

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

FORM 10-K

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

For the fiscal year ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission file number: 000-23153

TRACK GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0543981

(I.R.S. Employer Identification No.)

200 E. 5th Avenue Suite 100 Naperville, Illinois 60563

(Address of principal executive offices, Zip Code)

(877) 260-2010

(Registrant's telephone number, including area code)

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

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

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

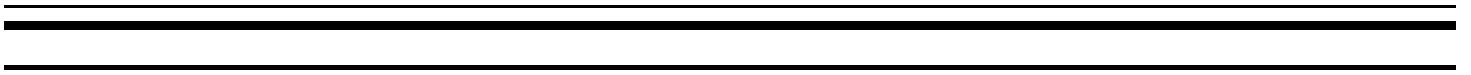
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant computed by reference to the closing price on March 31, 2018 was \$3.1 million. As of December 17, 2018, there were 11,401,650 shares of Common Stock issued and outstanding.

Documents Incorporated by Reference

The registrant incorporates information required by Part III (Items 10, 11, 12, 13, and 14) of this report by reference to portions of the registrant's definitive proxy statement with respect to its 2019 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year ended September 30, 2018, pursuant to Regulation 14A.



Track Group, Inc.
FORM 10-K
For the Fiscal Year Ended September 30, 2018

INDEX

	<u>Page</u>
<u>PART I</u>	
<u>Item 1</u>	<u>Business</u> 1
<u>Item 1A</u>	<u>Risk Factors</u> 9
<u>Item 2</u>	<u>Properties</u> 16
<u>Item 3</u>	<u>Legal Proceedings</u> 17
<u>PART II</u>	
<u>Item 5</u>	<u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 19
<u>Item 7</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> 20
<u>Item 7A</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 28
<u>Item 8</u>	<u>Financial Statements and Supplementary Data</u> 28
<u>Item 9</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> 29
<u>Item 9A</u>	<u>Controls and Procedures</u> 29
<u>Item 9B</u>	<u>Other Information</u> 29
<u>PART III</u>	
<u>Item 10</u>	<u>Directors, Executive Officers and Corporate Governance</u> 30
<u>Item 11</u>	<u>Executive Compensation</u> 30
<u>Item 12</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 30
<u>Item 13</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u> 30
<u>Item 14</u>	<u>Principal Accounting Fees and Services</u> 30
<u>PART IV</u>	
<u>Item 15</u>	<u>Exhibits and Financial Statement Schedules</u> 31
<u>Signatures</u>	33

FORWARD LOOKING STATEMENTS

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

PART I

Item 1. Business

Track Group, Inc., a Delaware corporation since 2016 and previously incorporated in 1995 as a Utah corporation, has its principal place of business at 200 E. 5th Avenue Suite 100, Naperville, Illinois 60563. Our telephone number is (877) 260-2010. We maintain a corporate website at www.trackgrp.com. Our common stock, par value \$0.0001 per share (“*Common Stock*”), is currently listed for quotation on the OTCQX Premier Marketplace (“*OTCQX*”) under the symbol “TRCK.” Unless specified otherwise, as used in this Annual Report, “we,” “us,” “our,” “Track Group” or the “Company” refer to Track Group, Inc. and its subsidiaries.

Company Background

The Company designs, manufactures, and markets location tracking devices and develops and sells a variety of related software, services, accessories, networking solutions, and monitoring applications. Our products and services include a full-range of one-piece GPS tracking devices, a device-agnostic operating system, a portfolio of software applications including smartphone, alcohol and predictive analytics, and a variety of accessory, service and support offerings. Our products and services are currently available worldwide and are sold through our direct sales force, as well as through value-added resellers. The Company sells to government customers on federal, state and local levels in the U.S. and to members of the Ministry of Justice (MOJ) internationally. Track Group’s device-agnostic platform and expanded portfolio of integrated and complimentary monitoring-related services help reduce risk and make the administration of justice better, faster, and less expensive for taxpayers. As of September 30, 2018, the Company’s products and platform were used to monitor over 34,000 individuals globally.

Business Strategy

We are committed to helping our customers improve offender rehabilitation and re-socialization outcomes through our innovative hardware, software, and services. We treat our business as a service business. Although we still manufacture patented tracking technology, we see the physical goods as only a small part of the integrated offender monitoring solutions we provide. Accordingly, rather than receiving a payment just for a piece of manufactured equipment, the Company receives a recurring stream of revenue for ongoing device agnostic subscription contracts. As part of our strategy, we continue to expand our device-agnostic platform to not only collect, but also store, analyze, assess and correlate location data for both accountability and auditing reasons, as well as to use for predictive analytics and assessment of effective and emerging techniques in criminal behavior and rehabilitation. We believe a high-quality customer experience with knowledgeable salespersons who can convey the value of our products and services greatly enhances our ability to attract and retain customers. Therefore, our strategy also includes building and expanding our own direct sales force and our third-party distribution network to effectively reach more customers and provide them with a world-class sales and post-sales support experience. In addition, we are developing related-service offerings to address adjacent market opportunities in both the public and private sectors. We believe continual investment in research and development (“*R&D*”), including smartphone applications and other monitoring services is critical to the development and sale of innovative technologies and integrated solutions today and in the future.

Recent Developments

Contract with the Gendarmeria de Chile

On January 25, 2018, the Company entered into a Monitoring Services Agreement (the “*Gendarmeria Agreement*”) with Gendarmeria de Chile, the Republic of Chile’s uniform prison service (“*Gendarmeria*”), for services the Company began offering to Gendarmeria on October 18, 2017 for a period of 365 days. As of October 18, 2018, the *Gendarmeria Agreement* was automatically extended for periods of 30-days and the Company anticipates that this option will be exercised by Gendarmeria for the foreseeable future. Most recently, Gendarmeria asked the Company’s Chilean subsidiary to extend the maturity of the performance bond associated with the *Gendarmeria Agreement* to July 18, 2019. Furthermore, Gendarmeria will not make a decision with respect to the Request for Proposal process until all of the judicial proceedings are complete; however, management believes that as the incumbent provider with several years of experience managing a successful program for the Chilean government, the Company is best positioned to prevail in such a process.

Conrent Facility Agreement

On July 19, 2018 the Company and Conrent Invest S.A. (“*Conrent*”), acting on behalf of its compartment, Safety 2, amended the facility agreement originally entered into by and between the parties on December 30, 2013 (the “*Amended Facility Agreement*”), which Amended Facility Agreement alters certain provisions of the Company’s existing \$30.4 million unsecured debt facility. Effective July 19, 2018, the Amended Facility Agreement (i) extended the Maturity Date to the earlier of either April 1, 2019 or the date upon which the Outstanding Principal Amount, as defined therein, is repaid by the Company, and (ii) provided that in the event of a Change of Control, as defined therein, Conrent shall immediately cancel the facility and declare the Outstanding Principal Amount, together with unpaid interest, immediately due and payable. On November 14, 2018, the Company requested that Conrent extend the maturity of the Amended Facility Agreement from April 1, 2019 to April 1, 2020. On December 3, 2018, Conrent agreed to convene meetings of the investors who purchased the securities from Conrent to finance the debt (the “*Noteholders*”) and subsequently issued a notice of a meeting of Noteholders for each series of Notes, which meetings will be held on January 16, 2019. Based on discussions between the Company and Conrent to date, the Company anticipates that the Noteholders will agree to extend the maturity of the Amended Facility Agreement before its maturity on April 1, 2019, however no assurance can be given.

Products and Services

Devices

ReliAlert™XC 3

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

Shadow™

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

Operating System Software

TrackerPAL™

TrackerPAL™ is a secure, cloud-based monitoring system that gives customers the ability to not only collect, but also store, analyze, assess and correlate offender data for both accountability and auditing reasons, as well as to use with predictive analytics applications and assess criminal behavior and rehabilitation opportunities. The Company is working on a successor software platform, IntelliTrack™ that will be introduced to customers in a controlled manner throughout the upcoming fiscal year.

Application Software

TrackerPAL™ Mobile

A mobile application of the TrackerPAL™ software is available for Android and iOS devices. The Company is also developing a similar application for IntelliTrack™.

Data Analytics

Our data analytics services help facilitate the discovery and communication of meaningful patterns in diverse location and behavioral data that helps agencies reduce risks and improve decision making. Our analytics applications use various combinations of statistical analysis procedures, data and text mining, and predictive modeling to proactively analyze information on community-released offenders to discover hidden relationships and patterns in their behaviors and to predict future outcomes.

Real-Time Alcohol Monitoring

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

Victim and Survivor Support

Our Domestic Violence Smartphone Application creates a mobile geo-zone around a survivor of domestic abuse and communicates with the offender's tracking device – providing an early-warning notification to the survivor if he or she is in proximity of the offender or group of offenders.

InTouch

InTouch is a smartphone monitoring and supervision application specifically designed for the criminal justice market to compliment traditional Electronic Monitoring Solutions; offering a "step-up"/"step-down" option from location monitoring bracelets for community supervised populations.

Accessories

SecureCuff™

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

RF Beacon™

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

Product Support and Services

Monitoring Centers

Our monitoring centers 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, are staffed with highly trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery backup and triple redundancy in voice, data, and IP. We have assisted in the establishment of monitoring centers for customers and local partners in the United States, Chile and other global locations.

Customer Care

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

Research and Development Program

During the fiscal year ended September 30, 2018, we incurred research and development expense of \$862,142, compared to \$1,784,867 recognized during fiscal year 2017. The \$922,725 decrease in research and development cost reflects lower wages and benefits of \$585,641 and lower outside service and consulting expense of \$326,118 as the Company is completing its new technology platform, which will be introduced to customers in the upcoming fiscal year. The Company is significantly enhancing its technology platform to improve the efficiency of its software, firmware, user interface, and automation. As a result of these improvements, \$1,083,745 was capitalized as developed technology during the year ended September 30, 2018. A portion of this expense would have been recognized as research and development expense, absent the significant enhancements to the technology. This represented a decrease of \$1,333,059 compared to the \$2,416,804 capitalized as developed technology during the year ended September 30, 2017.

Competition

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

Our specific competitors vary from market to market and we compete against other international, national and regional companies, some of whom use local partners that have more knowledge of the local markets and the government decision making process. Some of our competitors are owned by large public companies and may have access to more resources than we do, while others are backed by private equity firms with large funds, or in some cases, work as part of a consortium with extensive international experience. We expect competition in these markets to intensify as competitors attempt to imitate some of the features of our products and applications within their own products or, alternatively, collaborate with third-party providers to offer solutions that are more competitive than those they currently offer.

Competitive Strengths

Relationships with High-Quality Government Customers. We have developed strong relationships with federal, state and county customers within the United States and with Ministries of Justice internationally and managed to bring in new, sizable customers in the past year.

Industry Leading Analytics Software. Remains a leader with fully functioning, revenue generating analytics software on the market today, specifically designed for the offender monitoring market. Several state departments of corrections, county probation agencies and Sheriff's offices have utilized this solution for multiple years.

Device Agnostic Software Platform. Our software platform is device agnostic and currently accommodates offender monitoring of new products that we introduce, integrates with case management software utilized by sheriff, probation and pre-trial departments, and adds devices manufactured by competitors.

Smartphone Monitoring Pioneers in Criminal Justice. Today's prison system incarcerates too many individuals who pose little threat to public safety, at far too great a cost. They serve their sentences in overcrowded, outdated institutions that expose them to hardened criminals. Upon release, their opportunities and lives have changed forever. Now, low-risk offender populations can serve their sentences virtually, holding jobs and taking care of family members, yet still feeling the weight of their punishment while seeing a clear path to avoiding trouble in the future. Further, taxpayers gain a clear cost advantage. To date, we have developed apps targeting alcohol monitoring, domestic violence and our core monitoring platform.

Experienced Senior Management Team. Our top executives have extensive experience in both the offender monitoring marketplace and their specific fields of expertise, whether that be sales, customer care and/or technology. We also benefit from a diverse and experienced Board of Directors.

Recurring Revenue. Our revenue is generated in large part by long-term customer contracts based on the size of the offender monitoring program throughout each month, which creates a predictable, recurring revenue stream.

Extensive Product Suite. We have a large variety of products that appeal to a broad range of government customers and greatly enhance our ability to attract and retain clients. These products include different GPS devices, alcohol monitoring devices and applications, and new smartphone applications including those that address adjacent market opportunities in both the public and private sectors and analytics software.

National Footprint with International Presence. We operate in approximately 42 states as well as select international locations, including Chile and Mexico. Our presence both within the United States and abroad better positions us to compete for new and expiring government contracts.

Sources and Availability of Raw Materials

We use various suppliers and contract manufacturers to supply parts and components for the manufacture and support of our product lines. Although our intention is to establish at least two sources of supply for materials whenever possible, for certain components we have sole or limited source supply arrangements. We may not be able to procure these components from alternative sources at acceptable prices and quality within a reasonable time, or at all; therefore, the risk of loss or interruption of such arrangements could impact our ability to deliver certain products on a timely basis.

Dependence on Major Customers

We had sales to entities, two of which represent more than 10% of our gross revenue, as follows for the years ended September 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Customer A	\$ 9,201,502	30%	\$ 8,747,338	29%
Customer B	\$ 3,772,540	12%	\$ 3,743,508	13%
Customer C	\$ 2,468,472	8%	\$ 2,326,318	8%

No other customer represented more than 10% of our total revenue for the fiscal years ended September 30, 2018 or 2017.

Concentration of credit risk associated with our total and outstanding accounts receivable as of September 30, 2018 and 2017, respectively, are shown in the table below:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Customer A	\$ 1,689,976	29%	\$ 1,657,316	30%
Customer B	\$ 594,626	10%	\$ 641,973	12%
Customer C	\$ 428,560	7%	\$ 394,253	7%

Dependence on Major Suppliers

We purchase cellular services from several major suppliers. The cost to us for these services during the fiscal years ended September 30, 2018 and 2017 was \$2,075,671 and \$2,178,895, respectively. The 5% decrease in cellular service expense in 2018 compared to 2017 resulted from lower pricing on contracts negotiated in fiscal 2018, partially offset by increased costs associated with higher revenue.

