2,822,166, respectively	1,284,295	1,697,630
Monitoring equipment, net of accumulated amortization of \$3,002,672 and \$2,225,480, respectively	3,876,268	2,784,595
Intangible assets, net of accumulated amortization of \$7,563,174 and \$5,628,308, respectively	25,678,740	25,884,087
Other assets	2,741,780	2,619,035
Goodwill	7,875,146	7,782,903
Total assets	<u>\$ 51,647,037</u>	<u>\$ 54,030,451</u>
Liabilities and Stockholders' Equity		
<i>Current liabilities:</i>		
Accounts payable	2,567,581	2,363,441
Accrued liabilities	3,928,693	2,705,403
Current portion of long-term debt, net of discount of \$0 and \$222,973, respectively	69,494	796,225
Total current liabilities	6,565,768	5,865,069
Stock payable - related party	3,439,978	3,501,410
Long-term debt, net of current portion and discount of \$464,527 and \$408,784, respectively	31,485,159	30,189,188
Other long-term liabilities	-	106,671
Total liabilities	41,490,905	39,662,338
<i>Stockholders' equity:</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 10,305,211 and 10,261,288, outstanding, respectively	1,031	1,026
Additional paid-in capital	298,520,891	297,591,034
Accumulated deficit	(286,677,661)	(280,845,882)
Accumulated other comprehensive income	(1,688,129)	(2,378,065)
Total equity	10,156,132	14,368,113
Total liabilities and stockholders' equity	<u>\$ 51,647,037</u>	<u>\$ 54,030,451</u>

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

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

	Three Months Ended		Nine Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:				
Products	\$ 62,125	\$ 210,332	\$ 316,737	\$ 487,482
Monitoring, analytics & other related services	6,692,286	5,231,337	19,347,317	14,390,923
Total revenues	6,754,411	5,441,669	19,664,054	14,878,405
Cost of revenues:				
Products	101,228	76,220	249,925	152,497
Monitoring, analytics & other related services	1,907,493	1,427,572	5,531,692	4,622,460
Depreciation & amortization included in cost of revenues	488,655	481,298	1,498,407	1,144,407
Impairment of monitoring equipment and parts (Note 4)	60,000	85,221	180,000	225,522
Total cost of revenues	2,557,376	2,070,311	7,460,024	6,144,886
Gross profit	4,197,035	3,371,358	12,204,030	8,733,519
Operating expenses:				
General & administrative	3,612,957	3,983,988	10,448,942	10,122,719
Selling & marketing	470,829	616,395	1,684,130	1,587,802
Research & development	651,952	425,173	1,811,697	1,235,049
Depreciation & amortization	621,311	827,672	2,055,915	2,132,039
Total operating expenses	5,357,049	5,853,228	16,000,684	15,077,609
Loss from operations	(1,160,014)	(2,481,870)	(3,796,654)	(6,344,090)
Other income (expense):				
Interest expense, net	(683,482)	(566,992)	(2,009,399)	(1,872,844)
Currency exchange rate gain (loss)	18,438	(145,476)	(66,119)	(519,478)
Disgorgement funds received (Note 18)	-	215,286	-	4,915,286
Other income, net	41,112	72,642	40,393	84,248
Net loss attributable to common shareholders	(1,783,946)	(2,906,410)	(5,831,779)	(3,736,878)
Foreign currency translation adjustments	(280,319)	(449,377)	689,936	(355,397)
Comprehensive loss	\$ (2,064,265)	\$ (3,355,787)	\$ (5,141,843)	\$ (4,092,275)
Basic loss per common share	\$ (0.17)	\$ (0.29)	\$ (0.57)	\$ (0.37)
Diluted loss per common share	\$ (0.17)	\$ (0.29)	\$ (0.57)	\$ (0.37)
Weighted average common shares outstanding, basic	10,302,000	10,149,000	10,278,000	10,149,000
Weighted average common shares outstanding, diluted	10,302,000	10,149,000	10,278,000	10,149,000

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

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

	Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (5,831,779)	\$ (3,736,878)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,554,322	3,488,398
Impairment of monitoring equipment and parts	180,000	225,522
Amortization of debt discount	167,230	286,751
Loss on disposal of monitoring equipment included on cost of sales	67,097	184,556
Bad debt expense	844,968	347,488
Common stock issued for services	60,001	217,085
Stock based compensation	539,275	-
Vesting and re-pricing of stock options	437,197	341,905
Loss on disposal of property and equipment	27,419	(334,981)
Change in assets and liabilities:		
Accounts receivable, net	(1,430,852)	(2,857,986)
Notes receivable	(28,299)	(23,755)
Inventories	161,159	(746,822)
Prepaid expenses and other assets	581,451	(686,759)
Accounts payable	145,774	1,419,089
Accrued expenses	2,489,900	1,054,190
Deferred revenue	-	(6,881)
Net cash provided by (used in) operating activities	<u>1,964,863</u>	<u>(829,078)</u>
Cash flow from investing activities:		
Purchase of property and equipment	(58,271)	(482,343)
Capitalized software	(1,518,800)	-
Purchase of monitoring equipment and parts	(2,315,140)	(1,625,853)
Leasehold improvements	-	(28,662)
Payment related to acquisition	-	(1,782,849)
Net cash used in investing activities	<u>(3,892,211)</u>	<u>(3,919,707)</u>
Cash flow from financing activities:		
Principal payments on notes payable	(1,003,976)	(1,768,282)
Repurchase of Series D Convertible Preferred Stock and warrants	-	(10,500)
Net cash used in financing activities	<u>(1,003,976)</u>	<u>(1,778,782)</u>
Effect of exchange rate changes on cash	36,131	(50,787)
Net decrease in cash	(2,895,193)	(6,578,354)
Cash, beginning of period	4,903,045	11,101,822
Cash, end of period	<u>\$ 2,007,852</u>	<u>\$ 4,523,468</u>
	2016	2015
Cash paid for interest	\$ 50,614	\$ 933,808
<i>Supplemental schedule of non-cash investing and financing activities:</i>		
Issuance of common stock and warrants for accrued Board of Director fees	133,135	270,016
Payment of interest from increase in interest bearing debt	1,399,644	-
Common stock issuance for the acquisition of a subsidiary and milestone achievements	61,432	912,404

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

(1) BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial information of Track Group, Inc. and subsidiaries (collectively, the “*Company*” or “*Track Group*”) has been prepared in accordance with the Instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission (“*SEC*”). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“*GAAP*”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting only of normal recurring adjustments necessary to present fairly the Company’s financial position as of June 30, 2016, and results of its operations for the three and nine months ended June 30, 2016. These financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2015. The results of operations for the three and nine months ended June 30, 2016 may not be indicative of the results for the fiscal year ending September 30, 2016.

(2) PRINCIPLES OF CONSOLIDATION

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

(3) RECENTLY ISSUED ACCOUNTING STANDARDS

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

During 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.

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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.

(4) IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable and in the case of goodwill, at least annually. The Company evaluates whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. If the carrying amount of an asset exceeds its fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there is an identifiable fair value that is independent of other groups of assets. The Company recorded \$60,000 and \$85,221 of impairment expenses related to monitoring equipment for the three months ended June 30, 2016 and 2015, respectively, and \$180,000 and \$225,522 of impairment expenses related to monitoring equipment for the nine months ended June 30, 2016 and 2015, respectively.

(5) BUSINESS COMBINATIONS

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

Acquired Assets and Assumed Liabilities

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

Contingent Consideration

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

(6) ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net loss as currently reported under U.S. GAAP and other comprehensive loss. Other comprehensive loss considers the effects of additional economic events, such as foreign currency translation adjustments, that are not required to be recorded in determining net loss, but rather are reported as a separate component of stockholders' equity. The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the following operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars (USD) at the prevailing exchange rate at June 30, 2016.

(7) NET LOSS PER COMMON SHARE

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

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

Common share equivalents consist of shares issuable upon the exercise of common stock options and warrants. As of June 30, 2016 and 2015, there were 450,991 and 271,471 outstanding common share equivalents, respectively, that were not included in the computation of Diluted EPS for the three and nine months ended June 30, 2016 and the three and nine months ended June 30, 2015, respectively as their effect would

be anti-dilutive. The common stock equivalents outstanding as of June 30, 2016 and 2015 consisted of the following:

	June 30, 2016	June 30, 2015
Exercise of outstanding common stock options and warrants	450,991	271,471
Total common stock equivalents	<u>450,991</u>	<u>271,471</u>

(8) ACQUISITION

Track Group Analytics Limited

On November 26, 2014, the Company entered into a Share Purchase Agreement to purchase from the shareholders of Track Group Analytics Limited, formerly G2 Research Limited (“TGA”), all issued and outstanding shares of TGA for an aggregate purchase price of up to CAD\$4,600,000 (the “TGA Acquisition”), of which CAD\$2,000,000 was paid in cash to the TGA shareholders on the Closing Date with the remainder of the purchase price to be paid as follows: (i) CAD\$600,000 to the former TGA shareholders in shares of common stock of which one-half of the shares were issued on the one-year anniversary of the closing and the balance to be issued on the two-year anniversary of the closing; and (ii) the CAD\$2,000,000 to the former TGA shareholders in shares of common stock over a two-year period beginning as of the closing, subject to the achievement of certain milestones set forth in the purchase agreement. As of June 30, 2016, the Company had issued 38,499 shares of common stock in connection with this acquisition, and 70,962 shares of common stock to the TGA shareholders upon achieving certain performance milestones.

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.

Summary of Unaudited Pro-Forma Information

The unaudited pro-forma information below for the three and nine months ended June 30, 2016 and 2015 gives effect to each of the acquisitions described herein as if the acquisitions had occurred on October 1, 2013. The pro-forma financial information is not necessarily indicative of the results of operations if the acquisitions had been effective as of this date.

