

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

FORM 10-K

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

For the fiscal year ended September 30, 2022

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-23153

**TRACK GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**87-0543981**

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

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

(Address of principal executive offices, Zip Code)

**(877) 260-2010**

(Registrant's telephone number, including area code)

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

**Securities registered pursuant to Section 12(g) of the Act:** Common Stock, Par Value \$0.0001

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

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

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

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

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

Large accelerated filer ☐

Non-accelerated filer ☐

Accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant computed by reference to the closing price on March 31, 2022 was approximately \$6.8 million. As of December 1, 2022, there were 11,863,758 shares of Common Stock issued and outstanding.

**Documents Incorporated by Reference**

None.

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## FORWARD LOOKING STATEMENTS

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

## PART I

### Item 1. Business

Track Group, Inc., (the “Company”, “we”, “us”, and “our”), a Delaware corporation since 2016 and previously incorporated in 1995 as a Utah corporation, has its principal place of business at 200 E. 5th Avenue Suite 100, Naperville, Illinois 60563. Our telephone number is (877) 260-2010. We maintain a corporate website at [www.trackgrp.com](http://www.trackgrp.com). Our common stock, par value \$0.0001 per share (“Common Stock”), is currently listed for quotation on the OTCQX Premier Marketplace (“OTCQX”) under the symbol “TRCK”. Unless specified otherwise, as used in this Annual Report, references to Track Group, Inc. include the Company and its subsidiaries: Track Group Americas, Inc., a Utah corporation; Track Group – Puerto Rico, Inc., a Puerto Rico corporation; Emerge Monitoring, Inc., a Florida corporation; Emerge Monitoring II LLC, a Florida limited liability company; Integrated Monitoring Systems, LLC, a Colorado limited liability company; Track Group Chile S.p.A, a corporation formed under the laws of the Republic of Chile; Track Group Analytics Limited, a corporation formed under the laws of Canada; and, Track Group International Ltd., a company formed under the laws of Israel (collectively, the “Subsidiaries”).

#### Company Background

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

#### 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.

#### Recent Developments

##### COVID-19

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 Requests for Proposals (“RFP”) processes. (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. Furthermore, at this time, the Company has not experienced unusual payment interruptions from any large customers and the majority of Company employees have effectively worked from home to mitigate the challenges created by COVID-19. As the conditions have improved with respect to COVID-19, both our Chile office and the corporate headquarters in the greater-Chicago area reopened in the latter part of 2021 and have been operating uninterrupted since that time. 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 widespread availability and acceptance of COVID vaccines; 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; any closures of clients’ offices or the courts on which they rely and any requirements imposed by customers regarding the vaccination status of those Company employees, contractors or partners who are assisting those customers in running their programs.

## ***Chilean Prison System***

On May 7, 2020 the Company disclosed that the Chilean Prison System (“GENCHP”), which has been our customer since 2014, had notified the Company of its decision to award a new contract to a competitor of the Company. Subsequently, since the competitor did not proceed to sign the contract in due time, GENCHI rescinded the prior award to the competitor and re-awarded the Company with a new contract for forty-one months. The Company signed the new contract on July 30, 2020 and the Contraloría General de la República de Chile approved the new contract on October 1, 2020. In January 2022, the Company completed construction of new monitoring centers in Santiago and Puerto Montt, Chile and commenced implementation of the new contract on May 26, 2022.

## **Products and Services**

### ***Devices***

#### **ReliAlert®XC 4**

ReliAlert®XC4 is our flagship GPS device, which is among the safest and most reliable monitoring devices ever made and was certified in 2020 by the Federal Communications Commission and PCS Type Certification Review Board. It is the only one-piece GPS device with patented 3-way voice communication to assist intervention efforts, now on the LTE network with increased battery life. This device includes on-board processing, secondary location technology, a 95db siren, embedded RF technology, anti-tampering capability, increased battery life and sleep mode.

#### **ReliAlert®-XC 3**

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

#### **Shadow**

Driven by customer demand to improve the performance and affordability of offender tracking devices, Shadow is the smallest and lightest device of its kind with a sleek, modern design featuring an enhanced mobile charging capability that makes it easier to use. The device is 3G compliant and fully supported by all global mobility providers but will be discontinued by December 31, 2022 or shortly thereafter.

### ***Operating System Software***

#### **IntelliTrack**

IntelliTrack is a secure state of the art device-agnostic platform that provides the foundation for seamlessly and securely connecting devices, delivering trusted data to the cloud, with views of current or historical tracking provided by Google Maps® for use with predictive analytics.

#### **TrackerPAL®**

TrackerPAL® is a secure, cloud-based monitoring system that gives customers the ability to not only collect, but also store, analyze, assess and correlate offender data for both accountability and auditing reasons, as well as to use with predictive analytics applications and assess criminal behavior and rehabilitation opportunities.

### ***Application Software***

#### **IntelliTrack Mobile**

A mobile application of the Intellitrack software is available for Android and iOS devices.

#### **TrackerPAL® Mobile**

A mobile application of the TrackerPAL® software is available for Android and iOS devices.

### **Data Analytics**

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

### **Real-Time Alcohol Monitoring**

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

### **Empower**

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

### **Socrates**

Socrates 360 is a multipurpose platform offering a wide range of content and services to people as they return to the community. The user-centric customizable capabilities include educational courses, health and wellbeing advice, secure video conferencing, access to local services, event scheduling, appointment reminders, and check-ins based on the individual's needs.

### **InTouch**

InTouch is a smartphone monitoring and supervision application specifically designed for the criminal justice market to compliment traditional Electronic Monitoring Solutions; offering a "step-up"/"step-down" option from location monitoring bracelets for community supervised populations. This product will be discontinued by December 31, 2022 or shortly thereafter.

### **Accessories**

#### **SecureCuff®**

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

#### **RF Beacon™**

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

### **Product Support and Services**

#### **Monitoring Centers**

Our monitoring centers provide live 24/7/365 monitoring of all alarms generated from our devices, as well as customer and technical support. Our monitoring center operators play a vital role, and as such, are staffed with highly trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery backup and triple redundancy in voice, data, and Internet Protocols. We have assisted in the establishment of monitoring centers for customers and local partners in the United States, Chile and other global locations.

#### **Customer Care**

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

### **Research and Development Program**

During Fiscal 2022, we incurred research and development expense of \$2,432,448, as compared to \$1,548,527 recognized during fiscal year 2021. The \$883,921 increase in research and development expense reflects higher wages and payroll taxes of \$689,222 as a result of the completion of our new software technology platform, commencement of the amortization of the platform and higher travel costs of \$35,461. The Company completed its new technology platform during fiscal year ended September 30, 2022 ("Fiscal 2022"), which has been rolled out to the majority of its U.S. customers. The Company has now significantly enhanced its technology platform to improve the efficiency of its software, firmware, user interface, and automation. As a result of these improvements, \$865,263 was capitalized as developed technology during Fiscal 2022. A portion of this expense would have been recognized as research and development expense, absent the significant enhancements to the technology. This represented a decrease of \$484,287 compared to the \$1,349,550 capitalized as developed technology during the year ended September 30, 2021 ("Fiscal 2021").

## Competition

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

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

## Competitive Strengths

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

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

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

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

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

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

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

*National Footprint with International Presence.* We operate in approximately 40 states (including Washington DC and Puerto Rico) as well as select international locations, including Chile, Saudi Arabia and Bahamas. Our presence both within the United States and abroad better positions us to compete for new and expiring government contracts.

## Sources and Availability of Raw Materials

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

The industry in which the Company operates continues to be impacted by the global semiconductor shortage initially caused by the slowdown of many chip makers and logistics companies due to COVID-19. However, the issues have lessened to a degree and the Company was able to commence the manufacturing of new devices with the delivery of a key component in September 2022. See Item 1A Risk Factors.

**Dependence on Major Customers**

We had sales to two entities that each represent 10% or more of our gross revenue, as follows for the years ended September 30, 2022 and 2021, respectively:

|            | <u>2022</u>  | <u>%</u> | <u>2021</u>  | <u>%</u> |
|------------|--------------|----------|--------------|----------|
| Customer A | \$ 6,095,403 | 16%      | \$ 6,155,718 | 16%      |
| Customer B | \$ 4,871,073 | 13%      | \$ 6,119,965 | 15%      |

No other customer represented more than 10% of our total revenue for the fiscal years ended September 30, 2022 or 2021.

