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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2020

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 0-23153

Track Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0543981

(I.R.S. Employer Identification Number)

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

(Address of principal executive offices) (Zip Code)

(877) 260-2010

(Registrant's telephone number, including area code)

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

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 such files). Yes No

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

Large accelerated filer

Non-accelerated filer

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 Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of May 7, 2020 was 11,414,150.

Track Group, Inc.
FORM 10-Q
For the Quarterly Period Ended March 31, 2020

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

Assets	March 31, 2020	September 30, 2019
	(Unaudited)	
<i>Current assets:</i>		
Cash	\$ 7,686,042	\$ 6,896,711
Accounts receivable, net of allowance for doubtful accounts of \$2,580,537 and \$2,454,281, respectively	4,960,428	6,763,236
Prepaid expense and deposits	1,218,843	1,339,465
Inventory, net of reserves of \$62,147 and \$26,934, respectively	60,132	274,501
Total current assets	13,925,445	15,273,913
Property and equipment, net of accumulated depreciation of \$2,290,429 and \$2,248,913, respectively	532,343	675,037
Monitoring equipment, net of accumulated amortization of \$6,387,123 and \$6,322,768, respectively	2,591,391	2,624,900
Intangible assets, net of accumulated amortization of \$15,209,788 and \$14,157,090, respectively	21,052,972	21,955,679
Goodwill	8,012,536	8,187,911
Deferred tax asset	580,058	540,563
Other assets	594,719	124,187
Total assets	\$ 47,289,464	\$ 49,382,190
Liabilities and Stockholders' Equity (Deficit)		
<i>Current liabilities:</i>		
Accounts payable	1,560,395	2,628,003
Accrued liabilities	14,420,182	13,828,696
Current portion of long-term debt	3,408,413	33,827,689
Total current liabilities	19,388,990	50,284,388
Long-term debt, net of current portion	30,400,000	-
Long-term liabilities	268,179	-
Total liabilities	50,057,169	50,284,388
Commitments and contingencies (Note 21)	-	-
<i>Stockholders' equity (deficit):</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 11,414,150 and 11,401,650 shares outstanding, respectively	1,141	1,140
Series A Convertible Preferred stock, \$0.0001 par value: 1,200,000 shares authorized; 0 shares outstanding	-	-
Paid in capital	302,270,242	302,250,556
Accumulated deficit	(304,105,976)	(302,152,292)
Accumulated other comprehensive loss	(933,112)	(1,001,602)
Total equity (deficit)	(2,767,705)	(902,198)
Total liabilities and stockholders' equity (deficit)	\$ 47,289,464	\$ 49,382,190

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

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>March 31,</u> <u>2020</u>	<u>March 31,</u> <u>2019</u>	<u>March 31,</u> <u>2020</u>	<u>March 31,</u> <u>2019</u>
Revenue:				
Monitoring and other related services	\$ 7,993,092	\$ 7,877,403	\$ 16,261,515	\$ 15,937,731
Product sales and other	138,634	213,839	291,042	365,046
Total revenue	<u>8,131,726</u>	<u>8,091,242</u>	<u>16,552,557</u>	<u>16,302,777</u>
Cost of revenue:				
Monitoring, products and other related services	3,201,677	3,065,710	6,468,586	6,165,903
Depreciation and amortization included in cost of revenue	494,157	533,590	981,599	1,011,879
Total cost of revenue	<u>3,695,834</u>	<u>3,599,300</u>	<u>7,450,185</u>	<u>7,177,782</u>
Gross profit	<u>4,435,892</u>	<u>4,491,942</u>	<u>9,102,372</u>	<u>9,124,995</u>
Operating expense:				
General & administrative	2,723,219	3,316,069	5,735,073	6,738,341
Selling & marketing	642,432	576,974	1,183,981	1,080,904
Research & development	323,737	354,879	619,892	603,744
Depreciation & amortization	509,287	520,384	1,025,226	1,035,365
Total operating expense	<u>4,198,675</u>	<u>4,768,306</u>	<u>8,564,172</u>	<u>9,458,354</u>
Operating income (loss)	<u>237,217</u>	<u>(276,364)</u>	<u>538,200</u>	<u>(333,359)</u>
Other income (expense):				
Interest expense, net	(596,324)	(584,348)	(1,198,857)	(1,185,587)
Currency exchange rate gain (loss)	(1,334,240)	595,910	(1,190,932)	(336,767)
Other income (loss), net	(4,347)	143	(4,347)	143
Total other income (expense)	<u>(1,934,911)</u>	<u>11,705</u>	<u>(2,394,136)</u>	<u>(1,522,211)</u>
Loss before income taxes	<u>(1,697,694)</u>	<u>(264,659)</u>	<u>(1,855,936)</u>	<u>(1,855,570)</u>
Income tax expense	<u>23,365</u>	<u>-</u>	<u>97,748</u>	<u>144,007</u>
Net loss attributable to common shareholders	<u>(1,721,059)</u>	<u>(264,659)</u>	<u>(1,953,684)</u>	<u>(1,999,577)</u>
Foreign currency translation adjustments	132,588	(255,981)	68,490	(159,308)
Comprehensive loss	<u>\$ (1,588,471)</u>	<u>\$ (520,640)</u>	<u>\$ (1,885,194)</u>	<u>\$ (2,158,885)</u>
Net loss per common share, basic and diluted	<u>\$ (0.15)</u>	<u>\$ (0.02)</u>	<u>\$ (0.17)</u>	<u>\$ (0.18)</u>
Weighted average common shares outstanding, basic and diluted	<u>11,414,150</u>	<u>11,251,650</u>	<u>11,336,690</u>	<u>11,175,002</u>

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

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY/(DEFICIT)
(Unaudited)

	<u>Common stock</u>		<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Comprehensive Loss</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Loss</u>	<u>Total</u>	
Balance September 30, 2019	11,401,650	\$ 1,140	\$302,250,556	\$302,152,292	\$ (1,001,602)		\$ (902,198)
Share-based compensation	-	-	19,687	-	-		19,687
Issuance of Common Stock to employees for services	12,500	1	(1)	-	-		-
Foreign currency translation adjustments	-	-	-	-	(64,098)		(64,098)
Net loss	-	-	-	(232,625)	-		(232,625)
Balance December 31, 2019	11,414,150	1,141	302,270,242	(302,384,917)	(1,065,700)		(1,179,234)
Foreign currency translation adjustments	-	-	-	-	132,588		132,588
Net loss	-	-	-	(1,721,059)	-		(1,721,059)
Balance March 31, 2020	11,414,150	\$ 1,141	302,270,242	(304,105,976)	(933,112)		(2,767,705)