	Three Months Ended		Nine Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:	6,754,411	5,441,669	19,664,054	15,243,552
Loss from operations	(1,160,014)	(2,481,870)	(3,796,654)	(6,401,970)
Net income (loss) from continuing operations	(1,783,946)	(2,906,410)	(5,831,779)	(1,838,776)
Basic earnings (loss) per common share	\$ (0.17)	\$ (0.29)	\$ (0.57)	\$ (0.18)
Diluted earnings (loss) per common share	\$ (0.17)	\$ (0.29)	\$ (0.57)	\$ (0.18)
Net income (loss) attributable to common shareholders	(1,783,946)	(2,906,410)	(5,831,779)	(1,838,776)
Basic earnings (loss) per common share	\$ (0.17)	\$ (0.29)	\$ (0.57)	\$ (0.18)
Diluted earnings (loss) per common share	\$ (0.17)	\$ (0.29)	\$ (0.57)	\$ (0.18)

(9) PREPAID AND OTHER EXPENSES

The carrying amounts reported in the balance sheets for prepaid expenses and other current assets approximate their fair market value based on the short-term maturity of these instruments. As of June 30, 2016 and September 30, 2015, the outstanding balance of prepaid and other expenses was \$548,151 and \$1,266,277, respectively. The \$548,151 as of June 30, 2016 is comprised largely of prepayments toward inventory purchases, vendor deposits and other prepaid supplier expenses.

(10) INVENTORY

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

Inventory consists of finished goods that are 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 June 30, 2016 and September 30, 2015, respectively, inventory consisted of the following:

	June 30, 2016	September 30, 2015
Finished goods inventory	\$ 678,419	\$ 967,414
Reserve for damaged or obsolete inventory	(98,150)	(225,900)
Total inventory, net of reserves	\$ 580,269	\$ 741,514

(11) PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2016 and September 30, 2015, were as follows:

	June 30, 2016	September 30, 2015
Equipment, software and tooling	\$ 2,683,994	\$ 2,823,685
Automobiles	86,768	33,466
Leasehold improvements	1,300,413	1,351,017
Furniture and fixtures	413,840	311,628
Total property and equipment before accumulated depreciation	<u>4,485,015</u>	<u>4,519,796</u>
Accumulated depreciation	<u>(3,200,720)</u>	<u>(2,822,166)</u>
Property and equipment, net of accumulated depreciation	<u>\$ 1,284,295</u>	<u>\$ 1,697,630</u>

Property and equipment depreciation expense for the three months ended June 30, 2016 and 2015 was \$93,474 and \$97,784, respectively. Depreciation for the nine months ended June 30, 2016 and 2015 was \$482,464 and \$417,879, respectively.

(12) MONITORING EQUIPMENT

Monitoring equipment as of June 30, 2016 and September 30, 2015, was as follows:

	June 30, 2016	September 30, 2015
Monitoring equipment	\$ 6,878,940	\$ 5,010,075
Less: accumulated amortization	(3,002,672)	(2,225,480)
Monitoring equipment, net of accumulated depreciation	<u>\$ 3,876,268</u>	<u>\$ 2,784,595</u>

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

Depreciation of monitoring equipment for the three months ended June 30, 2016 and 2015 was \$376,154 and \$368,798, respectively. Depreciation of monitoring equipment for the nine months ended June 30, 2016 and 2015 was \$1,160,907 and \$806,907, respectively. These expenses were recognized in cost of revenues.

(13) INTANGIBLE ASSETS

The following table summarizes the activity of intangible assets for the second fiscal quarter ended June 30, 2016:

	June 30, 2016	September 30, 2015
Other intangible assets:		
Patent & royalty agreements	21,170,565	21,170,565
Technology	9,118,932	7,442,186
Customer relationships	2,559,757	2,538,496
Trade name	314,459	310,762
Website	<u>78,201</u>	<u>50,386</u>
Total intangible assets	33,241,914	31,512,395
Accumulated amortization	<u>(7,563,174)</u>	<u>(5,628,308)</u>
Intangible assets, net of accumulated amortization	<u>\$ 25,678,740</u>	<u>\$ 25,884,087</u>

The intangible assets summarized above were purchased on various dates from January 2010 through June 2016. The assets have useful lives ranging from three to ten years. Amortization expense of intangible assets for the three months ended June 30, 2016 and 2015 was \$527,838 and \$622,265, respectively. Amortization for the nine months ended June 30, 2016 and 2015 was \$1,573,451 and \$1,561,949, respectively.

(14) GOODWILL

The following table summarizes the activity of goodwill at June 30, 2016 and September 30, 2015, respectively:

	June 30, 2016	September 30, 2015
Balance - beginning of period	\$ 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	92,243	(448,521)
Balance - end of period	<u>\$ 7,875,146</u>	<u>\$ 7,782,903</u>

Goodwill is recognized in connection with acquisition transactions in accordance with ASC 805. The Company performs an impairment test for goodwill annually or more frequently if indicators of potential impairment exist. No impairment of goodwill had been recognized through June 30, 2016.

(15) OTHER ASSETS

As of June 30, 2016 and September 30, 2015, the outstanding balance of other assets was \$2,741,780 and \$2,619,035, respectively. The balance of other assets is comprised largely of a cash collateralized performance bond for an international customer. The Company anticipates this restricted cash will be unrestricted and available to the Company in March of 2018.

(16) ACCRUED EXPENSES

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

	June 30, 2016	September 30, 2015
Accrued royalties	\$ 20,711	\$ 7,077
Accrued payroll, taxes and employee benefits	1,713,340	1,154,168
Accrued consulting	280,202	367,906
Accrued taxes - foreign and domestic	13,036	93,407
Accrued settlement costs	146,892	30,000
Accrued board of directors fees	104,849	248,830
Accrued other expenses	87,360	69,478
Accrued professional and outside service fees	80,624	82,067
Accrued cellular costs, internet and office expenses	63,247	20,000
Accrued warranty and manufacturing costs	359,076	39,050
Accrued interest	1,059,356	593,420
Total accrued expenses	<u>\$ 3,928,693</u>	<u>\$ 2,705,403</u>

(17) DEBT OBLIGATIONS

On July 14, 2015, we entered into an Amended and Restated Facility Agreement (the “*Amended Facility Agreement*”) with Conrent Invest S.A. (“*Conrent*”) to amend certain provisions of the Company’s existing \$25.0 million unsecured debt facility. Pursuant to the terms and conditions of the Amended Facility Agreement, effective June 30, 2015, the Company was able to borrow an additional \$5.4 million of unsecured debt, which, together with the \$25.0 million of unsecured debt previously borrowed under the debt facility, now accrues interest at a rate of 8% per annum and mature on July 31, 2018. The Amended Facility Agreement also provides the Company with a voluntary prepayment option, whereby the Company may pay all amounts borrowed, including all accrued but unpaid interest, prior to the maturity date without any penalty or prepayment fee. In connection with the execution of the Amended Facility Agreement, the Company used the available \$5.4 million to pay to Conrent an arrangement fee of \$500,000 and \$822,222 of accrued but unpaid interest. During the year ended September 30, 2015, the Company received the remaining \$4.08 million as working capital.

On September 25, 2015, the Company entered into a Loan Agreement (the “*Loan Agreement*”) with one of the Company’s related parties, Sapinda Asia Limited (“*Sapinda*”) to provide the Company with a \$5.0 million line of credit that accrues interest at a rate of 3% per annum for undrawn funds, and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the Loan Agreement, available funds may be drawn down at the Company’s request at any time until the Loan Agreement matures on September 30, 2017 (the “*Maturity Date*”), when all borrowed funds, plus all accrued but unpaid interest will become due and payable. The Company, however, may elect to satisfy any outstanding obligations under the Loan Agreement prior to the Maturity Date without penalties or fees. The Company drew \$1,399,644 of this line of credit during the nine months ended June 30, 2016.

On February 8, 2016 the Company submitted, under the terms of the Loan Agreement, to Sapinda a second Notice of Borrowing in the amount of \$2.0 million, with a funding date of February 26, 2016. As of June 30, 2016 Sapinda had failed to fund the \$2.0 million. Under the terms of the Loan Agreement Sapinda incurs a penalty of \$1,000 per day beginning on the third calendar day from the date specified for funding under the Notice of Borrowing. As of June 30, 2016 Sapinda has incurred penalties of \$210,000. The penalty has been treated as a gain contingency and has therefore not been reflected in the financial statements as of June 30, 2016. See Note 22, “*Subsequent Events*,” below for events pertaining to the Loan Agreement subsequent to June 30, 2016.

On May 1, 2016, the Company entered into an unsecured Loan Agreement with Conrent, acting with respect to its Compartment Safety III (the “*Conrent Loan Agreement*”). Under the Conrent Loan Agreement, the Company can borrow \$5.0 million for working capital, repayment of debt, and operating purposes. When funded, the unsecured loan will bear interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued unpaid interest due on July 31, 2018. In addition, the Company anticipates paying the lender an arrangement fee of \$112,500 when it receives proceeds from this loan. As of June 30, 2016, the Company had not received the funds under the Conrent Loan Agreement.

