

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9670 / October 24, 2014

SECURITIES EXCHANGE ACT OF 1934
Release No. 73429 / October 24, 2014

ADMINISTRATIVE PROCEEDING
File No. 3-16214

In the Matter of

JAMES J. DALTON, JR.

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933 AND SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF 1934,
MAKING FINDINGS, AND IMPOSING A
CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against James J. Dalton, Jr. (“Dalton” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

These proceedings arise out of the non-disclosure of personal guarantees and material related-party transactions by Dalton and another officer of SecureAlert, Inc. ("SecureAlert"), a public company. The non-disclosures resulted in material misstatements of \$2 million in overstated revenue in SecureAlert's financial statements for fiscal years 2007 and 2008. The misstatements and omissions were in Forms 10-KSB, 10-KSB/A, 10-QSB, and 10-QSB/A filed from September 2007 through January 2010.

Respondent

1. James J. Dalton, Jr. ("Dalton") was a founder of SecureAlert and served as a Director from 2001 to November 2, 2009 and was President from August 2003 to June 19, 2008. Dalton, 72 years old, is a resident of Park City, Utah.

Other Relevant Entity and Individual

2. SecureAlert (formerly known as RemoteMDx, Inc.), incorporated in Utah in 1995, markets and sells tracking technology devices in the area of adult probation and parole. SecureAlert's principal place of business is in Sandy, Utah. SecureAlert's common stock is registered with the Commission pursuant to Section 12(g) of the Exchange Act and trades on the OTC Bulletin Board. SecureAlert files periodic reports, including Forms 10-K and 10-Q, with the Commission pursuant to Section 13(a) of the Exchange Act and related rules thereunder.

3. David G. Derrick, Sr. ("Derrick") was a founder of SecureAlert and served as Chairman of the Board and Chief Executive Officer ("CEO") from February 2001 until June 30, 2011. Derrick, 61 years old, is a resident of Farmington, Utah.

Background

4. In 2007, SecureAlert sold its product through a distributorship system, whereby distributors were given specific territories in which to market SecureAlert product. SecureAlert had been struggling for years and was making a substantial effort to boost sales and revenues.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Undisclosed Personal Guarantees by Derrick and Dalton

5. On September 20, 2007, just prior to the end of the fiscal year on September 30, 2007, SecureAlert entered into an Exclusive Distribution Agreement (“Distribution Agreement”) with a large investor (“Distributor”). The Distribution Agreement called for Distributor to purchase 2,000 devices at \$500 each for a total of \$1 million, with payment due in six months.

6. Derrick negotiated the Distribution Agreement on behalf of SecureAlert. Prior to executing the agreement, Distributor informed Derrick and Dalton that he would not pay for any product and would not subject himself to liability for purchasing product if he was unable to sell it. Dalton understood that Distributor was engaging in significant efforts to leverage his business and personal connections to, among other things, establish a sales infrastructure to sell SecureAlert product, but that Distributor had not yet sold any SecureAlert product to end user customers at the time of the Distribution Agreement in September 2007. Dalton does not recall any conversations with Derrick, Distributor, or anyone else at that time, in which Dalton was informed of any sales to end user customers. Derrick, Dalton and Distributor knew this was a new technology application and that the possibility of product failure existed.

7. Distributor further informed Derrick that he did not need any product at the time because he did not yet have customers. Derrick insisted that Distributor accept shipment of the 2,000 units from SecureAlert, and Derrick and Dalton agreed that Distributor would not have to pay for product that Distributor was not able to sell. To document this, the Distribution Agreement gave Distributor a right of return and reimbursement for any unused units in the event the contract was terminated for any reason.

8. To further protect himself from liability, Distributor also required Derrick and Dalton to personally guarantee that they would pay for any unused units under the Distribution Agreement if Distributor was not satisfied with the devices or the business arrangement for any reason. Derrick and Dalton signed a letter dated September 20, 2007 to that effect. Derrick and Dalton did not disclose the personal guarantee to other Board members or employees of SecureAlert, nor did they disclose it to SecureAlert’s independent auditor or outside securities counsel. Distributor accepted the 2,000 units but did not pay for any product at the time.