	<u>Common stock</u>		<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Comprehensive Loss</u>		<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			<u>Loss</u>	<u>Total</u>	
Balance September 30, 2018	11,401,650	\$ 1,140	\$302,102,866	\$299,495,370	\$ (970,270)		\$ 1,638,366
ASC 606 modified retrospective adjustment	-	-	-	(92,969)	-		(92,969)
Amortization of equity-based compensation granted to employees	-	-	83,218	-	-		83,218
Foreign currency translation adjustments	-	-	-	-	96,673		96,673
Net loss	-	-	-	(1,734,918)	-		(1,734,918)
Balance December 31, 2018	11,401,650	1,140	302,186,084	(301,323,257)	(873,597)		(9,630)
Amortization of equity-based compensation granted to employees	-	-	25,097	-	-		25,097
Foreign currency translation adjustments	-	-	-	-	(255,981)		(255,981)
Net loss	-	-	-	(264,659)	-		(264,659)
Balance March 31, 2019	11,401,650	\$ 1,140	\$302,211,181	\$301,587,916	\$ (1,129,578)		\$ (505,173)

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

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

	Six Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net loss	\$ (1,953,684)	\$ (1,999,577)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,006,825	2,047,244
Bad debt expense	135,287	216,510
Stock based compensation	19,687	108,315
Loss on monitoring equipment included in cost of revenue	231,226	234,091
Foreign currency exchange loss	1,190,932	336,767
Change in assets and liabilities:		
Accounts receivable, net	1,485,269	(167,305)
Prepaid expense, deposits and other assets	(159,705)	(262,552)
Accounts payable	(1,045,796)	(122,347)
Accrued liabilities	624,904	1,360,818
Net cash provided by operating activities	2,534,945	1,751,964
Cash flow used in investing activities:		
Purchase of property and equipment	(62,433)	(243,022)
Capitalized software	(680,730)	(571,204)
Purchase of monitoring equipment and parts	(748,713)	(593,758)
Net cash used in investing activities	(1,491,876)	(1,407,984)
Cash flow used in financing activities:		
Principal payments on long-term debt	(18,137)	(18,704)
Net cash used in financing activities	(18,137)	(18,704)
Effect of exchange rate changes on cash	(235,601)	(106,724)
Net increase in cash	789,311	218,552
Cash, beginning of period	6,896,711	5,446,557
Cash, end of period	\$ 7,686,042	\$ 5,665,109
Cash paid for interest	\$ 12,441	\$ 12,397
Supplemental schedule of non-cash investing and financing activities:		
Non-cash transfer of inventory to monitoring equipment	\$ 659,576	\$ 561,044

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

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

(1) BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial information of Track Group, Inc. and subsidiaries (collectively, the “Company” or “Track Group”) has been prepared in accordance with the Instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting only of normal recurring adjustments necessary to present fairly the Company’s financial position as of March 31, 2020, and results of its operations for the three and six months ended March 31, 2020. These financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2019, filed with the SEC on January 10, 2020. The results of operations for the three and six months ended March 31, 2020 may not be indicative of the results for the fiscal year ending September 30, 2020.

As of March 31, 2020, and 2019, the Company had an accumulated deficit of \$304,105,976 and \$301,587,916, respectively. The Company incurred a net loss of \$1,953,684 and \$1,999,577 for the six months ended March 31, 2020 and 2019, respectively. The Company may continue to incur losses and require additional financial resources. The Company also has debt maturing in September 2020 and July 2021. The Company’s transition to profitable operations is dependent upon generating a level of revenue adequate to support its cost structure, which it has almost achieved, and resolving the balance sheet. 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 and through operational cash flows through the upcoming twelve months.

(2) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Track Group, Inc. and its active 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.

(3) RECENT ACCOUNTING STANDARDS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“FASB”) or other standard setting bodies, which are adopted by the Company as of the specified effective date.

Recently Adopted Accounting Standards

In February 2016, FASB issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases (Topic 842)”. 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. The Company adopted ASU 2016-02 on October 1, 2019. See Note 15 for the impact the adoption had on our consolidated financial position, results of operations and cash flows.

Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-04, “Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment”. The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance will be effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The amendment should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will adopt ASU 2017-04 in fiscal year 2021. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In June 2016, the FASB issued ASU 2016-13, “*Measurement of Credit Losses on Financial Instruments*”. ASU 2016-13 adds a current expected credit loss (“CECL”) impairment model to U.S. GAAP that is based on expected losses rather than incurred losses. Modified retrospective adoption is required with any cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within the year of adoption. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company will adopt ASU 2016-13 in fiscal year 2021. The Company does not expect the application of the CECL impairment model to have a significant impact on our allowance for uncollectible amounts for accounts receivable.

(4) IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable and in the case of goodwill, at least annually. The Company evaluates whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. If the carrying amount of an asset exceeds its fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there is an identifiable fair value that is independent of other groups of assets.

(5) BUSINESS COMBINATIONS

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

Acquired Assets and Assumed Liabilities

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

Contingent Consideration

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

(6) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) as currently reported under GAAP and other comprehensive income (loss). Other comprehensive income (loss) considers the effects of additional economic events, such as foreign currency translation adjustments, that are not required to be recorded in determining net income (loss), but rather are reported as a separate component of stockholders’ equity. The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the following operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars at the prevailing exchange rate at March 31, 2020.

(7) 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 common stock options and warrants. As of March 31, 2020, and 2019, there were 685,259 outstanding common share equivalents, respectively, that were not included in the computation of Diluted EPS for the three and six months ended March 31, 2020 and 2019, respectively, as their effect would be anti-dilutive. The common stock equivalents outstanding as of March 31, 2020 and March 31, 2019 consisted of the following:

	March 31, 2020	March 31, 2019
Exercisable common stock options and warrants	<u>685,259</u>	<u>685,259</u>
Total common stock equivalents	<u>685,259</u>	<u>685,259</u>

At March 31, 2020 and 2019, all stock option and warrant exercise prices were above the market price of \$0.20 and \$0.55, respectively, and thus have not been included in the basic earnings per share calculation.

(8) REVENUE RECOGNITION

On October 1, 2018, the Company adopted ASC 606 using the modified retrospective method, whereby the adoption did not impact any prior periods.

Monitoring and Other Related Services. Monitoring services include two components: (i) lease contracts pursuant to which the Company provides monitoring services and lease devices to distributors or end users and the Company retains 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 the Company’s monitoring services. Sales of devices and leased GPS devices are required to use the Company’s monitoring service and both the GPS leased devices and monitoring services are accounted for as a single performance obligation. Monitoring revenue is recognized ratably over time, as the customer simultaneously receives and consumes the benefit of these services as they are performed. Payment due or received from the customers prior to rendering the associated services are recorded as a contract liability. The balance of the contract liabilities at March 31, 2020 and September 30, 2019 are \$265,171 and \$389,229, respectively, and are included in accrued liabilities on the Consolidated Balance Sheets. The Company recognized \$50,987 and \$124,058, respectively, of deferred revenue in the three and six months ended March 31, 2020 and \$102,532 and \$112,094, respectively, of deferred revenue in the three and six months ended March 31, 2019.