Debt obligations as of June 30, 2016 and September 30, 2015, respectively, are comprised of the following:

	June 30, 2016	September 30, 2015
Unsecured facility agreement with an entity whereby, as of June 30, 2015, the Company may borrow up to \$30.4 million bearing interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued and unpaid interest due on July 31, 2018. A \$1.2M origination fee was paid and recorded as a debt discount and will be amortized as interest expense over the term of the loan. The remaining debt discount was \$464,527 and \$631,757 at June 30, 2016 and September 30, 2015, respectively.	\$ 29,935,473	\$ 29,768,242
Loan Agreement whereby the Company can borrow up to \$5 million at 8% per annum on borrowed funds maturing on September 30, 2017.	\$ 1,399,644	-
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
Capital leases of office equipment with effective interest rates ranging from 9%-12%. Leases mature on various dates between November 2017 and August 2019.	20,048	24,754
Non-interest bearing notes payable to a governmental agency assumed in conjunction with the G2 acquisition.	199,488	254,917
Total debt obligations	\$ 31,554,653	\$ 30,985,414
Less current portion	(69,494)	(796,225)
Long-term portion of related party debt	-	-
Long-term debt, net of current portion	<u>\$ 31,485,159</u>	<u>\$ 30,189,188</u>

The following table summarizes the Company's future maturities of debt obligations, net of the amortization of debt discounts as of June 30, 2016:

Fiscal Year	Total
2016	\$ 22,795
2017	1,469,139
2018	30,453,750
2019	42,503
2020 & thereafter	30,993
Debt discount	(464,527)
Total	<u>\$ 31,554,653</u>

In connection with the TGA Acquisition, as described in Note 8 above, the Company assumed three notes payable to the Atlantic Canada Opportunities Agency ("ACO"). The notes are non-interest bearing and are payable in monthly increments ranging from \$3,125 to \$4,125.

(18) RELATED-PARTY TRANSACTIONS

Disbursement Funds Received

During January 2015, the Company received notice from a shareholder of the Company stating that the shareholder was returning realized profits from their 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 Security Exchange Act of 1934, as amended (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 \$215,286, 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.

Related-Party Loan Agreements

On September 25, 2015, the Company entered into the Loan Agreement described in Note 17 above with Sapinda, a significant shareholder, 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. The Company drew \$1,399,644 of this line of credit during the nine months ended June 30, 2016.

On February 8, 2016, the Company submitted, under the terms of the Loan Agreement, to Sapinda a second Notice of Borrowing in the amount of \$2.0 million, with a funding date of February 26, 2016. As of June 30, 2016 Sapinda had failed to fund the \$2.0 million. Under the terms of the Loan Agreement Sapinda incurs a penalty of \$1,000 per day beginning on the third calendar day from the date specified for funding under the Notice of Borrowing. As of June 30, 2016 Sapinda has incurred penalties of \$210,000. The penalty has been treated as a gain contingency and has therefore not been reflected in the financial statements as of June 30, 2016. See Note 22, "Subsequent Events," below for events pertaining to the Loan Agreement subsequent to June 30, 2016.

Stock Payable – Related Party

In connection with the acquisitions described under Note 8 above, the Company recognized a liability for stock payable to the former owners of the entities acquired. In conjunction with the respective purchase agreements, shares of the Company's common stock are payable based on the achievement of certain milestones. Changes in the stock payable liability are shown below:

	June 30, 2016	September 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	(61,432)	(668,590)
Ending balance	<u>\$ 3,439,978</u>	<u>\$ 3,501,410</u>

Shares of common stock valued at \$3,000,000 that can be earned by the former owner of GPS Global Tracking and Surveillance System, Ltd., now a wholly-owned subsidiary of the Company, subject to achieving certain milestones, were included in the beginning balance shown above. Each of the foregoing related-party transactions was reviewed and approved by disinterested and independent members of the Company's Board of Directors.

(19) PREFERRED AND COMMON 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. As of June 30, 2016, there were no shares of preferred stock outstanding.

During the year ended September 30, 2015, the Company purchased 42,000 warrants to purchase shares of Series D Preferred for \$10,500 in cash. As of June 30, 2016, zero warrants to purchase shares of Series D Preferred were issued and outstanding.

The Company is authorized to issue up to 30,000,000 shares of common stock, \$0.0001 par value per share. During the nine months ended June 30, 2016, the Company issued 7,185 shares of common stock to the former owners of TGA (see Note 8) for achievement of certain earn-out milestones outlined in the Share Purchase Agreement. The Company issued 13,064 shares of stock to individuals for their services as members of the Board of Directors. In addition, 23,674 shares of common stock were issued to employees under a long term incentive program.

(20) STOCK OPTIONS AND WARRANTS**Stock Incentive Plan**

At the annual meeting of shareholders on March 21, 2011, the shareholders approved the 2012 Equity Compensation Plan (the "2012 Plan"). The 2012 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who provide services to the Company in lieu of cash. A total of 90,000 shares were initially authorized for issuance pursuant to awards granted under the 2012 Plan. At the 2015 annual meeting of shareholders held on May 19, 2015, our stockholders approved a 713,262 share increase to the total number of shares authorized under the 2012 Plan. During the nine months ended June 30, 2016 and 2015, 14,286 warrants were issued under the 2012 Plan. As of June 30, 2016, 359,507 shares of common stock were available for future grants under the 2012 Plan.

All Options and Warrants

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. During the nine months ended June 30, 2016 and 2015, the Company granted 229,528 and 23,856 warrants to purchase shares of common stock. These warrants vest immediately and expire two years from grant date. The Company recorded expense of \$47,571 and \$106,915 for the three months ended June 30, 2016 and 2015 and expense of \$160,260 and \$341,905 for the nine months ended June 30, 2016 and 2015, respectively, related to the issuance and vesting of outstanding stock options and warrants.

The option and warrant grants for nine months ended June 30, 2016 were valued using the Black-Scholes model with the following weighted-average assumptions:

	2016	2015
Expected stock price volatility	96 %	73 %
Risk-free interest rate	0.98 %	0.53 %
Expected life of options	2 Years	2 Years

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

A summary of stock option activity for the nine months ended June 30, 2016 is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of September 30, 2015	381,656	\$ 15.71	1.05 years	
Granted	92,362	\$ 6.82		
Expired	(23,027)	\$ 9.63		
Exercised	-	\$ -		
Outstanding as of June 30, 2016	450,991	\$ 11.48	1.15 years	\$ -
Exercisable as of June 30, 2016	450,991	\$ 11.48	1.15 years	\$ -

The intrinsic value of options outstanding and exercisable is based on the Company's share price of \$5.00 at June 30, 2016.

(21) 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 complaint was subsequently withdrawn by the plaintiffs. An amended complaint was filed by the plaintiffs 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.

(22) SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the accompanying consolidated financial statements were issued. Subsequent to June 30, 2016, the following events occurred:

Subsequent to June 30, 2016, the Company received \$2.0 million requested under a Related-Party Loan Agreement from Sapinda Asia Limited on July 14, 2016 (See Notes 17 and 18). The gain referenced in Note 17 was not recognized upon receipt of funds. Consistent with prior practices with Lender, the Company will deduct the penalty gain from the principal and any accrued interest upon repayment of the loan pursuant to the terms of the Loan Agreement.

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

Forward-Looking Statements

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, for the fiscal year ended September 30, 2015, and Current Reports on Form 8-K that have been filed with the SEC through the date of this Report. Except as otherwise indicated, as used in this Report, the terms "*the Company*," "*Track Group*," "*we*," "*our*," "*us*," refer to Track Group, Inc., a Utah corporation.

General

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

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

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

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

Monitoring Center Services. Our monitoring center facilities provide live 24/7/365 monitoring of all alarms generated from our devices, as well as customer and technical support. Our monitoring center operators play a vital role, and as such, we staff our centers with highly-trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery back-up and triple redundancy in voice, data, and IP. The Company has established monitoring centers in 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.

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

Recent Developments

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. 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 June 30, 2016, the Company had not received the funds under the Conrent Loan Agreement.

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.

Strategy

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

Critical Accounting Policies

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

A description of the Company's critical accounting policies that affect the preparation of the Company's financial statements is set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2015. Such policies were unchanged during the nine months ended June 30, 2016.

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

Results of Operations

Three Months Ended June 30, 2016, Compared to Three Months Ended June 30, 2015

Revenue

For the three months ended June 30, 2016, the Company recognized revenue from operations of \$6,754,411, compared to \$5,441,669 for the three months ended June 30, 2015, an increase of \$1,312,742. The 24% increase in revenue was principally the result of (i) expansion and growth of offender monitoring in Chile, both intensive probation and standard probation programs, (ii) increases in total growth of our North American monitoring operations-specifically in Indiana and Virginia, and (iii) increases in our analytics service offerings.

Product revenue decreased \$148,207 (70%) from \$210,332 for the three months ended June 30, 2015, to \$62,125 for the three months ended June 30, 2016. The decrease in product revenue is the result of our 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 three months ended June 30, 2016, cost of revenue totaled \$2,557,376 compared to cost of revenue during the three months ended June 30, 2015 of \$2,070,311, an increase of \$487,065 (24%). The increase in cost of revenue was largely the result of increases in total monitoring, analytics and other related services revenue deployed in domestic and international operations, and to a lesser extent, an increase in analytics services attributable to our Canadian subsidiary. Increases in cost of sales include but are not limited to personnel costs, commissions, SIM card charges and other incremental revenue related costs.

Depreciation and amortization included in cost of revenue for the three months ended June 30, 2016 and 2015 totaled \$488,655 and \$481,298, respectively. The \$7,357 (2%) increase in costs principally represents depreciation of monitoring devices as well as the amortization of certain royalty agreements. Devices are depreciated over a three to five year useful life. Royalty agreements are being amortized over a ten year useful life. The Company believes these lives are appropriate due to rapid changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses estimates for useful lives of assets for appropriateness.