Concentration of credit risk associated with our total and outstanding accounts receivable as of September 30, 2022 and 2021, respectively, are shown in the table below:

|            | <u>2022</u>  | <u>%</u> | <u>2021</u>  | <u>%</u> |
|------------|--------------|----------|--------------|----------|
| Customer A | \$ 1,346,854 | 22%      | \$ 1,150,046 | 16%      |
| Customer B | \$ 714,399   | 11%      | \$ 1,052,538 | 15%      |
| Customer C | \$ 675,725   | 11%      | \$ 753,618   | 11%      |

**Dependence on Major Suppliers**

We purchase cellular services from several major suppliers. The cost to us for these services during the fiscal years ended September 30, 2022 and 2021 was \$2,063,075 and \$1,943,956, respectively. The 6% increase in cellular service expense in 2022 compared to 2021 was largely the result of higher negotiated communication costs.

During the years ended September 30, 2022 and 2021, we also purchased a significant portion of our monitoring equipment from certain suppliers. The cost of these purchases during the fiscal years ended September 30, 2022 and 2021 was \$2,187,774 and \$3,031,426, respectively. The decrease in monitoring equipment was largely due to purchases in Fiscal 2021 related to our newest 4G LTE device, which was introduced to customers in the first quarter of Fiscal 2021 to replace 3G devices.

**Intellectual Property**

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

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

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



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

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

The following table summarizes our trademark registrations:

| Trademark                | Application Number | Registration Number | Status/<br>Next Action |
|--------------------------|--------------------|---------------------|------------------------|
| TrackerPAL®              | 78/843035          | 3345878             | Registered             |
| Mobile911®               | 78/851384          | 3212937             | Registered             |
| TrackerPAL®              | CA 1315487         | TMA 749417          | Registered             |
| TrackerPAL®              | MX 805365          | 960954              | Registered             |
| ReliAlert®               | 85/238049          | 4200738             | Registered             |
| SecureCuff®              | 85/626037          | 4271621             | Registered             |
| TrackGroup®              | 86/301716          | 4701636             | Registered             |
| Track Group® and Design* | MP 1257077         | 1257077             | Registered             |
| V-TRCK®                  | 87/151142          | 5330916             | Registered             |
| Track Group®             | 90/245541          | 6408353             | Registered             |

\* Track Group® and Design is also a registered trademark in the following jurisdictions/countries: European Union, Switzerland, Mexico, Canada and Chile.

*Patents.* We have 12 patents issued in the United States. At foreign patent offices, we have 9 patents issued.

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

| US Patents  | Application Serial No. | Date Filed | Patent No. | Issue Date |
|---|------------------------|------------|------------|------------|
| Remote Tracking and Communication Device  | 11/202427              | 10-Aug-05  | 7330122    | 12-Feb-08  |
| Remote Tracking and Communications Device   | 12/028088              | 8-Feb-08   | 7804412    | 28-Sep-10  |
| Remote Tracking and Communications Device   | 12/875988              | 3-Sep-10   | 8031077    | 4-Oct-11   |
| Alarm and Alarm Management System for Remote Tracking Devices   | 11/486992              | 14-Jul-06  | 7737841    | 15-Jun-10  |
| Alarm and Alarm Management System for Remote Tracking Devices   | 12/792572              | 2-Jun-10   | 8013736    | 6-Sep-11   |
| A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between the Device and a Monitoring Center | 11/486989              | 14-Jul-06  | 8797210    | 5-Aug-14   |
| A Remote Tracking Device and a System and Method for Two-Way Voice Communication Between the Device and a Monitoring Center | 14/323831              | 3-Jul-14   | 9491289    | 8-Nov-16   |
| A Remote Tracking System with a Dedicated Monitoring Center   | 11/486976              | 14-Jul-06  | 7936262    | 3-May-11   |
| Remote Tracking System and Device with Variable Sampling and Sending Capabilities Based on Environmental Factors            | 11/486991              | 14-Jul-06  | 7545318    | 9-Jun-09   |
| Tracking Device Incorporating Enhanced Security Mounting Strap  | 12/818453              | 18-Jun-10  | 8514070    | 20-Aug-13  |
| Tracking Device Incorporating Cuff with Cut Resistant Materials   | 14/307260              | 17-Jun-14  | 9129504    | 8-Sep-15   |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device                        | 12/399151              | 6-Mar-09   | 8232876    | 31-Jul-12  |

| <b>International Patents</b>  | <b>Application<br/>Serial No.</b> | <b>Date Filed</b> | <b>Patent No.</b> | <b>Issue Date</b> |
|---|-----------------------------------|-------------------|-------------------|-------------------|
| Remote Tracking and Communication Device - Canada   | 2617923                           | 4-Feb-08          | 2617923           | 7-Jun-16          |
| Remote Tracking and Communication Device - Mexico   | MX/a/2008/001932                  | 8-Feb-08          | 278405            | 24-Aug-10         |
| Secure Strap Mounting System for an Offender Tracking Device - EPO  | 10009091.9                        | 1-Sep-10          | 2466563           | 2-Nov-22          |
| Secure Strap Mounting System for an Offender Tracking Device - Mexico   | MX/a/2011/002283                  | 28-Feb-11         | 319057            | 4-Apr-14          |
| Secure Strap Mounting System for an Offender Tracking Device - Canada   | 2732654                           | 23-Feb-11         | 2732654           | 1-May-18          |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Canada         | 2717866                           | 3-Sep-10          | 2717866           | 17-May-16         |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - EPO            | 09 716 860.3                      | 6-Oct-10          | 2260482           | 9-Jan-13          |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - United Kingdom | Refer to EP Patent # 2260482      |                   |                   |                   |
| A System and Method for Monitoring Individuals Using a Beacon and Intelligent Remote Tracking Device - Mexico         | MX/a/2010/009680                  | 2-Sep-10          | 306920            | 22-Jan-13         |

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

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

### **Government Regulation**

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

Currently, we are not involved in any pending or, to our knowledge, threatened governmental proceedings, which would require curtailment of our operations because of such laws and regulations.

### **Seasonality**

Given the consistency in recurring domestic monitoring revenue by customers throughout Fiscal 2022, we detected no material seasonality in our business. However, as in previous years, incremental domestic device deployment opportunities typically slow down in the months of July and August. We believe this is due to the unavailability of judicial and corrections officials who observe a traditional vacation season during this period. In addition, the operation in Chile generally slows around Christmas time due to the courts willingness to permit offenders being monitored to visit family.

### **Employees**

As of December 1, 2022, we had 157 full-time employees and 4 part-time employees. None of the employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and management believes that relations with employees are good.

### **Additional Available Information**

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

All reports filed by us with the SEC are available free of charge via EDGAR through the SEC website at [www.sec.gov](http://www.sec.gov).

**Item 1A. Risk Factors**

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

**Risks Related to Our Business, Operations and Industry**

*We face risks related to our substantial indebtedness, including risk related to the repayment of our indebtedness.*

As of September 30, 2022, excluding deferred financing costs, we had \$43,682,514 of indebtedness outstanding, of which \$456,681 becomes due and payable within the next 12 months, \$43,168,809 matures in 2024 and \$57,024 matures in 2025. We have \$455,963 of interest accrued at September 30, 2022 related to our outstanding indebtedness. Our significant indebtedness could adversely affect our ability to raise additional capital to fund our operations, make interest payments as they come due, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our outstanding debt instruments. See “Recent Developments” and Note 7 to the Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During Fiscal 2022, our two top customers accounted for an aggregate of 29% of total sales. See Note 2 to the Consolidated Financial Statements. In the event any of our top customers were to terminate their agreements with the Company, our results of operations and financial condition may be adversely affected.

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

There can be no assurance that our research and development efforts will be successful. In addition, the technology that we integrate or that we may expect to integrate with our product and service offerings is rapidly changing and developing. We face risks associated with the possibility that our technology may not function as intended and the possible obsolescence of our technology and the risks of delay in the further development of our own technologies. Cellular coverage is not uniform throughout our current and targeted markets. GPS technology depends upon “line-of-sight” access to satellite signals used to locate the user, which, under some circumstances, may limit the effectiveness of GPS tracking. In addition, the telecommunications industry continually updates its networks and technology which then requires the Company to update its devices to ensure compatibility with the new networks as is happening with the phase out of 3G cellular networks in the US.

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

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

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

We believe that our success depends in part on our ability to obtain and enforce patents, maintain trade secrets and operate without infringing on the proprietary rights of others, both in the United States and in other countries. Our inability to obtain or to maintain patents on our key products could adversely affect our business. We currently own 21 patents issued and have filed and may file additional patent applications in the United States and in key foreign jurisdictions relating to our technologies, improvements to those technologies, and for specific products we may develop. There can be no assurance that patents will issue on any of these applications or that, if issued, any patents will not be challenged, invalidated or circumvented. The enforcement of patent rights can be uncertain and involves complex legal and factual questions. The scope and enforceability of patent claims are not systematically predictable with absolute accuracy. The strength of our own patent rights depends, in part, upon the breadth and scope of protection provided by the patent and the validity of our patents, if any.

