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 December 31, 2021

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	**87-0543981**
(State or other jurisdiction of incorporation or organization)	(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

The number of shares outstanding of the registrant's common stock as of February 1, 2022 was 11,541,452.

TRACK GROUP, INC.
FORM 10-Q

For the Quarterly Period Ended December 31, 2021

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) December 31, 2021	September 30, 2021
Assets		
Current assets:		
Cash	$ 8,599,296	$ 8,421,162
Accounts receivable, net of allowance for doubtful accounts of $43,359 and $91,262, respectively	6,490,046	7,163,615
Prepaid expense and deposits	1,040,711	998,589
Inventory, net of reserves of $0 and $0, respectively	647,070	305,210
Total current assets	16,777,123	16,888,576
Property and equipment, net of accumulated depreciation of $2,601,242 and $2,615,967, respectively	198,689	202,226
Monitoring equipment, net of accumulated depreciation of $6,153,405 and $5,977,093, respectively	3,020,456	3,068,100
Intangible assets, net of accumulated amortization of $18,453,714 and $17,607,457, respectively	19,685,985	20,434,143
Goodwill	8,658,772	8,519,998
Deferred tax asset	-	101,159
Other assets	4,131,835	4,309,040
Total assets	$ 52,472,860	$ 53,523,242
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,619,448	$ 2,821,982
Accrued liabilities	3,961,682	4,350,030
Current portion of long-term debt	502,463	526,134
Total current liabilities	7,083,593	7,698,146
Long-term debt, net of current portion	43,309,260	43,452,216
Long-term liabilities	31,463	3,650
Total liabilities	50,424,316	51,154,012
Commitments and contingencies (Notes 16 and 23)		
	-	-
Stockholders' equity:		
Common stock, $0.0001 par value: 30,000,000 shares authorized; 11,541,452 and 11,524,978 shares outstanding, respectively	1,154	1,152
Series A Convertible Preferred stock, $0.0001 par value: 1,200,000 shares authorized; 0 shares outstanding	-	-
Paid in capital	302,258,446	302,250,954
Accumulated deficit	(299,133,849)	(298,828,527)
Accumulated other comprehensive loss	(1,077,207)	(1,054,349)
Total equity	2,048,544	2,369,230
Total liabilities and stockholders' equity	$ 52,472,860	$ 53,523,242

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

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

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020
Revenue:		
Monitoring and other related services	$ 9,469,729	$ 9,271,729
Product sales and other	125,927	130,176
Total revenue	9,595,656	9,401,905
Cost of revenue:		
Monitoring, products and other related services	3,931,578	3,700,426
Depreciation & amortization included in cost of revenue	863,849	488,675
Total cost of revenue	4,795,427	4,189,101
Gross profit	4,800,229	5,212,804
Operating expense:		
General & administrative	2,498,359	2,400,735
Selling & marketing	697,872	550,457
Research & development	590,852	307,294
Depreciation & amortization	416,801	531,763
Total operating expense	4,203,884	3,790,249
Operating income	596,345	1,422,555
Other income (expense):		
Interest expense, net	(481,560)	(640,022)
Currency exchange rate gain (loss)	(106,278)	818,626
Other income (loss)	-	26
Total other income (expense)	(587,838)	178,630
Income before income taxes	8,507	1,601,185
Income tax expense	313,829	277,691
Net income (loss) attributable to common stockholders	(305,322)	1,323,494
Foreign currency translation adjustments	(22,858)	317,835
Comprehensive income (loss)	$ (328,180)	$ 1,641,329
Net income (loss) per share – basic and diluted		
Net income (loss) per common share, basic and diluted	$ (0.03)	$ 0.12
Weighted average common shares outstanding, basic and diluted	11,525,315	11,414,150

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)

	Common Stock		Paid-in	Accumulated	Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	Total
Balance September 30, 2021	11,524,978	$ 1,152	$ 302,250,954	$ (298,828,527)	$ (1,054,349)	$ 2,369,230
Issuance of Common Stock for options/warrants exercised	16,474	2	(2)	-	-	-
Cash received for options/warrants exercised	-	-	10,570	-	-	10,570
Tax withheld on issuance of Common Stock	-	-	(3,076)	-	-	(3,076)
Foreign currency translation adjustments	-	-	-	-	(22,858)	(22,858)
Net loss	-	-	-	(305,322)	-	(305,322)
Balance December 31, 2021	11,541,452	$ 1,154	$ 302,258,446	$ (299,133,849)	$ (1,077,207)	$ 2,048,544

	Common Stock		Paid-in	Accumulated	Comprehensive	
	Shares	Amount	Capital	Deficit	Income (Loss)	Total
Balance September 30, 2020	11,414,150	$ 1,141	$ 302,270,242	$ (302,270,933)	$ (921,073)	$ (920,623)
Foreign currency translation adjustments	-	-	-	-	317,835	317,835
Net income	-	-	-	1,323,494	-	1,323,494
Balance December 31, 2020	11,414,150	$ 1,141	$ 302,270,242	$ (300,947,439)	$ (603,238)	$ 720,706

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

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

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020
Cash flows from operating activities:		
Net income (loss)	$ (305,322)	$ 1,323,494
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,280,650	1,020,438
Bad debt recovery	(100,286)	(16,986)
Loss on monitoring equipment included in cost of revenue	99,297	110,123
Amortization of debt issuance costs	35,275	-
Amortization of monitoring center assets included in cost of revenue	75,947	-
Foreign currency exchange (gain)/loss	106,278	(818,626)
Change in assets and liabilities:		
Accounts receivable, net	688,994	(759,838)
Inventories	-	4,200
Prepaid expense, deposits, deferred tax assets and other assets	(82,817)	(125,864)
Accounts payable	(195,522)	(379,272)
Accrued liabilities	(320,857)	224,333
Net cash provided by operating activities	1,281,637	582,002
Cash flow from investing activities:		
Purchase of property and equipment	(35,903)	(81,183)
Capitalized software	(88,607)	(397,402)
Purchase of monitoring equipment and parts	(751,030)	(1,054,807)
Net cash used in investing activities	(875,540)	(1,533,392)
Cash flow from financing activities:		
Payment of deferred financing fees	-	(89,286)
Principal payments on long-term debt	(125,356)	-
Employee tax withholdings related to net share settlement of equity-based awards	(3,076)	-
Proceeds from exercise of employee stock options	10,570	-
Net cash used in financing activities	(117,862)	(89,286)
Effect of exchange rate changes on cash	(110,101)	141,019
Net increase (decrease) in cash	178,134	(899,657)
Cash, beginning of period	8,421,162	6,762,099
Cash, end of period	$ 8,599,296	$ 5,862,442
Cash paid for interest	$ 62,323	$ 2,629
Cash paid for taxes	$ 236,785	$ 236,033

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

(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 December 31, 2021, and results of its operations for the three months ended December 31, 2021. 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, 2021, filed with the SEC on December 16, 2021. The results of operations for the three months ended December 31, 2021 may not be indicative of the results for the fiscal year ending September 30, 2022.

As of December 31, 2021 and September 30, 2021, the Company had an accumulated deficit of $299,133,849 and $298,828,527, respectively. The Company had a net loss of $(305,322) and a net income of $1,323,494 for the three months ended December 31, 2021 and 2020, respectively. The Company may incur losses and require additional financial resources. As of December 31, 2021, the Company had $42,864,000 of debt maturing in July 2024 and six notes payable maturing between January 2, 2024 and February 17, 2025 related to the construction of two monitoring centers in Chile totaling $1,306,136 (See Note 19). The Company's continuation of profitable operations is dependent upon generating a level of revenue adequate to support its cost structure, which it has achieved on an operating basis, although the Company needs to resolve its debt obligation which matures on July 1, 2024. 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.

<u>Recently Issued Accounting Standards</u>

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 for accelerated filing companies became effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and all other entities should adopt the amendments in this update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2022. The amendment should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In 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 became effective for fiscal years beginning after December 15, 2019, excluding smaller reporting entities, which will be effective for fiscal years beginning after December 15, 2022. The Company will adopt ASU 2016-13 in fiscal year 2023. 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 the seller 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 December 31, 2021.

(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 December 31, 2021 and 2020, there were 15,000 and 685,259 outstanding common share equivalents that were not included in the computation of Basic EPS and Diluted EPS for the three months ended December 31, 2021 and 2020, respectively, as their effect would be anti-dilutive.

At December 31, 2021, 415,511 stock options and warrants had exercise prices that were below the market price of $2.28, and have been included in the basic and diluted earnings per share calculations. At December 31, 2020, all stock option and warrant exercise prices were above the market price of $0.34 and thus have not been included in the basic earnings per share calculation.