Product Sales and Other. The Company sells devices and replacement parts to customers under certain contracts, as well as law enforcement software licenses and maintenance, and analytical software. Revenue from the sale of devices and parts is recognized upon their transfer of control to the customer, which is generally upon delivery. Delivery is considered complete at either the time of shipment or arrival at destination, based on the agreed upon terms within the contract. Payment terms are generally 30 days from invoice date.

Multiple Element Arrangements. The majority of our 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 services that are included in a single billable rate. These products or services are delivered over time as the customer utilizes our services. In cases where obligations in a contract are distinct and thus require separation into multiple performance obligations, revenue recognition guidance requires that contract consideration be allocated to each distinct performance obligation based on its relative standalone selling price. The value allocated to each performance obligation is then recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met.

The standalone selling price for each performance obligation is an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the good or service. When there is only one performance obligation associated with a contract, the entire sale value is attributed to that obligation. When a contract contains multiple performance obligations the transaction value is first allocated using the observable price, which is generally a list price net of applicable discount or the price used to sell in similar circumstances. In circumstances when a selling price is not directly observable, the Company will estimate the standalone selling price using information available to us.

The following table presents the Company's revenue by geography, based on management's assessment of available data:

	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
	<u>Total Revenue</u>	<u>% of Total Revenue</u>	<u>Total Revenue</u>	<u>% of Total Revenue</u>
United States	\$ 5,426,065	67%	\$ 4,823,512	60%
Latin America	2,525,623	31%	3,263,413	40%
Other	180,038	2%	4,317	0%
Total	\$ 8,131,726	100%	\$ 8,091,242	100%

	Six Months Ended March 31, 2020		Six Months Ended March 31, 2019	
	<u>Total Revenue</u>	<u>% of Total Revenue</u>	<u>Total Revenue</u>	<u>% of Total Revenue</u>
United States	\$ 10,993,923	66%	\$ 9,885,071	61%
Latin America	5,263,216	32%	6,370,966	39%
Other	295,418	2%	46,740	0%
Total	\$ 16,552,557	100%	\$ 16,302,777	100%

The above table includes total revenue for the Company, of which monitoring and other related services is the majority (approximately 98%) of the Company's revenue. Latin America includes Bahamas, Chile, Mexico, Puerto Rico and the U.S. Virgin Islands. Other includes Canada, New Zealand, Saudi Arabia, South Africa, United Kingdom, and Vietnam.

(9) PREPAID EXPENSE AND DEPOSITS

As of March 31, 2020, and September 30, 2019, the outstanding balance of prepaid expense and deposits was \$1,218,843 and \$1,339,465, respectively. These balances are comprised largely of a performance bond deposit, tax deposits, vendor deposits and other prepaid supplier expense.

(10) 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.

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 March 31, 2020, and September 30, 2019, inventory consisted of the following:

	March 31, 2020	September 30, 2019
Finished goods inventory	\$ 122,279	\$ 301,435
Reserve for damaged or obsolete inventory	(62,147)	(26,934)
Total inventory, net of reserves	<u>\$ 60,132</u>	<u>\$ 274,501</u>

The Company uses a third-party fulfillment service provider. As a result of this service, the Company's employees do not actively assemble new product or repair damaged inventory or monitoring equipment 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. Management reviews inventory regularly to identify damaged or obsolete inventory and reserves for potential losses. The Company recorded charges of \$0 and \$35,123 during the three and six months ended March 31, 2020, respectively, for inventory that was obsolete, lost or damaged. Obsolete, lost and damaged inventory items are included in Monitoring, products & other related services in the Condensed Consolidated Statement of Operations.

(11) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of March 31, 2020 and September 30, 2019, respectively:

	March 31, 2020	September 30, 2019
Equipment, software and tooling	\$ 1,259,763	\$ 1,210,583
Automobiles	4,780	5,574
Leasehold improvements	1,249,367	1,393,976
Furniture and fixtures	308,862	313,817
Total property and equipment before accumulated depreciation	<u>2,822,772</u>	<u>2,923,950</u>
Accumulated depreciation	(2,290,429)	(2,248,913)
Property and equipment, net of accumulated depreciation	<u>\$ 532,343</u>	<u>\$ 675,037</u>

Property and equipment depreciation expense for the three months ended March 31, 2020 and 2019 was \$77,346 and \$87,665, respectively. Property and equipment depreciation expense for the six months ended March 31, 2020 and 2019 was \$160,778 and \$167,301, respectively.

(12) MONITORING EQUIPMENT

The Company leases monitoring equipment to agencies for offender tracking under contractual service agreements. The monitoring equipment is amortized using the straight-line method over an estimated useful life of between one and three years. Monitoring equipment as of March 31, 2020 and September 30, 2019 was as follows:

	March 31, 2020	September 30, 2019
Monitoring equipment	\$ 8,978,514	\$ 8,947,668
Less: accumulated amortization	(6,387,123)	(6,322,768)
Monitoring equipment, net of accumulated amortization	<u>\$ 2,591,391</u>	<u>\$ 2,624,900</u>

Amortization of monitoring equipment for the three months ended March 31, 2020 and 2019 was \$367,571 and \$406,877, respectively. Amortization of monitoring equipment for the six months ended March 31, 2020 and 2019 was \$728,201 and \$761,503, respectively. Amortization expense for monitoring devices is recognized in cost of revenue. During the six months ended March 31, 2020 and March 31, 2019, the Company recorded charges of \$231,226 and \$234,091, respectively, for devices that were lost, stolen or damaged. Lost, stolen and damaged items are included in Monitoring, products & other related services in the Condensed Consolidated Statement of Operations.

(13) INTANGIBLE ASSETS

The following table summarizes intangible assets at March 31, 2020 and September 30, 2019, respectively:

	March 31, 2020	September 30, 2019
Intangible assets:		
Patent & royalty agreements	\$ 21,170,565	\$ 21,170,565
Developed technology	12,837,145	12,685,281
Customer relationships	1,860,000	1,860,000
Trade name	316,849	318,722
Website	78,201	78,201
Total intangible assets	36,262,760	36,112,769
Accumulated amortization	(15,209,788)	(14,157,090)
Intangible assets, net	<u>\$ 21,052,972</u>	<u>\$ 21,955,679</u>

The intangible assets summarized above were purchased or developed on various dates from January 2010 through March 31, 2020. The assets have useful lives ranging from three to twenty years. Amortization expense for the three months ended March 31, 2020 and 2019 was \$558,527 and \$559,433, respectively. Amortization expense for the six months ended March 31, 2020 and 2019 was \$1,117,846 and \$1,118,441, respectively.