9. On December 13, 2007, near the end of the following quarter, Derrick requested a purchase order from Distributor to purchase an additional 2,000 devices from SecureAlert at \$500 each for a total of \$1 million, with payment due in six months. Dalton does not recall any conversations with Derrick, Distributor, or anyone else at the time of the December 2007 purchase order, in which Dalton was informed that Distributor had sold any of the first 2,000 units or any additional devices that would be requested by a purchase order. Distributor informed Derrick he did not need any more devices, but Derrick insisted on the purchase order and that Distributor accept shipment of the devices. Derrick and Dalton again agreed to provide a personal guarantee that they would pay for any unused units. Derrick and Dalton did not disclose this agreement to other Board members or employees of SecureAlert, nor did they disclose it to

SecureAlert's independent auditor or outside securities counsel. Distributor accepted the second 2,000 units but did not pay for any product at the time.

10. Derrick and Dalton knew or should have known that the personal guarantees were material related-party agreements that should have been disclosed and should have been considered in SecureAlert's financial statements.

11. SecureAlert filed its Form 10-KSB for the fiscal year ended September 30, 2007 ("2007 Form 10-KSB") on January 15, 2008. The financial statements reported \$1 million in revenue for the September 20, 2007 transaction with Distributor. The \$1 million was also recorded as an accounts receivable due in six months, on or around March 20, 2007. Derrick signed certifications for the 2007 Form 10-KSB as CEO. The 2007 Form 10-KSB did not disclose the personal guarantee and did not consider the personal guarantee in its accounting treatment of the \$1 million purported sale in September 2007.

12. The \$1 million in reported revenue for the September 2007 transaction represented 29% of product revenues and 12% of total revenues for fiscal year 2007 and represented a gross profit of \$254,000. SecureAlert reported a gross loss of \$404,000 for the year. Without gross profits from the \$1 million "sale" to Distributor at year-end, the gross loss would have been 63% greater.

13. SecureAlert filed its Form 10-QSB for the period ended December 31, 2007 ("December 31, 2007 Form 10-QSB") on February 14, 2008. The December 31, 2007 Form 10-QSB reported \$1 million in revenue for the December 2007 transaction with Distributor. The \$1 million was also recorded as an accounts receivable due in six months, on or around June 13, 2008. Derrick signed certifications for the December 31, 2007 Form 10-QSB. The December 31, 2007 Form 10-QSB did not disclose the personal guarantee that Distributor would not be liable for unsold product and did not consider this personal guarantee in its accounting treatment of the \$1 million purported sale in December 2007.

14. On March 13, 2008, staff in the Commission's Division of Corporation Finance ("Corp Fin Staff") issued a comment letter ("March 13 Comment Letter") with regard to SecureAlert's 2007 Form 10-KSB and its December 31, 2007 Form 10-QSB. The March 13 Comment Letter included a question as to why the year-end accounts receivable balance was more than half of SecureAlert's revenue for the year.

Undisclosed Personal Financing of Transactions by Derrick and Dalton

15. Soon after receiving Corp Fin Staff's comment letter, payment for the first \$1 million purported sale to Distributor became due, on or around March 20, 2008. In the meantime, Distributor had learned that many of the devices shipped to him were defective or damaged. Distributor had not sold any devices at that point, and he refused to pay for defective devices or devices he had not sold. Derrick attempted to arrange financing to pay the accounts receivable due, in an apparent attempt to conceal the fact that revenue should not have been

recognized in the transaction. In this way, SecureAlert's accounting records would reflect the \$1 million accounts receivable as fully paid at or around the due date.

16. Derrick reached out to a third party financing entity ("Third Party"), with which he had previously done business. Third Party agreed to make the payment for the accounts receivable to SecureAlert. However, Third Party would not provide funding because of the risk, so Derrick and Dalton provided their own personal funds, through their entity, to finance the transaction.

17. The Third Party transaction was documented with a promissory note dated March 26, 2008, in which Distributor promised to pay Third Party \$1 million plus interest by March 31, 2009. Distributor signed the promissory note, but Derrick and Distributor agreed that the transaction was executed on paper only and that Distributor had no obligation to pay \$1 million to Third Party. Derrick and Distributor also agreed that Distributor would not be liable for any interest due under the note. Dalton was made aware of the agreement between Derrick and Distributor. Derrick and Dalton did not disclose to Distributor that they provided the \$1 million in funds to Third Party.