During the years ended September 30, 2018 and 2017, we also purchased a significant portion of our inventory and monitoring equipment from certain suppliers. The cost of these purchases during the fiscal years ended September 30, 2018 and 2017 was \$1,305,586 and \$1,838,779, respectively. The 29% decrease was due to the shut-down of numerous 2G cellular networks in 2017, which required the one-time replacement of these 2G units and decreased cost of units purchased in 2018.

Intellectual Property

We currently hold rights to patents and copyrights relating to certain aspects of our hardware devices, accessories, software and services. We have registered or applied for trademarks and service marks in the U.S. and a number of foreign countries. Although we believe the ownership of such patents, copyrights, trademarks and service marks is an important factor in our business and that our success does depend in part on the ownership thereof, we rely primarily on the innovative skills, technical competence and marketing abilities of our personnel.

We file patent applications as needed to protect innovations arising from our research, development and design, and are currently pursuing numerous patent applications around the world. Over time, we have accumulated a large portfolio of issued patents around the world. We hold copyrights relating to certain aspects of our products and services. No single patent or copyright is solely responsible for protecting our products. We believe that the duration of our patents is adequate relative to the expected lives of our products.

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

Trademarks. We have developed and use trademarks in our business, particularly relating to our corporate and product names. We own ten trademarks that are registered with the United States Patent and Trademark Office, plus one trademark registered in Mexico and one in Canada. In addition, we have the Track Group trademark and design registered in various countries around the world.

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

The following table summarizes our trademark registrations:

Trademark	Application Number	Registration Number	Status/ Next Action
Mobile911 Siren with 2-Way Voice Communication & Design®	76/013,886	2,595,328	Registered
TrackerPAL®	78/843,035	3,345,878	Registered
Mobile911®	78/851,384	3,212,937	Registered
TrackerPAL®	CA 1,315,487	749,417	Registered
TrackerPAL®	MX 805,365	960954	Registered
ReliAlert™	85/238,049	4200738	Registered
SecureCuff™	85/238,058	4271621	Registered
SecureAlert™	86/031,550	4623370	Registered
TrackGroup™	86/301716	4701636	Registered
Track Group™ and Design	86/469103	4793747	Registered
Track Group™ and Design*	MP 1257077	1257077	Registered
V-TRCK®	87/151142	5330916	Registered

*Track Group™ and Design is also a registered trademark in the following countries: Europe, Switzerland, Mexico, Canada and Chile. HomeAware™ and TRUEDTECT™ are registered trademarks owned by the Company; however, they are no longer in use.

Patents. We have 12 patents issued in the United States. At foreign patent offices, we have eight patents issued and four patents pending.

[Table of Contents](#)

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

US Patents	Application Serial No.	Date Filed	Patent No.	Issue Date
Remote Tracking and Communication Device	11/202427	10-Aug-05	7330122	12-Feb-08
Remote Tracking and Communications Device	12/028088	8-Feb-08	7804412	28-Sep-10
Remote Tracking and Communications Device	12/875,988	3-Sep-10	8031077	4-Oct-11
Alarm and Alarm Management System for Remote Tracking Devices	11/486992	14-Jul-06	7737841	15-Jun-10
Alarm and Alarm Management System for Remote Tracking Devices	12/792,572	2-Jun-10	8013736	6-Sep-11
A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between the Device and a Monitoring Center	11/486989	14-Jul-06	8797210	5-Aug-14
A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between the Device and a Monitoring Center	14/323,831	3-Jul-14	9491289	8-Nov-16
A Remote Tracking System with a Dedicated Monitoring Center	11/486976	14-Jul-06	7936262	3-May-11
Remote Tracking System and Device With Variable Sampling and Sending Capabilities Based on Environmental Factors	11/486991	14-Jul-06	7545318	9-Jun-09
Tracking Device Incorporating Enhanced Security Mounting Strap	12/818,453	18-Jun-10	8,514,070	20-Aug-13
Tracking Device Incorporating Cuff with Cut Resistant Materials	14/307,260	17-Jun-14	9129504	8-Sep-15
A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device	12/399151	6-Mar-09	8232876	31-Jul-12

International Patents	Application Serial No.	Date Filed	Patent No.	Issue Date
Remote Tracking and Communication Device - Brazil	PI0614742.9	4-Aug-06		Pending
Remote Tracking and Communication Device - Canada	2617923	4-Aug-06	2617923	7-Jun-16
Remote Tracking and Communication Device - Mexico	MX/a/2008/001932	4-Aug-06	278405	24-Aug-10
Secure Strap Mounting System for an Offender Tracking Device - EPO	10009091.9	9-Jan-10		Pending
Secure Strap Mounting System for an Offender Tracking Device - Brazil	PI11001593	28-Feb-11		Pending
Secure Strap Mounting System for an Offender Tracking Device - Mexico	MX/a/2011/002283	28-Feb-11	319057	4-Apr-14
Secure Strap Mounting System For an Offender Tracking Device - Canada	2732654	25-Oct-13	2732654	1-May-18
A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Brazil	PI0909172-6	1-Sep-10		Pending
A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Canada	2717866	3-Sep-10	2717866	17-May-16
A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - EPO	09 716 860.3	6-Oct-10	2260482	9-Jan-13
A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - United Kingdom		Refer to EP Patent # 2260482		
A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Mexico	MX/a/2010/009680	2-Sep-10	306920	22-Jan-13

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

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

Government Regulation

Our operations are subject to various federal, state, local and international laws and regulations.

In October 2018, through an internal review of our export compliance, it came to our attention that some of our products may not have been properly classified in the past, and that our export of certain products, software and technology may be subject to export licensing requirements of which we were not previously aware. As a result of these findings, we have hired independent counsel to assist in, among other things, an investigation with respect to our past export practices and analyzing our classification of products, software and technology. In addition, on October 16, 2018, we voluntarily self-disclosed the information above to the Bureau of Industry and Security (“BIS”), and we have taken steps to obtain licenses for the export of certain of our products, software and technology to certain countries. Should the BIS determine that we did violate applicable export regulations, the BIS may, in its discretion, impose certain fines on us for such violations, which may have a material adverse effect on our business, financial condition and results of operations. It is currently unknown whether we may face any penalties.

Other than our potential violations of licensing requirements related to our exports, as disclosed above, we are not involved in any pending or, to our knowledge, threatened governmental proceedings, which would require curtailment of our operations because of such laws and regulations.

Seasonality

Given the consistency in recurring domestic monitoring revenue by customers throughout fiscal 2018, we detected no apparent seasonality in our business. However, as in previous years, incremental domestic device deployment opportunities typically slow down in the months of July and August. We believe this is due to the unavailability of judicial and corrections officials who observe a traditional vacation season during this period.

Employees

As of December 3, 2018, we had 159 full-time employees and 1 part-time employee. None of the employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and management believes that relations with employees are good.

Additional Available Information

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

All reports filed by us with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we have filed with the SEC at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. Risk Factors

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

Risks Related to Our Business, Operations and Industry

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

As of September 30, 2018, we had \$33,866,785 of indebtedness outstanding, of which approximately \$30,437,810 becomes due and payable within the next 12 months, including \$30,400,000 which matures on April 1, 2019. Our significant indebtedness could adversely affect our ability to raise additional capital to fund our operations, make interest payments as they come due, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our outstanding debt instruments. As a result, we will have to raise additional capital or restructure such indebtedness during the next six months, and no assurances can be given that we may be successful in that regard. See “Recent Developments” and Note 15 to the Consolidated Financial Statements.

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

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

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

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. While we are currently negotiating to extend the maturity of our indebtedness, no assurances can be given that we will be successful, and we cannot assure you that we will maintain a level of cash flows sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

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

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

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

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

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

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

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

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

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

In October 2018, through an internal review of our export compliance, it came to our attention that some of our products may not have been properly classified in the past, and that our export of certain products, software and technology may be subject to export licensing requirements of which we were not previously aware. As a result of these findings, we have hired independent counsel to assist in, among other things, an investigation with respect to our past export practices and analyzing our classification of products, software and technology. In addition, on October 16, 2018, we voluntarily self-disclosed our potential former violation of the applicable export licensing requirements to the Bureau of Industry and Security (“BIS”), and we have taken steps to obtain licenses for the export of certain of our products, software and technology to certain countries. Should the BIS determine that we violated applicable export regulations, the BIS may, in its discretion, impose certain fines on us for such violations, which may have a material adverse effect on our business, financial condition and results of operations. It is currently unknown whether we may face any penalties.

In addition, there can be no assurance that changes in the legal or regulatory framework or other subsequent developments will not result in limitation, suspension or revocation of regulatory approvals granted to us. Any such events, were they to occur, could have a material adverse effect on our business, financial condition and results of operations. We are required to comply with regulations for manufacturing and export practices, which mandate procedures for extensive control and documentation of product design, control and validation of the manufacturing process and overall product quality. If we, our management or our third-party manufacturers fail to comply with applicable regulations regarding these manufacturing practices, we could be subject to a number of sanctions, including fines, injunctions, civil penalties, delays, suspensions or withdrawals of market approval, seizures or recalls of product, operating restrictions and, in some cases, criminal prosecutions.

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

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

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

During fiscal year 2018, three of our customers accounted for an aggregate of 51% of total sales. One of these contracts is currently being extended on a month to month basis and one of these contracts expires within the next fiscal year. Failure to renew these contracts, resulting in the loss of any of these customers, may have a material adverse effect on our business (See Note 2 to the Consolidated Financial Statements).

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

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

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

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

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

We believe that our success depends in part on our ability to obtain and enforce patents, maintain trade secrets and operate without infringing on the proprietary rights of others, both in the United States and in other countries. Our inability to obtain or to maintain patents on our key products could adversely affect our business. We currently own 20 patents issued and have filed and may file additional patent applications in the United States and in key foreign jurisdictions relating to our technologies, improvements to those technologies, and for specific products we may develop. There can be no assurance that patents will issue on any of these applications or that, if issued, any patents will not be challenged, invalidated or circumvented. The enforcement of patent rights can be uncertain and involves complex legal and factual questions. The scope and enforceability of patent claims are not systematically predictable with absolute accuracy. The strength of our own patent rights depends, in part, upon the breadth and scope of protection provided by the patent and the validity of our patents, if any.

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

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

We conduct business internationally with a variety of sovereign governments.

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

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

Any service interruption that results in the unavailability of our system or reduces its capacity could result in real or perceived public safety issues that may affect customer confidence in our services. Historically, we have experienced temporary interruptions of telecommunications or power outages, which were promptly mitigated, although Hurricane Maria in 2017 presented even greater challenges in Puerto Rico, including into the 2018 fiscal year. Such instances may result in loss of customer accounts or similar problems if they occur again in the future. Given rapidly changing technologies, we are not certain that we will be able to adapt the use of our services to permit, upgrade, and expand our systems or to integrate smoothly with new technologies. Network and information systems and other technologies are critical to our business activities. Network and information systems-related events, including those caused by us, our service providers or by third parties, such as computer hacking, cyber-attacks, computer viruses, or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination of the foregoing could result in a degradation or disruption of our services. These types of events could result in a loss of customers and large expenditures to repair or replace the damaged properties, networks or information systems or to protect them from similar events.

We currently have one independent director sitting on our Board of Directors.

Our Board of Directors is currently comprised of three members, two of which would not be considered independent under the rules of the Nasdaq Capital Market and the OTCMarkets. Additionally, we no longer maintain separate audit, compensation or nominating and governance committees, the duties of which are fulfilled by our entire Board of Directors. The rules of the OTCMarkets require that companies whose securities are listed for quotation on the OTCQX have a board of directors comprised of at least two independent directors. In the event we fail to appoint an additional independent director on or before May 31, 2019, our Common Stock will no longer be eligible for quotation on the OTCQX, resulting in the quotation of our Common Stock on an alternative market, such as the OTC Pink Marketplace. Such change may affect the number and type of investors eligible to purchase our Common Stock. As a result, the price of our Common Stock may be adversely affected.

Risks Related to Acquisitions

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

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

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

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

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

Risks Related to International Operations

We are exposed to fluctuations in currency exchange rates.

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

The dollar cost of our operations internationally could increase as a result of increases or decreases in the rate of inflation or devaluation of the local currency in relation to the dollar, which may harm our results of operations.

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

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

Political, economic and military conditions, both domestic and abroad, may affect our business. We cannot predict whether or in what manner these problems may occur. Acts of random terrorism periodically occur, which could affect our operations or personnel. Ongoing or revived hostilities or other factors could harm our operations and could impede our ability to execute our plan of operations. Natural disasters, such as the hurricanes in the Caribbean in 2017, could render our affected customers financially unable to continue making payments or using our services. Moreover, in order to effectively compete in certain foreign jurisdictions, it is frequently necessary or required to establish joint ventures, strategic alliances or marketing arrangements with local operators, partners or agents. Reliance on local operators, partners or agents could expose us to the risk of being unable to control the scope or quality of our overseas services or products. In addition, our business insurance may not cover losses that may occur as a result of events associated with the security situation. Any losses or damages incurred by us could have a material adverse effect on our business and financial condition.