The Company expects cost of revenue as a percentage of total revenue to decrease in the foreseeable future due to (i) lower manufacturing costs of its Shadow device, (ii) lower data costs due to a reduction in voice related services, (iii) outsourcing of repairs and maintenance of its monitoring equipment and supply chain, (iv) efficiencies realized in automation, and (v) adoption of our analytics software.

Impairment cost for equipment and parts for the three months ended June 30, 2016 and 2015 were \$60,000 and \$85,221, respectively. These costs relate to disposal of obsolete inventory, monitoring equipment and parts as we continue to make significant enhancements to our various devices and monitoring platform.

Gross Profit and Margin

During the three months ended June 30, 2016, gross profit totaled \$4,197,035, or 62% of net revenue compared to \$3,371,358, or 62% of net revenue during the three months ended June 30, 2015. The increase in absolute gross profit is due to higher overall revenues. The Company anticipates that gross profit as a percentage of total revenue will improve in subsequent periods as initiatives currently in development are realized.

Research and Development Expense

During the three months ended June 30, 2016, research and development expense totaled \$651,952 compared to \$425,173 for the three months ended June 30, 2015, an increase of \$226,779 (53%). The Company is significantly enhancing its technology platform to improve the efficiency of its software, firmware, user interface, and improve automation. As a result of these improvements, \$419,890 was capitalized as developed technology during the three months ended June 30, 2016. A portion of these expenses would have been recognized as research and development expense, absent the significant enhancements to the technology.

General and Administrative Expense

During the three months ended June 30, 2016, general and administrative expense totaled \$3,612,957 compared to \$3,983,988 for the three months ended June 30, 2015. The decrease of \$371,031 (9%) in general and administrative cost resulted largely from decreases in (i) payroll and foreign operations costs, (ii) travel related expense, (iii) legal, advisory and consulting fees, and (iv) board of director fees and travel related costs.

Selling and Marketing Expense

During the three months ended June 30, 2016, selling and marketing expense decreased to \$470,829 compared to \$616,395 for the three months ended June 30, 2015. The \$145,566 (24%) decrease resulted from decreases in (i) payroll and benefits, (ii) sales travel expense, and (iii) certain trade show and other marketing related costs that were incurred in the same period last year but did not occur during the three months ended June 30, 2016.

Depreciation and Amortization Expense

During the three months ended June 30, 2016, depreciation and amortization expense totaled \$621,311 compared to \$827,672 for the three months ended June 30, 2015. The \$206,361 (25%) decrease was largely the result of certain personal property and equipment assets becoming fully depreciated during the three months ended June 30, 2016.

Other Income and Expense

For the three months ended June 30, 2016, net interest expense was \$683,482 compared to \$566,992 for the three months ended June 30, 2015, an increase of \$116,490. The increase in net interest expense resulted primarily from an increase in overall interest bearing debt during the 2016 period.

Net Loss

The Company had a net loss of \$1,783,946 for the three months ended June 30, 2016, compared to a net loss of \$2,906,410 for the three months ended June 30, 2015, a decrease of \$1,122,464. This decrease in net loss is largely due to (i) increases in total revenue, (ii) decreases in general and administrative expense, and (iii) decreases in sales and marketing expense that occurred during the three months ended June 30, 2015 that did not occur during the same period in 2016.

Nine Months Ended June 30, 2016, Compared to Nine Months Ended June 30, 2015

Revenue

For the nine months ended June 30, 2016, the Company recognized revenue from operations of \$19,664,054 compared to \$14,878,405 for the nine months ended June 30, 2015, an increase of \$4,785,649 (32%). Of these revenues, \$19,347,317 and \$14,390,923, respectively, were from monitoring, analytics and other related services, an increase of \$4,956,394 (34%). The increase in revenue was principally the result of (i) expansion and growth of offender monitoring in Chile both intensive probation and standard probation programs, (ii) increases in total growth of our North American monitoring operations specifically Indiana and Virginia, and (iii) increases in our data analytics service offerings.

Product revenue decreased \$170,745 (35%) from \$487,482 for the nine months ended June 30, 2015, to \$316,737 for the nine months ended June 30, 2016. The 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.

Our international operations expose us to certain currency fluctuations of the local currency in relation to the dollar; therefore, foreign currencies may appreciate or depreciate due to inflation or devaluation in relation to the dollar. We cannot predict foreign currency volatility in relation to the dollar.

Cost of Revenue

During the nine months ended June 30, 2016, cost of revenue totaled \$7,460,024 compared to cost of revenue during the nine months ended June 30, 2015 of \$6,144,886, an increase of \$1,315,138 (21%). The increase in cost of revenue was largely the result of 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.

Depreciation and amortization included in cost of revenue for the nine months ended June 30, 2016 and 2015 totaled \$1,498,407 and \$1,144,407, respectively. This \$354,000 (31%) increase in costs largely represent the depreciation associated with a higher number of deployed devices as well as the amortization of certain royalty agreements. Devices are depreciated over a three to five year useful life. Royalty agreements are being amortized over a ten year useful life. The Company believes these lives are appropriate due to rapid changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses estimates for useful lives of assets for appropriateness.

The Company anticipates the cost of revenue as a percentage of total revenue to decrease in the foreseeable future due to (i) lower manufacturing costs of its Shadow device, (ii) lower data costs due to a reduction in voice related requirements increase, (iii) outsourcing of repairs and maintenance of its monitoring equipment and supply chain, (iv) efficiencies realized through automation, and (v) adoption of our analytics services.

Impairment cost for equipment and parts for the nine months ended June 30, 2016 and 2015 were \$180,000 and \$225,522, respectively. These costs resulted from the disposal of obsolete inventory, monitoring equipment and parts as we continue to make significant enhancements to our various devices and monitoring platform.

Gross Profit and Margin

During the nine months ended June 30, 2016, gross profit totaled \$12,204,030, or 62% of net revenue compared to \$8,733,519, or 59% of net revenues during the nine months ended June 30, 2015. 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.

Research and Development Expense

During the nine months ended June 30, 2016, research and development expense totaled \$1,811,697 compared to research and development expense for the nine months ended June 30, 2015 totaling \$1,235,049, an increase of \$576,648 (47%). The increased investment in research and development costs were incurred to (i) streamline our device hardware, hence expediting manufacturing time, and (ii) enhance both the firmware and software of our devices to improve overall user experience. The Company is currently significantly enhancing its software platform. As a result of these improvements, \$1,581,169 was capitalized as developed technology during the nine months ended June 30, 2016. A portion of these expenses would have been recognized as research and development expense, absent the software enhancements.

General and Administrative Expense

During the nine months ended June 30, 2016, general and administrative expense totaled \$10,448,942 compared to \$10,122,719 for the nine months ended June 30, 2015. The increase of \$326,223 (3%) in general and administrative cost resulted largely from (i) increases in stock compensation expense associated with a long term incentive plan and its respective vesting schedule under the Company's 2012 Plan, (ii) increases in professional fees and settlement costs, and (iii) bad debt expense attributable to a 2013 contract with Mexico and devices that were not returned.

Selling and Marketing Expense

During the nine months ended June 30, 2016, selling and marketing expense totaled \$1,684,130 compared to \$1,587,802 for the nine months ended June 30, 2015. The \$96,328 (6%) increase was principally the result of (i) increases in outsourced marketing service providers including travel, (ii) increases in trade show, public relations, and lobbying expense, and (iii) increases in consulting and other professional services in order to accelerate growth initiatives.

Depreciation and Amortization Expense

During the nine months ended June 30, 2016, depreciation and amortization expense totaled \$2,055,915 compared to \$2,132,039 for the nine months ended June 30, 2015. The \$76,124 (4%) decrease was largely the result of certain assets still in use becoming fully depreciated during the nine months ended June 30, 2016.

Other Income and Expense

For the nine months ended June 30, 2016, net interest expense was \$2,009,399 compared to \$1,872,844 for the nine months ended June 30, 2015. This increase in interest expense resulted primarily from the increase in interest bearing debt outstanding, offset by an increase in interest income during the nine months ended June 30, 2016 when compared to the nine months ended June 30, 2015.

Net Loss

The Company had a net loss for the nine months ended June 30, 2016 totaling \$5,831,779 compared to a net loss of \$3,736,878 for the nine months ended June 30, 2015. This increase is largely due to \$4.7 million in disgorgement profits from one of our shareholders, pursuant to Section 16(b) of the Exchange Act (see Note 18 to our condensed consolidated financial statements in 2015), which was not received during the same period in 2016.

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 three or nine months ended June 30, 2016. In addition to increasing cash generated from operations, existing and unused credit facilities, available cash resources at June 30, 2016 are anticipated to meet the Company's working capital requirements for the next twelve months.

As of June 30, 2016, the Company had unrestricted cash of \$2,007,852 and a working capital surplus of \$3,625,040, compared to unrestricted cash of \$4,903,045 and a working capital surplus of \$7,397,132 as of September 30, 2015.

The Company used cash of \$3,892,211 for investing activities during the nine months ended June 30, 2016, compared to \$3,919,707 of cash used in investing activities in the nine months ended June 30, 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 three months ended June 30, 2016.