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

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

***We conduct business internationally with a variety of sovereign governments.***

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

***Weakened global economic conditions may adversely affect our industry, business and results of operations.***

The rate at which our customers purchase new or enhanced services depends on several factors, including general economic conditions in the US and abroad. These factors include overall business and consumer demand for a variety of goods and services, credit availability, interest rates, inflation rates, corporate profitability, equity and foreign exchange markets, the number of bankruptcies, and overall uncertainty with respect to the economy. The trends and volatility of these economic factors will determine the stability and predictability of economic and market conditions. These conditions will affect the rate of information technology and government spending and could adversely affect our customers' ability or willingness to purchase our services, delay prospective customers' purchasing decisions, reduce the value or duration of their contracts or affect renewal rates, all of which could adversely affect our operating results.

***Our business is subject to risks arising from epidemic diseases, such as the recent global outbreak of the COVID-19 coronavirus.***

The COVID-19 pandemic has impacted worldwide economic activity. A pandemic, including COVID-19 or another public health epidemic, poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, including shutdowns that may be requested or mandated by governmental authorities. While it is not possible at this time to estimate the impact that COVID-19 had, or could have, on our business, the COVID-19 pandemic and mitigation measures have had and may continue to have an adverse impact on global economic conditions which could have an adverse effect on our business and financial condition, including impairing our ability to raise capital when needed. In addition, for a period of time we were under a shelter-in-place mandate which may be reinstated at the discretion of state or local authorities and many of our clients worldwide may be similarly impacted.

***Mandatory COVID-19 vaccination of employees could impact our workforce and have a material adverse effect on our business and results of operations.***

The Company is subject to varying Federal, state and/or local mandates regarding vaccination of its employees against COVID-19. At this time, it is not possible to predict with certainty how long such mandates will remain in place or the effect such mandates will have on us or on our workforce. The prolonged enforcement of such mandates may result in employee attrition, which could adversely affect future revenues and costs and could have an adverse effect on our business and results of operations. The Company has taken steps to ensure that affected employees can demonstrate proof of vaccination, or an applicable exemption or accommodation, and to ensure that it is following applicable mandates.

***Climate change, and related legislative and regulatory responses to climate change, may adversely impact our business.***

There is increasing concern that a gradual rise in global average temperatures due to increased concentration of carbon dioxide and other greenhouse gases in the atmosphere will cause significant changes in weather patterns around the globe, an increase in the frequency, severity, and duration of extreme weather conditions and natural disasters, and water scarcity and poor water quality. These events could adversely impact the delivery of raw materials required for our products, disrupt the operation of our supply chain and the productivity of our contract manufacturers, increase our production costs, impose capacity restraints and impact the purchases of our products and services. These events could also compound adverse economic conditions and impact consumer confidence and governmental budgets. As a result, the effects of climate change could have a long-term adverse impact on our business and results of operations. In many countries, governmental bodies are enacting new or additional legislation and regulations to reduce or mitigate the potential impacts of climate change. If we, our suppliers, or our contract manufacturers are required to comply with these laws and regulations, or if we choose to take voluntary steps to reduce or mitigate our impact on climate change, we may experience increased costs for energy, production, transportation, and raw materials, increased capital expenditures, or increased insurance premiums and deductibles, which could adversely impact our operations. Inconsistency of legislation and regulations among jurisdictions may also affect the costs of compliance with such laws and regulations. Any assessment of the potential impact of future climate change legislation, regulations or industry standards, as well as any international treaties and accords, is uncertain given the wide scope of potential regulatory change in the countries in which we operate.

***Our results of operations can be adversely affected by labor shortages, turnover and labor cost increases.***

Labor is a component of operating our business. A number of factors may adversely affect the labor force available to us or increase labor costs from time to time, including high employment levels, federal unemployment subsidies, and other government regulations. Although we have not experienced any material disruptions due to labor shortages to date, we have observed an overall tightening and increasingly competitive labor market. A sustained labor shortage or increased turnover rates within our employee base, could lead to increased costs, such as increased overtime to meet demand and increased wage rates to attract and retain employees, and could negatively affect our ability to complete our construction projects according to the required schedule or otherwise efficiently operate our business. If we are unable to hire and retain employees capable of performing at a high level, or if mitigation measures we may take to respond to a decrease in labor availability, such as overtime and third-party outsourcing, have unintended negative effects, our business could be adversely affected.

Additionally, our operations are subject to a variety of federal, state and local employment-related laws and regulations, including, but not limited to, the U.S. Fair Labor Standards Act, which governs such matters as minimum wages, the Family Medical Leave Act, overtime pay, compensable time, recordkeeping and other working conditions, Title VII of the Civil Rights Act, the Employee Retirement Income Security Act, the Americans with Disabilities Act, the National Labor Relations Act, regulations of the Equal Employment Opportunity Commission, regulations of the Office of Civil Rights, regulations of the Department of Labor, regulations of state attorneys general, federal and state wage and hour laws, and a variety of similar laws enacted by the federal and state governments that govern these and other employment-related matters. As our employees are located in a number of states, compliance with these evolving federal, state and local laws and regulations, including increases in federal or state minimum wage laws, could substantially increase our cost of doing business while failure to do so could subject us to fines and lawsuits.

An overall labor shortage, lack of skilled labor, increased turnover or labor inflation, increase in federal or state minimum wages, or increase in general labor costs, caused by prolonged COVID-19 or as a result of general macroeconomic factors, could have a material adverse impact on our operations, results of operations, liquidity or cash flows.

***The global semiconductor shortage could impact the Company's future results.***

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, although improved compared to the past year, has still created lengthy lead times with certain components required for the printed circuit board assemblies ("PCBAs") required to manufacture new devices. As a result, until such time as chip manufacturers are able to meet global demand, our future operating results may be negatively impacted.

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

Any service interruption that results in the unavailability of our system or reduces its capacity could result in real or perceived public safety issues that may affect customer confidence in our services. Historically, we have experienced temporary interruptions of telecommunications or power outages, which were eventually mitigated, although our customer in Puerto Rico was again disrupted by another strong storm (Hurricane Fiona) which hit the island in September 2022. Such instances may result in the slowdown or loss of customer accounts or similar problems if they occur again in the future. Given rapidly changing technologies, we are not certain that we will be able to adapt the use of our services to permit, upgrade, and expand our systems or to integrate smoothly with new technologies. Network and information systems and other technologies are critical to our business activities. Network and information systems-related events, including those caused by us, our service providers or by third parties, such as computer hacking, cyber-attacks, computer viruses, or other destructive or disruptive software, process breakdowns, denial of service attacks, malicious social engineering or other malicious activities, or any combination of the foregoing could result in a degradation or disruption of our services. These types of events could result in a loss of customers and large expenditures to repair or replace the damaged properties, networks or information systems or to protect them from similar events.

***We currently have two independent directors sitting on our Board of Directors.***

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



## **Risks Related to Acquisitions**

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

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

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

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

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

## **Risks Related to International Operations**

*We are exposed to fluctuations in currency exchange rates.*

Our financial results are reported in U.S. dollars, but operations are conducted internationally. Currency exchange rates have, and may continue to have, a significant impact on our operating results. We utilize limited hedging techniques to minimize our exposure. As a result, an investment in our Common Stock may expose stockholders to fluctuations in exchange rates.

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

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



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

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

**Risks Related to Our Common Stock**

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

Certain groups or persons, and in particular ETS Limited, who owned approximately 41% of our issued and outstanding Common Stock as of December 1, 2022, beneficially own a substantial number of shares of our outstanding Common Stock or securities and debt instruments. As a result, these persons have the ability, acting as a group, to influence substantially our affairs and business, including the election of our directors and, subject to certain limitations, of fundamental corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change of control or making other transactions more difficult or impossible without their support. In addition, these equity holders may have an interest in pursuing acquisitions, divestitures, financing or other transactions that, in their judgment, could enhance their equity investments, even though such transactions may involve significant risk to us or our other stockholders. Additionally, they may make investments in businesses that directly or indirectly compete with us, or may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

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

Our Certificate of Incorporation authorizes us to issue up to 20,000,000 shares of preferred stock, par value \$0.0001 per share (“Preferred Stock”), of which 1,200,000 shares have been designated as Series A Convertible Preferred Stock (“Series A Preferred”). Our Board of Directors is authorized to designate, and to determine the rights and preferences of any series or class of Preferred Stock, and may designate additional shares of Preferred Stock in the future. The Board of Directors may, without stockholder approval, issue shares of Preferred Stock with dividend, liquidation, conversion, voting or other rights which are senior to our Common Stock or which could adversely affect the voting power or other rights of the existing holders of outstanding shares of Preferred Stock or Common Stock. Additionally, the issuance of Preferred Stock may have the effect of decreasing the market price of the Common Stock and reduce the likelihood that holders of Common Stock will receive dividend payments and payments upon liquidation. The issuance of shares of Preferred Stock may also adversely affect an acquisition or change in control of the Company. As of December 1, 2022, there were no outstanding shares of Series A Preferred issued and outstanding.