Risks Related to Our Common Stock

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

Certain groups or persons, and in particular ETS Limited, who owned approximately 42.7% of our issued and outstanding Common Stock as of December 17, 2018, beneficially own a substantial number of shares of our outstanding Common Stock or securities and debt instruments. As a result, these persons have the ability, acting as a group, to influence substantially our affairs and business, including the election of our directors and, subject to certain limitations, of fundamental corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change of control or making other transactions more difficult or impossible without their support. In addition, these equity holders may have an interest in pursuing acquisitions, divestitures, financing or other transactions that, in their judgment, could enhance their equity investments, even though such transactions may involve significant risk to us or our other shareholders. Additionally, they may make investments in businesses that directly or indirectly compete with us, or may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

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

Our Certificate of Incorporation authorizes us to issue up to 20,000,000 shares of preferred stock, par value \$0.0001 per share, of which 1,200,000 shares have been designated as Series A Convertible Preferred Stock (“*Series A Preferred*”). Our Board of Directors is authorized to designate, and to determine the rights and preferences of any series or class of preferred stock, and may designate additional shares of preferred stock in the future. The Board of Directors may, without shareholder approval, issue shares of preferred stock with dividend, liquidation, conversion, voting or other rights which are senior to our Common Stock or which could adversely affect the voting power or other rights of the existing holders of outstanding shares of preferred stock or Common Stock. Additionally, the issuance of preferred stock may have the effect of decreasing the market price of the Common Stock and reduce the likelihood that common shareholders will receive dividend payments and payments upon liquidation. The issuance of shares of preferred stock may also adversely affect an acquisition or change in control of the Company. As of December 17, 2018, there were no outstanding shares of Series A Preferred issued and outstanding.

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

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

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

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

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

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

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

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

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

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

Item 2. Properties

Our headquarters is approximately 5,600 square feet of commercial office space located at 200 E. 5th Avenue Suite 100, Naperville, Illinois. The lease for this office space began on September 1, 2017 and expires on August 31, 2022. Lease payments are approximately \$11,000 per month.

We lease commercial office space in Indianapolis, Indiana of approximately 5,751 square feet. This lease began on September 1, 2018 and shall terminate on August 31, 2022. Lease payments are approximately \$3,100 per month through December 31, 2018 and increase to approximately \$5,900 on January 1, 2019 as additional space is occupied. In addition, we lease a second location with approximately 2,000 square feet in Indianapolis, Indiana. This lease was executed on January 1, 2014 and expires on December 31, 2018. Monthly lease payments for this facility are approximately \$3,300.

Track Group Analytics, Inc. operations are conducted in approximately 4,200 square feet of office space in Bedford, Nova Scotia, Canada. The lease for this office space began on July 1, 2015 and expires on June 30, 2020. Monthly lease payments are approximately \$5,700.

SecureAlert Chile operations are conducted in approximately 3,500 square feet of commercial office space located in Santiago, Chile. The lease for this office space began on December 31, 2016 and expires on December 31, 2019. Lease payments are approximately \$6,500 per month.

We lease commercial office space in Sandy, Utah of approximately 1,500 square feet. The lease for this office space began on September 1, 2017 and expired on August 31, 2018. We are currently leasing this property on a month to month basis. Lease payments are \$1,500 per month.

Item 3. Legal Proceedings

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

Lazar Leybovich et al. v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. The Plaintiffs are alleging \$1,587,604 in combined damages. 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 an Appeal on June 1, 2016 challenging the Court's ruling on the motion for Summary Judgment. The Appellate court ruled in favor of the Plaintiff, finding that factual issue remains, reversing the Summary Judgment and remanding the case back to trial. The Company's motion for partial Summary Judgment has been denied. A five day trial is tentatively scheduled to take place in February 2019.

Boggs et al. v. Judicial Electronic Monitoring, SecureAlert, Inc. et al. On December 3, 2015, Candace Boggs et al. filed a complaint in the State Court of Dougherty County, Georgia, alleging breach of contract and negligence in monitoring of certain offenders in Dougherty County, Georgia, as well as a request for punitive damages. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. The Company's motion for Summary Judgment was denied on February 27, 2017 and a Notice of Appeal was filed by the Company's counsel on April 15, 2017. In May the Court of Appeals reversed the trial court decision and granted the Company's Motion to Dismiss the Plaintiff's claims. Plaintiff has filed a petition to have the case heard in the Georgia Supreme Court. On June 27, 2018, Counsel filed a response to the petition and we are currently waiting on a ruling from the court. We believe the claims are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016, the Company filed a complaint in the District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas Co. Ltd ("ICS"). The Company's damages of unpaid principal and interest on the Promissory Note are in the amount of \$230,000, plus per annum interest. The Defendant's initial Counterclaims were dismissed; however, the Court granted the Defendant leave to amend. The Amended Counter Claims were filed on June 23, 2017 alleging \$1,628,667 in damages. The Company's Motion to Dismiss the Amended Counterclaims was denied on September 19, 2017. The Company filed an Answer to the Amended Counterclaims on October 3, 2017. Depositions have taken place for both parties. The Company's motion for Summary Judgment on ICS's Counterclaims was filed on August 13, 2018. Once the motion is fully briefed a hearing will be scheduled. We believe we will be successful in this action for amounts owed under the loan agreement and promissory note; however, the Company may encounter problems enforcing a favorable judgment in the foreign jurisdiction where ICS resides.

Track Group Inc. v. I.C.S. of the Bahamas Co. Ltd. On September 26, 2016, the Company filed a Notice of Arbitration with the International Centre for Dispute Resolution, alleging breach of contract by ICS. Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the "C&M Agreement") by and between the Company and ICS, any dispute must be resolved by binding arbitration. The Company asserts that ICS has failed to pay the Company fees owed to it under the C&M Agreement. The amount owed to the Company is approximately \$1.0 million. Depositions were completed in August of 2017. The arbitration hearing took place on January 31, 2018. The arbitrator requested legal briefings after the hearing which were submitted in March 2018. Final briefs were submitted to the arbitrator on May 30, 2018. The arbitrator ruled that ICS owes the Company \$689,000. ICS submitted a Request for Modification of the arbitration award on August 22, 2018 and the arbitrator subsequently eliminated the earlier award of \$689,000 to the Company. The Company is currently pursuing legal means to demonstrate that there is no such basis for the change by the arbitrator.

John Merrill v. Track Group, Inc. and Guy Dubois. On November 30, 2016, the Company was served with a complaint filed by John Merrill, the former Chief Financial Officer of the Company, in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, among other causes of action, related to Mr. Merrill's termination of employment. Mr. Merrill is seeking not less than \$590,577 plus interest, attorney fees and costs. Mr. Merrill's employment with the Company was terminated effective September 27, 2016. The Company filed an Answer with Counter Claims on December 21, 2016. The Company filed a motion for Summary Judgment on January 16, 2018. At a hearing on April 25, 2018, the court dismissed the Plaintiff's claims related to an oral look-back agreement and a separation agreement. The court has not ruled on Plaintiff's claims related to his employment agreement. A settlement amount could not be reached by the parties. The matter will likely proceed to trial after expert discovery is conducted. We intend to defend the case vigorously and believe the allegations and claims are without merit.

Michael Anthony Johnson v. Community Corrections of Marion County and Track Group, Inc. On February 28, 2017, the Company was notified that Mr. Johnson, the Plaintiff, had filed a *pro se* complaint in the United States District Court for the Southern District of Indiana, asserting violations of his rights under 28 U.S.C. Sec.1331. Mr. Johnson alleged damages of at least \$250,000. The Company's motion for Summary Judgment was granted on August 31, 2018.

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

Pablo Gonzalez-Cruz, et al. v. Track Group-Puerto Rico, et al. On June 9, 2017, the Plaintiff, Pablo Gonzalez-Cruz, and relatives of the Plaintiff, filed a Complaint in the Court of First Instance, San Juan Superior Court, Common Wealth of Puerto Rico against the Company, and associated parties alleging the death of his daughter was a direct and immediate result of the gross negligence. The Company's insurance carrier reached a settlement with the Plaintiff through an agreement dated September 5, 2018.

Eli Sabag v. Track Group, Inc., Sapinda Asia Limited and Lars Windhorst. On May 4, 2018, Eli Sabag filed a complaint before the Marion Superior Court in Marion County Indiana for damages and declaratory Judgment against the Company. The complaint seeks to enforce an "earn-out" clause in a Share Purchase Agreement ("*SPA*") between the Company and Sabag. Sabag alleges that the Company breached the SPA because it failed to pay him his earn out after it sold and leased a sufficient number of GPS devices to meet the earn-out milestone. In the alternative, Sabag sued the Company for breach of fiduciary duty and tortious interference, alleging that the Company avoided selling sufficient GPS devices so as to not trigger the issuance of Contingent Stock under the SPA. Finally, Sabag alleges that the Company was unjustly enriched because it failed to pay full value for his shares under the SPA. The Company believes the allegations are unfounded and without merit, and it will defend the case vigorously. Furthermore, according to the SPA, any disputes are to be resolved through binding arbitration and enforced in the State of Utah. The Company filed a motion to dismiss the Complaint and Compel Arbitration on September 5, 2018, and we are currently waiting on a ruling from the Court.

Erick Cerda v. Track Group, Inc. On July 25, 2018, former employee Erick Cerda ("*Plaintiff*") filed a complaint in the United States District Court for the Northern District of Illinois, Case No. 18-CV-05075, against the Company alleging violations of Title VII of the Civil Rights Act of 1964 ("*Title VII*") and the Age Discrimination in Employment Act ("*ADEA*"). Plaintiff seeks injunctive relief and monetary damages in an unspecified amount. On October 5, 2018, the Company filed its answer and affirmative defenses to Plaintiff's First Amended Complaint denying Plaintiff's allegations in their entirety. The Company believes that Plaintiff's allegations are unfounded and without merit.

PART II

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

Market Information

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

Fiscal Year Ended September 30, 2018	High	Low
First Quarter ended December 31, 2017	\$ 1.47	\$ 1.05
Second Quarter ended March 31, 2018	\$ 1.22	\$ 1.01
Third Quarter ended June 30, 2018	\$ 1.13	\$ 0.99
Fourth Quarter ended September 30, 2018	\$ 1.02	\$ 0.90

Fiscal Year Ended September 30, 2017	High	Low
First Quarter ended December 31, 2016	\$ 7.30	\$ 3.35
Second Quarter ended March 31, 2017	\$ 5.25	\$ 3.36
Third Quarter ended June 30, 2017	\$ 3.36	\$ 2.16
Fourth Quarter ended September 30, 2017	\$ 2.34	\$ 1.40

Holdings

As of December 17, 2018, we had 185 holders of record of our Common Stock and 11,401,650 shares of Common Stock outstanding. We also have granted options and warrants for the purchase of 685,259 shares of Common Stock.

Dividends

Since incorporation, we have not declared any cash dividends on our Common Stock. We do not anticipate declaring cash dividends on our Common Stock for the foreseeable future.

Dilution

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

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

Transfer Agent and Registrar

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

Securities Authorized for Issuance under Equity Compensation Plans

The 2012 Stock Incentive Plan

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

Under the 2012 Plan, up to 803,262 shares of Common Stock or options to purchase Common Stock may be awarded. As of the date of this report, 258,408 shares of Common Stock and options for the purchase of 517,636 shares of Common Stock have been awarded under the 2012 Plan.

The following table includes information as of September 30, 2018 for our equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	616,655	\$ 1.61	27,218
Equity compensation approved by Board of Directors outside of 2012 Plan	68,604	1.15	-
Total	685,259	\$ 1.56	27,218

Recent Sales of Unregistered Securities

No securities were issued without registration under the Securities Act during the fiscal year ended September 30, 2018, nor were any securities issued subsequent to September 30, 2018, that were not reported in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K filed with the Securities and Exchange Commission.

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

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader better understand Track Group, our operations and our present business environment. Our fiscal year ends on September 30 of each year. Reference to fiscal year 2018 refers to the year ended September 30, 2018. This MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements for the fiscal years ended September 30, 2018 and 2017 and the accompanying notes thereto contained in this Annual Report. This introduction summarizes MD&A, which includes the following sections:

- Overview – a general description of our business and the markets in which we operate; our objectives; our areas of focus; and challenges and risks of our business.
- Results of Operations – an analysis of our consolidated results of operations for the last two fiscal years presented in our consolidated financial statements.

- Liquidity and Capital Resources – an analysis of cash flows; off-balance sheet arrangements and aggregate contractual obligations; and the impact of inflation and changing prices.
- Off-Balance Sheet Arrangements
- Critical Accounting Policies – a discussion of accounting policies that require critical judgments and estimates.

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

Overview

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

Recent Developments

Contract with the Gendarmeria de Chile

On January 25, 2018, the Company entered into a Monitoring Services Agreement with Gendarmeria de Chile, the Republic of Chile's uniform prison service ("Gendarmeria"), for services the Company began offering to Gendarmeria on October 18, 2017 for a period of 365 days. As of October 18, 2018, the Gendarmeria Agreement was automatically extended for periods of 30-days and the Company anticipates that this option will be exercised by Gendarmeria for the foreseeable future. Most recently, Gendarmeria asked the Company's Chilean subsidiary to extend the maturity of the performance bond associated with the Gendarmeria Agreement to July 18, 2019. Furthermore, Gendarmeria will not make a decision with respect to the Request for Proposal process until all of the judicial proceedings are complete; however, management believes that as the incumbent provider with several years of experience managing a successful program for the Chilean government, the Company is best positioned to prevail in such a process.

Conrent Facility Agreement

On July 19, 2018 the Company and Conrent, amended the Amended Facility Agreement, which alters certain provisions of the Company's existing \$30.4 million unsecured debt facility. Effective July 19, 2018, the Amended Facility Agreement (i) extended the Maturity Date to the earlier of either April 1, 2019 or the date upon which the Outstanding Principal Amount, as defined therein, is repaid by the Company, and (ii) provided that in the event of a Change of Control, as defined therein, Conrent shall immediately cancel the facility and declare the Outstanding Principal Amount, together with unpaid interest, immediately due and payable. On November 14, 2018, the Company requested that Conrent extend the maturity of the Amended Facility Agreement from April 1, 2019 to April 1, 2020. On December 3, 2018, Conrent agreed to convene meetings of the Noteholders and subsequently issued a notice of a meeting of Noteholders for each series of Notes to be held on January 16, 2019. Based on the discussions between the Company and Conrent to date, the Company anticipates that the Noteholders will agree to extend the maturity of the Amended Facility Agreement before the maturity on April 1, 2019, however no assurance can be given.