The common stock equivalents outstanding as of December 31, 2021 and 2020 consisted of the following:

	December 31, 2021	December 31, 2020
Exercisable common stock options and warrants	430,511	685,259
Total common stock equivalents	430,511	685,259

(8) REVENUE RECOGNITION

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 deferred revenue. The balance of accounts receivables at December 31, 2021, September 30, 2021 and October 1, 2020 are $6,490,046, $7,163,615 and $5,546,213, respectively. The balances of the deferred revenue at December 31, 2021, September 30, 2021 and October 1, 2020 are $96,790, $22,500 and $146,458, respectively, and are included in accrued liabilities on the Consolidated Balance Sheets. The Company recognized $7,500 and $48,816 of deferred revenue in the three months ended December 31, 2021 and December 31, 2020, respectively.

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 December 31, 2021		Three Months Ended December 31, 2020	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
United States	$ 6,907,260	72%	$ 6,797,758	72%
Latin America	2,551,722	27%	2,506,412	27%
Other	136,674	1%	97,735	1%
Total	$ 9,595,656	100%	$ 9,401,905	100%

The above table includes total revenue for the Company, of which monitoring and other related services is the majority (approximately 99% for the three months ended December 31, 2021, and 2020) of the Company's revenue. Latin America includes Bahamas, Chile, Puerto Rico and the U.S. Virgin Islands. Other includes Canada and Saudi Arabia in the three months ended December 31, 2021, and Canada, Mexico and Saudi Arabia in the three months ended December 31, 2020.

(9) PREPAID EXPENSE AND DEPOSITS

As of December 31, 2021, and September 30, 2021, the outstanding balance of prepaid expense and deposits was $1,040,711 and $998,589, respectively. These balances are comprised largely of tax deposits, prepaid bond insurance, 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 printed circuit boards and other parts used in the assembly of monitoring equipment and for minor repairs of ReliAlert®, and other tracking devices. Completed and shipped ReliAlert® and other tracking devices are reflected in Monitoring Equipment. As of December 31, 2021 and September 30, 2021, inventory consisted of the following:

	December 31, 2021	September 30, 2021
Finished goods inventory	$ 647,070	$ 305,210
Reserve for damaged or obsolete inventory	-	-
Total inventory, net of reserves	$ 647,070	$ 305,210

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 a significant amount of 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 $91 during the three months ended December 31, 2021 and 2020, respectively, for inventory that was obsolete, lost or damaged. Obsolete, lost and damaged inventory charges are included in Monitoring, products & other related service costs in the Condensed Consolidated Statement of Operations.

(11) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2021 and September 30, 2021:

	December 31, 2021	September 30, 2021
Equipment, software and tooling	$ 1,363,524	$ 1,332,379
Automobiles	4,757	5,034
Leasehold improvements	1,218,469	1,268,486
Furniture and fixtures	213,181	212,294
Total property and equipment	2,799,931	2,818,193
Accumulated depreciation	(2,601,242)	(2,615,967)
Property and equipment, net of accumulated depreciation	$ 198,689	$ 202,226

Property and equipment depreciation expense for the three months ended December 31, 2021 and 2020 was $38,627 and $112,209, 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 five years. Monitoring equipment as of December 31, 2021 and September 30, 2021 was as follows:

	December 31, 2021	September 30, 2021
Monitoring equipment	$ 9,173,861	$ 9,045,193
Less: Accumulated depreciation	(6,153,405)	(5,977,093)
Monitoring equipment, net of accumulated depreciation	$ 3,020,456	$ 3,068,100

Depreciation of monitoring equipment for the three months ended December 31, 2021 and 2020 was $393,781 and $337,560, respectively. Depreciation expense for monitoring devices is recognized in cost of revenue. During the three months ended December 31, 2021 and 2020, the Company recorded charges of $99,297 and $110,123, respectively, for devices that were lost, stolen or damaged. Lost, stolen and damaged items are included in Monitoring, products & other related service costs in the Condensed Consolidated Statement of Operations.

(13) INTANGIBLE ASSETS

The following table summarizes intangible assets at December 31, 2021 and September 30, 2021, respectively:

	December 31, 2021	September 30, 2021
Patent & royalty agreements	$ 21,120,565	$ 21,120,565
Developed technology	15,017,631	14,919,562
Customer relationships	1,860,000	1,860,000
Trade name	141,503	141,473
Total intangible assets	38,139,699	38,041,600
Accumulated amortization	(18,453,714)	(17,607,457)
Intangible assets, net of accumulated amortization	$ 19,685,985	$ 20,434,143

The intangible assets summarized above were purchased or developed on various dates from July 2011 through December 31, 2021. Amortization expense for the three months ended December 31, 2021 and 2020 was $848,242 and $570,669, respectively.

(14) GOODWILL

The following table summarizes the activity of goodwill at December 31, 2021 and September 30, 2021, respectively:

	December 31, 2021	September 30, 2021
Balance - beginning of year	$ 8,519,998	$ 8,220,380
Effect of foreign currency translation on goodwill	138,774	299,618
Balance - end of year	$ 8,658,772	$ 8,519,998

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 December 31, 2021.

(15) OTHER ASSETS

As of December 31, 2021 and *September 30, 2021,* respectively, the balance of other assets was $4,131,835 and $4,309,040, respectively. Other assets at *December 31, 2021* are comprised largely of cash used as collateral for Performance Bonds as well as contractually required monitoring center and other equipment, right of use assets, lease deposits and other long-term assets. The Company anticipates these performance bonds will be reimbursed to the Company upon completion of its contracts with the customer. See Note 23.

The Company is contractually obligated to construct and equip two monitoring centers for an international customer, as well as supply equipment for the customer's satellite locations, which will be owned by the customer when construction is completed. The Company has incurred approximately $1.7 million in costs for two monitoring centers and related equipment at December 31, 2021, and estimates the total to construct and equip the locations will be approximately $2.0 million. The Santiago monitoring center, which was completed in June 2021 cost approximately $1.1 million and began monthly amortization in Monitoring, products and other related services on the Condensed Consolidated Statement of Operations over the life of the new contract in June 2021. Amortization of costs related to the Santiago monitoring center for the three months ended December 31, 2021 were $75,947. The Company will record revenue from the customer based on a contractually agreed upon unit per day amount during the contract period. See Note 19 for details of the borrowings related to the monitoring centers construction and equipment.

(16) LEASES

The following table shows right of use assets and lease liabilities and the associated financial statement line items as of December 31, 2021 and September 30, 2021.

	December 31, 2021		September 30, 2021	
	Operating lease asset	**Operating lease liability**	**Operating lease asset**	**Operating lease liability**
Other assets	$ 174,322	$ -	$ 165,963	$ -
Accrued liabilities		142,859	-	162,313
Long-term liabilities		31,463	-	3,650

The following table summarizes the supplemental cash flow information for the three months ended December 31, 2021 and 2020:

	December 31, 2021	**December 31, 2020**
Cash paid for noncancelable operating leases included in operating cash flows	$ 67,276	$ 75,890
Right of use assets obtained in exchange for operating lease liabilities	$ 78,458	$ -

The future minimum lease payments under noncancelable operating leases with terms greater than one year as of December 31, 2021 are:

	Operating Leases
From January 2022 to December 2022	147,554
From January 2023 to December 2023	31,862
From January 2024 to December 2024	57
Undiscounted cash flow	179,473
Less: imputed interest	(5,151)
Total	$ 174,322
Reconciliation to lease liabilities:	
Lease liabilities - current	$ 142,859
Lease liabilities - long-term	31,463
Total lease liabilities	$ 174,322

The weighted-average remaining lease term and discount rate related to the Company's lease liabilities as of December 31, 2021 were 1.1 years and 7.0%, 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.

(17) ACCRUED LIABILITES

Accrued liabilities consisted of the following as of December 31, 2021 and September 30, 2021:

	December 31, 2021	September 30, 2021
Accrued payroll, taxes and employee benefits	$ 1,481,626	$ 2,279,454
Deferred revenue	96,790	22,500
Accrued taxes - foreign and domestic	107,861	23,022
Accrued other expense	89,401	236,386
Accrued legal and other professional costs	736,339	738,306
Accrued costs of revenue	282,021	248,963
Right of use liability	142,859	162,313
Deferred financing fees	88,685	180,000
Deferred tax liability	55,894	-
Accrued interest	880,206	459,086
Total accrued liabilities	$ 3,961,682	$ 4,350,030

(18) RELATED PARTIES

ETS Limited is currently the beneficial owner of 4,871,745 shares of the Company's Common Stock ("*Track Group Shares*") held by ADS Securities LLC ("*ADS*") under an agreement dated September 28, 2017 pursuant to which ADS transferred all of the Track Group Shares to ETS Limited in exchange for all of the outstanding shares of ETS Limited. A Director of ETS Limited was elected to the Company's current Board of Directors on February 7, 2018 and is still serving on the Board of Directors.