(14) GOODWILL

The following table summarizes the activity of goodwill at March 31, 2020 and September 30, 2019, respectively:

	March 31, 2020	September 30, 2019
Balance - beginning of period	\$ 8,187,911	\$ 8,076,759
Effect of foreign currency translation on goodwill	(175,375)	111,152
Balance - end of period	<u>\$ 8,012,536</u>	<u>\$ 8,187,911</u>

Goodwill is recognized in connection with acquisition transactions in accordance with ASC 805. The Company performs an impairment test for goodwill annually or more frequently if indicators of potential impairment exist. No impairment of goodwill was recognized through March 31, 2020.

(15) LEASES

Effective October 1, 2019, the Company adopted the new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842) “ASC Topic 842” which modified lease accounting for lessees to create transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. The Company adopted the new lease standard utilizing the modified retrospective transaction method, under which amounts in prior periods were not restated. For contracts existing at the time of the adoption, the Company elected not to reassess (a) whether any are or contain leases, (b) lease classification, and (c) initial direct costs. Upon adoption on October 1, 2019, the Company recorded \$597,289 right of use assets and lease liabilities. The adoption of the new standard did not impact the Company’s Statements of Operations or Statements of Cash Flows.

The following table shows right of use assets and lease liabilities and the associated financial statement line items as of March 31, 2020.

	<u>Operating lease asset</u>	<u>Operating lease liability</u>
Other assets	471,695	-
Accrued liabilities	-	203,517
Long-term liabilities	-	268,178
	<u>\$ 471,695</u>	<u>\$ 471,695</u>

The following table summarizes the supplemental cash flow information for the six months ended March 31, 2020:

	March 31, 2020
Cash paid for noncancelable operating leases included in operating cash flows	<u>\$ 190,370</u>
Right of use assets obtained in exchange for operating lease liabilities:	\$ -

The future minimum lease payments under noncancelable operating leases with terms greater than one year as of March 31, 2020 are:

	Operating Leases
From April 2020 to September 2020	\$ 120,138
From October 2020 to September 2021	228,039
From October 2021 to September 2022	166,049
From October 2022 to September 2023	3,612
Undiscounted Cash Flow	<u>517,838</u>
Less: imputed interest	<u>(46,143)</u>
Total	<u>\$ 471,695</u>
Reconciliation to lease liabilities:	
Lease liabilities - current	\$ 203,517
Lease liabilities - long-term	268,178
Total Lease Liabilities	<u>\$ 471,695</u>

The weighted-average remaining lease term and discount rate related to the Company’s lease liabilities as of March 31, 2020 were 2.3 years and 8%, respectively. The Company’s lease discount rates are generally based on the estimates of its incremental borrowing rate as the discount rates implicit in the Company’s leases cannot be readily determined.

(16) ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of March 31, 2020 and September 30, 2019, respectively:

	March 31, 2020	September 30, 2019
Accrued payroll, taxes and employee benefits	\$ 1,340,704	\$ 1,680,634
Deferred revenue	265,171	389,229
Deposits payable	10,000	10,000
Accrued taxes - foreign and domestic	976,182	1,071,532
Accrued other expense	147,243	170,055
Accrued legal costs	863,047	1,057,305
Accrued costs of revenue	339,118	251,262
Accrued bond guarantee	-	142,405
Right of use liability	203,517	-
Accrued interest	10,275,200	9,056,274
Total accrued liabilities	<u>\$ 14,420,182</u>	<u>\$ 13,828,696</u>

(17) DEBT OBLIGATIONS

On February 24, 2019, the Company and Conrent Invest S.A. (“Conrent”) entered into a second amendment to their Facility Agreement (the “Second Amended Facility Agreement”), which Second Amended Facility Agreement (i) extends the maturity date of the Facility to the earlier of either April 1, 2020 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 Second Amended Credit Facility and declare the outstanding principal amount, together with unpaid interest, immediately due and payable. On December 4, 2019, the Company requested that Conrent extend the maturity of the Amended Facility Agreement from April 1, 2020 to July 1, 2021. On January 6, 2020, the investors who owned the securities from Conrent used to finance the debt (the “Noteholders”) held a meeting to address the Company’s request. On January 7, 2020, Conrent notified the Company in writing that the Noteholders agreed to extend the maturity of the Amended Facility Agreement from April 1, 2020 to July 1, 2021. On January 10, 2020, the Company and Conrent entered into an amendment to the Facility Agreement which extends the maturity of the Facility to July 1, 2021.

Debt obligations as of March 31, 2020 and September 30, 2019, respectively, are comprised of the following:

	March 31, 2020	September 30, 2019
Unsecured facility agreement with Conrent 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 July 1, 2021. The Company did not pay interest on this loan during the six months ended March 31, 2020.	\$ 30,400,000	\$ 30,400,000
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 acquisition.	8,769	28,045
Total debt obligations	<u>33,808,413</u>	<u>33,827,689</u>
Less current portion	<u>(3,408,413)</u>	<u>(33,827,689)</u>
Long-term debt, net of current portion	<u>\$ 30,400,000</u>	<u>\$ -</u>

The following table summarizes future maturities of debt obligations as of March 31, 2020:

Twelve-month period ended March 31,	Total
2021	\$ 3,408,413
2022	30,400,000
Thereafter	-
Total	<u>\$ 33,808,413</u>

(18) PREFERRED AND COMMON STOCK

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

The Company is authorized to issue up to 20,000,000 shares of preferred stock, \$0.0001 par value per share. The Company's Board of Directors has the authority to amend the Company's Certificate of Incorporation, without further stockholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the preferred stock before any issuance of the preferred stock, and to create one or more series of preferred stock. As of March 31, 2020, there were no shares of preferred stock outstanding.

No dividends were paid during the three- and six-month periods ended March 31, 2020 or 2019, respectively.

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 March 31, 2020, no shares of Series A Preferred were issued and outstanding.

(19) STOCK OPTIONS AND WARRANTS

Stock Incentive Plan

At the annual meeting of stockholders on March 21, 2011, our stockholders approved the 2012 Equity Compensation Plan (the “2012 Plan”). The 2012 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who provide services to the Company in lieu of cash. A total of 90,000 shares were initially authorized for issuance pursuant to awards granted under the 2012 Plan. At the 2015 annual meeting of stockholders held on May 19, 2015, our stockholders approved a 713,262 share increase to the total number of shares authorized under the 2012 Plan. Warrants for Board members vest immediately, and warrants issued to employees vest annually over either a two or three-year period after the grant date.