Results of Operations

Continuing Operations - Fiscal Year 2018 Compared to Fiscal Year 2017

Net Revenue

During the fiscal year ended September 30, 2018, we had net revenue of \$30,570,219 compared to net revenue of \$29,727,018 for the fiscal year ended September 30, 2017, an increase of \$843,201, or approximately 3%. Of this revenue, \$29,943,563 and \$28,887,460 was from monitoring and other related services during the 2018 and 2017 fiscal years, respectively, representing an increase of \$1,056,103 or 4%. Growth in revenue during the year ended September 30, 2018 was principally the result of (i) growth of offender monitoring in Chile, (ii) an increase in total growth of our North American monitoring operations driven by clients in Puerto Rico, Indiana, Virginia and Michigan, and (iii) the establishment of a new relationship in Mexico.

Other revenue for the year ended September 30, 2018 decreased to \$626,656 from \$839,558 in the same period in 2017 largely due to lower sales of consumable items and other non-monitoring revenue items. We are continuing to focus on recurring subscription based opportunities as opposed to equipment sales.

Cost of Revenue

During the year ended September 30, 2018, cost of revenue totaled \$13,368,075 compared to cost of revenue during the year ended September 30, 2017 of \$14,125,699, a decrease of \$757,624 or approximately 5%. The decrease in cost of revenue was largely the result of lower monitoring costs of \$402,934, lower customs expense of \$195,125, lower costs of lost and stolen devices of \$179,273, lower communication costs of \$142,216 and lower depreciation and amortization of \$271,934, due to additional depreciation for devices during the year ended September 30, 2017, partially offset by higher server costs of \$203,910, higher support costs of \$121,637 and higher hardware costs of \$79,494. In addition, during the year ended September 30, 2017, we incurred one-time costs of \$371,144, which is reflected in monitoring, products and other related services in the Consolidated Statement of Operations and Comprehensive Loss, that did not reoccur in the year ended September 30, 2018. Excluding these one-time costs, cost of revenue for the year ended September 30, 2018 would have decreased \$386,480, or approximately 3%, compared to the same period in 2017.

Depreciation and amortization included in cost of revenue for the fiscal years ended September 30, 2018 and 2017, totaled \$1,856,734 and \$2,128,668, respectively. These costs represent the depreciation of ReliAlert™ and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. We believe the amortization periods are appropriate due to changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses the useful life of the devices for appropriateness. Amortization of a patent related to GPS and satellite tracking is also included in cost of sales.

Gross Profit and Margin

During the fiscal year ended September 30, 2018, gross profit totaled \$17,202,144, resulting in a 56% gross margin, compared to \$15,601,319, or a 52% gross margin, during the fiscal year ended September 30, 2017, an increase of \$1,600,825. The increase in gross profit is largely due to higher revenue and lower cost of revenue. The increase in gross margin is due to the decrease in certain aspects of cost of revenue, including lower monitoring costs, lower customs expense, lower lost and stolen device costs, lower communications costs and the absence of one-time costs of \$371,144 incurred in the prior year indicated above.

Gain / Loss on Sale of Assets

During the year ended September 30, 2018, we sold a fully depreciated non-core asset for cash of \$8,500. During the year ended September 30, 2017, we sold certain non-core assets for net cash of \$512,500 and incurred a loss on the sale of \$763,531. See Note 4 to the Consolidated Financial Statements.

Restructuring Costs

During the year ended September 30, 2017, we recorded \$558,833 of costs related to the relocation of our headquarters from Salt Lake City, Utah to our existing Chicagoland office. These costs include the transfer of our own monitoring center activities to a highly-specialized third party, severance pay related to a reduction of approximately 65 monitoring center employees, as well as other support employees and moving costs. All costs related to the relocation were paid in the fiscal year ended September 30, 2017.

Impairment of Intangible Assets

In connection with our annual impairment test performed by an independent valuation firm, a non-cash impairment charge of \$506,413 was recorded during the year ended September 30, 2017 related to a legacy non-core facet of the business.

General and Administrative Expense

During the fiscal year ended September 30, 2018, our general and administrative expense totaled \$13,983,924, compared to \$12,216,041 for the fiscal year ended September 30, 2017. The increase of \$1,767,883 or approximately 14%, in general and administrative cost resulted largely from higher employee non-cash stock-based compensation of \$833,602, higher legal and professional fees of \$782,058, lower entitlements received from the Canadian government of \$486,228, higher outside service costs of \$211,438 and higher wages and benefits of \$756,788, partially offset by a decrease in bad debt expense of \$866,692, lower settlement costs of \$305,000, lower telecommunication expense of \$81,040 and lower repairs and maintenance of \$61,465.

Selling and Marketing Expense

For the fiscal year ended September 30, 2018, our selling and marketing expense was \$1,895,452 compared to \$2,311,725 for the year ended September 30, 2017. The \$416,273, or approximately 18%, decrease resulted largely from lower wages and benefits of \$207,447, lower outside service and consulting expense of \$138,362, and lower travel expense of \$62,008.

Research and Development Expense

During the fiscal year ended September 30, 2018, we incurred research and development expense of \$862,142 compared to those costs recognized during fiscal year 2017 totaling \$1,784,867, a decrease of \$922,725 or approximately 52%. The decrease is largely due to lower wages and benefits of \$585,641 and lower outside service and consulting expense of \$326,118 as the Company is completing its new technology platform. The Company is significantly enhancing its technology platform to improve the efficiency of its software, firmware, user interface, and automation. As a result of these improvements, \$1,083,745 was capitalized as developed technology during the year ended September 30, 2018, and \$2,416,804 was capitalized during the year ended September 30, 2017. A portion of this expense would have been recognized as research and development expense, absent the significant enhancements to the technology.

Depreciation and Amortization Expense

We maintain a significant portion of our tangible and intangible assets that are amortized or depreciated. During the fiscal year ended September 30, 2018, depreciation and amortization included in operating expense totaled \$2,120,746, compared to \$2,332,217 for the fiscal year ended September 30, 2017. This decrease of \$211,471, or approximately 9%, was largely the result of lower amortization expense related to the sale of certain non-core assets in fiscal year ended September 30, 2017, certain intangible assets becoming fully amortized in fiscal 2018 and certain property and equipment assets becoming fully depreciated.

Other Income (Expense)

During the fiscal year ended September 30, 2018, other income (expense) totaled \$3,183,696 of expense compared to other income of \$648,133 during fiscal 2017. The increase of \$3,831,829 in net other expense resulted primarily from income related to a stock payable adjustment with related parties in 2017 of \$3,213,940 and negative currency exchange rate movements of \$668,901.

Income taxes

During the fiscal year ended September 30, 2018, income tax expense totaled \$592,725 compared to \$501,651 during the fiscal year ended September 30, 2017. Tax expense in both fiscal years are income taxes related to a foreign jurisdiction.

Net Loss

We had a net loss for the fiscal year ended September 30, 2018 totaling \$5,428,041 or (\$0.51) loss per common share, compared to a net loss of \$4,725,826 or (\$0.45) per common share for the fiscal year ended September 30, 2017. This increase in net loss is largely due to other income from a stock payable adjustment with related parties of \$3.2 million in 2017, and higher general and administrative expenses in 2018, partially offset by higher gross margin, lower research and development costs, and lower selling and marketing expenses in fiscal year ended September 30, 2018, and the absence of restructuring costs and loss on sale of assets which occurred in 2017.

Liquidity and Capital Resources

Historically, we have been unable to finance our business solely from cash flows from operating activities. During and prior to the fiscal year ended September 30, 2017, we supplemented cash flows to finance the business from borrowings under a credit facility, a revolving line of credit from one of our shareholders, receipt of certain disgorgement funds, and from the sale and issuance of debt securities. As of September 30, 2018, excluding interest, approximately \$3.4 million was owed to Sapinda (the “*Sapinda Loan Agreement*”) and \$30.4 million was owed to Conrent (the “*Conrent Loan Agreement*”). No borrowings or sales of equity securities occurred during the year ended September 30, 2018.

On July 19, 2018, the Company and Conrent entered into the Amended Facility Agreement, which Amended Facility Agreement (i) extends the maturity date of the Facility to the earlier of either April 1, 2019 or the date upon which the outstanding principal amount is repaid by the Company, and (ii) provides that in the event of a change of control of the Company, Conrent shall immediately cancel the Amended Credit Facility and declare the outstanding principal amount, together with unpaid interest, immediately due and payable. On November 14, 2018, the Company requested that Conrent extend the maturity of the Amended Facility Agreement from April 1, 2019 to April 1, 2020. On December 3, 2018, Conrent agreed to convene meetings of the investors who purchased the securities from Conrent to finance the debt, and subsequently issued a notice of a meeting of Noteholders for each series of Notes, which meetings will be held on January 16, 2019. Based on discussions between the Company and Conrent to date, the Company anticipates that the Noteholders will agree to extend the maturity of the Amended Facility Agreement before its maturity on April 1, 2019, however no assurance can be given.

Net Cash Flows from Operating Activities.

During the fiscal year ended September 30, 2018, we incurred a net loss of \$5,428,041 and we had cash flows from operating activities of \$6,030,592, compared to a net loss from continuing operations of \$4,725,826 and cash flows from operating activities of \$4,147,786 for fiscal year 2017. The increase of cash from operations in fiscal year 2018 compared to fiscal year 2017 was largely the result of a decrease in other assets, largely from a repayment of an international performance bond, an increase in accounts payable and accrued expense and improved operating results, partially offset by two new international performance bonds in 2018 and higher accounts receivables, largely due to new customers in fiscal year 2018. The increase in accrued expense mentioned above is largely due to unpaid interest expense. See Notes 5 and 8 to the Consolidated Financial Statements.

Net Cash Flows from Investing Activities.

The Company used \$2,535,204 of cash for investing activities during the fiscal year ended September 30, 2018, compared to \$3,827,832 of cash used during fiscal year 2017. Cash used for investing activities was used for significant enhancements of our software platform and used for purchases of monitoring and other equipment to meet demand during the twelve months ended September 30, 2018.

Net Cash Flows from Financing Activities.

The Company used \$66,252 of cash for financing activities during the fiscal year ended September 30, 2018, compared to \$67,775 of cash used by financing activities during fiscal year 2017. During the fiscal years ended September 30, 2018 and September 30, 2017, we made principal payments of \$66,252 and \$67,775 on notes payable, respectively.

Liquidity, Working Capital and Management's Plan

As of September 30, 2018, we had unrestricted cash of \$5,446,557, compared to unrestricted cash of \$2,027,321 as of September 30, 2017. As of September 30, 2018, we had a working capital deficit of \$30,316,328, compared to a working capital deficit of \$30,874,107 as of September 30, 2017. This decrease in working capital deficit of \$557,779 is principally due to the repayment of a short-term bond from a long-term asset of \$2,944,631, and cash provided by operations, partially offset by a decrease in cash due to additional capitalized software of \$1,083,745, purchases of monitoring equipment of \$1,305,586 and purchases of property and equipment of \$154,373. Although no assurances can be given, in the event that management is able to successfully extend the maturity of the Amended Facility Agreement, we currently believe that our cash on hand in addition to cash derived from our operating activities will be sufficient to sustain operations through the next twelve months, although no assurance can be given. In the event that they are not sufficient, we will need to obtain additional funding from outside sources, which may include through the sale of our securities. No assurances can be given that we will be able to obtain additional funding on terms favorable to us, if at all.

On March 13, 2017, the Company successfully extended the Sapinda Loan Agreement from September 30, 2017 to September 30, 2020. On July 17, 2018, the Company successfully extended the Conrent Loan Agreement to the earlier of either April 1, 2019 or the date upon which the outstanding principal amount is repaid by the Company. In addition, management is currently exploring options to extend the maturity of debt owed under the Conrent Loan Agreement. See "Recent Developments" and Note 15 to the Consolidated Financial Statements.

Inflation

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

Off-Balance Sheet Financial Arrangements

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

	Payments due in less than 1 year	Payments due in 1 – 3 years	Payments due in 3 – 5 years	Total
Operating leases	\$ 329,941	\$ 438,777	\$ 170,957	\$ 939,675

As of September 30, 2018, the Company's total future minimum lease payments under noncancelable operating leases were \$939,675. The Company's facility leases typically have original terms not exceeding five years and generally contain multi-year renewal options.

Critical Accounting Policies

In Note 1, “Summary of Significant Accounting Policies” to the audited Consolidated Financial Statements included in this Annual Report, we discuss those accounting policies we consider to be significant in determining the results of operations and our financial position.

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

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

Inventory Reserves

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

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

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

Revenue Recognition

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

Monitoring Services

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

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

Product Sales

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

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

Multiple Element Arrangements

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

Other Matters

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

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

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

Impairment of Long-Lived Assets

We review our long-lived assets including goodwill and intangibles for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable, and in the case of goodwill, at least annually. We evaluate whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. We use an equity method of the related asset or group of assets in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its market value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are an identifiable fair market value that is independent of other groups of assets.

Allowance for Doubtful Accounts

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

Recent Accounting Pronouncements

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

Accounting for Stock-Based Compensation

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

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

We had \$10,984,263 and \$10,279,602 in revenue from sources outside the United States for the fiscal years ended September 30, 2018 and 2017, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange loss of \$445,426 and foreign exchange gain \$223,475 in fiscal years 2018 and 2017, respectively. Changes in currency exchange rates affect the relative prices at which we sell our products and purchase goods and services. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition. We do not use foreign currency exchange contracts or derivative financial instruments for hedging or speculative purposes. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement strategies which make use of these or other instruments in order to minimize the effects of foreign currency exchange on our business.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) to ensure that material information relating to the Company is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2018 was completed pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of September 30, 2018.

Management's Report on Internal Control over Financial Reporting

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued in May 2013 and related COSO guidance. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of September 30, 2018.

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our fourth fiscal quarter ended September 30, 2018, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 28, 2019.

Item 11. Executive Compensation

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 28, 2019.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 28, 2019.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 28, 2019.