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

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

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

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

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

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

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

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

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

There is currently a limited market for our Common Stock and the volume of our Common Stock traded on any day may vary significantly from one day to the other. Our Common Stock is quoted on the OTCQX. Trading in stock quoted on the OTCQX can be volatile, and characterized by wide fluctuations in trading prices, due to many factors that may have little to do with the issuer's operations, results or business prospects. The availability of buyers and sellers represented by this volatility could lead to a market price for our Common Stock that is unrelated to operating performance. Moreover, trading of securities quoted on the OTCQX can be more volatile than the trading of securities listed on a stock exchange like NASDAQ or NYSE.

## **Item 2. Properties**

Our headquarters is approximately 5,600 square feet of commercial office space located at 200 E. 5th Avenue Suite 100, Naperville, Illinois. The lease for this office space which began on September 1, 2017 and expired on August 31, 2022 was extended for another five years. Base rent and common area maintenance payments are approximately \$11,000 per month.

We lease commercial office space in Indianapolis, Indiana of approximately 5,751 square feet. This lease began on September 1, 2018 and terminated on August 31, 2022. The Company leased the same property for the period September 1, 2022 through August 31, 2024. Base rent and common area maintenance payments are approximately \$8,000 per month.

The operations of Track Group Analytics Limited were conducted in approximately 1,157 square feet of office space in Bedford, Nova Scotia, Canada. The lease for this office space began on July 1, 2020 and terminated on June 30, 2022 with monthly lease payments of approximately \$2,000. Track Group Analytics is now paying approximately \$500 per month to use a co-working business center on a month-to-month basis.

At September 30, 2022, the operations of Track Group Chile S.p.A. were conducted in approximately 3,500 square feet of commercial office space located in Santiago, Chile with base rent and common area maintenance payments of approximately \$6,500 per month. The lease for this office space began on December 31, 2016 and was scheduled to end on December 31, 2021. On October 6, 2021, the original lease was replaced with a new lease for approximately 1,528 square feet in a new building with a lease term that ends on September 30, 2023 in Santiago, Chile. Base rent and common area maintenance payments for the new lease are approximately \$3,300 per month.

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

## **Item 3. Legal Proceedings**

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

*SecureAlert, Inc. v. Federal Government of Mexico (Department of the Interior)*. On March 24, 2017, SecureAlert Inc. (a predecessor entity to Track Group, Inc. or the Company) 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. Although preliminary rulings have been unfavorable to the Company, the Company’s counsel continues to review its remaining claims and analyze its options. 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 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, which was confirmed on March 15, 2022, and effective April 15, 2022. On April 14, 2022, the newly appointed Avoidance Action Trustee moved to establish case management procedures, which motion was granted in part on May 23, 2022, further extending the stay. The parties held a mediation on November 1, 2022 but were unable to reach an agreement but left open the possibility of additional discussions. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

*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, alleged breach of the Share Purchase Agreement (“SPA”) between the Company and Sabag. To avoid the uncertainty and expense of continued arbitration, the Company reached a settlement of \$1.6 million with the claimant on June 10, 2022. The settlement is recorded on the Condensed Consolidated Statement of Operations as “Other income (loss), net”.

*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. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

*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. The case remains pending.

*Jesus Valle Gonzalez, et al. v. Track Group-Puerto Rico, et al.* On May 9, 2022 Plaintiff, Jesus Valle Gonzalez filed a Complaint in the Court of First Instance, San Juan Superior Court, Commonwealth of Puerto Rico against the Company, and associated parties alleging the death of his mother on June 8, 2016 was as a direct and immediate result of the gross negligence and guilty indifferent actions and omissions of all the defendants. This claim follows a similar claim made against the Company in June 2017 by different relatives of the deceased. Plaintiff in this matter asserts his claim now having reached the age of majority. Plaintiff is requesting damages of no less than \$1.5 million. The Company disputes the Plaintiff’s claims, and the Company’s Answer and Affirmative Defenses were filed June 29, 2022. On October 5, 2022, the Plaintiff voluntarily dismissed the case without prejudice.

**PART II****Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Market Information***

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

| <b>Fiscal Year Ended September 30, 2022</b> | <b>High</b> | <b>Low</b> |
|---|-------------|------------|
| First Quarter ended December 31, 2021       | \$ 3.00     | \$ 1.76    |
| Second Quarter ended March 31, 2022         | \$ 2.48     | \$ 0.71    |
| Third Quarter ended June 30, 2022           | \$ 3.30     | \$ 0.70    |
| Fourth Quarter ended September 30, 2022     | \$ 0.99     | \$ 0.34    |
| <b>Fiscal Year Ended September 30, 2021</b> | <b>High</b> | <b>Low</b> |
| First Quarter ended December 31, 2020       | \$ 0.47     | \$ 0.21    |
| Second Quarter ended March 31, 2021         | \$ 2.75     | \$ 0.34    |
| Third Quarter ended June 30, 2021           | \$ 4.60     | \$ 1.31    |
| Fourth Quarter ended September 30, 2021     | \$ 4.41     | \$ 2.44    |

***Holders***

As of December 1, 2022, we had 166 holders of record of our Common Stock and 11,863,758 shares of Common Stock outstanding. We also have outstanding options and warrants for the purchase of 160,881 shares of Common Stock.

***Dividends***

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

***Dilution***

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

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

***Transfer Agent and Registrar***

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

***Securities Authorized for Issuance under Equity Compensation Plans******The 2022 Stock Incentive Plan***

At the annual meeting of stockholders on April 13, 2022, our stockholders approved the 2022 Omnibus Equity Incentive Plan (the “2022 Plan”), previously approved by the Company’s Board. The 2022 Plan provides for the grant of incentive options and nonqualified 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 500,000 shares are authorized for issuance pursuant to awards granted under the 2022 Plan. The 2022 Plan supersedes and replaces the Company’s 2012 Equity Compensation Plan (the “2012 Plan”).

### *The 2012 Stock Incentive Plan*

The 2012 Plan was first approved by our Board of Directors and stockholders at the Annual Meeting of Stockholders held on December 21, 2011, and amended following our Annual Meeting of Stockholders on May 19, 2015. As of June 30, 2020, the Board suspended further awards under the 2012 Plan. Any awards outstanding under the 2012 Plan will remain subject to the 2012 Plan. All shares of Common Stock remaining authorized and available for issuance under the 2012 Plan and any shares subject to outstanding awards under the 2012 Plan that subsequently expire, terminate, or are surrendered or forfeited for any reason without issuance of shares will automatically become available for issuance under our 2022 Plan.

On April 13, 2022, the Company issued 285,000 restricted shares of Common Stock to members of its executive team from the 2022 Plan valued at \$370,500. The Company recorded expense of \$207,547 and \$0 for the year ended September 30, 2022 and 2021, respectively, related to the 2022 Plan. There were 215,000 shares of Common Stock available under the 2022 Plan as of September 30, 2022.

The following table includes information as of September 30, 2022 for our equity compensation plans:

| <b>Plan category</b>  | <b>Number of securities to be issued upon exercise of outstanding options, warrants and rights<br/>(a)</b> | <b>Weighted-average exercise price of outstanding options, warrants and rights</b> | <b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)<br/>(b)</b> |
|---|--|--|--|
| Equity compensation plans approved by security holders                  | 160,881  | \$ 1.24  | 242,218  |
| Equity compensation approved by Board of Directors outside of 2012 Plan | -  | -  | -  |
| <b>Total</b>  | <b>160,881</b>   | <b>\$ 1.24</b>   | <b>242,218</b>   |

- (a) Consists of shares of our Common Stock issuable upon exercise of outstanding options issued under the Company's 2012 Equity Compensation Plan (the "2012 Plan"), and the Company's 2022 Omnibus Equity Incentive Plan (the "2022 Plan"). Excludes 25,352 options from the 2012 Plan that expired unexercised on October 14, 2022.
- (b) Consists of shares of our Common Stock reserved for future issuance under the 2012 Plan and the 2022 Plan.

### **Recent Sales of Unregistered Securities**

No securities were issued without registration under the Securities Act during Fiscal 2022, nor were any securities issued subsequent to September 30, 2022, that were not reported in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K filed with the Securities and Exchange Commission.