As of March 31, 2019, the Board of Directors suspended further awards under the 2012 Plan until further notice. The Company recorded expense of \$19,687 and \$87,083 for the six months ended March 31, 2020 and 2019, respectively, related to the vesting of common stock awarded prior to the suspension of the 2012 Plan. There were 27,218 shares of common stock available for issuance under the 2012 Plan as of March 31, 2020.

All Options and Warrants

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. During the six months ended March 31, 2020 and 2019, the Company granted no 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 \$0 and \$21,232 for the six months ended March 31, 2020 and 2019, respectively, related to the issuance and vesting of outstanding stock options and warrants.

All options and warrants have vested and are exercisable at March 31, 2020 and no future issuances are expected.

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

A summary of stock option (warrant) activity for the six months ended March 31, 2020 is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of September 30, 2019	685,259	\$ 1.56	2.9 years	\$ -
Granted	-	\$ -	-	-
Expired/Cancelled	-	\$ -	-	-
Exercised	-	\$ -	-	-
Outstanding as of March 31, 2020	<u>685,259</u>	\$ 1.56	2.4 years	\$ -
Exercisable as of March 31, 2020	<u>685,259</u>	\$ 1.56	2.4 years	\$ -

The intrinsic value of options and warrants outstanding and exercisable is based on the Company’s share price of \$0.20 at March 31, 2020.

(20) INCOME TAXES

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

For the six months ended March 31, 2020 and 2019, the Company incurred a net loss for income tax purposes of \$1,953,684 and \$1,999,577, 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.

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

(21) COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time, claims are made against the Company in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties, and unfavorable outcomes could occur. In the opinion of management, the resolution of these matters, if any, will not have a material adverse impact on the Company's financial position or results of operations. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

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. The Supreme Court took action to resolve previous, conflicting decisions regarding the jurisdiction of such claims and determined that such claims will be resolved by the Federal Administrative Tribunal. Subsequently, plaintiff filed an Amparo action before the Collegiate Court, seeking an appeal of the Federal Administrative Court's earlier decision against plaintiff. The Collegiate Court issued a ruling in August 2019 that the matter of dispute was previously resolved by a lower court in 2016. The Company disagrees with this ruling and is exploring its options going forward. Based upon the fee arrangement the Company has with its counsel, we anticipate the future liabilities attributable to legal expense will be minimal.

Blaike Anderson v. Track Group, Inc., et. al. On June 24, 2019, Blaike Anderson filed a complaint seeking unspecified damages in the State Court of Marion County, Indiana, alleging liability on the part of defendants for providing a defective ankle monitoring device and failure to warn plaintiff regarding the condition thereof. The Company removed the matter to federal court and subsequently filed its answer denying Plaintiff's allegations in August 2019. Discovery is currently ongoing. The Company intends to vigorously defend the case.

Commonwealth of Puerto Rico, through its Trustees v. International Surveillance Services Corporation. On January 23, 2020, the Company was served with a summons for an Adversary Action pending against International Surveillance Services Corporation (“ISS”), a subsidiary of the Company, now known as Track Group – Puerto Rico Inc., in the United States District Court for the District of Puerto Rico seeking to avoid and recover allegedly constructive fraudulent transfers and to disallow claims pursuant to United States Bankruptcy and Puerto Rican law. The allegations stem from payments made to ISS between 2014 and 2017, which the Company believes were properly made in accordance with a contract between ISS and the government of Puerto Rico, through the Oficina de Servicios con Antelacion a Juicio, originally signed in 2011. The Company is confident that all payments it received were earned and due under applicable law and is pursuing such a ruling before the Court.

Eli Sabag v. Track Group, Inc., et al. On March 12, 2020, Eli Sabag commenced an arbitration with the International Centre for Dispute Resolution, Case Number 01-20-0003-6931. The arbitration claim, as it pertains to the Company, alleges breach of the 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 or leased a sufficient number of GPS Global Tracking devices to meet the earn-out milestone, or alternatively, breached the SPA by failing to act in “good faith” to allow Sabag to achieve his earn-out. Sabag further claims that the Company fraudulently induced Sabag to sell GPS Global Tracking and Surveillance System Ltd. to the Company. The Company has entered its appearance and intends to vigorously defend against the allegations.

(22) SUBSEQUENT EVENTS

Currently, the Company and the Chilean Prison System (“GENCHI”) are operating a monitoring program under a one-year contract that expires in October 2020 and contains automatic monthly renewals (the “Program”). In March 2020, GENCHI issued an Intent to Award the Program to a competitor of the Company based on a request for proposal (“RFP”) process run in 2017 and delayed by litigation. To confirm the Intent to Award, the competitor must implement the new system successfully. If the competitor fails to do so, then GENCHI has the authority to award the new program to the next highest scoring company in the RFP process, which would be the Company. Given all of the uncertainty, the time required for implementation is difficult to determine; however, the Company is estimating that the competitor may require up to fifteen months to complete. During this period, the Company will continue to provide services and be paid by GENCHI. This customer provided approximately 25% of the Company’s revenue in fiscal year 2019 and approximately 22% of the Company’s revenue during the first six months of fiscal year 2020. The Company is continually pursuing additional domestic and international customers and management believes revenue from new customers and growth from existing customers could offset a portion and potentially all the lost revenue from the Program in Chile, although no assurances can be given.

The ramifications of the coronavirus (“COVID-19”) outbreak reported to have started in December 2019 and spread globally are filled with uncertainty and changing quickly. As of May 7, 2020, the Company has not been materially adversely impacted by the COVID-19 pandemic for several reasons. The monitoring being performed by the Company’s customers across the globe are considered essential services and remain operational. Furthermore, at this time, the Company has not experienced unusual payment interruptions from any large customers and the Company’s employees are all working principally from home. Also, the Company has experienced an uptick in demand in the U.S. as government agencies transition certain offenders in confinement to our electronic monitoring services to assist in combatting the spread of the coronavirus. These positive changes have been partially offset by declines in Chile revenue caused by limitations in the Chile court system due to COVID-19.

However, the Company is operating in a rapidly changing environment so the extent to which COVID-19 impacts its business, operations and financial results from this point forward will depend on numerous evolving factors that the Company cannot accurately predict. Those factors include the following: the duration and scope of the pandemic; governmental, business and individuals’ actions that have been and continue to be taken in response to the pandemic; the development of widespread testing or a vaccine; the ability of our supply chain to meet the Company’s need for equipment; the ability to sell and provide services and solutions if shelter in place restrictions and people working from home are extended to ensure employee safety; the strengthening of the U.S. dollar and subsequent impact on foreign operations; and any closures of clients’ offices or the courts on which they rely.

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted that, other than as disclosed above, no additional subsequent events have occurred that are reasonably likely to impact the financial statements.