Item 14. Principal Accounting Fees and Services

The information required by this item will be incorporated by reference from the Company's definitive proxy statement, to be filed with the Securities and Exchange Commission on or before January 28, 2019.

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. *Financial Statements*

Report of Eide Bailly LLP	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Stockholders' Equity (Deficit) and Comprehensive Loss	F-5
Consolidated Statements of Cash Flows	F-7
Notes to the Consolidated Financial Statements	F-9

2. *Financial Statement Schedules.*

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

Exhibit Number	Title of Document
3(i)(1)	Articles of Transfer of Track Group, Inc., a Utah corporation, dated August 5, 2016 (previously filed on August 9, 2016 as Exhibit 3(i)(3) to the Form 10-Q for the quarter ended June 30, 2016).
3(i)(2)	Certificate of Conversion Converting Track Group, Inc., a Utah corporation, to Track Group, Inc., a Delaware corporation, dated August 5, 2016 (previously filed on August 9, 2016 as Exhibit 3(i)(4) to the Form 10-Q for the quarter ended June 30, 2016).
3(i)(3)	Certificate of Incorporation of Track Group, Inc., a Delaware corporation (previously filed on August 9, 2016 as Exhibit 3(i)(5) to the Form 10-Q for the quarter ended June 30, 2016).
3(1)(4)	Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock, dated October 12, 2017 (previously filed as Exhibit 3.1 to our Current Report on Form 8-K, filed on October 13, 2017).
3(ii)(2)	Bylaws of Track Group, Inc., a Delaware corporation (previously filed on August 9, 2016 as Exhibit 3(ii)(2) to the Form 10-Q for the quarter ended June 30, 2016).
4.01	2006 Equity Incentive Award Plan (previously filed in August 2006 as an Exhibit to the Form 10-Q for the nine months ended June 30, 2006).
4.02	2012 Equity Incentive Award Plan (previously filed as Exhibit to Definitive Proxy Statement, filed October 25, 2011, and amended in accordance with the Company's Definitive Proxy Statement, filed April 9, 2015).
10.1	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).
10.2	Loan Agreement between Sapinda Asia Limited and Track Group, Inc., dated September 14, 2015 (incorporated by reference to our Current Report on Form 8-K, filed on September 28, 2015).
10.3	Loan Agreement, by and between Conrent Invest S.A., acting with respect to its Compartment Safety III, and Track Group, Inc., dated May 1, 2016 (previously filed in August 2016 as an Exhibit to the Form 10-Q for the nine months ended June 30, 2016).
10.4	Employment agreement, by and between Track Group Inc. and Peter Poli, dated December 12, 2016 (incorporated by reference to our Current Report on Form 8-K, filed December 16, 2016).

Table of Contents

10.5	<u>Employment Agreement by and between Track Group, Inc. and Derek Cassell dated December 1, 2016 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed February 14, 2017).</u>
10.6	<u>Services Agreement, dated December 7, 2016 (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q, filed February 14, 2017).</u>
10.7	<u>Amendment No. 1 to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated February 13, 2017 (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q, filed February 14, 2017).</u>
10.8	<u>Amendment No. 1 to Loan Agreement between Sapinda Asia Limited and Track Group, Inc., dated March 13, 2017 (incorporated by reference to our Current Report on Form 8-K, filed on March 20, 2017).</u>
10.9	<u>Debt Exchange Agreement between Track Group, Inc. and Conrent Invest S.A., dated October 9, 2017 (incorporated by reference to our Current Report on Form 8-K, filed on October 13, 2017).</u>
10.10	<u>Amendment No. 1 to Employment Agreement by and between Track Group, Inc. and Peter K. Poli dated January 3, 2018 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed January 5, 2018).</u>
10.11	<u>Amendment No. 2 to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated January 3, 2018 (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K, filed January 5, 2018).</u>
10.12	<u>Monitoring Services Agreement by and between Track Group, Inc. and Marion County Community Corrections Agency, dated December 18, 2017 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed February 8, 2018).</u>
10.13	<u>Monitoring Services Agreement by and between Track Group, Inc. and Gendarmeria of Chile, dated January 18, 2018 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q, filed May 11, 2018).</u>
10.14	<u>Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated July 19, 2018 (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K, filed July 19, 2018).</u>
14.1	<u>Code of Business Conduct & Ethics (incorporated by reference to our Annual Report on Form 10-K, filed December 19, 2017).</u>
21	<u>Subsidiaries of the Registrant (incorporated by reference to our Annual Report on Form 10-K, filed December 19, 2017).</u>
31(i)	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31(ii)	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

SIGNATURES

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

Track Group, Inc.

By: /s/ Derek Cassell
Derek Cassell
Chief Executive Officer (Principal Executive Officer)

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

Date: December 19, 2018

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Guy Dubois</u> Guy Dubois	Director and Chairman of the Board of Directors	December 19, 2018
<u>/s/ Karen Macleod</u> Karen Macleod	Director	December 19, 2018
<u>/s/ Karim Sehnaoui</u> Karim Sehnaoui	Director	December 19, 2018

Index to Consolidated Financial Statements

	<u>Page</u>
Report of Eide Bailly LLP	F-2
Consolidated Balance Sheets as of September 30, 2018 and 2017	F-3
Consolidated Statements of Comprehensive Loss for the fiscal years ended September 30, 2018 and 2017	F-4
Consolidated Statements of Stockholders' Equity for the fiscal years ended September 30, 2018 and 2017	F-5
Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2018 and 2017	F-7
Notes to Consolidated Financial Statements	F-9

Report of Independent Registered Public Accounting Firm

To the Board of Directors
Track Group, Inc.
Naperville, IL

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Track Group, Inc. as of September 30, 2018 and 2017, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of Track Group, Inc. as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the entity's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to Track Group, Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Track Group, Inc. is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risk of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Eide Bailly LLP

We have served as Track Group, Inc.'s auditor since 2013.

Salt Lake City, Utah
December 19, 2018

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2018 AND 2017

Assets	2018	2017
<i>Current assets:</i>		
Cash	\$ 5,446,557	\$ 2,027,321
Accounts receivable, net of allowance for doubtful accounts of \$3,152,966 and \$3,033,362, respectively	5,978,896	5,673,297
Note receivable, net of allowances for doubtful accounts of \$234,733, respectively	-	-
Prepaid expense and other	1,270,043	854,122
Inventory, net of reserves of \$26,934, respectively	277,119	261,810
Total current assets	<u>12,972,615</u>	<u>8,816,550</u>
Property and equipment, net of accumulated depreciation of \$1,999,222 and \$1,778,634, respectively	745,475	903,100
Monitoring equipment, net of accumulated amortization of \$5,325,654 and \$4,906,925, respectively	3,162,542	3,493,012
Intangible assets, net of accumulated amortization of \$12,016,512 and \$9,839,032, respectively	23,253,054	24,718,655
Goodwill	8,076,759	8,226,714
Other assets	145,839	2,989,101
Total assets	<u>\$ 48,356,284</u>	<u>\$ 49,147,132</u>
Liabilities and Stockholders' Equity		
<i>Current liabilities:</i>		
Accounts payable	2,518,030	2,769,835
Accrued liabilities	10,333,103	6,650,291
Current portion of long-term debt, net of discount of \$0 and \$185,811, respectively	30,437,810	30,270,531
Total current liabilities	<u>43,288,943</u>	<u>39,690,657</u>
Long-term debt, net of current portion	3,428,975	3,480,717
Total liabilities	<u>46,717,918</u>	<u>43,171,374</u>
Commitments and contingencies (Note 13)	<u>-</u>	<u>-</u>
<i>Stockholders' equity:</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 11,401,650 and 10,480,984 shares outstanding, respectively	1,140	1,048
Series A Convertible Preferred stock, \$0.0001 par value: 1,200,000 shares authorized; 0 shares outstanding	-	-
Paid in capital	302,102,866	300,717,861
Accumulated deficit	(299,495,370)	(294,067,329)
Accumulated other comprehensive loss	(970,270)	(675,822)
Total equity	<u>1,638,366</u>	<u>5,975,758</u>
Total liabilities and stockholders' equity	<u>\$ 48,356,284</u>	<u>\$ 49,147,132</u>

The accompanying notes are an integral part of the financial statements.

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Revenue:		
Monitoring and other related services	\$ 29,943,563	\$ 28,887,460
Other	626,656	839,558
Total revenue	<u>30,570,219</u>	<u>29,727,018</u>
Cost of revenue:		
Monitoring, products and other related services	11,511,341	11,997,031
Depreciation and amortization included in cost of revenue	1,856,734	2,128,668
Total cost of revenue	<u>13,368,075</u>	<u>14,125,699</u>
Gross profit	17,202,144	15,601,319
Operating expense:		
General & administrative	13,983,924	12,216,041
(Gain) / loss on sale of asset	(8,500)	763,531
Restructuring costs	-	558,833
Impairment of intangible assets	-	506,413
Selling & marketing	1,895,452	2,311,725
Research & development	862,142	1,784,867
Depreciation & amortization	2,120,746	2,332,217
Total operating expense	<u>18,853,764</u>	<u>20,473,627</u>
Loss from operations	(1,651,620)	(4,872,308)
Other income (expense):		
Interest income	242,973	20,086
Interest expense	(3,004,983)	(2,820,924)
Currency exchange rate gain (loss)	(445,426)	223,475
Gain on settlement of milestone payments	-	3,213,940
Other income/expense, net	23,740	11,556
Total other income (expense)	<u>(3,183,696)</u>	<u>648,133</u>
Net loss before income taxes	<u>(4,835,316)</u>	<u>(4,224,175)</u>
Income tax expense	592,725	501,651
Net loss attributable to common shareholders	<u>(5,428,041)</u>	<u>(4,725,826)</u>
Foreign currency translation adjustments	(294,719)	169,492
Comprehensive loss	<u>\$ (5,722,760)</u>	<u>\$ (4,556,334)</u>
Net loss per common share, basic and diluted	<u>\$ (0.51)</u>	<u>\$ (0.45)</u>
Weighted average common shares outstanding, basic and diluted	10,732,523	10,408,870

The accompanying notes are an integral part of the financial statements.

TRACK GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2017 AND 2018

	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Comprehensive Loss</u>	<u>Total</u>
Balance as of October 1, 2017	10,480,984	\$ 1,048	\$300,717,861	\$(294,067,329)	\$ (675,822)	\$ 5,975,758
Modification of warrants	-	-	162,418	-	-	162,418
Cancellation of Common Stock issued to Board Member	(18,551)	(2)	2	-	-	-
Issuance of Common Stock for Board of Director fees	266,358	27	364,696	-	-	364,723
Issuance of Common Stock to employees for services	672,859	67	638,848	-	-	638,915
Issuance of Common Stock Warrants for Board of Director fees	-	-	75,000	-	-	75,000
Amortization of equity-based compensation granted to employees	-	-	144,041	-	-	144,041
Foreign currency translation adjustments	-	-	-	-	(294,448)	(294,448)
Net loss	-	-	-	(5,428,041)	-	(5,428,041)
Balance as of September 30, 2018	<u>11,401,650</u>	<u>\$ 1,140</u>	<u>\$302,102,866</u>	<u>\$(299,495,370)</u>	<u>\$ (970,270)</u>	<u>\$ 1,638,366</u>

The accompanying notes are an integral part of the financial statements.

TRACK GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2017 (continued)

	<u>Shares</u>	<u>Amount</u>	<u>Capital</u>	<u>Deficit</u>	<u>Comprehensive Loss</u>	<u>Total</u>
Balance as of October 1, 2016	10,333,516	\$ 1,034	\$298,876,399	\$(289,341,503)	\$ (845,314)	\$ 8,690,616
Modification of warrants	-	-	790,313	-	-	790,313
Issuance of Common Stock for:						
Recognition of milestone achievement services	10,602	1	75,937	-	-	75,938
Common shares issued upon vesting of restricted stock	42,026	4	167,281	-	-	167,285
Stock for Board of Director fees	94,840	9	464,991	-	-	465,000
Issuance of Common Stock warrants for Board of Director fees	-	-	75,000	-	-	75,000
Amortization of equity-based compensation granted to employees	-	-	267,940	-	-	267,940
Foreign currency translation adjustments	-	-	-	-	169,492	169,492
Net loss	-	-	-	(4,725,826)	-	(4,725,826)
Balance as of September 30, 2017	<u>10,480,984</u>	<u>\$ 1,048</u>	<u>300,717,861</u>	<u>(294,067,329)</u>	<u>(675,822)</u>	<u>5,975,758</u>

The accompanying notes are an integral part of the financial statements.

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Net loss	\$ (5,428,041)	\$ (4,725,826)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,977,480	4,460,885
Impairment of intangible assets	-	506,413
Bad debt expense	182,045	1,048,737
Accretion of debt discount	185,811	222,973
Stock based compensation	1,719,844	1,140,520
(Gain) / loss on disposal of property and equipment	(8,500)	763,531
Gain on settlement of milestone payments	-	(3,213,940)
Loss on monitoring equipment included on cost of sales	390,098	569,371
Change in assets and liabilities:		
Accounts receivable, net	(556,160)	583,694
Inventories	-	260,041
Prepaid expense and other assets	2,187,162	(433,978)
Accounts payable, accrued expense and other	3,380,853	2,965,365
Net cash provided by operating activities	<u>6,030,592</u>	<u>4,147,786</u>
Cash flow from investing activities:		
Purchase of property and equipment	(154,373)	(84,749)
Capitalized software	(1,083,745)	(2,416,804)
Purchase of monitoring equipment and parts	(1,305,586)	(1,838,779)
Proceeds from sale of assets	8,500	512,500
Net cash used in investing activities	<u>(2,535,204)</u>	<u>(3,827,832)</u>
Cash flow from financing activities:		
Principal payments on notes payable	(66,252)	(67,775)
Net cash used in financing activities	<u>(66,252)</u>	<u>(67,775)</u>
Effect of exchange rate changes on cash	(9,900)	5,221
Net increase in cash	<u>3,419,236</u>	<u>257,400</u>
Cash, beginning of year	<u>2,027,321</u>	<u>1,769,921</u>
Cash, end of year	<u>\$ 5,446,557</u>	<u>\$ 2,027,321</u>

The accompanying notes are an integral part of the financial statements.