The Company used \$1,003,976 of cash for financing activities during the nine months ended June 30, 2016, compared to \$1,778,782 in cash used in the nine months ended June 30, 2015. Cash used in financing activities was for principal payments applied toward a perpetual license agreement and leases during the nine months ended June 30, 2016. The \$187,500 per month paid toward the license was satisfied in February 2016.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risks

We had \$7,610,492 and \$4,753,169 in revenue from sources outside the United States for the nine months ended June 30, 2016 and 2015, respectively. Although we typically transact the sale of monitoring equipment and services in U.S. Dollars, we do receive payments in an equivalent value of foreign currencies which resulted in foreign exchange losses of \$66,119 and \$519,478 during the nine months ended June 30, 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 trading or speculative purposes. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement strategies which make use of these or other instruments in order to minimize the effects of foreign currency exchange on our business.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and (ii) is accumulated and communicated to our management, including the members of our Executive Committee (our acting principal executive officers) and Chief Financial Officer (our principal financial and accounting officer), to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our Executive Committee and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, our Executive Committee and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of June 30, 2016.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There was no change in our internal control over financial reporting during our quarter ended June 30, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Lazar Leybovich et al. v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. The complaint was subsequently withdrawn by the plaintiffs. An amended complaint was filed by the plaintiffs 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.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

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Exhibit Number	Title of Document
3(i)(1)	Amended and Restated Articles of Incorporation of SecureAlert, Inc., filed May 19, 2015 (incorporated by reference to our Current Report on Form 8-K, filed May 21, 2015).
3(i)(2)	Articles of Amendment to the Articles of Incorporation of Track Group, Inc., dated February 23, 2016 (incorporated by reference to our Current Report on Form 8-K, filed March 2, 2016).
3(i)(3)	Articles of Transfer of Track Group, Inc., a Utah corporation, dated August 5, 2016 (filed herewith).
3(i)(4)	Certificate of Conversion Converting Track Group, Inc., a Utah corporation, to Track Group, Inc., a Delaware corporation, dated August 5, 2016 (filed herewith).
3(i)(5)	Certificate of Incorporation of Track Group, Inc., a Delaware corporation (filed herewith).
3(ii)(1)	Amended and Restated Bylaws (incorporated by reference to our Form 10-Q for the three months ended March 31, 2010).
3(ii)(2)	Bylaws of Track Group, Inc., a Delaware corporation (filed herewith).
4.01	2012 Equity Incentive Award Plan (incorporated by reference to our Definitive Proxy Statement, filed October 25, 2011).
10.1	Settlement and Royalty and Share Buy Back among Borinquen Container Corporation, Sapinda Asia Limited, and SecureAlert, effective February 4, 2013 (incorporated by reference to our Current Report on Form 8-K, filed in February 2013).
10.2	Notice of Conversion from Sapinda Asia Limited, dated September 24, 2013 (incorporated by reference to our Form 10-K for the fiscal year ended September 30, 2013).
10.3	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).
10.4	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).
10.5	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).
10.6	Loan Agreement, by and 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).
10.7	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).
10.8	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).
10.9	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 (filed herewith).
14.1	Code of Ethics (previously filed as Exhibit on Form 10-K for the fiscal year ended September 30, 2013, filed in January 2014).
21	Subsidiaries of the Registrant (previously filed as Exhibit on Form 10-K for the fiscal year ended September 30, 2013, filed in January 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 the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Track Group, Inc.

Date: August 9, 2016

By: /s/ Guy Dubois
Guy Dubois, Member of Executive Committee
(Acting Principal Executive Officer)

Date: August 9, 2016

By: /s/ John R. Merrill
John R. Merrill, Chief Financial Officer
(Principal Accounting Officer)

ARTICLES OF TRANSFER

OF

TRACK GROUP, INC.

August 5, 2016

Pursuant to the provisions of the Utah Revised Business Corporation Act, as amended, Track Group, Inc., a Utah corporation (the "*Corporation*"), adopts the following Articles of Transfer and certifies as follows:

1. The name of the Corporation prior to the transfer contemplated herein is Track Group, Inc. The name of the Corporation following the transfer is Track Group, Inc.
2. The Corporation's original Articles of Incorporation were filed with the Utah Division of Corporations and Commercial Code (the "*Division*") on July 27, 1995.
3. The Corporation shall be converted from a Utah corporation to a Delaware corporation pursuant to duly executed Delaware Certificate of Conversion and Certificate of Incorporation.
4. The effective date of the transfer described herein shall be the date upon which these Articles of Transfer are filed with the Division of Corporations and Commercial Code of the Department of Commerce of the State of Utah.
5. The transfer of the Corporation has been approved by a majority of the votes cast at a meeting of the Corporation's shareholders by the holders of shares entitled to vote thereon.
6. The existence of the Corporation as a domestic corporation of Utah shall cease when these Articles of Transfer are filed.
7. The Corporation agrees that it may be served with process in Utah in any proceeding for enforcement of any obligation of the Corporation arising while it was a corporation under the laws of the State of Utah, and irrevocably appoints DJP Corporate Services Salt Lake, located at 111 East Broadway, Suite 900, Salt Lake City, Utah 84111, as agent to accept service for process in any proceeding.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned hereby certifies and verifies, under penalties of perjury, that the facts stated in these Articles of Transfer are true and accurate and executes and delivers these Articles of Transfer this 5th day of August, 2016.

Track Group, Inc.
a Utah corporation

By: /s/ Guy Dubois

Name: Guy Dubois

Title: Executive Committee Member, Acting Chief Executive Officer

CERTIFICATE OF CONVERSION

CONVERTING

TRACK GROUP, INC.

a Utah corporation

to

TRACK GROUP, INC.

a Delaware corporation

This Certificate of Conversion is being duly executed and filed by the person authorized to sign this Certificate of Conversion on behalf of Track Group, Inc., a Utah corporation (the "*Converting Corporation*"), to convert the Converting Corporation to Track Group, Inc., a Delaware corporation (the "*Resulting Corporation*"), under the General Corporation Law of the State of Delaware.

1. The date on which, and the jurisdiction where, the Converting Corporation was first incorporated are as follows:

<u>Date</u>	<u>Jurisdiction</u>
July 27, 1995	State of Utah

2. The name and type of entity of the Converting Corporation immediately prior to the filing of this Certificate of Conversion is Track Group, Inc., a Utah corporation.

3. The name of the Resulting Corporation as set forth in its certificate of incorporation filed in accordance with subsection (b) of Section 265 of the General Corporation Law of the State of Delaware is "Track Group, Inc."

[Signature page follows]

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Conversion this 5th day of August, 2016.

Track Group, Inc.

By: /s/ Guy Dubois

Name: Guy Dubois

Title: Executive Committee Member, Acting
Chief Executive Officer

**CERTIFICATE OF INCORPORATION
OF
TRACK GROUP, INC.**

**ARTICLE I
NAME**

The name of the Corporation is Track Group, Inc. (the "*Corporation*").

**ARTICLE II
REGISTERED OFFICE**

The address of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road, Suite 400, City of Wilmington, County of New Castle, and the name of the registered agent of the Corporation in the State of Delaware at such address is Corporation Service Company.

**ARTICLE III
PURPOSE**

The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware (the "*DGCL*").

**ARTICLE IV
STOCK**

A . *Authorized Stock.* The aggregate number of shares which the Corporation shall have authority to issue is Fifty Million (50,000,000), of which Thirty Million (30,000,000) shall be designated as Common Stock, par value \$0.0001 per share ("*Common Stock*"), and Twenty Million (20,000,000) shall be designated as Preferred Stock, par value \$0.0001 per share ("*Preferred Stock*").

B. *Common Stock.*

(i) *Voting.* Except as otherwise provided by the DGCL or this Certificate of Incorporation, the entire voting power of the shares of the Corporation for the election of directors and for all other purposes shall be vested exclusively in the Common Stock. Each share of Common Stock shall have one vote upon all matters to be voted on by the holders of the Common Stock.

(ii) *Dividends.* Subject to the rights, if any, of the holders of any outstanding series of Preferred Stock, each share of Common Stock shall be entitled to receive and share equally in all dividends paid out of any funds of the Corporation legally available therefor when, as and if declared by the Board of Directors of the Corporation (the "*Board of Directors*").

(iii) *Liquidation.* Upon the dissolution, liquidation or winding up of the Corporation, subject to the rights, if any, of the holders of any outstanding series of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive the assets of the Corporation available for distribution to its stockholders ratably in proportion to the number of shares held by them.

C. *Preferred Stock.* The Preferred Stock may be issued at any time and from time to time in one or more series. Subject to the provisions of this Certificate of Incorporation, the Board of Directors is authorized to fix from time to time by resolution or resolutions the number of shares of any class or series of Preferred Stock, and to determine the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, of any such class or series. Further, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any such class or series, the Board of Directors is authorized to increase or decrease (but not below the number of shares of such class or series then outstanding) the number of shares of any such class or series subsequent to the issuance of shares of that class or series.

ARTICLE V EXISTENCE

The Corporation is to have perpetual existence.

ARTICLE VI BOARD OF DIRECTORS

A. *Number of Directors.* The authorized number of directors of the Corporation shall be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board of Directors at any regular or special meeting of such Board of Directors, within any limits prescribed in the bylaws of the Corporation.

B. *Elections.* Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

C. *Vacancies.* Other than in connection with an annual or special meeting of stockholders and subject to the provisions hereof, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or another cause may be filled only by the affirmative vote of a majority of the remaining directors then in office, even though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until such director's successor shall have been duly elected and qualified or until his or her earlier resignation, removal from office, death or incapacity. Subject to the provisions of this Amended and Restated Certificate of Incorporation, no decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

ARTICLE VII LIABILITY OF DIRECTORS

A. *Limitation on Liability.* To the fullest extent permitted by the DGCL, as the same exists or as may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

B. *Indemnification.* Each person who is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, employee benefit plan or other enterprise (including the heirs, executors, administrators or estate of such person), shall be indemnified and advanced expenses by the Corporation, in accordance with the bylaws of the Corporation, to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment) or any other applicable laws as presently or hereinafter in effect. The right to indemnification and advancement of expenses hereunder shall not be exclusive of any other right that any person may have or hereafter acquire under any statute, provision of the Amended and Restated Certificate of Incorporation, bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

C . *Insurance.* The Corporation may, to the fullest extent permitted by law, purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any expense, liability or loss incurred by such person in any such capacity or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the DGCL.