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

Forward-Looking Statements

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Report, as well as Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, and Current Reports on Form 8-K that have been filed with the SEC through the date of this Report. Except as otherwise indicated, as used in this Report, the terms the “Company”, “Track Group”, “we”, “our”, and “us” refer to Track Group, Inc., a Delaware corporation.

General

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.

Our devices consist principally of the ReliAlert™ product line, which is supplemented by the Shadow product line. These devices are generally leased on a daily rate basis and may be combined with our monitoring center services, proprietary software and data analytics subscription to provide an end-to-end PaaS.

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

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

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

Other Services. The Company offers smartphone applications specifically designed for the criminal justice market, including a domestic violence app that creates a mobile geo-zone around a survivor and an alcohol monitoring app linked to a police-grade breathalyzer.

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.

Critical Accounting Policies

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

A description of the Company’s critical accounting policies that affect the preparation of the Company’s financial statements is set forth in the Company’s Annual Report on Form 10-K for the year ended September 30, 2019, filed with the SEC on January 10, 2020. During the six months ended March 31, 2020, there have been no material changes to the Company’s critical accounting policies, except as noted below.

Effective October 1, 2019, the Company adopted the new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842) “ASC Topic 842” which modified lease accounting for lessees to create transparency and comparability by recording lease assets and liabilities for operating leases and disclosing key information about leasing arrangements. See Note 15.

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 judgments are subject to an inherent degree of uncertainty. We assess the reasonableness of our estimates, including those related to bad debts, inventories, right of use assets, estimated useful lives, intangible assets, warranty obligations, product liability, revenue, legal matters and income taxes. We base our estimates on historical experience as well as available current information on a regular basis. Management uses this information to form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Government Regulation

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

Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Revenue

For the three months ended March 31, 2020, the Company recognized revenue from operations of \$8,131,726 compared to \$8,091,242 for the three months ended March 31, 2019, an increase of \$40,484 or less than 1%. The \$40,484 increase in revenue was principally the result of an increase in growth driven by clients in Illinois, Washington DC and Puerto Rico, partially offset by lower revenue in Chile. The decrease in revenue in Chile is largely due to the strengthening U.S. dollar, which amounts to \$380,933 when compared to the second fiscal quarter of 2019. See Note 22 for additional information on the Company's Chilean customer.

Other revenue for the three months ended March 31, 2020 decreased to \$138,634 from \$213,839 in the same period in 2019, a decrease of \$75,205, largely due to lower product sales.

Cost of Revenue

During the three months ended March 31, 2020, cost of revenue totaled \$3,695,834 compared to cost of revenue during the three months ended March 31, 2019 of \$3,599,300, an increase of \$96,534 or approximately 3%. The increase in cost of revenue was largely the result of higher monitoring costs of \$154,953, higher server costs of \$59,282, higher commission expense of \$57,981 and higher hardware costs of \$20,311, partially offset by lower communication costs of \$161,197 and lower depreciation expense of \$39,433.

Depreciation and amortization included in cost of revenue for the three months ended March 31, 2020 and 2019 totaled \$494,157 and \$533,590, respectively. These costs represent the depreciation of ReliAlert™ and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. The decrease of \$39,433 primarily represents a decrease in device amortization due to additional fully amortized devices, partially offset by an increase in the number of devices. We believe the equipment lives on which the depreciation is based are appropriate due to rapid changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses the useful life of the devices for appropriateness. Amortization of a patent related to GPS and satellite tracking is also included in cost of sales.

Gross Profit and Margin

During the three months ended March 31, 2020, gross profit totaled \$4,435,892 representing a decrease of \$56,050 or approximately 1% compared to the same period last year, and resulting in a gross margin of approximately 55% compared to \$4,491,942 or a gross margin of approximately 56% during the three months ended March 31, 2019.

General and Administrative Expense

During the three months ended March 31, 2020, general and administrative expense totaled \$2,723,219 compared to \$3,316,069 for the three months ended March 31, 2019. The decrease of \$592,850 or approximately 18% in general and administrative costs resulted largely from lower legal and professional fees of \$597,234, lower bad debt expense of \$99,984 and lower stock-based compensation of \$25,097, partially offset by higher wages and related taxes of \$163,139.

Selling and Marketing Expense

During the three months ended March 31, 2020, selling and marketing expense increased to \$642,432 compared to \$576,974 for the three months ended March 31, 2019. The increase in expense of \$65,458, or approximately 11% is principally the result of higher consulting and outside services of \$83,657 and higher payroll and taxes of \$36,682, partially offset by lower travel and entertainment expense of \$24,654 and lower trade show expense of \$17,407.

Research and Development Expense

During the three months ended March 31, 2020, research and development expense totaled \$323,737 compared to \$354,879 for the three months ended March 31, 2019, a decrease of \$31,142 or approximately 9%. The decrease resulted largely from lower payroll and taxes of \$39,450, partially offset by higher dues and subscriptions of \$9,038. In addition, we are significantly enhancing our technology platform to improve the efficiency of our software, firmware, user interface and automation. As a result of these improvements, \$339,108 was capitalized as developed technology during the three months ended March 31, 2020 and \$295,581 was capitalized in the three months ended March 31, 2019. 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

During the three months ended March 31, 2020, depreciation and amortization expense totaled \$509,287 compared to \$520,384 for the three months ended March 31, 2019, a decrease of \$11,097 or approximately 2%, largely due to fully depreciated assets.

Total Operating Expense

During the three months ended March 31, 2020, total operating expense decreased to \$4,198,675 compared to \$4,768,306 for the three months ended March 31, 2019, a decrease of \$569,631 or approximately 12%.

Operating income (loss)

During the three months ended March 31, 2020, operating income was \$237,217 compared to an operating loss of \$276,364 for the three months ended March 31, 2019, an improvement of \$513,581. This improvement was due to a decrease in operating expense of \$569,631, partially offset by a decrease in gross profit of \$56,050.

Other Income and Expense

For the three months ended March 31, 2020, other income (expense) totaled (\$1,934,911) compared to income of \$11,705 for the three months ended March 31, 2019, an increase in net expense of \$1,946,616. The increase in other expense is largely due to negative currency exchange rate movements of \$1,930,150 compared to the second fiscal quarter of 2019.

Net Loss Attributable to Common Stockholders

The Company had net loss attributable to common stockholders of \$1,721,059 for the three months ended March 31, 2020, compared to a net loss attributable to common stockholders of \$264,659 for the three months ended March 31, 2019, an increase in net loss of \$1,456,400. This increase in net loss is largely due to negative currency exchange rate movements, partially offset by lower operating expense.