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

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933, as amended (the "Securities Act"). All statements contained in this Annual Report on Form 10-K (this "Annual Report") other than statements of historical fact are forward-looking statements. When used in this Annual Report or elsewhere by management from time to time, the words "believe", "anticipate", "intend", "plan", "estimate", "expect", "may", "will", "should", "seeks" and similar expressions are forward-looking statements. Such forward-looking statements are based on current expectations, but the absence of these words does not necessarily mean that a statement is not forward-looking. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual events or results may differ materially from those discussed in the forward-looking statements as a result of various factors. For a more detailed discussion of such forward-looking statements and the potential risks and uncertainties that may impact upon their accuracy, see Item 1A entitled "Risk Factors" in Part I of this Annual Report and the "Overview" and "Liquidity and Capital Resources" sections of this Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations". These forward-looking statements reflect our view only as of the date of this Annual Report. Except as required by law, we undertake no obligations to update any forward-looking statements. Accordingly, you should also carefully consider the factors set forth in other reports or documents that we file from time to time with the Securities and Exchange Commission ("SEC").*

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (this "MD&A") is intended to help the reader better understand Track Group, our operations and our present business environment. Our fiscal year ends on September 30 of each year. Reference to "Fiscal 2022" refers to the year ended September 30, 2022, and reference to "Fiscal 2021" refers to the year ended September 30, 2021 (Fiscal 2022 and Fiscal 2021 are collectively "Fiscal Years 2022 and 2021"). This MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements for Fiscal Years 2022 and 2021, and the accompanying notes thereto contained in this Annual Report. This introduction summarizes MD&A, which includes the following sections:

- Overview – a general description of our business and the markets in which we operate; our objectives; our areas of focus; and challenges and risks of our business.
- Results of Operations – an analysis of our consolidated results of operations for the last two fiscal years presented in our consolidated financial statements.
- Liquidity and Capital Resources – an analysis of cash flows; off-balance sheet arrangements and aggregate contractual obligations; and the impact of inflation and changing prices.
- Off-Balance Sheet Arrangements
- Critical Accounting Policies – a discussion of accounting policies that require critical judgments and estimates.

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

**Overview**

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

**Recent Developments*****Manufacturing of New Devices***

In September 2022, the Company received one component after an extended delay which allowed us to resume the manufacturing of antennae circuit boards required to build new devices for both existing and new customers.

## Results of Operations

### *Continuing Operations - Fiscal 2022 Compared to Fiscal 2021*

#### *Revenue*

During Fiscal 2022, we had revenue of \$36,968,499 compared to revenue of \$39,661,325 for Fiscal 2021, a decrease of \$2,692,826, or approximately 7%. Of this revenue, \$35,768,090 and \$39,179,699 were from monitoring and other related services revenue during Fiscal 2022 and Fiscal 2021, respectively, representing a decrease of \$3,411,609 or approximately 9%. The decrease in revenue was principally the result of a decrease of our North American monitoring operations driven by clients in Illinois, Virginia, the Bahamas and Indiana, partially offset by increases of our customers in Saudi Arabia, Canada and Chile.

Product and other revenue for Fiscal 2022 increased to \$1,200,409 from \$481,626 in the same period in 2021, an increase of \$718,783 or approximately 149%. The increase in product and other revenue was largely due to higher international product sales, principally in Saudi Arabia. We continue to largely focus on recurring subscription-based opportunities as opposed to equipment sales.

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 availability of semiconductor parts has improved in the second half of calendar 2022; however, long lead time remain with certain parts. 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 Fiscal 2022, cost of revenue totaled \$19,615,543, compared to cost of revenue during Fiscal 2021 of \$18,554,011, an increase of \$1,061,532, or approximately 6%. The increase in cost of revenue was largely the result of higher software amortization of \$930,163, higher server costs of \$416,517, higher communication costs of \$119,119 and higher repair costs of \$265,700. These increases were offset by lower lost, stolen and damaged device costs of \$96,167, lower monitoring costs of \$627,160, lower commission costs of \$74,654 and lower device amortization of \$94,560.

Depreciation and amortization included in cost of revenue for Fiscal Years 2022 and 2021, totaled \$3,237,970 and \$2,402,367, respectively. The increase of \$835,603, or approximately 35%, largely represents software amortization of our new monitoring platform which began in July 2021. Amortization of a patent related to GPS and satellite tracking are also included in depreciation and amortization. Devices are depreciated over either a three- or five-year useful life. Monitoring software is amortized over a seven-year life. Royalty agreements are being amortized over a ten-year useful life. The Company believes these lives are appropriate due to changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses the useful life of the devices for appropriateness.

#### *Gross Profit and Margin*

During Fiscal 2022, gross profit totaled \$17,352,956, resulting in a 47% gross margin, compared to \$21,107,314, or a 53% gross margin, during Fiscal 2021, a decrease of \$3,754,358. The decrease in absolute gross profit of \$3,754,358 is due to a decrease in revenue of \$2,692,826 and increases in certain costs of revenue, including higher depreciation and amortization costs of \$835,603, higher server costs, higher device repair costs, higher software maintenance costs, higher communication costs and higher product sales costs, partially offset by lower monitoring costs and lower lost, stolen and damaged costs.

#### *General and Administrative Expense*

During Fiscal 2022, our general and administrative expense totaled \$12,462,931, compared to \$10,232,116 for Fiscal 2021. The increase of \$2,230,815, or approximately 22%, in general and administrative cost resulted largely from the impairment of intangible assets of \$1,728,961 associated with the discontinuance of two product lines, higher insurance costs of \$268,307, higher legal and professional fees of \$372,987, partially offset by lower payroll expense of \$601,108 and lower bad debt of \$142,123.

#### *Selling and Marketing Expense*

For Fiscal 2022, our selling and marketing expense was \$2,993,749 compared to \$2,716,283 for Fiscal 2021. The increase of \$277,466 or approximately 10% resulted largely from higher wages and related payroll taxes of \$85,993, higher travel costs of \$70,189 and higher trade show costs of \$64,664.



#### *Research and Development Expense*

During Fiscal 2022, we incurred research and development expense of \$2,432,448 compared to those costs recognized during Fiscal 2021 totaling \$1,548,527, an increase of \$883,921 or approximately 57%. The increase was largely the result of continuous improvements of our existing software, resulting in increased payroll and related tax expense of \$689,222 after our implementation and subsequent commencement of amortization of our new monitoring software, higher outside service costs of \$38,920 and higher travel costs of \$35,461. As a result of the implementation of our new monitoring software on July 1, 2021, capitalization of developed technology decreased to \$865,263 during Fiscal 2022, which represents technology projects currently in development, compared to \$1,349,550, which was capitalized in Fiscal 2021. A portion of this expense would have been recognized as research and development expense, absent the significant enhancements to the technology.

#### *Depreciation and Amortization Expense*

We maintain a significant portion of our tangible and intangible assets that are amortized or depreciated. During Fiscal 2022, depreciation and amortization included in operating expense totaled \$1,563,729, compared to \$1,896,481 for Fiscal 2021. This was a decrease of \$332,752, or approximately 18%, was largely due to fully depreciated assets.

#### *Other Income (Expense)*

During Fiscal 2022, total other expense was \$4,406,973 compared to \$554,392 during Fiscal 2021, an increase of \$3,852,581. The increase in Fiscal 2022 was primarily due to a legal settlement of \$1,600,000 offset principally by the forgiveness of an accrued expense by a significant vendor of approximately \$633,000, compared to income from extinguishment of debt of \$1,000,756 related principally to the forgiveness of a \$932,000 PPP loan and a note receivable of \$67,566 in Fiscal 2021, negative exchange rate movement of \$2,234,379 caused by the approximate 19% appreciation of the US Dollar vs. the Chilean Peso in Fiscal 2022 and lower interest expense of \$200,806. The lower interest expense was primarily due to the restructuring of the Conrent Amended Facility. See Note 7 to the Consolidated Financial Statements.

#### *Income taxes*

During Fiscal 2022, income tax expense totaled \$883,488 compared to \$717,109 during Fiscal 2021. Tax expense in both fiscal years are income taxes largely related to a foreign jurisdiction.

#### *Net Income (Loss) Attributable to Common Stockholders*

We had a net loss for Fiscal 2022 totaling (\$7,390,362) or \$(0.64) and \$(0.64) per basic and diluted common share, respectively, compared to net income of \$3,442,406 or \$0.30 and \$0.29 per basic and diluted common share for Fiscal 2021. This net loss is largely due to lower gross profit, higher general and administrative expense, higher selling and marketing expense, higher research and development expense, higher other expense and higher tax expense, partially offset by lower depreciation and amortization. The higher general and administrative expense was primarily due to the impairment of intangible assets.

#### **Liquidity and Capital Resources**

The Company is currently self-funded through net cash provided by operating activities. As of September 30, 2022, excluding interest, approximately \$42.9 million is still owed to Conrent under the Amended Facility.