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash paid for interest	\$ 226,079	\$ 22,456
<i>Supplemental schedule of non-cash investing and financing activities:</i>		
Issuance of warrants for accrued Board of Director fees	75,000	100,000
Issuance of common shares in recognition of certain milestone achievements	-	75,937
Non-cash transfer of inventory to monitoring equipment	305,481	487,544

The accompanying notes are an integral part of the financial statements.

TRACK GROUP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Nature of Operations

General

The Company's business is based on the 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, full-time 24/7/365 global monitoring capabilities, case management, and proprietary data analytics. The Company offers customizable tracking solutions that leverage real-time tracking data, best-practices monitoring, and analytics capabilities to create complete, end-to-end tracking solutions.

Business Condition. As of September 30, 2018 and 2017 the Company had an accumulated deficit of \$299,495,370 and \$294,067,329, respectively. The Company incurred a net loss of \$5,428,041 and \$4,725,826 for the years ended September 30, 2018 and 2017, respectively. The Company may continue to incur losses and require additional financial resources. The Company also has debt maturing in the next 12 months. The Company's successful development and transition to attaining profitable operations is dependent upon achieving a level of revenues adequate to support its cost structure. Management has evaluated the significance of these conditions and has determined that the Company can meet its operating obligations for a reasonable period of time. The Company expects to fund operations using cash on hand, through operational cash flows and the extension of its existing debt agreement. Management of the Company believes that the availability of financing from these sources is adequate to fund operations through the upcoming twelve months. (See Note 15)

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Track Group, Inc. and its subsidiaries, Track Group Analytics Limited, Track Group Americas, Inc., Track Group International LTD., and Track Group - Chile SpA. All significant inter-company transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

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

Business Combinations

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

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

Foreign Currency Translation

The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars (“USD”) at the exchange rate prevailing at September 30, 2018. Their respective statements of operations have been translated into USD using the average exchange rates prevailing during the periods of each statement. The corresponding translation adjustments are part of accumulated other comprehensive income and are shown as part of stockholders’ equity.

Other Intangible Assets

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

Fair Value of Financial Investments

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

Concentration of Credit Risk

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

The Company had sales to entities, two of which represented more than 10% of gross revenue, as follows for the years ended September 30, 2018 and 2017.

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Customer A	\$ 9,201,502	30%	\$ 8,747,338	29%
Customer B	\$ 3,772,540	12%	\$ 3,743,508	13%
Customer C	\$ 2,468,472	8%	\$ 2,326,318	8%

No other customer represented more than 10% of the Company’s total revenue for the fiscal years ended September 30, 2018 or 2017.

Concentration of credit risk associated with the Company’s total and outstanding accounts receivable as of September 30, 2018 and 2017, respectively, are shown in the table below:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Customer A	\$ 1,689,976	29%	\$ 1,657,316	30%
Customer B	\$ 594,626	10%	\$ 641,973	12%
Customer C	\$ 428,560	7%	\$ 394,253	7%

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

Cash Equivalents

Cash equivalents consist of investments with original maturities to the Company of three months or less. The Company has cash in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company had \$2,900,105 and \$1,445,364 of cash deposits in excess of federally insured limits as of September 30, 2018 and 2017, respectively.

Accounts Receivable

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

Note Receivable

Notes receivable are carried at the face amount of each note plus respective accrued interest receivable, less received payments. The Company does not typically carry notes receivable in the course of its regular business, but entered into an agreement with one of its customers during the fiscal year ended September 30, 2012. Payments under the note are recorded as they are received and are immediately offset against any outstanding accrued interest before they are applied against the outstanding principal balance on the respective note. The note requires monthly payments of \$15,000, and matured in May 2014. The note is currently in default and accrues interest at a rate of 17% per annum. As of June 30, 2016, the Company no longer accrues interest on the note. As of September 30, 2018, the outstanding balance of the note was \$120,824 of principal and \$113,909 of accrued interest, which are both fully reserved.

Prepaid expense and other

The carrying amounts reported in the balance sheet for prepaid expense and other current assets approximate their fair market value based on the short-term maturity of these assets. Prepaid assets and other is comprised largely of performance bond deposits, tax deposits, vendor deposits and other prepaid supplier expenses. We generally expect deposits to be returned to the Company as cash within 12 months and prepaid expenses to be allocated over the commitment.

Inventory

Inventory is valued at the lower of the cost or net realizable value. Cost is determined using the standard costing method. Net realizable value is determined based on the item selling price. Inventory is periodically reviewed in order to identify obsolete or damaged items or impaired values. The Company did not record impairment of inventory during the fiscal years ended September 30, 2018 and 2017, respectively.

Inventory consists of finished goods that are to be shipped to customers and parts used for minor repairs of ReliAlert™, Shadow, and other tracking devices. Completed and shipped ReliAlert™ and other tracking devices are reflected in Monitoring Equipment. As of September 30, 2018 and September 30, 2017, respectively, inventory consisted of the following:

	2018	2017
Finished goods inventory	\$ 304,053	\$ 288,744
Reserve for damaged or obsolete inventory	(26,934)	(26,934)
Total inventory, net of reserves	<u>\$ 277,119</u>	<u>\$ 261,810</u>

The Company uses a third-party fulfillment service provider. As a result of this service, the Company's employees do not assemble, repair or process inventory or monitoring equipment being shipped directly from suppliers. Purchases of monitoring equipment are recognized directly. Management believes this process reduces maintenance and fulfillment costs associated with inventory and monitoring equipment.

Property and Equipment

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

Property and equipment consisted of the following as of September 30, 2018 and 2017, respectively:

	<u>2018</u>	<u>2017</u>
Equipment, software and tooling	\$ 1,074,471	\$ 1,028,081
Automobiles	6,153	52,230
Leasehold improvements	1,358,984	1,307,802
Furniture and fixtures	305,089	293,621
Total property and equipment before accumulated depreciation	<u>2,744,697</u>	<u>2,681,734</u>
Accumulated depreciation	(1,999,222)	(1,778,634)
Property and equipment, net of accumulated depreciation	<u>\$ 745,475</u>	<u>\$ 903,100</u>

Property and equipment to be disposed of is reported at the lower of the carrying amount or fair value, less the estimated costs to sell and any gains or losses are included in the results of operations. During the fiscal years ended September 30, 2018 and 2017, the Company recognized an \$8,500 gain and \$0 gain, respectively on the disposal of property and equipment. Internally developed software costs related to the Company's monitoring platform are recorded as intangible assets on the Consolidated Balance Sheet. See Note 14.

Depreciation expense recognized for property and equipment for the fiscal years ended September 30, 2018 and 2017 was \$348,162 and \$366,124, respectively.

Monitoring Equipment

The Company leases monitoring equipment to agencies for offender tracking under contractual service agreements. The monitoring equipment is depreciated using the straight-line method over an estimated useful life of between one and five years. Monitoring equipment as of September 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Monitoring equipment	\$ 8,488,196	\$ 8,399,937
Less: accumulated amortization	(5,325,654)	(4,906,925)
Monitoring equipment, net of accumulated depreciation	<u>\$ 3,162,542</u>	<u>\$ 3,493,012</u>

Amortization expense for the fiscal years ended September 30, 2018 and 2017 was \$1,360,753 and \$1,678,668, respectively. This expense was classified as a cost of revenue.

Monitoring equipment to be disposed of is reported at the lower of the carrying amount or fair value, less the estimated costs to sell. As part of the sale of assets described in Note 4, the Company disposed of \$771,568 of monitoring equipment and \$361,463 of related accumulated amortization in the year ended September 30, 2017.

During the fiscal years ended September 30, 2018 and 2017, the Company disposed of leased monitoring equipment and parts of \$390,098 and \$569,371, respectively.

Impairment of Long-Lived Assets and Goodwill

The Company reviews 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. See Note 14.

Revenue Recognition

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

Monitoring Services

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

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

Product Sales

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

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

Multiple Element Arrangements

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

Other Matters

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

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

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

Research and Development Costs

During the fiscal year ended September 30, 2018 and September 30, 2017, the Company incurred research and development expense of \$862,142 and \$1,784,867, respectively.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense for the fiscal years ended September 30, 2018 and 2017 was \$8,264 and \$14,984, respectively.

Stock-Based Compensation

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

Income Taxes

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

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

The Company's policy is to recognize interest and penalties related to income tax issues as components of other noninterest expense. As of September 30, 2018 and September 30, 2017, we did not record a liability for uncertain tax positions.

Net Income (Loss) Per Common Share

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

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

Common share equivalents consist of shares issuable upon the exercise of options and warrants to purchase shares of the Company’s Common Stock, par value \$0.0001 per share (“*Common Stock*”). As of September 30, 2018 and 2017, there were 628,592 and 490,842 outstanding common share equivalents, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive. The Common Stock equivalents outstanding as of September 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Exercise of outstanding Common Stock options and warrants (excludes 56,667 unvested options and warrants)	628,592	490,842
Total Common Stock equivalents	<u>628,592</u>	<u>490,842</u>

At September 30, 2018 and September 30, 2017, all stock option and warrant exercise prices were above the market price of \$0.90 and \$1.43, respectively, and thus have not been included in the basic earnings per share calculation.

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

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

Recently Issued Accounting Standards

In May 2017, the FASB issued Accounting Standards Update (“*ASU*”) 2017-09, Compensation - Stock Compensation: Scope of Modification Accounting, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. The update is effective for annual periods beginning after December 15, 2017. The update is to be adopted prospectively to an award modified on or after the adoption date. Early adoption is permitted. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

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

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

In February 2016, FASB issued ASU No. 2016-02, “*Leases (Topic 841)*.” For lessees, the amendments in this update require that for all leases not considered to be short term, a company recognize both a lease liability and right-of-use asset on its balance sheet, representing the obligation to make payments and the right to use or control the use of a specified asset for the lease term. The amendments in this update are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Management is currently evaluating the impact of this guidance on its consolidated financial statements and its operating lease obligations discussed in Note 13.

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

(3) Acquisitions

Track Group Analytics Limited

On November 26, 2014, the Company entered into a Share Purchase Agreement to purchase from the shareholders of Track Group Analytics Limited, formerly G2 Research Limited (“*TGA*”), all issued and outstanding shares of TGA for an aggregate purchase price of up to CAD \$4,600,000 (the “*TGA Acquisition*”), of which CAD \$2,000,000 was paid in cash to the TGA shareholders on the Closing Date with the remainder of the purchase price to be paid as follows: (i) CAD \$600,000 to the former TGA shareholders in shares of common stock of which one-half of the shares were issued on the one-year anniversary of the closing and the balance was issued on the two-year anniversary of the closing; and (ii) up to CAD \$2,000,000 to the former TGA shareholders in shares of common stock over a two-year period beginning as of the closing, subject to the achievement of certain milestones set forth in the purchase agreement. The final milestone payment of 10,602 shares of common stock was paid on January 31, 2017. In total, the Company has paid approximately USD \$956,000 of milestone payments through stock issuances related to the TGA Acquisition.

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.

(4) Disposition

On March 8, 2017, the Company sold certain non-core assets for \$510,000, net, after a payment to a third party for a royalty repurchase. We retained other assets acquired at the time of the original acquisition of these non-core assets, consisting of customers generating material revenue, as well as employees considered critical to the maintenance, development and growth of our business and operations. The Company incurred a loss of \$766,031 on the sale, which consists of a sale price of \$860,000, less a third-party royalty buyout payment of \$350,000, \$410,105 of equipment, net of accumulated depreciation, and \$865,926 of intangible assets, net of accumulated amortization.

(5) Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2018 and 2017:

	2018	2017
Accrued payroll, taxes and employee benefits	\$ 1,937,021	\$ 943,066
Deferred revenue	150,604	43,333
Deposits payable	54,504	-
Accrued taxes - foreign and domestic	351,469	529,926
Accrued settlement costs	-	200,000
Accrued board of directors fees	-	125,000
Accrued other expense	298,268	251,038
Accrued legal costs	473,777	116,824
Accrued costs of revenue	230,514	137,884
Accrued bond guarantee	157,199	-
Accrued interest	6,679,747	4,303,220
Total accrued liabilities	<u>\$ 10,333,103</u>	<u>\$ 6,650,291</u>

(6) Certain Relationships and Related Transactions

The Company entered into certain transactions with related parties during the fiscal year ended September 30, 2018 and 2017. These transactions consist mainly of financing transactions and service agreements. Transactions with related parties are reviewed and approved by the independent and disinterested members of the Board of Directors.

Related-Party Loan Agreement

On September 25, 2015, the Company entered into the Sapinda Loan Agreement with Sapinda, a related party at that time, to provide the Company with a \$5.0 million line of credit that accrued interest at a rate of 3% per annum for undrawn funds, and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the Sapinda Loan Agreement, available funds could be drawn down at the Company's request at any time prior to the maturity date of September 30, 2017 (the "Maturity Date"), when all borrowed funds, plus all accrued but unpaid interest would have become due and payable. The Company, however, was entitled to elect to satisfy any outstanding obligations under the Sapinda Loan Agreement prior to the Maturity Date without penalties or fees.