D . *Repeal and Modification.* Any repeal or modification of the foregoing provisions of this Article VII shall not adversely affect any right or protection existing hereunder immediately prior to such repeal or modification.

**ARTICLE VIII
BUSINESS COMBINATIONS WITH
INTERESTED STOCKHOLDERS**

The Corporation shall not be governed by Section 203 of the DGCL.

**ARTICLE IX
AMENDMENT**

A . *Amendment of Certificate of Incorporation.* The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Delaware, and all rights conferred herein are granted subject to this reservation.

B . *Amendment of Bylaws.* In furtherance and not in limitation of the powers conferred by applicable law, the Board of Directors is expressly authorized to adopt, amend and repeal the Bylaws of the Corporation.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by its duly authorized officer this 5th day of August, 2016.

Track Group, Inc.

By: /s/ Guy Dubois

Name: Guy Dubois

Title: Executive Committee Member, Acting Chief
Executive Officer

BYLAWS
OF
TRACK GROUP, INC.
(A DELAWARE CORPORATION)

**BYLAWS
OF
TRACK GROUP, INC.
(A DELAWARE CORPORATION)**

ARTICLE I

OFFICES

Section 1. Registered Office. The registered office of Track Group, Inc. (the “*Corporation*”) in the State of Delaware shall be in the City of Wilmington, County of New Castle.

Section 2. Other Offices. The Corporation shall also have and maintain an office or principal place of business at such place as may be fixed by the Board of Directors of the Corporation (the “*Board of Directors*”), and may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

CORPORATE SEAL

Section 3. Corporate Seal. The Board of Directors may adopt a corporate seal. Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE III

STOCKHOLDERS’ MEETINGS

Section 4. Place of Meetings. Meetings of the stockholders of the Corporation may be held at such place, either within or without the State of Delaware, as may be determined from time to time by the Board of Directors. The Board of Directors may, in its sole discretion, determine that the meeting shall not be held at any place, but may instead be held solely by means of remote communication as provided under the Delaware General Corporation Law (“*DGCL*”).

Section 5. Annual Meeting.

(a) The annual meeting of the stockholders of the Corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors. Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders: (i) pursuant to the Corporation’s notice of meeting of stockholders; (ii) by or at the direction of the Board of Directors; or (iii) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in the following paragraph, who is entitled to vote at the meeting and who complied with the notice procedures set forth in Section 5.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (iii) of Section 5(a) of these Bylaws, (i) the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, (ii) such other business must be a proper matter for stockholder action under the DGCL, (iii) if the stockholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the Corporation with a Solicitation Notice (as defined in this Section 5(b)), such stockholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the Corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the Corporation's voting shares reasonably believed by such stockholder or beneficial owner to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder, and must, in either case, have included in such materials the Solicitation Notice, and (iv) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the stockholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this Section 5. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced more than thirty (30) days prior to or delayed by more than thirty (30) days after the anniversary of the preceding year's annual meeting, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. Such stockholder's notice shall set forth: (A) as to each person whom the stockholder proposed to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 Act") and Rule 14a-4(d) thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (C) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner, (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner, and (iii) whether either such stockholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of the proposal, at least the percentage of the Corporation's voting shares required under applicable law to carry the proposal or, in the case of a nomination or nominations, a sufficient number of holders of the Corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

(c) Notwithstanding anything in the second sentence of Section 5(b) of these Bylaws to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least one hundred (100) days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Section 5 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(d) Only such persons who are nominated in accordance with the procedures set forth in this Section 5 shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 5. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in these Bylaws and, if any proposed nomination or business is not in compliance with these Bylaws, to declare that such defective proposal or nomination shall not be presented for stockholder action at the meeting and shall be disregarded.

(e) Notwithstanding the foregoing provisions of this Section 5, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholders' meeting, stockholders must provide notice as required by the regulations promulgated under the 1934 Act. Nothing in these Bylaws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation proxy statement pursuant to Rule 14a-8 under the 1934 Act.

(f) For purposes of this Section 5, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the 1934 Act.

Section 6. Special Meetings.

(a) Special meetings of the stockholders of the Corporation may be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the Chief Executive Officer, or (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption), and shall be held at such place, on such date, and at such time as the Board of Directors shall fix.

(b) If a special meeting is properly called by any person or persons other than the Board of Directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by certified or registered mail, return receipt requested, or by telegraphic or other facsimile transmission to the Chairman of the Board of Directors, the Chief Executive Officer, or the Secretary of the Corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 7 of these Bylaws. Nothing contained in this paragraph (b) shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

Section 7. Notice of Meetings. Except as otherwise provided by law, notice, given in writing or by electronic transmission, of each meeting of stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, if any, date and hour, in the case of special meetings, the purpose or purposes of the meeting, and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at any such meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the Corporation. Notice of the time, place, if any, and purpose of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof or by electronic transmission by such person, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person, by remote communication, if applicable, or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

Section 8. Quorum and Voting. At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these Bylaws, the presence, in person, by remote communication, if applicable, or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by statute, or by the Certificate of Incorporation or these Bylaws, in all matters other than the election of directors, the affirmative vote of a majority of shares present in person, by remote communication, if applicable, or represented by proxy duly authorized at the meeting and entitled to vote generally on the subject matter shall be the act of the stockholders. Except as otherwise provided by statute, the Certificate of Incorporation or these Bylaws, directors shall be elected by a plurality of the votes of the shares present in person, by remote communication, if applicable, or represented by proxy duly authorized at the meeting and entitled to vote generally on the election of directors. Where a separate vote by a class or classes or series is required, except where otherwise provided by the statute or by the Certificate of Incorporation or these Bylaws, a majority of the outstanding shares of such class or classes or series, present in person, by remote communication, if applicable, or represented by proxy duly authorized, shall constitute a quorum entitled to take action with respect to that vote on that matter. Except where otherwise provided by statute or by the Certificate of Incorporation or these Bylaws, the affirmative vote of the majority (plurality, in the case of the election of directors) of shares of such class or classes or series present in person, by remote communication, if applicable, or represented by proxy at the meeting shall be the act of such class or classes or series.

Section 9. Adjournment and Notice of Adjourned Meetings. Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the shares present in person, by remote communication, if applicable, or represented by proxy. When a meeting is adjourned to another time or place, if any, notice need not be given of the adjourned meeting if the time and place, if any, thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the Corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 10. Voting Rights. For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the Corporation on the record date, as provided in Section 12 of these Bylaws, shall be entitled to vote at any meeting of stockholders. Every person entitled to vote or execute consents shall have the right to do so either in person, by remote communication, if applicable, or by an agent or agents authorized by a proxy granted in accordance with Delaware law. An agent so appointed need not be a stockholder. No proxy shall be voted after three (3) years from its date of creation unless the proxy provides for a longer period.

Section 11. Joint Owners of Stock. If shares or other securities having voting power stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two (2) or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (a) if only one (1) votes, his act binds all; (b) if more than one (1) votes, the act of the majority so voting binds all; (c) if more than one (1) votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the DGCL, Section 217(b). If the instrument filed with the Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of subsection (c) shall be a majority or even-split in interest.

Section 12. List of Stockholders. The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or during ordinary business hours, at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. The list shall be open to examination of any stockholder during the time of the meeting as provided by law.

Section 13. Action Without Meeting.

(a) Unless otherwise provided in the Certificate of Incorporation, any action required by statute to be taken at any annual or special meeting of the stockholders, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, or by electronic transmission setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

(b) Every written consent or electronic transmission shall bear the date of signature of each stockholder who signs the consent, and no written consent or electronic transmission shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated consent delivered to the Corporation in the manner herein required, written consents or electronic transmissions signed by a sufficient number of stockholders to take action are delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested.

(c) Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing or by electronic transmission and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders to take action were delivered to the Corporation as provided in Section 228(c) of the DGCL. If the action which is consented to is such as would have required the filing of a certificate under any section of the DGCL if such action had been voted on by stockholders at a meeting thereof, then the certificate filed under such section shall state, in lieu of any statement required by such section concerning any vote of stockholders, that written consent has been given in accordance with Section 228 of the DGCL.

(d) A facsimile, electronic mail or other electronic communication consenting to an action to be taken and transmitted by a stockholder or proxyholder, shall be deemed to be written, signed and dated for the purposes of this section, provided that any such communication sets forth or is delivered with information from which the Corporation can determine (i) that the communication was transmitted by the stockholder or proxyholder or by a person or persons authorized to act for the stockholder and (ii) the date on which such stockholder or proxyholder or authorized person or persons transmitted such communication. The date on which such communication is transmitted shall be deemed to be the date on which such consent was signed. No consent given by facsimile, electronic mail or other electronic communication shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the Corporation by delivery to its registered office in the state of Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a Corporation's registered office shall be made by hand or by certified or registered mail, return receipt requested. Notwithstanding the foregoing limitations on delivery, consents given by facsimile, electronic mail or other electronic communication may be otherwise delivered to the principal place of business of the Corporation or to an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded if, to the extent and in the manner provided by resolution of the board of directors of the Corporation. Any copy or other reliable reproduction of a consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy or other reproduction shall be a complete reproduction of the entire original writing.

Section 14. Organization.

(a) At every meeting of stockholders, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or, if the President is absent, a chairman of the meeting chosen by a majority in interest of the stockholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

(b) The Board of Directors of the Corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the Corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. The date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting shall be announced at the meeting. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

ARTICLE IV

DIRECTORS

Section 15. Number and Term of Office. The authorized number of directors of the Corporation shall be fixed by the Board of Directors from time to time. Directors need not be stockholders unless so required by the Certificate of Incorporation. If for any cause, the directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient.