On May 19, 2020, the Company received net proceeds of \$933,200 from the PPP Loan received pursuant to the PPP enacted by Congress under the CARES Act, administered by the SBA. On December 8, 2020, the Company filed the application for forgiveness with 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 the \$30.4 million 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 extended the maturity date of the Amended Facility Agreement to July 1, 2024, capitalized the accrued and unpaid interest which increased the outstanding principal amount and reduced 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 note payable for total principal of \$42,931,556. Conrent forgave \$67,556 of the amount due and the new Amended Facility principal and interest became \$42,864,000. Interest payments were 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 September 30, 2022, \$42,864,000 of principal and \$438,165 of interest was owed to Conrent.

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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 347,198,500CLP (\$482,965USD), net of 2,801,500CLP 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 19,607,843CLP (\$27,275USD) in broker fees which are amortized over the life of the loan.

On February 2, 2021, the Company borrowed 247,999,300CLP (\$338,954USD), net of 2,000,700CLP 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 city 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 14,124,294CLP (\$19,304USD) in broker fees which are amortized over the life of the loan.

On February 4, 2021, the Company borrowed 149,794,432CLP (\$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 99,808,328CLP (\$136,564USD), net of 210,485CLP 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 500,000,000CLP (\$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 with 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 28,248,588CLP (\$38,317USD) in broker fees which are amortized over the life of the loan.

No additional funds were borrowed in the fiscal year ended September 30, 2022. See Note 7 to the Consolidated Financial Statements for the loan balances at September 30, 2022.

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.

### *Net Cash Flows Provided by Operating Activities.*

During Fiscal 2022, we had net loss of (\$7,390,362) and we had cash flows from operating activities of \$802,961, compared to net income from continuing operations of \$3,442,406 and cash flows from operating activities of \$4,822,182 for Fiscal 2021. The decrease in cash from operations was largely the result of lower operating income and a decrease in accounts payable and accrued liabilities, partially offset by a lower use of cash related to performance bonds and monitoring center assets and a decline in accounts receivable.

### *Net Cash Flows used in Investing Activities.*

The Company used \$3,060,280 of cash for investing activities during Fiscal 2022, compared to \$4,507,696 of cash used during Fiscal 2021, a decrease of \$1,447,416. Cash used for investing activities was used for significant enhancements of our software platform and for purchases of monitoring and other equipment to meet customer demand during Fiscal 2022. Capitalized software decreased by \$484,287 compared to the prior period.

### *Net Cash Flows Provided by (used in) Financing Activities.*

(\$515,500) of cash was used in financing activities during Fiscal 2022, compared to \$1,377,224 of cash provided by financing activities during Fiscal 2021. During the Fiscal Years 2022 and 2021, the Company received net proceeds of \$0 and \$1,943,213 from borrowings, respectively and made principal payments of \$494,626 and \$275,628 on notes payable, respectively. The net proceeds of \$1,943,213 received in Fiscal 2021 was for the new Chile monitoring center buildout.

### *Liquidity, Working Capital and Management's Plan*

As of September 30, 2022, the Company had unrestricted cash of \$5,311,104, compared to unrestricted cash of \$8,421,162 as of September 30, 2021. As of September 30, 2022, we had working capital of \$7,296,297, compared to working capital of \$9,190,430 as of September 30, 2021. This decrease in working capital of \$1,894,133 is principally due to the purchase of monitoring equipment and parts as well as the settlement of the Sabag legal matter described in Item 3, partially offset by cash provided by operations.

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 an Amendment to the Amended Facility Agreement which extended the maturity date of the agreement to July 1, 2024, capitalized the accrued and unpaid interest which increased the outstanding principal amount and reduced the interest rate of the Amended Facility Agreement from 8% to 4%. On June 28, 2021, the Company restarted interest payments to Conrent which have been made semi-annually since that time. See Note 7 to the Consolidated Financial Statements.

During Fiscal 2021, the Company borrowed approximately \$1.95 million through 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. No additional funds were borrowed in Fiscal 2022. See Note 7 to the Consolidated Financial Statements.

### ***Inflation***

We do not believe that inflation has had a material impact on our historical operations or profitability prior to 2021; however, the rise in inflation experienced in 2021 and so far in 2022 have impacted 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, except as described below.

#### *Bond guarantees*

As of September 30, 2022, Company has two performance bonds in connection with a foreign customer totaling \$2,027,970 (collectively, the "*Performance Bonds*") of which \$1,449,497 is held in an interest-bearing account on behalf of the customer. The remaining amount of \$578,473 is guaranteed by a foreign financial institution on behalf of the Company. The amounts held in cash on the Performance Bonds will be released approximately 90 days after the expiration of the Performance Bonds, as follows: \$284,426 in calendar year 2023 and 1,165,071 in calendar year 2024. In March 2021, the Company has placed a \$653,220 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 upon acceptance by the foreign customer. See Note 12 to the Consolidated Financial Statements.

### **Critical Accounting Policies**

In Note 2, "Summary of Significant Accounting Policies" to the audited Consolidated Financial Statements included in this Annual Report, we discuss those accounting policies we consider to be significant in determining the results of operations and our financial position.

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

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

## **Revenue Recognition**

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

### *Monitoring and Other Related Services*

Monitoring services include two components: (i) lease contracts pursuant to which the Company provides monitoring services and leased 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. 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.

### *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. When purchasing products (such as ReliAlert™ and Shadow™ devices) from the Company, customers may, but are not required to, enter into monitoring service contracts with us. The Company recognizes revenue on monitoring services for customers that have previously purchased devices at the end of each month that monitoring services have been provided.

### *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.

### *Other Matters*

The Company considers an arrangement with payment terms longer than the Company's normal terms not to be fixed or determinable. Normal payment terms for the sale of monitoring services and products are due upon receipt to 30 days. The Company sells devices and services directly to end users and to distributors. Distributors do not have general rights of return. Also, distributors may not have price protection or stock protection rights with respect to devices sold to them by us. Generally, title and risk of loss pass to the buyer upon delivery of the devices.

Shipping and handling fees charged to customers are included as part of total revenue. The related freight costs and supplies directly associated with shipping products to customers are included as a component of cost of revenue. Our revenue is predominantly derived from two sources: (i) monitoring services, and (ii) product sales.

## **Impairment of Long-Lived Assets and Goodwill**

We review our long-lived assets including goodwill and intangibles for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable, and in the case of goodwill, at least annually. We evaluate whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. We use an equity method of the related asset or group of assets in measuring whether the assets are recoverable. If the carrying amount of an asset exceeds its market value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there are an identifiable fair market value that is independent of other groups of assets. See Note 13 to the Consolidated Financial Statements.

### ***Allowance for Doubtful Accounts***

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

### ***Recent Accounting Pronouncements***

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

### ***Accounting for Stock-Based Compensation***

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

### ***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.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

We had \$6,095,403 and \$6,155,718 in foreign currency revenue for Fiscal Years 2022 and 2021, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange expense of \$1,619,018 and foreign exchange gain \$615,361 in Fiscal Years 2022 and 2021, respectively. Changes in currency exchange rates affect the relative prices at which we sell our products and purchase goods and services. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition. We periodically enter into small, simple forward foreign currency exchange contracts or derivative financial instruments for hedging purposes given our approximate 16% of revenue in one local currency offset by significant expenses in the same local currency. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement additional strategies which make use of these or other instruments in order to minimize the effects of foreign currency exchange on our business and/or require some international customers to receive invoices and make payments in US dollars.

### **Item 8. Financial Statements and Supplementary Data**

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

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

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2022 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 and accounting officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of September 30, 2022.

**Management's Report on Internal Control over Financial Reporting**

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

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("*COSO*") issued in May 2013 and related COSO guidance. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of September 30, 2022.

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

**Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our fiscal year ended September 30, 2022, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

**Item 9B. Other Information**

None.

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

The Company’s Board of Directors (the “*Board*”) and executive officers consist of the persons named in the table below. Each director serves for a one-year term, until his or her successor is elected and qualified, or until earlier resignation or removal. Our Bylaws provide that the authorized number of directors shall be fixed by the Board from time to time. The directors and executive officers are as follows:

|                |    |                          |
|----------------|----|--------------------------|
| Guy Dubois     | 64 | Chairperson of the Board |
| Karen Macleod  | 59 | Director                 |
| Karim Sehnaoui | 44 | Director                 |
| Derek Cassell  | 49 | Chief Executive Officer  |
| Peter K. Poli  | 61 | Chief Financial Officer  |
| Matthew Swando | 47 | Chief Revenue Officer    |

**Guy Dubois** was appointed as a director in December 2012 and served as Chair of the Board since February 2013. Mr. Dubois tendered his resignation as a director on December 8, 2022, effective December 31, 2022. Mr. Dubois previously served as our Chief Executive Officer from September 2016 to December 2017. Mr. Dubois is the Founder and Chairman of Singapore-based Tetra House Pte. Ltd., a provider of bespoke consulting and advisory services out of Singapore. He is co-founder of Circo3, a regulated capital arrangement company with a platform approach to the investor capital raising business. Mr. Dubois is a former director and Chief Executive Officer of Gategroup AG, and previously held various executive leadership roles at Gate Gourmet Holding LLC. Mr. Dubois has held executive management positions at Roche Vitamins Inc. in New Jersey, as well as regional management roles in that firm’s Asia Pacific operations. Mr. Dubois also served the European Organization for Nuclear Research (CERN) team in Switzerland in various roles, including as its Treasurer and Chief Accountant. Additionally, Mr. Dubois worked with IBM in Sweden as Product Support Specialist for Financial Applications. A Belgian citizen, Mr. Dubois holds a degree in Financial Science and Accountancy from the Limburg Business School in Diepenbeek, Belgium.