(19) DEBT OBLIGATIONS

Debt obligations, net of debt issuance costs, as of December 31, 2021 and September 30, 2021, consisted of the following:

	December 31, 2021	September 30, 2021
The unsecured loan (the "*Amended Facility Agreement*") from Conrent Invest S.A. ("*Conrent*") whereby, as of March 1, 2021, the Company had borrowed $42,864,000, net of unamortized issuance costs of $300,501, bearing interest at a rate of 4% per annum, payable in arrears annually beginning July 1, 2021, with all principal and accrued and unpaid interest due on July 1, 2024. The Company paid $581,045 interest on this loan during the year ended September 30, 2021 and intends to make its interest payments every six months going forward.	$ 42,563,499	$ 42,533,449
Note Payable Agreement with HP Financial Services Chile Limitada bearing interest at a rate of 6.56% per annum, with a maturity date of February 6, 2024.	59,940	70,176
Note Payable Agreement with Banco Santander, net of unamortized issuance costs of $18,701, bearing interest at a rate of 5.04% per annum, with a maturity date of May 11, 2024.	286,556	332,354
Note Payable Agreement with Banco Estado, net of unamortized issuance costs of $13,170, bearing interest at a rate of 3.50% per annum, with a maturity date of January 2, 2024.	237,258	279,869
Note Payable Agreement with HP Financial Services Chile Limitada bearing interest at a rate of 6.61% per annum, with a maturity date of March 4, 2024.	132,036	153,984
Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of $275, bearing interest at a rate of 2.54% per annum, with a maturity date of March 4, 2024.	86,564	101,447
Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of $25,766, bearing interest at a rate of 3.12% per annum, with a maturity date of February 17, 2025.	445,870	507,071
Total debt obligations	43,811,723	43,978,350
Less: current portion	(502,463)	(526,134)
Long-term debt, less current portion	$ 43,309,260	$ 43,452,216

On October 21, 2020, the Company requested, in writing, an additional extension to the maturity date of the $30.4 million Amended Facility Agreement. On November 25, 2020, the noteholders who owned the securities from Conrent used to finance the Amended Facility Agreement (the "*Noteholders*") held a meeting to address the Company's request and approved a new maturity date of July 1, 2024. On December 21, 2020, Conrent and the Company signed an amendment to the Amended Facility Agreement which extends the maturity date of the Amended Facility Agreement to July 1, 2024 ("*Amended Facility*"), capitalizes the accrued and unpaid interest increasing the outstanding principal amount and reduces the interest rate of the Amended Facility from 8% to 4%. On March 1, 2021, Conrent completed their documentation and the updated registration process to implement these changes and the Company transferred $12,531,556 of accrued interest to the Amended Facility for total principal of $42,931,556. Conrent forgave $67,556 of the total amount due and the principal and interest due under the Amended Facility became $42,864,000. Interest payments are scheduled to be made on June 30 and December 31 each year, which began June 30, 2021. We began amortizing deferred financing fees of approximately $360,000 on July 1, 2021. As of December 31, 2021, $42,864,000 of principal and $876,331 of interest was owed to Conrent. The Company paid Conrent the $876,331 interest due on January 5, 2022.

On January 6, 2021, the Company borrowed 70,443,375 Chilean Pesos ("*CLP*") ($101,186USD) from HP Financial Services Chile Limitada. To facilitate the Loan, the Company entered into a Note Payable Agreement with HP Financial Services Chile Limitada as lender. The loan was used to purchase PABX (private automatic branch exchange phone equipment) for the construction of the Gendarmeria de Chile monitoring centers in Santiago and Puerto Montt, Chile. The loan bears an interest rate of 6.56% per annum, payable monthly with principal beginning February 2021, and a maturity date of February 6, 2024.

On January 12, 2021, the Company borrowed 347,198,500*CLP* ($482,965USD), net of 2,801,500*CLP* fees ($3,897USD), from Banco Santander. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco Santander as lender. The loan was used to comply with the construction of Gendarmeria de Chile monitoring center in Santiago, Chile and remodeling a temporary monitoring center. The loan bears an interest at a rate of 5.04% per annum, payable monthly with principal beginning February 2021, and a maturity of May 11, 2024. The Company also paid 19,607,843*CLP* ($27,275USD) in broker fees which are amortized over the life of the loan.

On February 2, 2021, the Company borrowed 247,999,300*CLP* ($338,954USD), net of 2,000,700*CLP* fees ($2,734USD), from Banco Estado. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco Estado as lender. The loan provided was used for the construction of the Gendarmeria de Chile monitoring center in Santiago, Chile and computer equipment for Gendarmeria branch offices. The loan bears an interest rate of 3.50% per annum, initially having a 6-month grace period with the first payment including the 6 months of interest plus 1 month of principal on August 2, 2021, then monthly interest with principal, and a maturity date of January 2, 2024. The Company also paid 14,124,294*CLP* ($19,304USD) in broker fees which are amortized over the life of the loan.

On February 4, 2021, the Company borrowed 149,794,432*CLP* ($205,330USD) from HP Financial Services Chile Limitada. To facilitate the Loan, the Company entered into a Note Payable Agreement with HP Financial Services Chile Limitada as lender. The loan was used to purchase computer equipment for the Gendarmeria de Chile monitoring center in Santiago, Chile. The loan bears an interest at a rate of 6.61% per annum, payable monthly with principal beginning March 2021, and a maturity of March 4, 2024.

On February 5, 2021, the Company borrowed of 99,808,328*CLP* ($136,564USD), net of 210,485*CLP* fees ($286USD), from Banco de Chile. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco de Chile as lender. The loan provided was used to purchase HVAC equipment for Gendarmeria de Chile monitoring center in Santiago, Chile. The loan bears an interest rate of 2.54% per annum, payable monthly with principal beginning March 2021, and a maturity date of March 4, 2024.

On February 15, 2021, the Company borrowed 500,000,000*CLP* ($678,214USD) from Banco de Chile. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco de Chile as lender. The loan proceeds were used as working capital and to complete the construction of the Gendarmeria monitoring center in Puerto Montt, Chile. The loan bears an interest at a rate of 3.12% per annum, payable monthly with principal beginning March 2021, and a maturity of February 17, 2025. The Company also paid 28,248,588*CLP* ($38,317USD) in broker fees which are amortized over the life of the loan.

The following table summarizes our future maturities of debt obligations, net of the amortization of debt discounts as of December 31, 2021:

Twelve months ended December 31:		Total
2022	$	502,463
2023		533,390
2024		43,108,267
2025		26,016
Total		44,170,136
Issuance costs		(358,413)
Debt obligations, net of unamortized issuance costs	$	43,811,723

(20) 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 December 31, 2021, there were no shares of preferred stock outstanding.

No dividends were paid during the three months ended December 31, 2021 or 2020, respectively.

Series A Convertible 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 December 31, 2021, no shares of Series A Preferred were issued and outstanding.

(21) 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 June 30, 2020, the Board of Directors suspended further awards under the 2012 Plan. The Company recorded expense of $0 and $0 for the three months ended December 31, 2021 and 2020, 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 December 31, 2021.

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. 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 $0 for the three months ended December 31, 2021 and 2020, respectively, related to the issuance and vesting of outstanding stock options and warrants. During the three months ended December 31, 2021 and 2020, the Company granted no options or warrants to purchase shares of common stock under the 2012 Plan.

All options and warrants have vested and are exercisable at December 31, 2021 and no future issuances are expected under the 2012 Plan.

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 three months ended December 31, 2021 is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2021	457,075	$ 1.74	1.04	$ 779,977
Granted	-	-		
Expired/Cancelled	-	-		
Exercised	(26,564)	1.21		
Outstanding as of December 31, 2021	430,511	$ 1.77	0.83	$ 433,229
Exercisable as of December 31, 2021	430,511	$ 1.77	0.83	$ 433,229

The intrinsic value of options and warrants outstanding and exercisable is based on the Company's share price of $2.28 at December 31, 2021.

(22) 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 three months ended December 31, 2021 and 2020, the Company incurred net income (loss) for income tax purposes of $(305,322) and $1,323,494, 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.

(23) COMMITMENTS AND CONTINGENCIES

Legal Matters

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

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 ("*OADPRS*") 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 disagreed with this ruling and on November 11, 2020 made a re-demand of the OADPRS for payment due under the July 15, 2011 contract. The OADPRS failed to respond within its allotted 3 months' time-period and the Company filed an Amparo Action on May 6, 2021, which was dismissed. The Company additionally filed a motion for annulment with the Federal Administrative Tribunal on August 4, 2021. The Company was notified on January 6, 2022 that the OADPRS had filed their answer on November 12, 2021. On January 25, 2022, the Company filed its reply, and a ruling is anticipated in approximately 2-3 months. Based upon the fee arrangement the Company has with its counsel, we anticipate the future liabilities attributable to legal expense will be minimal.

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 has produced documentation supporting its position in an informal document exchange with the Commonwealth on July 6, 2020. On August 26, 2021, the Court entered an order staying the Adversary Action pending the Court's confirmation of the Commonwealth's Proposed Plan of Adjustment. In accordance with the terms of the August 26, 2021 order, the Company moved to lift the stay on January 11, 2022, though that motion was denied without prejudice on February 4, 2022. The court ruled that the Company may file a motion to recommence the proceeding after the expiration of thirty days following the Effective Date of the Plan, which is projected to be March 15, 2022.