Six Months Ended March 31, 2020 Compared to Six Months Ended March 31, 2019

Revenue

For the six months ended March 31, 2020, the Company recognized revenue from operations of \$16,552,557, compared to \$16,302,777 for the six months ended March 31, 2019, an increase of \$249,780 or approximately 2%. Of this revenue, \$16,261,515 and \$15,937,731, respectively, were from monitoring and other related services, an increase of \$323,784 or approximately 2%. The increase in revenue was principally the result of an increase in total growth of our North American monitoring operations driven by clients in Illinois, Washington DC, Puerto Rico, Nevada and Michigan, partially offset by our customers in Mexico and Chile. The decrease in revenue in Chile is largely due to the strengthening U.S. dollar, which amounts to \$621,053 when compared to the same period in 2019. See Note 22 for additional information on the Company's Chilean customer.

Other revenue for the six months ended March 31, 2020 decreased to \$291,042 from \$365,046 in the same period in 2019 largely due to lower sales of products, partially offset by higher sales of consumable items.

Cost of Revenue

During the six months ended March 31, 2020, cost of revenue totaled \$7,450,185 compared to cost of revenue during the six months ended March 31, 2019 of \$7,177,782, an increase of \$272,403 or approximately 4%. The increase in cost of revenue was largely the result of monitoring costs of \$249,178, higher commission costs of \$112,381, higher server costs of \$86,681 and higher hardware costs of \$47,174, partially offset by lower communication costs of \$199,672 and lower depreciation of monitoring devices of \$30,280, due to an increase in fully depreciated devices.

Depreciation and amortization included in cost of revenue for the six months ended March 31, 2020 and 2019 totaled \$981,599 and \$1,011,879, respectively. This \$30,280 or approximately 3% decrease in costs represents additional fully depreciated monitoring devices, partially offset by an increase in the number of devices. Devices are depreciated over a one to three-year useful life. Royalty agreements are being amortized over a ten-year useful life. The Company believes these lives 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 six months ended March 31, 2020, gross profit totaled \$9,102,372, resulting in a gross margin of approximately 55%, compared to \$9,124,995, or a gross margin of approximately 56% during the six months ended March 31, 2019. The decrease in absolute gross profit of \$22,623 or less than 1% is due to nominal increases in certain costs of revenue, including monitoring activity, commission costs, server costs and accelerated depreciation of devices, largely offset by increased revenue.

General and Administrative Expense

During the six months ended March 31, 2020, general and administrative expense totaled \$5,735,073 compared to \$6,738,341 for the six months ended March 31, 2019. The decrease of \$1,003,268 or approximately 15% in general and administrative costs resulted largely from a lower legal and professional fees of \$863,881, a decrease in stock based compensation of \$88,627, lower fees and licenses of \$63,737 and lower outside services of \$41,991, partially offset by higher insurance costs of \$82,783.

Selling and Marketing Expense

During the six months ended March 31, 2020, selling and marketing expense totaled \$1,183,981 compared to \$1,080,904 for the six months ended March 31, 2019. The \$103,077, or approximately 10% increase resulted largely from higher outside services and consulting of \$119,540, higher wages and related taxes of \$36,779, partially offset by lower travel and entertainment expense of \$41,638.

Research and Development Expense

During the six months ended March 31, 2020, research and development expense totaled \$619,892 compared to research and development expense for the six months ended March 31, 2019 totaling \$603,744, an increase of \$16,148 or approximately 3%. The increase resulted largely from increased dues and subscriptions of \$22,730. In addition, we are significantly enhancing our technology platform to improve the efficiency of our software, firmware, user interface, and automation. As a result of these improvements, \$680,730 was capitalized as developed technology during the six months ended March 31, 2020 and \$571,204 was capitalized during the six months ended March 31, 2019. 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

During the six months ended March 31, 2020, depreciation and amortization expense totaled \$1,025,226 compared to \$1,035,365 for the six months ended March 31, 2019. The \$10,139 or approximately 1% decrease was largely the result of certain property and equipment assets becoming fully depreciated.

Total Operating Expense

During the six months ended March 31, 2020, total operating expense decreased to \$8,564,172 compared to \$9,458,354 for the six months ended March 31, 2019, a decrease of \$894,182 or approximately 9%. The decrease was largely due to lower general and administrative expense of \$1,003,268 and lower depreciation and amortization of \$10,139. These costs were partially offset by higher selling and marketing expense of \$103,077, and higher research and development expense of \$16,148.

Operating income (loss)

During the six months ended March 31, 2020, operating income was \$538,200 compared to an operating loss of \$333,359 for the six months ended March 31, 2019, an improvement of \$871,559 or approximately 261%. This improvement was due to a reduction in operating expense of \$894,182 partially offset by a decrease in gross profit of \$22,623.

Other Income and Expense

For the six months ended March 31, 2020, other income (expense) totaled expense of \$2,394,136 compared to expense of \$1,522,211 for the six months ended March 31, 2019. The increase in expense of \$871,925 in net other expense resulted primarily to negative currency exchange rate movements of \$854,165 and higher interest expense, net of \$13,270.

Net Loss Attributable to Common Shareholders

The Company had a net loss from continuing operations for the six months ended March 31, 2020 totaling \$1,953,684 compared to a net loss of \$1,999,577 for the six months ended March 31, 2019, representing a nominal reduction in the loss of \$45,893 or approximately 2%.

Liquidity and Capital Resources

During and prior to the fiscal year ended September 30, 2017, we supplemented cash flows by financing the business from borrowings under a credit facility, a revolving line of credit from one of our stockholders, receipt of certain disgorgement funds, and from the sale and issuance of debt securities. Subsequently, the Company was self-funded through net cash provided by operating activities. As of March 31, 2020, excluding interest, approximately \$3.4 million was owed to Sapinda Asia Limited under a loan agreement (the “*Sapinda Loan Agreement*”) that matures on September 30, 2020 and \$30.4 million was owed to Conrent Invest S.A. (“*Conrent*”) under a loan (the “*Conrent Loan Agreement*”) that matures on July 1, 2021. No borrowings or sales of equity securities occurred during the six months ended March 31, 2020 or during the year ended September 30, 2019.

Net Cash Flows from Operating Activities.

During the six months ended March 31, 2020, we had cash flows from operating activities of \$2,534,945, compared to cash flows from operating activities of \$1,751,964 for the six months ended March 31, 2019, representing a \$782,981 increase of approximately 45%. The increase in cash from operations was the result of an improvement in operating performance, excluding non-cash adjustments, of \$1,630,273 in net income compared to the quarter one year ago of \$943,350, an increase of \$686,923. This was augmented by a decrease in accounts receivable and a decline accounts payable.

Net Cash Flows from Investing Activities.

The Company used \$1,491,876 of cash for investing activities during the six months ended March 31, 2020, compared to \$1,407,984 of cash used during the six months ended March 31, 2019. Cash used for investing activities was used for significant enhancements of our software platform and purchases of monitoring and other equipment to meet customer demand during the six months ended March 31, 2020. Purchases of property and equipment decreased \$180,589, compared to the prior period, largely due to a decrease in leasehold improvements.