Mr. Dubois’ extensive financial and management expertise and experience, in addition to his public company senior management and board experience, and the leadership he has shown in his positions with prior companies as well as his knowledge of the daily operations of the Company having previously served as Chief Executive Officer, made him a valuable asset to the Board and the Company.

**Karen Macleod** was appointed as a director in January 2016 having previously served as the Chief Executive Officer of Arete Group LLC, a professional services firm. Ms. Macleod currently serves on the Board of Cyngn, Inc and is Chair of the Compensation Committee and additionally serves on the Board of the Lakeland Hills YMCA. Prior to Arete Group, Ms. Macleod was President of Tatum LLC, a New York-based professional services firm owned by Randstad, from 2011 to 2014, and was a co-founder of Resources Connection (NASDAQ: RECN), now known as RGP, a multinational professional services firm founded as a division of Deloitte in June 1996. Ms. Macleod served in several positions for RGP, including as a director from 1999 to 2009 and President, North America from 2004 to 2009. Prior to RGP, Ms. Macleod held several positions in the Audit Department of Deloitte from 1985 to 1994. Ms. Macleod served as a director for A-Connect (Schweiz) AG, a privately held, Swiss-based global professional services firm, from 2014 to 2016, and was a director for Overland Solutions from 2006 to 2013. She additionally served as a director on the Board of the FWA (Financial Women’s Association) in New York and was a member of their Audit Committee from 2018-2021. Ms. Macleod holds a Bachelor of Science in Business/Managerial Economics from the University of California, Santa Barbara.

Ms. Macleod’s senior public company leadership experience along with her finance and accounting background make her a significant contributor to the Board and the strategic growth of the Company.

**Karim Sehnaoui** was appointed as a director in February 2018. Mr. Sehnaoui is an entrepreneur and investment professional, who specializes in private equity, venture capital, and corporate finance. Currently Mr. Sehnaoui is Senior Executive Officer and Board Director, ADS Investment Solutions since October 3, 2021, he also serves as Chief Investment Officer of ADS Securities LLC, a position he has held since October 2018, and as a Director of ETS Limited. From 2012 to 2016, Mr. Sehnaoui taught graduate level finance courses as a visiting Assistant Professor at MSB Mediterranean School of Business in Tunisia. Prior to that, Mr. Sehnaoui spent several years in investment banking and private equity, serving as Acting Chief Investment Officer of Abu Dhabi Investment House PJSC and General Manager for Abu Dhabi Investment House S.A., and Business Development Director at Ithmaar Bank. Mr. Sehnaoui holds Bachelor’s and Master’s degrees in Civil Engineering from McGill University in Montreal, Canada, and was a Global Leadership Fellow at the World Economic Forum in Geneva, Switzerland from 2005 to 2007.

Mr. Sehnaoui was appointed as a director in connection with ETS Limited becoming the Company’s largest stockholder of record in 2018. Mr. Sehnaoui’s senior leadership experience, along with his private equity and venture capital background make him a valued member of the Board and a strong asset to the ongoing growth of the Company.



**Derek Cassell** joined the Company in June 2014 through the strategic acquisition of Emerge Monitoring, at which time he was appointed Divisional President, Americas. Mr. Cassell was appointed to serve as our President in December 2016 and was promoted to the role of Chief Executive Officer effective January 1, 2018. From September 2008 until June 2014, Mr. Cassell served as an Executive Vice President of Emerge Monitoring, which was part of the Bankers Surety Team. Mr. Cassell has over 20 years of experience providing correctional solutions to the criminal justice industry. His previous positions include Director of Operations for ADT Correctional Services, Director of Customer Support for G4S Justice Services, and National Sales and Marketing Manager for ElmoTech Inc. He holds a Criminal Justice Degree from Henry Ford College in Dearborn Heights, Michigan.

**Peter K. Poli** has served as our Chief Financial Officer since January 2017. In addition, he has served as the Chief Financial Officer and Treasurer of Emerge Monitoring, Inc., Secretary and Treasurer of Track Group – Puerto Rico, Inc., Secretary of Track Group Analytics, Limited and Manager of Emerge Monitoring LLC, all of which are subsidiaries of the Company, since May 2017. Before joining the Company, Mr. Poli served as the Chief Financial Officer of Grand Banks Yachts Limited from August 18, 2004 through December 31, 2015. In addition, he served as an Executive Director of Grand Banks Yachts from March 31, 2008 through October 28, 2015. Prior to his time with Grand Banks Yachts Limited, Mr. Poli served as the Chief Financial Officer for Acumen Fund Inc., I-Works Inc., and as Vice President and Chief Financial Officer of FTD.COM. Mr. Poli also spent nine years as an Investment Banker with Dean Witter Reynolds, Inc. and served as the CFO of a wholly-owned subsidiary of Morgan Stanley Dean Witter from 1997 to 1999. In addition, Mr. Poli served as an Independent Director of Leapnet, Inc. from 2000 to 2002. Mr. Poli earned a Bachelor of Arts in Economics and Engineering from Brown University in 1983 and an MBA from Harvard Business School in 1987.

**Matthew Swando** joined Track Group in 2017 as Vice President of Global Sales continuing a 21-year career in the electronic monitoring and offender supervision market. Prior to joining Track Group, Mr. Swando was employed as a Pretrial Services Investigator for Oakland County, MI; then spent 4 years with ProTech Monitoring, Inc. employed first as a Market Analyst, and later promoted to Regional Sales Manager. In April of 2004, Mr. Swando joined BI, Inc. as a Business Development Executive and became the Western Regional Sales Manager, National Sales Manager, and later Vice President of Sales overseeing all business development activities, strategy, and staff. In 2014, Mr. Swando was promoted to Divisional Vice President overseeing all divisional operations for BI, Inc. Mr. Swando holds both a B.S. in Criminal Justice from Central Michigan University with an emphasis on alternative corrections, and an M.A. in Criminology from the University of South Florida.

#### ***Section 16(a) Beneficial Ownership Reporting Compliance***

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”), requires our officers, directors, and persons who beneficially own more than ten percent of our common stock, par value \$0.0001 per share (“*Common Stock*”) to file reports of ownership and changes in ownership with the Securities and Exchange Commission (“*SEC*”). Officers, directors, and greater-than-ten-percent stockholders are also required by the SEC to furnish us with copies of all Section 16(a) forms that they file.

Based solely upon a review of these forms that were furnished to us, we believe that all reports required to be filed by these individuals and persons under Section 16(a) were filed during fiscal year 2021 and that such filings were timely.

#### ***Code of Business Conduct and Ethics***

We have established a Code of Business Conduct and Ethics (the “*Code*”) that applies to our officers, directors and employees. This Code contains general guidelines for conducting our business consistent with the highest standards of business ethics, and is intended to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. A copy of our Code is available online at [www.trackgrp.com](http://www.trackgrp.com). Any amendments to or waivers from a provision of our Code that apply to our principal executive officer, principal financial officer, principal accounting officer, controller or persons performing similar functions and that relates to any element of the Code will be made available to the public at the aforementioned website.

#### ***Board Leadership Structure***

In addition to the CEO’s leadership, the Board maintains effective independent oversight through a number of governance practices, including, open and direct communication with management, input on meeting agendas, and regular executive sessions.

#### ***Board Role in Risk Assessment***

Management, in consultation with outside professionals, as applicable, identifies risks associated with the Company’s operations, strategies and financial statements. Risk assessment is also performed through periodic reports received by the Board from management, counsel and the Company’s independent registered public accountants relating to risk assessment and management. Our Board meets privately in executive sessions with representatives of the Company’s independent registered public accountants. The Board also provides risk oversight through its periodic reviews of the financial and operational performance of the Company.



## ***Director Nominations***

The Board nominates directors for election at the annual meetings of stockholders held and appoints new directors to fill vacancies when they arise, and has the responsibility to identify, evaluate and recruit qualified candidates to the Board for such nomination or appointment.