Section 16. Powers. The powers of the Corporation shall be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation.

Section 17. Term of Directors.

(a) Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, directors shall be elected at each annual meeting of stockholders for a term of one year. Each director shall serve until his successor is duly elected and qualified or until his death, resignation or removal. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(b) No person entitled to vote at an election for directors may cumulate votes to which such person is entitled.

Section 18. Vacancies.

(a) Unless otherwise provided in the Certificate of Incorporation, and subject to the rights of the holders of any series of Preferred Stock, any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other causes and any newly created directorships resulting from any increase in the number of directors shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by stockholders, be filled only by the affirmative vote of a majority of the directors then in office, even though less than a quorum of the Board of Directors, or by a sole remaining director, *provided, however*, that whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the Certificate of Incorporation, vacancies and newly created directorships of such class or classes or series shall, unless the Board of Directors determines by resolution that any such vacancies or newly created directorships shall be filled by stockholders, be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected. Any director elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the director for which the vacancy was created or occurred and until such director's successor shall have been elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this Bylaw in the case of the death, removal or resignation of any director.

Section 19. Resignation. Any director may resign at any time by delivering his or her notice in writing or by electronic transmission to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more directors shall resign from the Board of Directors, effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

Section 20. Removal.

(a) Subject to any limitations imposed by applicable law and subject to the rights of the holders of any series of Preferred Stock, the Board of Directors or any director may be removed from office at any time (i) with cause by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the Corporation entitled to vote generally at an election of directors or (ii) without cause by the affirmative vote of the holders of a majority of the voting power of all then-outstanding shares of capital stock of the Corporation, entitled to vote generally at an election of directors.

(b) Subject to the rights of the holders of any series of Preferred Stock, the Board of Directors or any individual director may be removed from office at any time without cause by the affirmative vote of the holders of at least a majority of the outstanding shares entitled to vote on such removal; *provided, however*, that unless the entire Board is removed, no individual director may be removed when the votes cast against such director's removal, or not consenting in writing to such removal, would be sufficient to elect that director if voted cumulatively at an election which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of such director's most recent election were then being elected.

Section 21. Meetings

(a) **Regular Meetings.** Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may be held at any time or date and at any place within or without the State of Delaware which has been designated by the Board of Directors and publicized among all directors, either orally or in writing, including a voice-messaging system or other system designated to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means. No further notice shall be required for a regular meeting of the Board of Directors.

(b) **Special Meetings.** Unless otherwise restricted by the Certificate of Incorporation, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board or the President.

(c) **Meetings by Electronic Communications Equipment.** Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(d) **Notice of Special Meetings.** Notice of the time and place of all special meetings of the Board of Directors shall be orally or in writing, by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, facsimile, telegraph or telex, or by electronic mail or other electronic means, during normal business hours, at least twenty-four (24) hours before the date and time of the meeting. If notice is sent by US mail, it shall be sent by first class mail, postage prepaid at least three (3) days before the date of the meeting. Notice of any meeting may be waived in writing or by electronic transmission at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(e) **Waiver of Notice.** The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after the meeting, each of the directors not present who did not receive notice shall sign a written waiver of notice or shall waive notice by electronic transmission. All such waivers shall be filed with the corporate records or made a part of the minutes of the meeting.

Section 22. Quorum and Voting.

(a) Unless the Certificate of Incorporation requires a greater number, a quorum of the Board of Directors shall consist of a majority of the exact number of directors fixed from time to time by the Board of Directors in accordance with the Certificate of Incorporation; *provided, however*, at any meeting, whether a quorum be present or otherwise, a majority of the directors present may adjourn from time to time until the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by the affirmative vote of a majority of the directors present, unless a different vote be required by law, the Certificate of Incorporation or these Bylaws.

Section 23. Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and such writing or writings or transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 24. Fees and Compensation. Directors shall be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor.

Section 25. Committees.

(a) **Executive Committee.** The Board of Directors may appoint an Executive Committee to consist of one (1) or more members of the Board of Directors. The Executive Committee, to the extent permitted by law and provided in the resolution of the Board of Directors shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopting, amending or repealing any bylaw of the Corporation.

(b) **Other Committees.** The Board of Directors may, from time to time, appoint such other committees as may be permitted by law. Such other committees appointed by the Board of Directors shall consist of one (1) or more members of the Board of Directors and shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event shall any such committee have the powers denied to the Executive Committee in these Bylaws.

(c) **Term.** The Board of Directors, subject to any requirements of any outstanding series of Preferred Stock and the provisions of subsections (a) or (b) of this Bylaw may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The membership of a committee member shall terminate on the date of his death or voluntary resignation from the committee or from the Board of Directors. The Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) **Meetings.** Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 25 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any director who is a member of such committee, upon notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat, except when the director attends such special meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Unless otherwise provided by the Board of Directors in the resolutions authorizing the creation of the committee, a majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

Section 26. Organization. At every meeting of the directors, the Chairman of the Board of Directors, or, if a Chairman has not been appointed or is absent, the President, or if the President is absent, the most senior Vice President, (if a director) or, in the absence of any such person, a chairman of the meeting chosen by a majority of the directors present, shall preside over the meeting. The Secretary, or in his absence, any Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

ARTICLE V

OFFICERS

Section 27. Officers Designated. The officers of the Corporation may include, if and when designated by the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer, the President, one or more Vice Presidents, the Secretary, the Chief Financial Officer, the Treasurer and the Controller, all of whom may be elected at the annual organizational meeting of the Board of Directors. The Board of Directors may also appoint one or more Assistant Secretaries, Assistant Treasurers, Assistant Controllers and such other officers and agents with such powers and duties as it shall deem necessary. The Board of Directors may assign such additional titles to one or more of the officers as it shall deem appropriate. Any one person may hold any number of offices of the Corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the Corporation shall be fixed by or in the manner designated by the Board of Directors.

Section 28. Tenure and Duties of Officers.

(a) **General.** All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

(b) **Duties of Chairman of the Board of Directors.** The Chairman of the Board of Directors, when present, shall preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. If there is no President, then the Chairman of the Board of Directors shall also serve as the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in paragraph (c) of this Section 28.

(c) **Duties of President.** The President shall preside at all meetings of the stockholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. Unless some other officer has been elected Chief Executive Officer of the Corporation, the President shall be the chief executive officer of the Corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and officers of the Corporation. The President shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(d) **Duties of Vice Presidents.** The Vice Presidents may assume and perform the duties of the President in the absence or disability of the President or whenever the office of President is vacant. The Vice Presidents shall perform other duties commonly incident to their office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(e) **Duties of Secretary.** The Secretary shall attend all meetings of the stockholders and of the Board of Directors and shall record all acts and proceedings thereof in the minute book of the Corporation. The Secretary shall give notice in conformity with these Bylaws of all meetings of the stockholders and of all meetings of the Board of Directors and any committee thereof requiring notice. The Secretary shall perform all other duties provided for in these Bylaws and other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(f) **Duties of Chief Financial Officer.** The Chief Financial Officer shall keep or cause to be kept the books of account of the Corporation in a thorough and proper manner and shall render statements of the financial affairs of the Corporation in such form and as often as required by the Board of Directors or the President. The Chief Financial Officer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the Corporation. The Chief Financial Officer shall perform other duties commonly incident to his office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time. The President may direct the Treasurer or any Assistant Treasurer, or the Controller or any Assistant Controller to assume and perform the duties of the Chief Financial Officer in the absence or disability of the Chief Financial Officer, and each Treasurer and Assistant Treasurer and each Controller and Assistant Controller shall perform other duties commonly incident to the office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

Section 29. Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officer or agent, notwithstanding any provision hereof.

Section 30. Resignations. Any officer may resign at any time by giving notice in writing or by electronic transmission notice to the Board of Directors or to the President or to the Secretary. Any such resignation shall be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation shall become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the Corporation under any contract with the resigning officer.

Section 31. Removal. Any officer may be removed from office at any time, either with or without cause, by the affirmative vote of a majority of the directors in office at the time, or by the unanimous written consent of the directors in office at the time, or by any committee or superior officers upon whom such power of removal may have been conferred by the Board of Directors.

ARTICLE VI

CERTAIN TRANSACTIONS

Section 32. Transactions with Interested Parties. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other Corporation, partnership, association or other organization in which one or more of its directors or officers are directors or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the board or committee thereof which authorizes the contract or transaction or solely because the vote or votes of such director or officer are counted for such purpose, if:

(a) the material facts as to such director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(b) the material facts as to such director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board, a committee thereof or the stockholders.

Section 33. Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which authorizes the contract or transaction.

ARTICLE VII

EXECUTION OF CORPORATE INSTRUMENTS AND VOTING

OF SECURITIES OWNED BY THE CORPORATION

Section 34. Execution of Corporate Instruments. The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the Corporation any corporate instrument or document, or to sign on behalf of the Corporation the corporate name without limitation, or to enter into contracts on behalf of the Corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the Corporation.

All checks and drafts drawn on banks or other depositories on funds to the credit of the Corporation or in special accounts of the Corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 35. Voting of Securities Owned by the Corporation. All stock and other securities of other Corporations owned or held by the Corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman of the Board of Directors, the Chief Executive Officer, the President, or any Vice President.