18. Derrick and Dalton sent \$1 million of their personal funds to Third Party on March 31, 2008. Third Party, in turn, sent the funds to SecureAlert to satisfy the \$1 million accounts receivable due in March 2008.

19. The accounts receivable for the December 2007 \$1 million purported sale to Distributor became due on or around June 13, 2008. Again, Distributor had not yet sold any devices, so he refused to pay for devices that were defective or unsold. Derrick again approached Third Party, which agreed to make the second payment for the accounts receivable to SecureAlert if Derrick and Dalton again provided the funds.

20. The second Third Party transaction was documented with a promissory note dated September 16, 2008, in which Distributor promised to pay Third Party \$1 million plus interest by September 16, 2009. Distributor signed the promissory note, but again Derrick and Distributor agreed that this transaction was executed on paper only and that Distributor had no obligation to pay the \$1 million to Third Party. Derrick and Distributor also agreed that Distributor would not be liable for any interest due under the note. Dalton was made aware of the agreements. Derrick and Dalton did not disclose to Distributor that they provided the second \$1 million in funds to Third Party.

21. Derrick and Dalton sent \$1 million of their personal funds to Third Party on September 12, 2008. This time, Third Party wired the money to Distributor, who in turn forwarded \$1 million to SecureAlert on September 25, 2008, just prior to the end of fiscal year 2008. The \$1 million was used to pay the \$1 million accounts receivable due in June 2008.

22. Derrick and Dalton did not disclose their personal financing of the Third Party transactions to other Board members or employees of SecureAlert, nor did they disclose it to SecureAlert's independent auditor or outside securities counsel.

Comment Process with Corp Fin Staff

23. From March to June 2008, SecureAlert engaged in the comment process with Corp Fin Staff. On April 28, 2008, SecureAlert filed a response to the staff's March 13, 2008 comment letter, and discussed SecureAlert's revenue recognition policies. The letter was signed by Derrick and represented that SecureAlert only recognized revenue if the following conditions were met: persuasive evidence of an arrangement exists, *title passes to the customer and the customer cannot return the devices*, prices are fixed or determinable, and collection is reasonably assured.

24. SecureAlert also made the following separate representations about revenue recognition in its April 28, 2008 response: (1) "Distributors do not have general rights of return;" (2) "Generally, title and risk of loss pass to the buyer upon delivery of the devices;" (3) "The distributors do not have general rights of return for these devices."

25. The statements related to revenue recognition were false in the case of Distributor because Derrick and Dalton had made assurances to Distributor that he would not be liable for any unsold devices and that Distributor could return devices at any time for any reason.

26. In the April 28, 2008 response and a response to additional staff comments filed on May 14, 2008, SecureAlert represented that it had collected 100% of the accounts receivable due from Distributor for the first \$1 million purported sale. The responses did not disclose that Distributor did not pay the receivable. The responses did not disclose that Derrick and Dalton actually paid the receivable with their own personal funds through a third party. The responses did not disclose that Derrick and Dalton had agreements with Distributor that he was not liable to pay for any devices he did not sell.

27. During the comment process, SecureAlert reviewed the Distribution Agreement. SecureAlert, in consultation with its independent auditor and outside securities counsel, determined that the provision in the Distribution Agreement allowing Distributor a right to return product did not allow for revenue to be recognized. Therefore, SecureAlert informed Corp Fin Staff that it would restate the \$1 million initially recorded as revenue from the purported sale in September 2007 to "deferred revenue."

28. On May 6, 2008, SecureAlert filed a Form 8-K announcing a restatement of the financial statements, including the deferral of the \$1 million in revenue from the September 2007 contract with Gonzalez. The Form 8-K contained no disclosure of the personal guarantees or the personal financing of the \$1 million "sale."

29. To avoid future issues with revenue recognition, SecureAlert amended the Distribution Agreement in April 2008 ("Amended Distribution Agreement") to remove Distributor's unilateral right to return product. SecureAlert determined that under the Amended Distribution Agreement, revenue from sales to Distributor could be recognized immediately if they met the required revenue recognition conditions, including that title passes to the customer and the customer cannot return devices. Based on this determination, SecureAlert concluded it did not

need to restate revenue from the December 2007 purported sale to Distributor. Derrick and Dalton did not disclose their side agreement that Distributor could return unused or unsold product for any reason and that Distributor would not be liable for any product it did not use.