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 on July 17, 2020, filed its Answer denying the allegations of the claim and asserting numerous defenses. The Company continues to vigorously defend against the allegations. An arbitration is scheduled for April 2022. The Company has not accrued any potential loss after consultation with outside legal counsel.

Jeffrey Mohamed Abed v. Track Group, Inc., et al. On June 7, 2021, Jeffrey Mohamed Abed filed a complaint seeking unspecified damages in the Superior Court of the State of California in Case No. 21 STCV 21345, alleging strict products liability, negligence and breach of implied warranty premised upon injuries sustained by Abed who was involved in an automobile accident while wearing a GPS tracking device of the Company. The Company was served on October 15, 2021 and filed its Answer and Affirmative Defenses on November 12, 2021. On January 11, 2022 the Company issued discovery, and the discovery process remains ongoing. The Company disputes Abed's claims and will defend the case vigorously. No accrual for a potential loss has been made as we believe the probability of incurring a material loss is remote.

Track Group Chile SpA. v. Republic of Chile. On January 24, 2022, Track Group Chile SpA. initiated a judicial action in the Court of Justice of Chile to settle a contract dispute with the Republic of Chile. The Company asserts that it has complied with its contractual obligations and that any delays in so doing were not attributable to the Company. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

Monitoring Equipment

The Company leases monitoring equipment to its customers with contract terms varying from month-to-month to several years and each daily contract price varies. Devices supplied to customers are not serial number unique and a single device may be used by multiple customers over its useful life. If a leased device is returned for repair, it will likely be replaced with a different device from a different customer or possibly a new device.

The Company's tracking devices are considered operating leases under ASC 842 as transfer of control of the asset does not occur at the end of the lease, a single device is not specific to a customer and devices may be used by multiple customers throughout their life cycle. Due to the movement of devices from customer to customer, relatively few long-term contracts, the measurement of the equipment life and the present value of the equipment's fair values would not be a measurement to qualify the devices as sales-type leases. No change to the Company's accounting treatment of devices occurred with the adoption of ASC 842.

Operating lease revenue associated with the Company's monitoring equipment for the three months ended December 31, 2021 and 2020 are shown in the table below:

	Three months ended December 31,	
	2021	2020
Monitoring equipment operating revenue	$ 7,994,457	$ 7,960,206

Performance Bonds

As of December 31, 2021, Company has two performance bonds in connection with a foreign customer totaling $2,169,380 ("*Performance Bonds*"), of which $1,518,537 is held in an interest-bearing account on behalf of the customer and is recorded in Other Assets on the Consolidated Balance Sheet. The remaining amount of $650,843 is guaranteed by a foreign financial institution on behalf of the Company. The amounts held on the two Performance Bonds will be released approximately 90 days after the expiration of the Performance Bonds, which expire as follows: $283,601 on January 18, 2022 and $1,234,937 on July 2, 2024.

In March 2021, the Company placed a $617,483 deposit into an interest-bearing account with a financial institution to replace the performance bond expiring on July 2, 2024, whereby the portion guaranteed by the financial institution will increase from 30% to 65% of the total bond. The current bond expiring July 2, 2024 will be released following completion of the transaction.

The Company pays interest on the full amount of the Performance Bonds to the financial institution providing the guarantee at 3.5% interest per annum for the Performance Bond expiring in January 2022 and 2.8% interest per annum for the Performance Bond expiring in July 2024. The Company recorded interest expense for the three months ended December 31, 2021 and December 31, 2020 of $32,145 and $18,462, respectively.

(24) SUBSEQUENT EVENTS

On January 5, 2022, the Company made a payment to Conrent of $876,331 for interest due under the Amended Facility (See Note 19).

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted no subsequent events other than those noted above 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 Quarterly Report on Form 10-Q (this "Quarterly Report", or, 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 Report 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, 2021, 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, our centers are staffed with highly trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating, and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery 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 IntelliTrack, TrackerPAL® software, IntelliTrack Mobile, TrackerPAL® 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 along with knowledgeable salespeople 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, 2021, filed with the SEC on December 16, 2021. During the three months ended December 31, 2021, there have been no material changes to the Company's critical accounting policies.

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.

The COVID-19 pandemic has adversely impacted both the Company's revenue and costs by disrupting its operations in Chile, causing shortages within the supply chain and postponing sales opportunities as some government agencies delay new RFP (Request for Proposal) processes or decisions. (See Item 1A - Risk Factors). Notwithstanding the challenges, the monitoring being performed by the Company's significant customers across the globe have remained operational as have key business partners providing manufacturing and call center services and at this time, the Company has not experienced unusual payment interruptions from any large customers. As the conditions have improved with respect to COVID-19, both our Chile office and the corporate headquarters in the greater-Chicago area have recently reopened. 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 volatility of foreign currency exchange rates and the subsequent effect on international transactions; and any closures of clients' offices or the courts on which they rely.

Results of Operations

Three Months Ended December 31, 2021 Compared to Three Months Ended December 31, 2020

Revenue

For the three months ended December 31, 2021, the Company recognized total revenue from operations of $9,595,656 compared to $9,401,905 for the three months ended December 31, 2020, an increase of $193,751 or approximately 2%. The $193,751 increase in total revenue was largely the result of an increase in domestic monitoring revenue and other related services. For the three months ended December 31, 2021, the Company recognized revenue from monitoring and other related services of $9,469,729 compared to $9,271,729 for the three months ended December 31, 2020, an increase of $198,000 or approximately 2%. This growth in monitoring and other related services revenue is more predictable than product sales. Monitoring and other related service revenue, which comprises the substantial majority of total revenue, increased due to growth by clients in Illinois, Canada, Chile and Michigan, partially offset by decreases in revenue in Virginia, Indiana and Mississippi.

Product sales and other revenue for the three months ended December 31, 2021 decreased to $125,927 from $130,176 in the same period in 2020, a decrease of $4,249 or approximately 3%.

The industry in which the Company operates, as well as many other industries (automotive, consumer products and medical devices), have been impacted by the global semiconductor shortage initially caused by the slowdown of many chip makers and logistics companies due to COVID-19. The shortage, which could last through at least the remainder of 2022, has been exacerbated by the surge in demand for a wide variety of products across several industries, all of which require varying amounts of semiconductors. As a result, until such time as chip manufacturers are able to meet global demand, our future operating results may be negatively impacted.

Cost of Revenue

During the three months ended December 31, 2021, cost of revenue totaled $4,795,427 compared to cost of revenue during the three months ended December 31, 2020 of $4,189,101, an increase of $606,326 or approximately 14%. The increase in cost of revenue was largely the result of higher depreciation and amortization costs of $375,174, higher server costs of $113,982, higher monitoring costs of $99,596 and higher software maintenance costs of $75,489. These increases were partially offset by lower repair costs of $61,657.

Depreciation and amortization included in cost of revenue for the three months ended December 31, 2021 and 2020 totaled $863,849 and $488,675, respectively, an increase of $375,174. These costs represent the depreciation of ReliAlert® and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. The increase in depreciation and amortization costs is largely due to software amortization of our new software monitoring platform and other new software initiatives of $318,953, which began on July 1, 2021, as well as an increase in depreciation expense related to the increased cost of new 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 December 31, 2021, gross profit totaled $4,800,229, resulting in a gross margin of approximately 50%. During the three months ended December 31, 2020, gross profit totaled $5,212,804, resulting in a gross margin of approximately 55%. The decrease in absolute gross profit of $412,575 or approximately 8% is due to increases in certain costs of revenue, including depreciation and amortization, server costs, monitoring costs and software maintenance, partially offset by an increase in revenue and lower repair costs.

General and Administrative Expense

During the three months ended December 31, 2021, general and administrative expense totaled $2,498,359 compared to $2,400,735 for the three months ended December 31, 2020. The increase of $97,624 or approximately 4% in general and administrative expense resulted largely from higher training and recruiting costs of $60,721, higher insurance costs of $34,219, higher legal and professional fees of $30,907, higher payroll and payroll taxes of $26,098 and higher Board of Director expenses of $17,068. These costs were offset by lower bad debt expense of $83,299.

Selling and Marketing Expense

During the three months ended December 31, 2021, selling and marketing expense totaled $697,872 compared to $550,457 for the three months ended December 31, 2020. The increase in expense of $147,415 or approximately 27% is principally the result of higher payroll and taxes of $71,081, higher consulting and outside service expenses of $35,557, higher travel and entertainment cots of $19,051 and higher trade show costs of $15,215.