On March 13, 2017, the Company and Sapinda entered into Amendment Number One to the Sapinda Loan Agreement. Amendment Number One extended the maturity date of all loans made pursuant to the Sapinda Loan Agreement to September 30, 2020. In addition, Amendment Number One eliminated the requirement that the Company pay Sapinda the 3% interest, and forgave the 3% interest due to Sapinda for all undrawn funds under the Sapinda Loan Agreement through the Execution Date. Further, Amendment Number One provided that all Lender Penalties accrued under the Sapinda Loan Agreement through the Execution Date were forgiven. Per Amendment Number One, Lender Penalties began to accrue again because Sapinda failed to fund the amount of \$1.5 million on or before March 31, 2017. The Company formally notified Sapinda of the breach by letter dated April 4, 2017. The Company is again accruing Lender Penalties, amounting to \$548,000 at September 30, 2018, under Section 6.3 of the Sapinda Loan Agreement, as amended, and the Company intends to offset Lender Penalties against future payments due. We did not draw on this line of credit, nor did we pay any interest during the year ended September 30, 2018. The undrawn balance of this line of credit at September 30, 2018 was \$1,600,356. Further advances under the Sapinda Loan Agreement are not currently expected to be forthcoming, and therefore no assurances can be given that the Company will obtain additional funds to which it is entitled under the Sapinda Loan Agreement, or that the penalties accruing will ever be paid.

Stock Payable – Related Party

In connection with the acquisition during fiscal year ended September 30, 2015 described under Note 3 above, the Company recognized a liability for stock payable to the Sellers of the entities acquired. In conjunction with the respective purchase agreements, shares of the Company’s stock are payable based on the achievement of certain milestones. Changes in the stock payable liability are shown below:

	September 30, 2018	September 30, 2017
Beginning balance	\$ -	\$ 3,289,879
Payment of shares for achieving performance milestones	-	(75,939)
Adjustment to Track Group Analytics stock payable	-	(213,940)
Adjustment to GPS Global stock payable	-	(3,000,000)
Ending balance	<u>\$ -</u>	<u>\$ -</u>

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

	2018	2017
Related party loan with an interest rate of 8% per annum for borrowed funds. Principal and interest due September 30, 2020.	\$ 3,399,644	\$ 3,399,644
Total related-party debt obligations	<u>\$ 3,399,644</u>	<u>\$ 3,399,644</u>

Shares of Common Stock valued at up to \$3,000,000, in the balance shown above, could have been 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 under the Share Purchase Agreement dated April 1, 2014. The measurement period of the milestones ended April 1, 2017. On March 30, 2017, the Company informed the seller that neither the Company nor the seller sold or leased the required number of GPS tracking devices, under a revenue generating contract, as defined in the Share Purchase Agreement and no contingent shares had been earned. Accordingly, the Company reversed the \$3,000,000 contingent liability in the fiscal year ended September 30, 2017 in “Other Income, net” in the Consolidated Statements of Operations.

In connection with the acquisition of TGA (see Note 3), the Company recognized a liability for Common Stock payable to the former owners of the entity acquired. In conjunction with the respective purchase agreements, shares of the Company’s Common Stock are payable based on the achievement of certain milestones on or before November 26, 2016. The final milestone payment of 10,602 shares of common stock related to the TGA acquisition was paid in the second fiscal quarter of 2017.

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

(7) Restructuring

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

(8) Debt Obligations

Debt obligations as of September 30, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Unsecured facility agreement with Conrent S.A. whereby, as of June 30, 2015, the Company had borrowed \$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 April 1, 2019. A \$1.2 million origination fee was paid and recorded as a debt discount and is being amortized as interest expense over the term of the loan. As of September 30, 2018, the remaining debt discount was \$0. The Company did not pay interest on this loan during the year ended September 30, 2018.	\$ 30,400,000	\$ 30,214,189
Loan Agreement whereby the Company can borrow up to \$5.0 million at 8% interest per annum on borrowed funds maturing on September 30, 2020.	3,399,644	3,399,644
Non-interest bearing notes payable to a Canadian governmental agency assumed in conjunction with the G2 acquisition.	67,141	123,393
Capital lease with effective interest rate of 12%. Contract concluded on September 7, 2018.	-	14,022
Total debt obligations	<u>33,866,785</u>	<u>33,751,248</u>
Less current portion	<u>(30,437,810)</u>	<u>(30,270,531)</u>
Long-term debt, net of current portion	<u>\$ 3,428,975</u>	<u>\$ 3,480,717</u>

The following table summarizes our future maturities of debt obligations, net of the amortization of debt discounts as of September 30, 2018:

Fiscal Year	Total
2019	\$ 30,437,810
2020	3,428,975
2021 & thereafter	-
Total	<u>\$ 33,866,785</u>

As of September 30, 2018, and 2017, the Company had total capital lease obligations of \$0 and \$14,022.

(9) Preferred Stock

The Company's Certificate of Incorporation authorizes it to issue up to 20,000,000 shares of preferred stock, \$0.0001 par value per share, of which 1,200,000 shares have been designated as Series A Convertible Preferred Stock ("*Series A Preferred*"). The Company's Board of Directors has the authority to amend its Certificate of Incorporation, without further shareholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the preferred stock before any issuance of the preferred stock and to create additional series of preferred stock.

Series A Preferred Stock

On October 12, 2017, the Company filed a Certificate of Designation of the Relative Rights and Preferences ("*Certificate of Designation*") with the Delaware Division of Corporations, designating 1,200,000 shares of the Company's preferred stock as Series A Preferred. Shares of Series A Preferred rank senior to the Company's common stock, and all other classes and series of equity securities of the Company that by their terms do not rank senior to the Series A Preferred.

Except with respect to transactions upon which holders of the Series A Preferred are entitled to vote separately as a class under the terms of the Certificate of Designation, the Series A Preferred has no voting rights. The shares of common stock into which the Series A Preferred is convertible shall, upon issuance, have all of the same voting rights as other issued and outstanding shares of our common stock.

The Series A Preferred has no separate dividend rights; however, whenever the Board declares a dividend on the Company's Common Stock, if ever, each holder of record of a share of Series A Preferred shall be entitled to receive an amount equal to such dividend declared on one share of common stock multiplied by the number of shares of common stock into which such share of Series A Preferred could be converted on the Record Date.

Each share of Series A Preferred has a Liquidation Preference of \$35.00 per share, and is convertible, at the holder's option, into ten shares of the Company's Common Stock, subject to adjustments as set forth in the Certificate of Designation, at any time beginning five hundred and forty days after the date of issuance.

As of September 30, 2018, no shares of Series A Preferred were issued and outstanding.

(10) Common Stock

Common Stock Issuances

The Company is authorized to issue up to 30,000,000 shares of Common Stock, \$0.0001 par value per share.

On April 16, 2018, the Company issued 7,840 shares from the 2012 Equity Compensation Plan (the "2012 Plan") to a member of the executive team, valued at \$31,360. On April 27, 2018, the Board of Directors approved the issuance of 931,377 shares of common stock outside of the 2012 Plan. On May 1, 2018, the Company issued the approved shares, valued at \$1,273,503, to directors and certain executives for their services.

In addition, the Company issued 30,797 warrants to a member of the Company's Board of Directors in exchange for 18,551 shares of Common Stock the director previously received for services provided during the period of October 2016 to June 2017, which shares were therefore cancelled in the fiscal year ended September 30, 2018.

During the fiscal year ended September 30, 2017, the Company issued 147,468 shares of Common Stock. Of these shares, 42,026 shares were issued for services rendered to the Company, valued at \$167,285; 10,602 shares valued at \$75,938 were issued in connection with the acquisition of a subsidiary and for achieving certain performance milestones; and 94,840 shares were issued to pay Board of Director fees of \$565,000.

(11) Stock Options and Warrants

Stock Incentive Plan

The 2012 Plan was approved at the Annual Meeting of Shareholders on December 21, 2011, and at the Annual Meeting of Shareholders on May 19, 2015, the Company's shareholders approved an amendment increasing the number of shares of Common Stock available for issuance under the 2012 Plan. The 2012 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who have important relationships with the Company. At our May 11, 2017 Board of Directors meeting, the Board of Directors approved a resolution extending the expiration date of 573,663 warrants held by five current Board members and three members of management that were granted during the fiscal year 2011 and fiscal years 2013 through 2017. These extensions were between one and five years, did not affect the exercise price of the warrants and resulted in incremental stock-based compensation of \$801,584, of which \$790,314 was expensed in the three months ended June 30, 2017. All future grants of warrants and options will have an expiration period of five years. The warrants for Board members vest immediately and warrants issued to employees vest annually over either a two or three year period after the grant date. A total of 803,262 shares are authorized for issuance pursuant to awards granted under the 2012 Plan.

During the fiscal years ended September 30, 2018 and 2017, options to purchase 30,797 and 110,000 shares of Common Stock were granted under the 2012 Plan. During the year ended September 30, 2018, the Company cancelled 18,551 shares of Common Stock under the 2012 Plan. All the shares of Common Stock issued during 2018 were related to Board of Director fees, which were earned in fiscal year 2017. As of September 30, 2018, 27,218 shares of Common Stock were available for future grants under the 2012 Plan.

All Options and Warrants

On November 30, 2017, the Board of Directors unanimously approved the adjustment of the exercise price of 605,678 unexercised warrants, with original exercise prices ranging from \$1.81 to \$19.46, issued under the 2012 Plan to \$1.24, resulting in incremental stock-based compensation of \$149,088, which was expensed in the fiscal year ended September 30, 2018.

On January 26, 2018, the Board of Directors unanimously approved the adjustment of the exercise price of 65,617 unexercised warrants held by a member of the Company's Board of Directors whose unexercised warrants were not repriced along with those that were adjusted on November 30, 2017, with original exercise prices ranging from \$1.43 to \$7.20, issued under the 2012 Plan to \$1.15, resulting in incremental stock-based compensation of \$12,530, which was expensed in the fiscal year ended September 30, 2018.

The Company issued 30,797 warrants to a member of the Company's Board of Directors under the 2012 Plan in exchange for 18,551 shares of common stock the director previously received for services provided during the period of October 2016 to June 2017, which shares were therefore cancelled in the fiscal year ended September 30, 2018.

In addition, the Company issued 54,792 restricted warrants outside of the 2012 Plan for Board of Director services rendered in the first six months of fiscal year 2018 valued at \$50,000.

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 fiscal years ended September 30, 2018 and 2017, the Company granted 0 and 137,268 options and warrants to purchase shares of common stock under the 2012 Plan. The warrants for Board members vest immediately and expire five years from grant date and warrants or options issued to employees vest annually over either a two to three-year period and expire five years after the final vesting date of the grant. The Company recorded expense of \$169,041 and \$244,093 for the fiscal years ended September 30, 2018 and 2017, respectively, related to the issuance and vesting of outstanding stock options and warrants.

As of September 30, 2018, no compensation expense associated with unvested stock options and warrants issued previously to members of the Board of Directors will be recognized over the next year.

During the fiscal year ended September 30, 2017, the Company granted 27,268 warrants to members of the Company's Board of Directors, valued at \$75,000.

The following are the weighted-average assumptions used for options granted during the fiscal years ended September 30, 2018 and 2017 using the Black-Scholes model, respectively:

	Fiscal Years Ended	
	September 30,	
	2018	2017
Expected stock price volatility	102%	120%
Risk-free interest rate	2.09%	0.77%
Expected life of options/warrants	5 Years	5 Years

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. The expected life of stock options and warrants represents the period of time that the stock options or warrants are expected to be outstanding based on the simplified method allowed under GAAP. The expected volatility is based on the historical price volatility of the Company's Common Stock. In fiscal year 2014, the Company changed from a daily to weekly volatility. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options and warrants. The dividend yield represents our anticipated cash dividends over the expected life of the stock option and warrants.

A summary of the compensation-based options and warrants activity for the fiscal years ended September 30, 2018 and 2017 is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of September 30, 2016	504,991	\$ 10.78	1.15 years	\$ 182,095
Granted	151,080	\$ 3.77		
Expired	(55,229)	\$ 16.29		
Exercised	-	-		
Outstanding as of September 30, 2017	600,842	\$ 8.51	4.90 years	-
Granted	85,589	1.13		
Expired	(1,172)	(19.29)		
Exercised	-	\$ -		
Outstanding as of September 30, 2018	685,259	\$ 1.56	3.90 years	-
Exercisable as of September 30, 2018	628,592	\$ 1.59	3.95 years	-

The fiscal year end intrinsic values are based on a September 29, 2018 closing price of \$0.90 per share.

(12) Income Taxes

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

On December 22, 2017, the Tax Cuts and Jobs Act (the “*Tax Act*”) was enacted and implements comprehensive tax legislation which, among other changes, reduces the federal statutory corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously deferred, creates new provisions related to foreign sourced earnings, eliminates the domestic manufacturing deduction and moves to a territorial system. Additionally, in December 2017, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 (“*SAB 118*”), which addresses how a company recognizes provisional amounts when a company does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the effect of the changes in the Tax Act. The measurement period, as defined in SAB 118, ends when a company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year. During the measurement period, provisional amounts may also be adjusted for the effects, if any, of interpretative guidance issued after December 31, 2017, by U.S. regulatory and standard-setting bodies.

Based on the provisions of the Tax Act, the Company re-measured its U.S. deferred tax assets and liabilities and adjusted its deferred tax balances to reflect the lower U.S. corporate income tax rate at December 31, 2017. The re-measurement of the Company's U.S. deferred tax assets and liabilities at the lower enacted U.S. corporate tax rate resulted in an income tax expense of \$23,668,000 which is included in the provision.

For the fiscal years ended September 30, 2018 and 2017, the Company incurred net losses for income tax purposes of \$5,428,041 and \$4,725,826, respectively. The amount and ultimate realization of the benefits from the net operating losses is dependent, in part, upon the tax laws in effect, our future earnings, and other future events, the effects of which cannot be determined. The Company has established a valuation allowance for all deferred income tax assets not offset by deferred income tax liabilities due to the uncertainty of their realization. Accordingly, there is no benefit for income taxes in the accompanying statements of operations.