ARTICLE VIII

SHARES OF STOCK

Section 36. Form and Execution of Certificates. Certificates for the shares of stock of the Corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the Corporation shall be entitled to have a certificate signed by or in the name of the Corporation by the Chairman of the Board of Directors, or the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the Corporation. Any or all of the signatures on the certificate may be facsimiles. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. Each certificate shall state upon the face or back thereof, in full or in summary, all of the powers, designations, preferences, and rights, and the limitations or restrictions of the shares authorized to be issued or shall, except as otherwise required by law, set forth on the face or back a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the Corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to this section or otherwise required by law or with respect to this section a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 37. Lost Certificates. A new certificate or certificates shall be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The Corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or the owner's legal representative, to agree to indemnify the Corporation in such manner as it shall require or to give the Corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

Section 38. Transfers.

(a) Transfers of record of shares of stock of the Corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and upon the surrender of a properly endorsed certificate or certificates for a like number of shares.

(b) The Corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the Corporation to restrict the transfer of shares of stock of the Corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

Section 39. Fixing Record Dates.

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall, subject to applicable law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; *provided, however*, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. Any stockholder of record seeking to have the stockholders authorize or take corporate action by written consent shall, by written notice to the Secretary, request the Board of Directors to fix a record date. The Board of Directors shall promptly, but in all events within ten (10) days after the date on which such a request is received, adopt a resolution fixing the record date. If no record date has been fixed by the Board of Directors within ten (10) days of the date on which such a request is received, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by applicable law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

Section 40. Registered Stockholders. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

ARTICLE IX

OTHER SECURITIES OF THE CORPORATION

Section 41. Execution of Other Securities. All bonds, debentures and other corporate securities of the Corporation, other than stock certificates (covered in Section 34), may be signed by the Chairman of the Board of Directors, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer or an Assistant Treasurer; *provided, however,* that where any such bond, debenture or other corporate security shall be authenticated by the manual signature, or where permissible facsimile signature, of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the Corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the Corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the Corporation.

ARTICLE X

DIVIDENDS

Section 42. Declaration of Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation and applicable law, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation and applicable law.

Section 43. Dividend Reserve. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Board of Directors shall think conducive to the interests of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE XI

FISCAL YEAR

Section 44. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

ARTICLE XII

INDEMNIFICATION

Section 45. Indemnification of Directors, Executive Officers, Other Officers, Employees and Other Agents.

(a) **Directors and Executive Officers.** The Corporation shall indemnify its directors and executive officers (for the purposes of this Article XI, "executive officers" shall have the meaning defined in Rule 3b-7 promulgated under the 1934 Act) to the fullest extent not prohibited by the DGCL or any other applicable law; *provided, however*, that the Corporation may modify the extent of such indemnification by individual contracts with its directors and executive officers; and, *provided, further*, that the Corporation shall not be required to indemnify any director or executive officer in connection with any proceeding (or part thereof) initiated by such person unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the Corporation, (iii) such indemnification is provided by the Corporation, in its sole discretion, pursuant to the powers vested in the Corporation under the Delaware General Corporation Law or any other applicable law or (iv) such indemnification is required to be made under subsection (d).

(b) **Employees and Other Agents.** The Corporation shall have power to indemnify its employees and other agents as set forth in the DGCL or any other applicable law. The Board of Directors shall have the power to delegate the determination of whether indemnification shall be given to any such person to such officers or other persons as the Board of Directors shall determine.

(c) **Expenses.** The Corporation shall advance to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was a director or executive officer, of the Corporation, or is or was serving at the request of the Corporation as a director or executive officer of another Corporation, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request therefor, all expenses incurred by any director or executive officer in connection with such proceeding, provided, however, that, if the DGCL requires, an advancement of expenses incurred by a director or executive officer in his or her capacity as a director or executive officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such indemnitee is not entitled to be indemnified for such expenses under this Section 43 or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to paragraph (e) of this Bylaw, no advance shall be made by the Corporation to an executive officer of the Corporation (except by reason of the fact that such executive officer is or was a director of the Corporation, in which event this paragraph shall not apply) in any action, suit or proceeding, whether civil, criminal, administrative or investigative, if a determination is reasonably and promptly made (i) by a majority vote of a quorum consisting of directors who were not parties to the proceeding, even if not a quorum, or (ii) by a committee of such directors designated by a majority of such directors, even though less than a quorum, or (iii) if there are no such directors, or such directors so direct, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the Corporation.

(d) Enforcement. Without the necessity of entering into an express contract, all rights to indemnification and advances to directors and executive officers under this Bylaw shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the Corporation and the director or executive officer. Any right to indemnification or advances granted by this Bylaw to a director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting the claim. In connection with any claim for indemnification, the Corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the DGCL or any other applicable law for the Corporation to indemnify the claimant for the amount claimed. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the DGCL or any other applicable law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct. In any suit brought by a director or executive officer to enforce a right to indemnification or to an advancement of expenses hereunder, the burden of proving that the director or executive officer is not entitled to be indemnified, or to such advancement of expenses, under this Article XI or otherwise shall be on the Corporation.

(e) Non-Exclusivity of Rights. The rights conferred on any person by this Bylaw shall not be exclusive of any other right which such person may have or hereafter acquire under any applicable statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The Corporation is specifically authorized to enter into individual contracts with any or all of its directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the DGCL or any other applicable law.

(f) Survival of Rights. The rights conferred on any person by this Bylaw shall continue as to a person who has ceased to be a director, executive officer, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(g) Insurance. To the fullest extent permitted by the DGCL, or any other applicable law, the Corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this Bylaw.

(h) Amendments. Any repeal or modification of this Bylaw shall only be prospective and shall not affect the rights under this Bylaw in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the Corporation.

(i) Saving Clause. If this Bylaw or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director and executive officer to the full extent not prohibited by any applicable portion of this Bylaw that shall not have been invalidated, or by any other applicable law. If this Section 43 shall be invalid due to the application of the indemnification provisions of another jurisdiction, then the Corporation shall indemnify each director and executive officer to the full extent under applicable law.

(j) Certain Definitions. For the purposes of this Bylaw, the following definitions shall apply:

(1) The term “proceeding” shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(2) The term “expenses” shall be broadly construed and shall include, without limitation, court costs, attorneys’ fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(3) The term the “Corporation” shall include, in addition to the resulting Corporation, any constituent Corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent Corporation, or is or was serving at the request of such constituent Corporation as a director, officer, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Bylaw with respect to the resulting or surviving Corporation as he would have with respect to such constituent Corporation if its separate existence had continued.

(4) References to a “director,” “executive officer,” “officer,” “employee,” or “agent” of the Corporation shall include, without limitation, situations where such person is serving at the request of the Corporation as, respectively, a director, executive officer, officer, employee, trustee or agent of another Corporation, partnership, joint venture, trust or other enterprise.

(5) References to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Bylaw.

ARTICLE XIII

NOTICES

Section 46. Notices.

(a) **Notice to Stockholders.** Written notice to stockholders of stockholder meetings shall be given as provided in Section 7 herein. Without limiting the manner by which notice may otherwise be given effectively to stockholders under any agreement or contract with such stockholder, and except as otherwise required by law, written notice to stockholders for purposes other than stockholder meetings may be sent by United States mail or nationally recognized overnight courier, or by facsimile, telegraph or telex or by electronic mail or other electronic means.

(b) **Notice to Directors.** Any notice required to be given to any director may be given by the method stated in subsection (a), or as provided for in Section 21 of these Bylaws. If such notice is not delivered personally, it shall be sent to such address as such director shall have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such director.

(c) **Affidavit of Mailing.** An affidavit of mailing, executed by a duly authorized and competent employee of the Corporation or its transfer agent appointed with respect to the class of stock affected or other agent, specifying the name and address or the names and addresses of the stockholder or stockholders, or director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall in the absence of fraud, be prima facie evidence of the facts therein contained.

(d) **Methods of Notice.** It shall not be necessary that the same method of giving notice be employed in respect of all recipients of notice, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

(e) **Notice to Person with Whom Communication Is Unlawful.** Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the Corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the Corporation is such as to require the filing of a certificate under any provision of the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

ARTICLE XIV

FORUM FOR LITIGATION

Section 47. Exclusive Forum for Certain Litigation. Unless the Corporation consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation arising pursuant to any provision of the Delaware General Corporation Law or the Certificate of Incorporation or these bylaws (in each case, as they may be amended from time to time), or (iv) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation governed by the internal affairs doctrine shall be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware).

ARTICLE XV

AMENDMENTS

Section 48. Amendments. The Board of Directors is expressly empowered to adopt, amend or repeal Bylaws of the Corporation. The stockholders shall also have power to adopt, amend or repeal the Bylaws of the Corporation; *provided, however*, that, in addition to any vote of the holders of any class or series of stock of the Corporation required by law or by the Certificate of Incorporation, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to adopt, amend or repeal any provision of the Bylaws of the Corporation.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Guy Dubois, Member of the Executive Committee, presently the acting principal executive officer of Track Group, Inc. (the “*Company*”), certify that:

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

Date: August 9, 2016

/s/ Guy Dubois
Guy Dubois, Member of Executive Committee
(Acting Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John R. Merrill, Chief Financial Officer, Principal Financial Officer, of Track Group, Inc. (the “*Company*”), certify that:

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

Date: August 9, 2016

/s/ John R. Merrill
John R. Merrill
Chief Financial & Principal Accounting Officer

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

In connection with the Quarterly Report of Track Group, Inc. on Form 10-Q for the period ended June 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Guy Dubois, member of the Executive Committee, Acting Principal Executive Officer and John R. Merrill, Chief Financial Officer, Principal Financial Officer, of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Guy Dubois
Guy Dubois, Member of Executive Committee
(Acting Principal Executive Officer)

By: /s/ John R. Merrill
John R. Merrill,
Chief Financial Officer
(Principal Accounting Officer)

Dated: August 9, 2016

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

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