Research and Development Expense

During the three months ended December 31, 2021, research and development expense totaled $590,852 compared to $307,294 for the three months ended December 31, 2020. The increase in expense of $283,558 or approximately 92% resulted largely from continuous improvements of our existing software, resulting in increased expense of $265,713 after our implementation of our new monitoring software. As a result of the implementation of our new monitoring software on July 1, 2021, capitalization of developed technology decreased to $88,607 during the three months ended December 31, 2021, which represents technology projects currently in development compared to the $397,402 which was capitalized in the three months ended December 31, 2020. 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 December 31, 2021, depreciation and amortization expense totaled $416,801 compared to $531,763 for the three months ended December 31, 2020, a decrease of $114,962 or approximately 22%, largely due to fully depreciated assets.

Total Operating Expense

During the three months ended December 31, 2021, total operating expense decreased to $4,203,884 compared to $3,790,249 for the three months ended December 31, 2020, an increase of $413,635 or approximately 11%. The increase is principally due to the factors disclosed above.

Operating Income

During the three months ended December 31, 2021, operating income was $596,345 compared to $1,422,555 for the three months ended December 31, 2020, a reduction of $826,210 or approximately 58%. This reduction was due to a decrease in gross profit of $412,575, which resulted from higher cost of revenue directly related to the amortization of our new monitoring software platform, and higher server, monitoring and software maintenance costs, partially offset by higher revenue of $193,751. In addition, the Company incurred higher general and administrative, selling and marketing, and research and development costs. These increases were partially offset by lower depreciation and amortization expenses in operating expense.

Other Income (Expense)

For the three months ended December 31, 2021, other income (expense) totaled expense of ($587,838) compared to other income of $178,630 for the three months ended December 31, 2020, an increase in net expense of $766,468. The increase in other expense is largely due to negative currency exchange rate movements of $924,904 compared to the first fiscal quarter of fiscal 2021, partially offset by lower interest expense, net of $158,462. See Note 19.

Net Income (Loss) Attributable to Common Stockholders

The Company had net loss attributable to common stockholders of $305,322 for the three months ended December 31, 2021, compared to a net income attributable to common stockholders of $1,323,494 for the three months ended December 31, 2020, a reduction of $1,628,816. This decline is due to lower operating income, negative currency exchange rate movements, partially offset by lower interest expense.

Liquidity and Capital Resources

The Company is currently self-funded through net cash provided by operating activities.

On May 19, 2020, the Company received net proceeds of $933,200 from a potentially forgivable loan from the United States Small Business Administration pursuant to the Paycheck Protection Program enacted by Congress under the Coronavirus Aid, Relief, and Economic Security Act (15 U.S.C. 636(a)(36)) (the "*CARES Act*") administered by the SBA (the "*PPP Loan*"). On December 8, 2020, the Company filed the application for forgiveness with BMO Harris Bank National Association (the "*Lender*") and on January 8, 2021, the Company received a notification from the Lender that the SBA remitted funds to fully repay the PPP Loan, and that the funds were utilized to pay-off and close the PPP Loan and that the PPP Loan was fully forgiven.

On October 21, 2020, the Company requested, in writing, an additional extension to the maturity date of that certain facility agreement between the Company and Conrent Invest, S.A. (*Conrent*"), dated December 30, 2013, as amended on February 24, 2019, and further amended on January 7, 2020 (the *"Amended Facility Agreement*"), which previously provided for a $30.4 million unsecured debt facility. On November 25, 2020, the investors who owned the securities from Conrent used to finance the facility (the "*Noteholders*") held a meeting to address the Company's request and approved a new maturity date of July 1, 2024. On December 21, 2020, Conrent and the Company signed an amendment to the Amended Facility Agreement (the "*Amended Facility*") which extends the maturity date of the agreement to July 1, 2024, capitalizes the accrued and unpaid interest increasing the outstanding principal amount and reduces the interest rate of the Amended Facility from 8% to 4%. On March 1, 2021, Conrent completed their documentation and the updated registration process to implement these changes and the Company transferred $12,531,556 of accrued interest to the Amended Facility for total principal of $42,931,556. Conrent forgave $67,556 of the aggregate amount due under the Amended Facility and the principal and interest due under the Amended Facility became $42,864,000. Interest payments are scheduled to be made on June 30 and December 31 each year, which began on June 30, 2021. We began amortizing deferred financing fees of approximately $360,000 on July 1, 2021. As of December 31, 2021, $42,864,000 of principal and $876,331 of interest was owed to Conrent. The Company paid Conrent the $876,331 interest due on January 5, 2022.

On January 6, 2021, the Company borrowed 70,443,375 Chilean Pesos ("*CLP*") ($101,186USD) from HP Financial Services Chile Limitada. To facilitate the Loan, the Company entered into a Note Payable Agreement with HP Financial Services Chile Limitada as lender. The loan was used to purchase PABX (private automatic branch exchange phone equipment) for the construction of the Gendarmeria de Chile monitoring centers in Santiago and Puerto Montt, Chile. The loan bears an interest rate of 6.56% per annum, payable monthly with principal beginning February 2021, and a maturity date of February 6, 2024.

On January 12, 2021, the Company borrowed 347,198,500*CLP* ($482,965USD), net of 2,801,500*CLP* fees ($3,897USD), from Banco Santander. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco Santander as lender. The loan was used to comply with the construction of Gendarmeria de Chile monitoring center in Santiago, Chile and remodeling a temporary monitoring center. The loan bears an interest at a rate of 5.04% per annum, payable monthly with principal beginning February 2021, and a maturity of May 11, 2024. The Company also paid 19,607,843*CLP* ($27,275USD) in broker fees which are amortized over the life of the loan.

On February 2, 2021, the Company borrowed 247,999,300*CLP* ($338,954USD), net of 2,000,700*CLP* fees ($2,734USD), from Banco Estado. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco Estado as lender. The loan provided was used for the construction of the Gendarmeria de Chile monitoring center in Santiago, Chile and computer equipment for Gendarmeria branch offices. The loan bears an interest rate of 3.50% per annum, initially having a 6-month grace period with the first payment including the 6 months of interest plus 1 month of principal on August 2, 2021, then monthly interest with principal, and a maturity date of January 2, 2024. The Company also paid 14,124,294*CLP* ($19,304USD) in broker fees which are amortized over the life of the loan.

On February 4, 2021, the Company borrowed 149,794,432*CLP* ($205,330USD) from HP Financial Services Chile Limitada. To facilitate the Loan, the Company entered into a Note Payable Agreement with HP Financial Services Chile Limitada as lender. The loan was used to purchase computer equipment for the Gendarmeria de Chile monitoring center in Santiago, Chile. The loan bears an interest at a rate of 6.61% per annum, payable monthly with principal beginning March 2021, and a maturity of March 4, 2024.

On February 5, 2021, the Company borrowed of 99,808,328*CLP* ($136,564USD), net of 210,485*CLP* fees ($286USD), from Banco de Chile. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco de Chile as lender. The loan provided was used to purchase HVAC equipment for Gendarmeria de Chile monitoring center in Santiago, Chile. The loan bears an interest rate of 2.54% per annum, payable monthly with principal beginning March 2021, and a maturity date of March 4, 2024.

On February 15, 2021, the Company borrowed 500,000,000*CLP* ($678,214USD) from Banco de Chile. To facilitate the Loan, the Company entered into a Note Payable Agreement with Banco de Chile as lender. The loan proceeds were used as working capital and to complete the construction of the Gendarmeria monitoring center in Puerto Montt, Chile. The loan bears an interest at a rate of 3.12% per annum, payable monthly with principal beginning March 2021, and a maturity of February 17, 2025. The Company also paid 28,248,588*CLP* ($38,317USD) in broker fees which are amortized over the life of the loan.

Management will continue to seek other sources of capital, refinancing options, prepayment of debt at a discount and potentially other transactions including the exchange of some debt for an equity related security to reduce its total debt and assist in meeting all of its future obligations. While management believes it will be successful in completing one of these alternatives prior to the maturity of the Amended Facility Agreement in July 2024, no assurances can be given.

Other than the above-mentioned items, no borrowings or sales of equity securities occurred during the three months ended December 31, 2021 or during the year ended September 30, 2021.

Net Cash Flows from Operating Activities.

During the three months ended December 31, 2021, we had cash flows from operating activities of $1,281,637, compared to cash flows from operating activities of $582,002 for the three months ended December 31, 2020, representing a $699,635 increase or approximately 120%. The increase in cash from operations was largely the result of a decline in accounts receivable, a decrease in accounts payable and accrued liabilities, partially offset by lower operating income.

Net Cash Flows from Investing Activities.

The Company used $875,540 of cash from investing activities during the three months ended December 31, 2021, compared to $1,533,392 of cash used for investing activities during the three months ended December 31, 2020. Cash used for investing activities was used for purchases of monitoring and other equipment to meet customer demand and enhancements of certain software during the three months ended December 31, 2021. Purchases of monitoring equipment and parts decreased $303,777, compared to the prior period, largely due to the current global semiconductor shortage and a decrease in capitalized software of $308,795 as the Company completed its new software platform in the third fiscal quarter of 2021.

Net Cash Flows from Financing Activities.