SecureAlert Files Materially Misstated Periodic Reports with the Commission

30. On June 18, 2008, SecureAlert filed an amended Form 10-QSB/A for the period ended December 31, 2007 (“December 2007 Form 10-QSB/A”). The \$1 million in revenue for the second purported sale to Distributor in December 2007 was not restated and remained in the financials as revenue.

31. On June 19, 2008, SecureAlert filed an amended Form 10-KSB/A (“2007 Form 10-KSB/A”). The 2007 Form 10-KSB/A restated the \$1 million revenue from the first purported sale in September 2007 as “deferred revenue.” The Distribution Agreement was attached as an exhibit to the filing; however, the personal guarantee and the personal financing arrangements were not disclosed.

32. On August 15, 2008, SecureAlert filed its Form 10-Q for the period ended June 30, 2008 (“June 2008 Form 10-Q”). Because of the Amended Distribution Agreement, SecureAlert determined it could now recognize revenue from the September 2007 \$1 million purported sale to Distributor.

33. On December 26, 2008, SecureAlert filed its Form 10-K for the fiscal year ended September 30, 2008 (“2008 Form 10-K”). The entire \$2 million for the September and December 2007 purported sales was reported as revenue in the year-end financial statements. The \$2 million in reported revenue made up 78% of SecureAlert’s product revenues and 16% of all revenues for fiscal year 2008.

34. The materially misstated financial statements continued to be reported in SecureAlert’s filings through the end of fiscal year 2009. The filings included Forms 10-Q for the periods ended December 31, 2008, March 31, 2009, and June 30, 2009. The Form 10-K for the fiscal year ended September 30, 2009 (“2009 Form 10-K”) was the last report to contain the misstated financial statements and was filed on January 13, 2010.

Assignment of Third Party Promissory Notes to Derrick and Dalton Entity

35. By June 2009, SecureAlert and its distributors continued to struggle. There were still problems with technology and defective units and Distributor had sold little, if any, of the \$2 million in product purportedly sold to him in September and December 2007. The \$2 million owed to Third Party had not been paid. The first \$1 million was three months overdue, and Derrick knew that Distributor would not pay. Although Third Party had not provided any funds for the transactions, Third Party desired to remove the large, stale accounts receivables from Third Party’s balance sheet. Therefore, Derrick devised a plan to arrange additional transactions, which served to cover up the personal financing arrangements and the personal guarantees.

36. In June 2009, Derrick formed an entity called JBD Management, LLC (“JBD”). JBD was owned by Derrick (47.5%), Dalton (47.5%) and Third Party (5%). Derrick arranged for Third Party to assign its interest in the March 2008 \$1 million promissory note and the September 2008 \$1 million promissory note to JBD. The assignment involved a series of transactions and documents executed in July 2009. Interest due on the notes had previously been paid to Third Party by Derrick and Dalton.

37. The end result was that, on paper, Distributor appeared to owe \$2 million to JBD. Derrick and Dalton did not disclose that Distributor was not obligated to pay the \$2 million to JBD, nor did they disclose that funds for the Third Party transactions had been personally provided by Derrick and Dalton.

38. In addition, Derrick and Dalton executed and signed a second undisclosed side agreement, dated July 13, 2009, to personally guarantee the re-purchase of any unused product in Distributor’s possession by December 31, 2010. This personal guarantee apparently documented the agreement that Distributor would not be liable for the 2,000 units purportedly sold to him in December 2007, and he would not have to make payments on the financing arrangement, which were to come due in September 2009, if Distributor did not need or sell devices. Derrick and Dalton did not disclose this personal guarantee to other Board members or employees of SecureAlert, nor did they disclose it to SecureAlert’s independent auditor or outside securities counsel.