Net Cash Flows from Financing Activities.

The Company used \$18,137 of cash for financing activities during the six months ended March 31, 2020, compared to \$18,704 of cash used in financing activities during the six months ended March 31, 2019.

Liquidity, Working Capital and Management’s Plan

As of March 31, 2020, the Company had unrestricted cash of \$7,686,042 compared to unrestricted cash of \$6,896,711 as of September 30, 2019. As of March 31, 2020, we had a working capital deficit of \$5,463,545, compared to a working capital deficit of \$35,010,475 as of September 30, 2019. This decrease in working capital deficit of \$29,546,930 is due to the extension of the \$30,400,000 Conrent Amended Facility and cash provided by operations, partially offset by an increase in accrued liabilities, largely due to interest payable, purchases of monitoring equipment and capitalized software.

On December 4, 2019, the Company requested that Conrent extend the maturity of the Amended Facility Agreement from April 1, 2020 to July 1, 2021. On January 6, 2020, the investors who owned the securities from Conrent used to finance the debt (the “*Noteholders*”) held a meeting to address the Company’s request. On January 7, 2020, Conrent notified the Company in writing that the Noteholders agreed to extend the maturity of the Amended Facility Agreement from April 1, 2020 to July 1, 2021. On January 10, 2020, the Company and Conrent entered into an amendment to the Facility Agreement which extends the maturity of the Facility to July 1, 2021.

On March 13, 2017, the Company successfully extended the Sapinda Loan Agreement from September 30, 2017 to September 30, 2020. The Company intends to explore an additional extension of the Sapinda Loan Agreement or, if an extension is unavailable, to pay the loan amount from existing funds.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risks

We had \$5,558,634 and \$6,417,706 in revenue from sources outside of the United States for the six-months ended March 31, 2020 and 2019, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in foreign exchange expense of \$1,190,932 and foreign exchange expense of \$336,767 in the six months ended March 31, 2020 and 2019, respectively. Fluctuations in the exchange loss or gain in any given period are due to the strengthening or weakening of the U.S. dollar against the Chilean Peso and Canadian dollar which have been magnified by the coronavirus. Changes in currency exchange rates affect the relative prices at which we sell our products and purchase goods and services. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition. We do not use foreign currency exchange contracts or derivative financial instruments for hedging or speculative purposes. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement strategies which make use of these or other instruments in order to minimize the effects of foreign currency exchange on our business.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2020 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 March 31, 2020.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There was no change in our internal control over financial reporting during our quarter ended March 31, 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, claims are made against the Company in the ordinary course of business, which could result in litigation. Claims and associated litigation are subject to inherent uncertainties, and unfavorable outcomes could occur. In the opinion of management, the resolution of these matters, if any, will not have a material adverse impact on the Company's financial position or results of operations. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

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. The Supreme Court took action to resolve previous, conflicting decisions regarding the jurisdiction of such claims and determined that such claims will be resolved by the Federal Administrative Tribunal. Subsequently, plaintiff filed an Amparo action before the Collegiate Court, seeking an appeal of the Federal Administrative Court's earlier decision against plaintiff. The Collegiate Court issued a ruling in August 2019 that the matter of dispute was previously resolved by a lower court in 2016. The Company disagrees with this ruling and is exploring its options going forward. Based upon the fee arrangement the Company has with its counsel, we anticipate the future liabilities attributable to legal expense will be minimal.

Blaike Anderson v. Track Group, Inc., et. al. On June 24, 2019, Blaike Anderson filed a complaint seeking unspecified damages in the State Court of Marion County, Indiana, alleging liability on the part of defendants for providing a defective ankle monitoring device and failure to warn plaintiff regarding the condition thereof. The Company removed the matter to federal court and subsequently filed its answer denying Plaintiff's allegations in August 2019. Discovery is currently ongoing. The Company intends to vigorously defend the case.

Commonwealth of Puerto Rico, through its Trustees v. International Surveillance Services Corporation. On January 23, 2020, the Company was served with a summons for an Adversary Action pending against International Surveillance Services Corporation ("ISS"), a subsidiary of the Company, now known as Track Group – Puerto Rico Inc., in the United States District Court for the District of Puerto Rico seeking to avoid and recover allegedly constructive fraudulent transfers and to disallow claims pursuant to United States Bankruptcy and Puerto Rican law. The allegations stem from payments made to ISS between 2014 and 2017, which the Company believes were properly made in accordance with a contract between ISS and the government of Puerto Rico, through the Oficina de Servicios con Antelacion a Juicio, originally signed in 2011. The Company is confident that all payments it received were earned and due under applicable law and is pursuing such a ruling before the Court.

Eli Sabag v. Track Group, Inc., et al. On March 12, 2020, Eli Sabag commenced an arbitration with the International Centre for Dispute Resolution, Case Number 01-20-0003-6931. The arbitration claim, as it pertains to the Company, alleges breach of the 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 or leased a sufficient number of GPS Global Tracking devices to meet the earn-out milestone, or alternatively, breached the SPA by failing to act in "good faith" to allow Sabag to achieve his earn-out. Sabag further claims that the Company fraudulently induced Sabag to sell GPS Global Tracking and Surveillance System Ltd. to the Company. The Company has entered its appearance and intends to vigorously defend against the allegations.

Item 1A. Risk Factors

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended September 30, 2019, filed on January 10, 2020. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of May 7, 2020, there have been no material changes to the disclosures made in the above-referenced Form 10-K, other than set forth below.

COVID-19 could affect our sales and disrupt our operations and could have a material adverse impact on us.

The coronavirus (“COVID-19”) that was reported to have surfaced in December 2019 and that has spread worldwide, could adversely impact the Company’s operations or those of our third-party suppliers, as well as our sales to customers. The extent to which the coronavirus impacts the Company’s operations, those of our third-party suppliers or our customers will depend on future developments, which are highly uncertain and cannot be predicted with confidence. If the Company, or any of our third-party suppliers encounter any disruptions to our or their respective operations or facilities, or if our customers were to partially or fully close for an extended period of time due to the coronavirus then we or they may be prevented or delayed from effectively operating our or their business, respectively, and the manufacture, supply, and sale of our services and our financial results could be adversely affected.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Title of Document
31(i)	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31(ii)	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Track Group, Inc.

Date: May 7, 2020

By: /s/ Derek Cassell
Derek Cassell, Chief Executive Officer
Principal Executive Officer

Date: May 7, 2020

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

Date: May 7, 2020

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

Date: May 7, 2020

/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-Q for the period ended March 31, 2020 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: May 7, 2020

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.