The Company used $117,862 of cash from financing activities during the three months ended December 31, 2021, which was largely the result of loan principal payments of $125,356. The Company used $89,286 of cash for financing activities during the three months ended December 31, 2020, which was the payment of financing fee costs.

Liquidity, Working Capital and Management's Plan

As of December 31, 2021, the Company had unrestricted cash of $8,599,296 compared to unrestricted cash of $8,421,162 as of September 30, 2021. As of December 31, 2021, we had a working capital of $9,693,530, compared to a working capital of $9,190,430 as of September 30, 2021. This increase in working capital of $503,100 is principally due to cash provided by operating activities, partially offset by the purchase of monitoring equipment and parts.

On October 21, 2020, the Company requested, in writing, an additional extension to the maturity date of the Amended Facility Agreement. On November 25, 2020, the Noteholders held a meeting to address the Company's request and approved a new maturity date of July 1, 2024. On December 21, 2020, Conrent and the Company signed the Amended Facility which extends the maturity date of the agreement to July 1, 2024, capitalizes the accrued and unpaid interest increasing the outstanding principal amount and reduces the interest rate of the Amended Facility from 8% to 4%. On June 28, 2021, the Company restarted interest payments to Conrent which will be made semi-annually going forward. See Note 19 to the Consolidated Financial Statements.

During the fiscal year ended September 30, 2021, the Company borrowed approximately $2.0 million though six notes payable to fund the construction of monitoring centers in Chile required by our new contract. These six notes mature between January 2024 to February 2025, and the principal repayments on these six notes have all commenced. See Note 19 to the Consolidated Financial Statements.

The Company believes it will be able to continue to fund future operations using cash on hand and through operational cash flows.

Inflation

We do not believe that inflation has had a material impact on our operations or profitability over the last few years; however, the rise in inflation recently has adversely impacted both the Company's cost of labor and materials.

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 $1,530,147 and $1,460,567 in foreign currency revenue from sources outside of the United States for the three months ended December 31, 2021 and 2020, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in foreign exchange (loss) gain of $(106,278) and $818,626 in the three months ended December 31, 2021 and 2020, 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 COVID-19 and government policies issued as a result of COVID-19. 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 December 31, 2021 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 December 31, 2021.

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 December 31, 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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 ("*OADPRS*") 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 disagreed with this ruling and on November 11, 2020 made a re-demand of the OADPRS for payment due under the July 15, 2011 contract. The OADPRS failed to respond within its allotted 3 months' time-period and the Company filed an Amparo Action on May 6, 2021, which was dismissed. The Company additionally filed a motion for annulment with the Federal Administrative Tribunal on August 4, 2021. The Company was notified on January 6, 2022 that the OADPRS had filed their answer on November 12, 2021. On January 25, 2022, the Company filed its reply, and a ruling is anticipated in approximately 2-3 months. Based upon the fee arrangement the Company has with its counsel, we anticipate the future liabilities attributable to legal expense will be minimal.

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 has produced documentation supporting its position in an informal document exchange with the Commonwealth on July 6, 2020. On August 26, 2021, the Court entered an order staying the Adversary Action pending the Court's confirmation of the Commonwealth's Proposed Plan of Adjustment. In accordance with the terms of the August 26, 2021 order, the Company moved to lift the stay on January 11, 2022, though that motion was denied without prejudice on February 4, 2022. The court ruled that the Company may file a motion to recommence the proceeding after the expiration of thirty days following the Effective Date of the Plan, which is projected to be March 15, 2022.

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 on July 17, 2020, filed its Answer denying the allegations of the claim and asserting numerous defenses. The Company continues to vigorously defend against the allegations. An arbitration is scheduled for April 2022. The Company has not accrued any potential loss after consultation with outside legal counsel.

Jeffrey Mohamed Abed v. Track Group, Inc., et al. On June 7, 2021, Jeffrey Mohamed Abed filed a complaint seeking unspecified damages in the Superior Court of the State of California in Case No. 21 STCV 21345, alleging strict products liability, negligence and breach of implied warranty premised upon injuries sustained by Abed who was involved in an automobile accident while wearing a GPS tracking device of the Company. The Company was served on October 15, 2021 and filed its Answer and Affirmative Defenses on November 12, 2021. On January 11, 2022 the Company issued discovery, and the discovery process remains ongoing. The Company disputes Abed's claims and will defend the case vigorously. No accrual for a potential loss has been made as we believe the probability of incurring a material loss is remote.

Track Group Chile SpA. v. Republic of Chile. On January 24, 2022, Track Group Chile SpA. initiated a judicial action in the Court of Justice of Chile to settle a contract dispute with the Republic of Chile. The Company asserts that it has complied with its contractual obligations and that any delays in so doing were not attributable to the Company. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

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, 2021, filed on December 16, 2021. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report and other reports we file with the SEC. Should any of these risks materialize or deteriorate further, our business, financial condition and future prospects could be negatively impacted.

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
10.1	Employment Agreement by and Between Track Group Inc. and Matthew Swando dated December 6, 2016.
10.2	Amendment No. 1 to Employment Agreement by and Between Track Group Inc. and Matthew Swando dated April 23, 2018.
10.3	Amendment No.2 to Employment Agreement by and Between Track Group Inc. and Matthew Swando dated January 15, 2022.
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	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document and include in Exhibit 101)

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: February 10, 2022

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

Date: February 10, 2022

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

Exhibit 10.1

EMPLOYMENT AGREEMENT

This Employment Agreement ("Agreement") is made and effective this date of December 6, 2016, by and between TRACK GROUP, INC., a Delaware corporation and its subsidiaries (collectively "Company") and MATT SWANDO, an individual resident of the State of Colorado ("Employee").

NOW, THEREFORE, the parties hereto agree as follows:

1. **Employment.** Company hereby agrees to employ Employee as its Vice President of International (Non-USA) Sales, Employee hereby accepts such employment in accordance with the terms of this Agreement and the terms of employment applicable to regular employees of Company. In the event of any conflict or ambiguity between the terms of this Agreement and terms of employment applicable to regular employees, the terms of this Agreement shall be definitive. Employee's duties shall be performed at the Company's offices in Romeoville, Illinois. The parties acknowledge that Employee will be required to travel in connection with the performance of his duties.

2. **Duties of Employee.** During the Employment Term as defined in Paragraph 5, Employee will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time during normal working hours to the Company. Employee will report to the President of the Company. Employee shall be responsible for duties typical of the office held by the Employee including but not limited to, sales and customer relations for the Company's products and services. Furthermore, Employee shall perform such other duties and projects as may be assigned by the President of the Company that are consistent with his position.

3. **Compensation.** Employee shall be paid compensation during the Employment Term as follows:

A. A base salary of $185,000.00 per calendar year, payable in installments according to the Company's regular payroll schedule.

B. Subject to the approval of the Board of Directors, you will be granted a one-time grant of twenty five thousand (25,000) registered shares of Company common stock issued pursuant to the Company's 2012 Equity Compensation Plan (the "Shares"). The Shares shall be valued as of the closing sale price as shown on the OTC as of the date this Agreement is approved by the Board of Directors. The Shares will be subject to rules of the Company's 2012 Equity Compensation Plan, which will include, among other things, a vesting schedule. Vesting shall be as follows: fifty percent (50%) of the Shares shall vest twelve (12) months from the date this Agreement is fully signed and the remaining Shares shall vest twenty four (24) months from the date this Agreement is fully executed. In the event of Employee's death, vested Shares shall be exercisable by Employee's estate.

C. Employee shall continue as a full participant in any Employee Bonus Plan and any Equity Compensation Plan instituted by the Company ("the Plans"). Such Plans shall allow Employee to earn: (i) a variable cash bonus based on individual and Company performance and achieving specific Company milestones, and (ii) additional restricted shares/units of the Company Common Stock based on individual performance and achieving specific Company milestones. Details the Plans are set forth on Exhibit "A" attached hereto. In addition, Employee shall be entitled reimbursement of up to $115.00 per month for cell phone and internet usage charges (supported by receipts); Employee shall submit for such reimbursement on official Company expense reports with supporting documentation.

4. Benefits.

A. Holidays and Personal Time. Employee shall be entitled to paid holidays and personal time off in accordance with the Company's holiday and personal time off policies but not less than fifteen (15) days of each calendar year during the Employment Term, (as prorated for partial years) with the time and duration of any specific personal time off mutually and reasonably agreed to by the parties hereto.

B. Medical, Dental and Group Life Insurance. Company agrees to include Employee (and if desired Employee's family) in the group medical, dental and hospital plan of the Company and provide group life insurance for Employee. These practices and procedures are subject to change upon mutual agreement. Employee will be subject to all applicable fees and rules of such plans.

C. Expense Reimbursement. Employee shall be entitled to reimbursement for all reasonable expenses, including travel, temporary housing, and entertainment, incurred by Employee in the performance of Employee's duties, including pre-employment travel expenses relating to interviewing that have been submitted to the Company. Employee will maintain records and written receipts and shall follow all Company policies and procedures for reimbursement of expenses.