At September 30, 2018, the Company had net carryforwards available to offset future taxable income of approximately \$206,000,000 of which less than \$200,000 will expire in 2018. The utilization of the net loss carryforwards is dependent upon the tax laws in effect at the time the net operating loss carryforwards can be utilized. The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of these net operating loss carryforwards. An ownership change generally affects the rate at which NOLs and potentially other deferred tax assets are permitted to offset future taxable income. Since the Company maintains a full valuation allowance on all U.S. and state deferred tax assets, the impact of prior year ownership changes on the future realizability of U.S. and state deferred tax assets did not result in an impact to the provision for income taxes for the year ended September 30, 2018, or on net deferred tax asset as of September 30, 2018.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The tax provision for the year ended September 30, 2018 was due primarily to taxes on the income of a foreign-based subsidiary and U.S. state and local income taxes.

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

	Fiscal Years Ended	
	September 30,	
	2018	2017
Net loss carryforwards	\$ 51,296,000	\$ 58,134,000
Accruals and reserves	913,000	1,319,000
Contributions	16,000	24,000
Depreciation	53,000	(113,000)
Stock-based compensation	1,018,000	594,000
Valuation allowance	(53,296,000)	(59,958,000)
Total	\$ -	\$ -

Reconciliations between the benefit for income taxes at the federal statutory income tax rate and the Company's benefit for income taxes for the years ended September 30, 2018 and 2017 are as follows:

	Fiscal Years Ended	
	September 30,	
	2018	2017
Federal income tax benefit at statutory rate	\$ (1,700,000)	\$ 2,382,000
State income tax benefit, net of federal income tax effect	(265,000)	231,000
Effect of foreign income taxes	593,000	502,000
Non-deductible expenses	(554,000)	(516,000)
Rate change due to Tax Cuts and Jobs Act	24,222,000	-
Deferred only adjustment	(15,791,000)	-
Change in valuation allowance	(5,912,000)	(2,097,000)
Provision for income taxes	\$ 593,000	\$ 502,000

During the fiscal year ended September 30, 2014, the Company began recognizing revenue from international sources from our products and monitoring services. During the fiscal year ended September 30, 2014, the Company began recognizing a liability for value-added taxes, which will be due upon collection. At September 30, 2018, the Company had a net receivable related to payments on VAT tax of \$400. During the year ended September 30, 2018, the Company recorded income tax expense of \$592,725 related to a foreign jurisdiction, which is included in income tax expense on the Consolidated Statements of Operations.

The Company's open tax years for federal and state income tax returns are for the tax years ended September 30, 2015 through September 30, 2018.

(13) Commitments and Contingencies

Legal Matters

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

Lazar Leybovich et al. v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. The Plaintiffs are alleging \$1,587,604 in combined damages. 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 an Appeal on June 1, 2016 challenging the Court's ruling on the motion for Summary Judgment. The Appellate court ruled in favor of the Plaintiff, finding that factual issue remains, reversing the Summary Judgment and remanding the case back to trial. The Company's motion for partial Summary Judgment has been denied. A five day trial is tentatively scheduled to take place in February 2019.

Boggs et al. v. Judicial Electronic Monitoring, SecureAlert, Inc. et al. On December 3, 2015, Candace Boggs et al. filed a complaint in the State Court of Dougherty County, Georgia, alleging breach of contract and negligence in monitoring of certain offenders in Dougherty County, Georgia, as well as a request for punitive damages. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. The Company's motion for Summary Judgment was denied on February 27, 2017 and a Notice of Appeal was filed by the Company's counsel on April 15, 2017. In May the Court of Appeals reversed the trial court decision and granted the Company's Motion to Dismiss the Plaintiff's claims. Plaintiff has filed a petition to have the case heard in the Georgia Supreme Court. On June 27, 2018, Counsel filed a response to the petition and we are currently waiting on a ruling from the court. We believe the claims are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016, the Company filed a complaint in the District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas Co. Ltd ("*ICS*"). The Company's damages of unpaid principal and interest on the Promissory Note are in the amount of \$230,000, plus per annum interest. The Defendant's initial Counterclaims were dismissed; however, the Court granted the Defendant leave to amend. The Amended Counter Claims were filed on June 23, 2017 alleging \$1,628,667 in damages. The Company's Motion to Dismiss the Amended Counterclaims was denied on September 19, 2017. The Company filed an Answer to the Amended Counterclaims on October 3, 2017. Depositions have taken place for both parties. The Company's motion for Summary Judgment on ICS's Counterclaims was filed on August 13, 2018. Once the motion is fully briefed a hearing will be scheduled. We believe we will be successful in this action for amounts owed under the loan agreement and promissory note; however, the Company may encounter problems enforcing a favorable judgment in the foreign jurisdiction where ICS resides.

Track Group Inc. v. I.C.S. of the Bahamas Co. Ltd. On September 26, 2016, the Company filed a Notice of Arbitration with the International Centre for Dispute Resolution, alleging breach of contract by ICS. Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the "*C&M Agreement*") by and between the Company and ICS, any dispute must be resolved by binding arbitration. The Company asserts that ICS has failed to pay the Company fees owed to it under the C&M Agreement. The amount owed to the Company is approximately \$1.0 million. Depositions were completed in August of 2017. The arbitration hearing took place on January 31, 2018. The arbitrator requested legal briefings after the hearing which were submitted in March 2018. Final briefs were submitted to the arbitrator on May 30, 2018. The arbitrator ruled that ICS owes the Company \$689,000. ICS submitted a Request for Modification of the arbitration award on August 22, 2018 and the arbitrator subsequently eliminated the earlier award of \$689,000 to the Company. The Company is currently pursuing legal means to demonstrate that there is no such basis for the change by the arbitrator.

John Merrill v. Track Group, Inc. and Guy Dubois. On November 30, 2016, the Company was served with a complaint filed by John Merrill, the former Chief Financial Officer of the Company, in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, among other causes of action, related to Mr. Merrill's termination of employment. Mr. Merrill is seeking not less than \$590,577 plus interest, attorney fees and costs. Mr. Merrill's employment with the Company was terminated effective September 27, 2016. The Company filed an Answer with Counter Claims on December 21, 2016. The Company filed a motion for Summary Judgment on January 16, 2018. At a hearing on April 25, 2018, the court dismissed the Plaintiff's claims related to an oral look-back agreement and a separation agreement. The court has not ruled on Plaintiff's claims related to his employment agreement. A settlement amount could not be reached by the parties. The matter will likely proceed to trial after expert discovery is conducted. We intend to defend the case vigorously and believe the allegations and claims are without merit.

Michael Anthony Johnson v. Community Corrections of Marion County and Track Group, Inc. On February 28, 2017, the Company was notified that Mr. Johnson, the Plaintiff, had filed a *pro se* complaint in the United States District Court for the Southern District of Indiana, asserting violations of his rights under 28 U.S.C. Sec.1331. Mr. Johnson alleged damages of at least \$250,000. The Company's motion for Summary Judgment was granted on August 31, 2018.

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

Pablo Gonzalez-Cruz, et al. v. Track Group-Puerto Rico, et al. On June 9, 2017, the Plaintiff, Pablo Gonzalez-Cruz, and relatives of the Plaintiff, filed a Complaint in the Court of First Instance, San Juan Superior Court, Common Wealth of Puerto Rico against the Company, and associated parties alleging the death of his daughter was a direct and immediate result of the gross negligence. The Company's insurance carrier reached a settlement with the Plaintiff through an agreement dated September 5, 2018.

Eli Sabag v. Track Group, Inc., Sapinda Asia Limited and Lars Windhorst. On May 4, 2018, Eli Sabag filed a complaint before the Marion Superior Court in Marion County Indiana for damages and declaratory Judgment against the Company. The complaint seeks to enforce an "earn-out" clause in a Share Purchase Agreement ("*SPA*") between the Company and Sabag. Sabag alleges that the Company breached the SPA because it failed to pay him his earn out after it sold and leased a sufficient number of GPS devices to meet the earn-out milestone. In the alternative, Sabag sued the Company for breach of fiduciary duty and tortious interference, alleging that the Company avoided selling sufficient GPS devices so as to not trigger the issuance of Contingent Stock under the SPA. Finally, Sabag alleges that the Company was unjustly enriched because it failed to pay full value for his shares under the SPA. The Company believes the allegations are unfounded and without merit, and it will defend the case vigorously. Furthermore, according to the SPA, any disputes are to be resolved through binding arbitration and enforced in the State of Utah. The Company filed a motion to dismiss the Complaint and Compel Arbitration on September 5, 2018 and we are waiting on a ruling from the court.

Erick Cerda v. Track Group, Inc. On July 25, 2018, former employee Erick Cerda ("Plaintiff") filed a complaint in the United States District Court for the Northern District of Illinois, Case No. 18-CV-05075, against the Company alleging violations of Title VII of the Civil Rights Act of 1964 ("Title VII") and the Age Discrimination in Employment Act ("ADEA"). Plaintiff seeks injunctive relief and monetary damages in an unspecified amount. On October 5, 2018, the Company filed its answer and affirmative defenses to Plaintiff's First Amended Complaint denying Plaintiff's allegations in their entirety. The Company believes that Plaintiff's allegations are unfounded and without merit.

Operating Lease Obligations

The following table summarizes our contractual obligations as of September 30, 2018:

Fiscal Year	<u>Total</u>
2019	\$ 329,941
2020	255,646
2021	183,131
2022	167,345
2023	3,612
Thereafter	-
Total	\$ 939,675

The total operating lease obligations of \$939,675 is largely related to facilities operating leases. During the years ended September 30, 2018 and 2017, the Company paid \$476,152 and \$545,228, in lease payment obligations, respectively.

(14) Intangible Assets

The following table summarizes the activity of intangible assets for the years ended September 30, 2018 and 2017, respectively:

2018	<u>Weighted Average Useful Life (yrs)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Impairment</u>	<u>Net Book Value</u>
Patent & royalty agreements	7.99	\$21,170,565	\$(7,751,751)	\$ -	\$13,418,814
Developed technology	7.60	11,835,293	(2,885,092)	-	8,950,201
Customer relationships	7.70	1,860,000	(1,050,733)	-	809,267
Trade name	9.57	325,507	(250,735)	-	74,772
Website	3.00	78,201	(78,201)	-	-
Total		<u>\$35,269,566</u>	<u>\$12,016,512</u>	<u>\$ -</u>	<u>\$23,253,054</u>

2017	<u>Weighted Average Useful Life (yrs)</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Impairment</u>	<u>Net Book Value</u>
Patent & royalty agreements	7.99	\$21,170,565	\$(6,415,229)	\$ -	\$14,755,336
Developed technology	8.22	11,116,738	(2,301,259)	-	8,815,479
Customer relationships	7.70	2,590,683	(1,039,336)	(499,759)	1,051,588
Trade name	9.57	332,183	(240,941)	-	91,242
Website	3.00	78,201	(73,191)	-	5,010
Total		<u>\$35,288,370</u>	<u>\$10,069,956</u>	<u>\$ (499,759)</u>	<u>\$24,718,655</u>

The intangible assets summarized above were purchased or developed on various dates from January 2010 through September 30, 2018. The assets have useful lives ranging from three to twenty years. Amortization expense for the years ended September 30, 2018 and 2017 was \$2,268,846 and \$2,416,092, respectively. The Company disposed of \$1,600,000 of intangible assets and \$734,074 of accumulated amortization related to the sale of assets during the year ended September 30, 2017. See Note 4. In connection with the Company's annual impairment testing performed by an independent valuation firm, a non-cash impairment charge of \$506,413, based on the monthly average exchange rate, was recorded during the year ended September 30, 2017 related to a legacy non-core facet of the business. This charge is included in Impairment of intangible assets on the Consolidated Statements of Operations. There was no impairment indicated for the year ended September 30, 2018.

The following table summarizes the future maturities of amortization of intangible assets as of September 30, 2018:

Fiscal Year	<u>Amortization</u>	<u>Patent</u>	<u>STOP Royalty</u>
2019	\$ 2,507,840	\$ 1,852	\$ 450,000
2020	2,449,940	-	450,000
2021	2,408,800	-	450,000
2022	2,232,132	-	450,000
2023	2,119,313	-	450,000
Thereafter	9,095,677	-	187,500
Total	<u>\$ 20,813,702</u>	<u>\$ 1,852</u>	<u>\$ 2,437,500</u>

Goodwill – In accordance with accounting principles generally accepted in the United States of America, we do not amortize goodwill. These principles require the Company to periodically perform tests for goodwill impairment, at least annually, or sooner if evidence of possible impairment arises. We evaluated the goodwill for impairment as of September 30, 2018. Based on the evaluation made, the Company concluded that no impairment of goodwill was necessary.

Goodwill, as of September 30 consisted of the following:

	<u>September 30,</u>	
	<u>2018</u>	<u>2017</u>
Balance - beginning of year	\$ 8,226,714	\$ 7,955,876
Effect of foreign currency translation on goodwill	(149,955)	270,838
Balance - end of year	<u>\$ 8,076,759</u>	<u>\$ 8,226,714</u>

(15) Subsequent Events

On November 14, 2018, the Company requested that Conrent extend the maturity of the Amended Facility Agreement from April 1, 2019 to April 1, 2020. On December 3, 2018, Conrent agreed to convene meetings of the investors who purchased the securities from Conrent to finance the debt (the "Noteholders") and subsequently issued a notice of a meeting of Noteholders for each series of Notes, which meetings will be held on January 16, 2019. Based on discussions between the Company and Conrent to date, the Company anticipates that the Noteholders will agree to extend the maturity of the Amended Facility Agreement before its maturity on April 1, 2019, however no assurance can be given.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Derek Cassell, Principal Executive Officer of Track Group, Inc. (the “Company”), certify that:

1. I have reviewed this annual report on Form 10-K 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: December 19, 2018

/s/ Derek Cassell
Derek Cassell
Principal Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

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

1. I have reviewed this annual report on Form 10-K 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: December 19, 2018

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

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

In connection with the Quarterly Report of Track Group, Inc. on Form 10-K for the period ended September 30, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Derek Cassell, Chief Executive Officer (Principal Executive Officer), and Peter K. Poli, Chief Financial Officer (Principal Financial Officer), of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

By: /s/ Derek Cassell
Derek Cassell
Chief Executive Officer
(Principal Executive Officer)

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

Dated: December 19, 2018

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

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