39. During the relevant period, Derrick and Dalton solicited investments in SecureAlert and obtained money or property, including money for the sale of SecureAlert stock, by means of the material misstatements and omissions contained in the company’s financial statements and the non-disclosure of their personal guarantees and material related-party transactions. During that time period, SecureAlert was engaged in offering and selling its securities in private offerings and via Forms S-8. SecureAlert issued 23,927,219 shares of common stock to a number of private parties for prices ranging from \$0.20 to \$1.00 and a total of \$8,307,914.00. In addition, on August 26, 2008 and March 9, 2009, SecureAlert filed Forms S-8 to register shares for sales or awards of stock to employees. The August 26, 2008 Form S-8 incorporated by reference SecureAlert’s materially false financial statements found in SecureAlert’s 2007 Form 10-KSB. The March 9, 2009 Form S-8 incorporated by reference SecureAlert’s materially false financial statements found in SecureAlert’s 2008 Form 10-K. Derrick’s and Dalton’s actions also constituted a transaction, practice, or course of business which operated as a fraud or deceit in the offer or sale of SecureAlert securities.

Internal Control Deficiencies

40. During the relevant period, Derrick and Dalton knowingly failed to implement a system of internal accounting controls for SecureAlert and directly or indirectly caused to be falsified SecureAlert’s books, records, and accounts.

41. Through their conduct, Derrick and Dalton caused SecureAlert’s books and records to be inaccurate and caused SecureAlert to fail to devise or maintain a system of sufficient internal accounting controls.

Discovery of Undisclosed Personal Guarantees and Personal Financing

42. In or around spring of 2011, Distributor and Derrick discussed the issue of obligation under the Third Party transactions. For the first time, Derrick admitted to Distributor that he and Dalton had provided the financing for the Third Party transactions. Over the next several months, Distributor had discussions with the Board regarding the situation. The Board ultimately asked for Derrick's resignation, which he provided on June 30, 2011.

43. After Derrick left SecureAlert, the Board authorized an internal investigation into Derrick's business dealings, including transactions with Distributor and Third Party. SecureAlert self-reported the possible violations and, later, the results of the internal investigation to Commission Enforcement Staff. After initiation of the internal investigation, SecureAlert implemented a number of internal control procedures to prevent future violations of the federal securities laws.

Reclassification of Revenues

44. After learning of the personal guarantees and personal financing arrangements by Derrick and Dalton, SecureAlert, with the help of its independent auditor, concluded it should reclassify the \$2 million for the Distributor transactions as capital contributions. SecureAlert determined that the transactions should be treated as capital contributions because JBD was ultimately issued stock for the \$2 million that Derrick and Dalton paid to finance the transactions. This was pursuant to the assignment of the Third Party notes to JBD and subsequent transactions involving SecureAlert and Distributor.

45. The reclassification was made in the second quarter of fiscal year 2012 and reported in SecureAlert's Form 10-Q for the period ended March 31, 2012, which was filed on May 17, 2012. For that period, SecureAlert's 2008 statement of operations was no longer presented in its filings. As a result, the reclassification was made directly between SecureAlert's accumulated deficit and additional paid-in capital. At the time, SecureAlert's balance sheet reflected \$249 million in additional paid-in capital and an accumulated deficit of \$234 million.

Violations

46. As a result of the conduct described above, Dalton violated Sections 17(a)(2) and (3) of the Securities Act, which prohibit a person from obtaining money or property by means of a material misrepresentation or omission or to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit in the offer or sale of securities.

47. As a result of the conduct described above, Dalton knowingly violated Section 13(b)(5) of the Exchange Act, which prohibits any person from knowingly circumventing or failing to implement a system of internal accounting controls and Rule 13b2-1 thereunder, which prohibits the direct or indirect falsification of an issuer's books, records, or accounts.

48. As a result of the conduct described above, Dalton caused violations of Section 13(b)(2)(A) of the Exchange Act, which requires Section 12 registrants to make and keep books, records, and accounts, which in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer and Section 12(b)(2)(B), which requires Section 12 registrants to devise and maintain a system of sufficient internal accounting controls.

49. Respondent will pay a second-tier civil penalty of \$65,000.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Dalton's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, Respondent Dalton cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act and Sections , 13(b)(2)(A) and (B), and 13(b)(5) of the Exchange Act and Rule 13b2-1 thereunder.

B. Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$\$65,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying James J. Dalton, Jr. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Karen L.

Martinez, Regional Director, Division of Enforcement, Securities and Exchange Commission, 351
So. West Temple, Suite 6.100, Salt Lake City, UT 84101.

By the Commission.

Brent J. Fields
Secretary