5. Term, Termination and Severance.

A. Employment Term of Agreement. The Employment Term of this Agreement shall commence on January 2, 2017 and shall continue in effect until terminated by one of the parties pursuant to the terms of this Section 5.

B. Termination and Severance:

(I) Definitions:

(i) Cause. For purposes of this Agreement, "Cause" shall mean (a) Employee's continued violations of Employee's obligations which are demonstrably willful or deliberate on Employee's part after there has been delivered to Employee a written demand for performance from the Company which describes the basis for the Company's belief that Employee has not substantially performed his/her duties, (b) Employee's engagement in willful misconduct which is injurious to the Company or its subsidiaries, (c) Employee's commission of a felony, an act of fraud against or the misappropriation of property belonging to the Company or its subsidiaries, (d) Employee's breaching in any material respect, the terms of any confidentiality or proprietary information agreement between Employee and the Company, or (e) Employee's commission of a material violation of the Company's standards of employee conduct.

(ii) Involuntary Termination Other than for Cause. "Involuntary Termination Other than for Cause" shall mean (a) without the Employee's express written consent, a reduction in Employee's job title or reporting relationships, (b) without the Employee's express written consent a substantial reduction in Employee's duties, authority and responsibilities, as determined immediately prior to such reduction or removal of the Employee from such position and responsibilities, unless the Employee is provided with a comparable position (i.e., a position of equal or greater organization level, title, reporting relationship, duties, authority, compensation and status; (c) without the Employee's express written consent, a substantial reduction in the Employee's Base Salary, bonus or equity compensation, or benefits, of greater than ten percent (10%) compared to Employee's Base Salary, bonus or equity compensation, or benefits, in effect immediately prior to such reduction; (e) any termination of the Employee by the Company without Cause or any purported termination for which the grounds relied upon by the Company are not valid..

(II) If Employee’s employment with the Company terminates as a result of an Involuntary Termination Other than for Cause, in addition to Accrued Obligations as defined below, the Employee shall be entitled to receive the following severance and other benefits.

(i) Restricted Stock, Warrants and Option Vesting. All Restricted Stock, Warrants and Options shall become one hundred percent (100%) vested and fully exercisable and the Company shall have no repurchase right. All Restricted Stock, Warrants and Options shall contain a cashless exercise provision for Employee’s acquisition of the Stock, Warrants and/or Options, and piggyback registrations rights.

(ii) Severance Payment. Employee shall receive a cash payment equal to six (6) months of Employee’s Base Annual Salary (at the Employee’s highest Base Annual Salary) plus annual bonus compensation, at the time of the Employee’s highest compensation level, if such bonus is earned prior to his employment with the Company terminating. The Severance Payment shall be payable over six (6) months in accordance with the Company’s regular pay-roll schedule.

(iii) COBRA Benefits. “COBRA” as used herein shall mean the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended. Employee shall receive a lump sum payment in an amount equal to the cost of COBRA continuation for a period of not less than six (6) months.

Accrued Obligations means (i) any base salary earned but not paid through the date of termination; (ii) any compensation deferred by Employee prior to his termination of employment and not paid by the Company (all of which will be paid in accordance with the terms of and at the time provided in the underlying deferral arrangement); (iii) any amounts or benefits owing to Employee under the then applicable benefit plans of the Company; (iv) any bonus compensation earned, but not yet paid; and (v) any amounts owing to Employee for reimbursement of expenses properly incurred by Employee prior to the date of termination and which are reimbursable in accordance with Paragraph 4(c).

6. **Voluntary Termination; Termination for Cause.** If Employee’s employment with the Company terminates voluntarily by Employee or for Cause by the Company, then Employee is not eligible for any benefits under this Agreement (except as to Accrued Obligations and amounts already earned and/or stock options, warrants and/or restricted stock already vested at that time). If Employee voluntarily terminates his employment with the Company he shall provide written notice to the Company President at least sixty (60) days prior to terminating such employment.

7. **Disability; Death.** If Employee's employment terminates by reason of the Employee's death, or by reason of Employee's Disability, then Employee’s estate or heirs shall be entitled to receive the Accrued Obligations and Severance Payment and other benefits set forth in paragraph 5 herein.

8. **Proprietary Information.** During the term of this Agreement and thereafter, Employee shall not, without the prior written consent of the Company’s Board of Directors, disclose or use for any purpose (except in the course of his/her employment under this Agreement and in furtherance of the business of the Company or its subsidiaries) any confidential information or proprietary data of the Company. As an express condition of the Employee’s employment with the Company, the Employee agrees to execute the confidentiality agreement attached hereto as Exhibit “C”.

9. **Non-Competition.** Employee acknowledges that the nature of the Company's business is such that if Employee were to become employed by, or substantially involved in, the business of a competitor the Company during the six (6) months following the termination of Employee's employment, would cause substantial and irreparable harm to the Company. Thus, to protect the Company's goodwill, trade secrets and confidential information, Employee agrees and acknowledges that Employee will not directly or indirectly engage in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder, corporate officer, director or otherwise), nor have any ownership interest in or participation in the financing, operation, management or control of, consulting with, any firm, corporation or business that competes with the Company in the electronic, GPS or alcohol monitoring of people within the corrections or law enforcement sectors, such competitors include but are not limited to, the following entities and their respective subsidiaries: The Geo Group, Inc., Numerex Corp., 3M Company, Corrisoft LLC, Outreach Smartphone Monitoring, LLC, and Securus Technologies. For this purpose, ownership of no more than one-half of one percent (.5%) of the outstanding voting stock of a publicly traded corporation shall not constitute a violation of this provision.

10. **Right to Advice of Counsel/Compliance with Code Section 409A.** The Employee acknowledges that he has consulted with counsel and/or tax advisors and is fully aware of his/her rights and obligations under this Agreement. Notwithstanding any provision in this Agreement to the contrary: (i) the relevant provisions of this Agreement shall be construed in a manner so as to be exempt from or to comply with Section 409A of the Internal Revenue Code of 1986, as amended from time to time, and regulations and other interpretative guidance issued thereunder, including without limitation any regulations or other guidance that may be issued after the date of this Agreement. To the extent required to carry out such intent:

(a) The terms used herein will be interpreted to comply with the requirements of Section 409A, including (without limitation) that a termination of employment must constitute a "separation from service," as such term is defined in Section 409A.

(b) Neither the Company nor Employee shall have the right to accelerate or defer the delivery of payments except in accordance with Section 409A.

(c) Employee's right to receive installment payments will be treated as a right to receive a series of separate and distinct payments.

(d) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, and (iii) such payments shall be made on or before the last day of the taxable year following the taxable year in which the expense was incurred.

(e) No payment shall be subject to offset by any other payment unless otherwise permitted by Section 409A.

(f) Notwithstanding any other payment schedule provided herein, if Employee is identified on the date of termination as a "specified employee" within the meaning of Section 409A(a)(2)(B), then any payment that is considered nonqualified deferred compensation subject to Section 409A, and payable on account of a "separation from service," will be made on the date that is the earlier of (A) the expiration of the six (6)-month period beginning on the date of Employee's "separation from service", and (B) Employee's death (the "Delay Period") to the extent required under Section 409A. Upon the expiration of the Delay Period, all payments delayed pursuant to this subsection (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) will be paid to Employee in a lump sum, and all remaining payments due under this Agreement will be paid or provided in accordance with the normal payment dates specified for them herein. For purposes of Section 409A, Employee's right to receive any installment payment pursuant to this Agreement will be treated as a right to receive a series of separate and distinct payments.

11. **Assignment.** This Agreement and all rights under this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties hereto and their respective personal or legal representatives, executors, administrators, heirs, distributes, devisees, legatees, successors and assigns. This Agreement is personal in nature, and neither of the parties to this Agreement shall, without consent of the other (which consent will not be unreasonably withheld), assign or transfer this Agreement or any right or obligation under this Agreement to any other person or entity. If the Employee should die while any amounts are still payable to the Employee hereunder, all such amounts shall be paid in accordance with the terms of this Agreement to Employee's devisee, legatee, or other designee or, if there be no such designee, to the Employee's estate.

12. **Notices.** All notices, requests, demands and other communications called for hereunder shall be in writing and shall be deemed given (i) on the date of delivery, or if earlier (ii) one (1) day after being sent by a well-established commercial overnight service, or (iii) three (3) days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the parties or their successors at the following addresses, or at such other addresses as the parties may later designate in writing:

If to the Employee: Matt Swando
1730 West 129th Drive
Westminster, CO 80234

If to the Company: Attn: President and HR Director
Track Group, Inc.
1215 W. Lakeview Court
Romeoville, IL 60446

Or such other addresses or to the attention of such other person as the recipient party has previously furnished to the other party in writing in accordance with this paragraph.

13. **Notice of Termination by the Company.** Any termination by the Company of Employee's employment with the Company shall be communicated by a notice of termination to Employee at least thirty (30) days prior to the date of such termination. Such notice shall indicate the specific termination provision or provision in this Agreement relied upon (if any), and shall specify the termination date, and shall specify the amounts and type of compensation and benefits to be provided to Employee as a result of the termination.

14. Waiver. Failure or delay on the part of either party hereto to enforce any right, power, or privilege hereunder shall not be deemed to constitute a waiver thereof. Additionally, a waiver by either party or a breach of any promise hereof by the other party shall not operate as or be construed to constitute a waiver of any subsequent waiver by such other party.

15. Severability. Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability will not affect any other provision or any other jurisdiction, but this Agreement will be reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

16. Integration. This Agreement, together with any attached exhibits, represents the entire agreement and understanding between the parties as to the subject matter herein and supersedes all prior or contemporaneous agreements whether written or oral. No waiver, alteration, or modification of any provision of this Agreement will be binding unless in writing and signed by duly authorized representatives of the parties hereto. In no way limiting the foregoing, the parties acknowledge and agree that the Emerge Agreement is null and void and this Agreement supersedes the Emerge Agreement.

17. Headings. The headings of the paragraphs contained in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of any provision of this Agreement.

18. Applicable Law and Dispute Resolution. This Agreement shall be governed by and construed in accordance with the internal and substantive laws, and not the choice of law rules, of the State of Illinois. Any controversy or claim arising out of relating to this Agreement which cannot be settled by good faith negotiation between the parties shall be settled by binding arbitration administered by the American Arbitration Association ("AAA") under its Employment Arbitration Rules and Procedures (such rules and procedures being incorporated herein by reference). Such arbitration shall be submitted to a single arbitrator appointed by the AAA. Such arbitrator must be an attorney with a minimum of 10 years of experience in employment matters. The prevailing party in the arbitration shall be entitled to recover its reasonable costs, attorney fees and out of pocket expenses relating to the arbitration. Both parties agree that the procedures outlined in this paragraph are the exclusive methods of dispute resolution. Unless otherwise agreed by the parties any arbitration shall be held in the Chicago, Illinois metro area.

19. Counterparts. This Agreement may be executed in one or more counterparts, none of which need contain the signature of more than one party hereto, and each of which shall be deemed to be an original, and all of which together shall constitute a single agreement.

20. Tax Withholding. All payments made pursuant to this Agreement will be subject to withholding of applicable taxes so long as such withholding is reasonable and consistent with the Company's normal practices.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by their duly authorized officers, as of the day and year first above written.

TRACK GROUP, INC.	EMPLOYEE
By: ________________________________	________________________________
Derek Cassell President	Matt Swando
Date: _____________________	Date: _____________________

EXHIBIT "A"
Employee Bonus Formula

EXHIBIT "B"
Confidentiality Agreement

Exhibit 10.2

Amendment No. 1 to the
Executive Employment Agreement
Between Track Group, Inc. and Matt Swando
Dated December 6, 2016

THIS AMENDMENT NO. 1 to that certain Executive Employment Agreement by and between Track Group, Inc. (the "Company") and Matt Swando (the "Executive") is entered into and effective as of April 23, 2018.

WHEREAS, the Company and the Executive entered into that certain Executive Employment Agreement dated December 6, 2016 (the "Employment Agreement"); and

WHEREAS, the Board of Directors of the Company has agreed to promote Executive, and Executive has agreed to accept a promotion, from the position of Vice President of International Sales to Vice President of Sales and Marketing effective April 23, 2018 and have agreed to the other terms contained herein.

NOW, THEREFORE, the parties agree to amend the Employment Agreement effective April 23, 2018, as follows:

1. Paragraph 2 shall be modified as follows:

"Employee will report to the Chief Executive Officer of the Company.

2. Paragraph 3A. shall be modified to change the base salary to $205,000.00 per calendar year effective April 23, 2018.

3. Paragraph 5 shall be modified to add the following paragraph to (I) Definitions:

"Change of Control. In the event that, at any time during the Executive's employment under this Agreement, the Company experiences a Change of Control (as hereinafter defined), the Executive shall be entitled to receive a cash payment equal to six (6) months of Executive's Base Annual Salary (at the Executive's highest Base Annual Salary), plus all Restricted Stock, Warrant and Options shall become one hundred percent (100%) vested and fully exercisable and the Company shall have no repurchase right.

For purposes of this Agreement, a "Change of Control" shall mean, and be deemed to have occurred upon: (i) a sale or transfer of substantially all of the Common Stock of the Company in any transaction or series of related transactions (other than sales in the ordinary course of business); and (ii) any merger, consolidation or reorganization to which the Company is a party, except for a merger, consolidation or reorganization in which the Company is the surviving corporation and, after giving effect to such merger, consolidation or reorganization, the holders of the Company's outstanding Common Stock (on a fully-diluted basis) immediately prior to the merger, consolidation or reorganization, hold a majority of the voting power of the Company after such merger, consolidation or reorganization.

4. Paragraph 5B.(II)(ii) shall be modified to provide that for purposes of the Severance Payment the Target Bonus shall be deemed to be vested and earned.

5. Paragraph 12 shall be modified to change notice to the Company from "Attn: President and HR Director" to "Attn: Chief Executive Officer"

6. Ratification. All terms and provisions of the initial Employment Agreement not amended hereby, either expressly or by necessary implication, shall remain in full force and effect.

IN WITNESS WHEREOF, each of the parties has executed this Amendment No. 1 to the Executive Employment Agreement between Track Group, Inc. and Matt Swando dated April 23, 2018, in the case of the Company by its duly authorized Officer, as of the day and year first above written.

TRACK GROUP, INC.	**EXECUTIVE**
By: ___________________	By:______________________
Derek Cassel	Matt Swando
Chief Executive Officer	

Exhibit 10.3

Amendment No. 2 to the Executive Employment Agreement
Between Track Group, Inc. and Matt Swando Dated December 6, 2016

THIS AMENDMENT NO. 2 to that certain Executive Employment Agreement by and between Track Group, Inc. (the "Company") and Matt Swando (the "Executive") is entered into and effective as of January 23, 2022.

WHEREAS, the Company and the Executive entered into that certain Executive Employment Agreement dated December 6, 2016 (the "Employment Agreement") and Amendment No. 1 to the Employment Agreement dated April 23, 2018 (the "Amendment No. 1"); and

WHEREAS, the Board of Directors of the Company has agreed to promote the Executive, and Executive has agreed to accept a promotion, from the position of Vice President of Global Sales to Chief Revenue Officer effective January 23, 2022 and agreed to the other terms contained herein.

NOW, THEREFORE, the Company and the Executive agree to amend the Employment Agreement and Amendment No. 1 as follows:

1. Paragraph 3A shall be modified to change the base salary to $275,000 per calendar year effective January 23, 2022.

2. Paragraph 3B shall be modified to make an additional one-time grant, before taxes, of one hundred and eighty-five thousand (185,000) shares of common stock of the Company under the terms of the Company's proposed 2022 Omnibus Equity Incentive Plan ("the Plan") (the "Shares"); provided, however, the grant of Shares shall be conditioned upon the approval of the Plan by the Board of Directors and Company's shareholders. The Shares shall be valued at the closing price as shown on the OTC as of the date the Shares are issued by the Company's stock registrar. The Shares will be subject to the terms and conditions of the Plan.

3. Paragraph 3C shall be modified to indicate a bonus target level equivalent to fifty percent (50%) of the Executive's new base salary subject to the both the Executive and the Company meeting criteria agreed to by the Board of Directors and adjusted annually.

4. With respect to the term "**Change of Control**" added to Paragraph 5 of the Employment Agreement by way of Amendment No. 1, the first sentence of the "Change of Control" paragraph shall be stricken and replaced by the following: "In the event that, at any time during the Executive's employment under this Agreement, the Company experiences a Change of Control (as hereafter defined), the Executive shall be entitled to receive a cash payment equal to twelve (12) months of Executive's Base Annual Salary (at the Executive's highest Base Annual Salary), plus all Restricted Stock, Warrant and Options shall become one hundred percent (100%) vested and fully exercisable and the Company shall have no repurchase right.

5. Ratification. All terms and provisions of the initial Employment Agreement and Amendment No. 1 not amended hereby, either expressly or by necessary implication, shall remain in full force and effect.

IN WITNESS WEHEREOF, each of the parties has executed this Amendment No. 2 to the Executive Employment Agreement between Track Group, Inc. and Matt Swando dated January 23, 2022, in the case of the Company by its duly authorized Officer.

TRACK GROUP, INC.	**EXECUTIVE**
By:__________________________	By:__________________________
Derek Cassell	Matt Swando
Chief Executive Officer	

EXHIBIT 31(i)

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: February 10, 2022

By: */s/ Derek Cassell*
Derek Cassell
Principal Executive Officer

EXHIBIT 31(ii)

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: February 10, 2022

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

EXHIBIT 32

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 December 31, 2021 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: February 10, 2022

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.