The Board identifies director nominees by first considering those current members of the Board who are willing to continue service. Current members of the Board with skills and experience that are relevant to our business and who are willing to continue service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board with that of obtaining a new perspective. Nominees for director are selected by a majority of the members of the Board. Although the Company does not have a formal diversity policy, in considering the suitability of director nominees, the Board considers such factors as it deems appropriate to develop a Board that is diverse in nature and comprised of experienced and seasoned advisors. Factors considered by the Board include judgment, knowledge, skill, diversity, integrity, experience with businesses and other organizations of comparable size, including experience in the software and/or technology industries, software, intellectual property, business, finance, administration or public service, the relevance of a candidate's experience to our needs and experience of other Board members, experience with accounting rules and practices, the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members, and the extent to which a candidate would be a desirable addition to the Board and any committees of the Board.

A stockholder who wishes to suggest a prospective nominee for the Board may notify the Secretary of the Company in writing with any supporting material the stockholder considers appropriate. Nominees suggested by stockholders are considered in the same way as nominees suggested from other sources.

In addition, the Company's Bylaws contain provisions that address the process by which a stockholder may nominate an individual to stand for election to the Board at the Company's annual meeting of stockholders. In order to nominate a candidate for director, a stockholder must give timely notice in writing to the Secretary of the Company and otherwise comply with the provisions of the Company's Bylaws. Information required by the Company's Bylaws to be in the notice include: the name, contact information and share ownership information for the candidate and the person making the nomination, and other information about the nominee that must be disclosed in proxy solicitations under Section 14 of the Exchange Act and its related rules and regulations. The Board may also require any proposed nominee to furnish such other information as may reasonably be required by the Board to determine the eligibility of such proposed nominee to serve as director of the Company. The recommendation should be sent to: Secretary, Track Group, Inc., 200 E. 5th Avenue, Suite 100, Naperville, Illinois 60563. You can obtain a copy of the Company's Bylaws by writing to the Secretary at this address.

## ***Stockholder Communications***

If you wish to communicate with the Board, you may send your communication in writing to: Secretary, Track Group, Inc., 200 E. 5th Avenue, Suite 100, Naperville, Illinois 60563. You must include your name and address in the written communication and indicate whether you are a stockholder of the Company. The Secretary will review any communication received from a stockholder, and all material and appropriate communications from stockholders will be forwarded to the appropriate director or directors or committee of the Board based on the subject matter.

## ***Board Meetings***

Directors are generally elected for a term of one year until the next annual meeting of stockholders and until their successors have been elected or appointed and duly qualified. Vacancies on the Board which are created by the retirement, resignation or removal of a director, may be filled by the vote of the remaining members of the Board, with such new director serving the remainder of the term or until his/her successor is elected and qualified.

The Board is elected by and is accountable to our stockholders. The Board establishes policy and provides strategic direction, oversight, and control. The Board met 21 times during the year ended September 30, 2022 and incumbent directors attended approximately 96% of the aggregate number of meetings of the Board exclusive of meetings where a Director was excused from attendance based upon the subject matter of discussion.

## ***Board Committees and Charters***

Prior to May 31, 2018, the Board had three standing committees which consisted of the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. Due to the resignations of certain former directors during 2018 as previously disclosed by the Company and the current size of the Board, these committees are no longer active. Instead, the full Board administers the duties of each of these committees and will likely do so for the foreseeable future.

#### *Audit Committee*

Prior to May 31, 2018, we had a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The primary duties of the Audit Committee were to oversee (i) management's conduct related to our financial reporting process, including reviewing the financial reports and other financial information provided by the Company, and reviewing our systems of internal accounting and financial controls, (ii) our independent auditors' qualifications and independence and the audit and non-audit services provided to the Company, and (iii) the engagement and performance of our independent auditors. The Audit Committee assisted the Board in providing oversight of our financial and related activities, including capital market transactions. The Audit Committee has a charter, a copy of which is available on our website at [www.trackgrp.com](http://www.trackgrp.com).

Currently, the entire Board serves in the capacity as an Audit Committee with Ms. Macleod also serving as Committee Chair. With the exception of Mr. Sehnaoui, each member of the Audit Committee, satisfy, as determined by the full Board, the definition of independent director as established in the OTC Rules and all members are financially literate. In accordance with Section 407 of the Sarbanes-Oxley Act of 2002, the Board designated Ms. Macleod as the Audit Committee's "audit committee financial expert" as defined by the applicable regulations promulgated by the SEC. The Audit Committee met with our Chief Financial Officer and with our independent registered public accounting firm and evaluated the responses by the Chief Financial Officer, both to the facts presented and to the judgments made by our independent registered public accounting firm.

Our full Board reviewed and discussed the matters required by United States auditing standards required by the Public Company Accounting Oversight Board (the "PCAOB") and our audited financial statements for the fiscal year ended September 30, 2022 ("Fiscal 2022") with management and our independent registered public accounting firm. Our Board received the written disclosures and the letter from our independent registered public accounting firm required by Independence Standards Board No. 1, and our Board discussed with the independent registered public accounting firm the independent registered public accounting firm's independence.

#### *Compensation Committee*

We currently do not have a compensation committee of the Board or a committee performing similar functions. It is the view of the Board that it is appropriate for us not to have such a committee because of our size and because the Board participates in the consideration of executive compensation. As such, the entire Board has the responsibility for developing and maintaining an executive compensation policy that creates a direct relationship between pay levels and corporate performance and returns to stockholders. The Board monitors the results of such policy to assure that the compensation payable to our executive officers provides overall competitive pay levels, creates proper incentives to enhance stockholder value, rewards superior performance, and is justified by the returns available to stockholders. The Board also has periodically retained outside benefit consultants to assess compensation policies and adjust as recommended.

Additionally, the Board administers compensation plans in a manner consistent with the terms of such plans (including, as applicable, the granting of stock options, restricted stock, stock units and other awards, the review of performance goals established before the start of the relevant plan year, and the determination of performance compared to the goals at the end of the plan year). None of our executive officers served as a director or member of the compensation committee of any entity that has one or more executive officers serving on our Board.

#### *Nominating and Corporate Governance Committee*

We do not have a Nominating and Corporate Governance Committee. Our Board selects individuals to stand for election as members of the Board and does not have a policy with regards to the consideration of any director candidates recommended by our stockholders. Our Board has determined that it is in the best position to evaluate our company's requirements as well as the qualifications of each candidate when it considers a nominee for a position on the Board. As such, the entire Board has the responsibility for identifying and recommending candidates to fill vacant and newly created Board positions, setting corporate governance guidelines regarding director qualifications and responsibilities, and planning for senior management succession.

Currently, our full Board is required to review the qualifications and backgrounds of all directors and nominees (without regard to whether a nominee has been recommended by stockholders), as well as the overall composition of the Board, and recommend director candidates to be nominated for election at the annual meeting of stockholders, or, in the case of a vacancy on the Board, elect a new director to fill such vacancy. If stockholders wish to recommend candidates directly to our Board, they may do so by communicating directly with our Secretary at the address specified on the cover of this annual report. There has not been any change to the procedures that our stockholders may recommend nominees to our Board.

### Independent Directors

The Board has determined that Mr. Dubois and Ms. Macleod are currently the Company's independent directors as defined by the rules and regulations of the OTC Markets. Mr. Dubois and Ms. Macleod meet the independence standards established by the OTC Markets and the SEC. In addition, the Board has determined that of its current directors, Ms. Macleod satisfies the definition of an "audit committee financial expert" under SEC rules and regulations. These designations do not impose any duties, obligations or liabilities that are greater than those generally imposed as members of the Board, and the designation as an audit committee financial expert does not affect the duties, obligations or liability of any other member of the Board. Mr. Dubois tendered his resignation as a director on December 8, 2022, effective December 31, 2022.

### Indemnification of Officers and Directors

As permitted by Delaware law, the Company will indemnify its directors and officers against expenses and liabilities they incur to defend, settle, or satisfy any civil or criminal action brought against them on account of their being or having been Company directors or officers unless, in any such action, they are adjudged to have acted with gross negligence or willful misconduct.

### Item 11. Executive Compensation

The following discussion relates to the compensation of our Named Executive Officers (as defined below).

#### Summary Compensation Table

The following summary compensation table sets forth the compensation paid to the following persons for our fiscal years ended September 30, 2022 and 2021:

- (a) our principal executive officer;
- (b) our other two most highly compensated executive officers who were serving as executive officers at the end of Fiscal 2022 and who had total compensation exceeding \$100,000; and

| Name and Principal Position                  | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock Awards<br>\$(1) | All Other<br>Compensation<br>\$(2) | Total<br>(\$) |
|--|------|----------------|---------------|-----------------------|------------------------------------|---------------|
| Derek Cassell                                | 2022 | \$ 300,000     | \$ 350,980    | \$ -                  | \$ 100                             | \$ 651,080    |
| Chief Executive Officer and Former President | 2021 | \$ 287,500     | \$ 165,000    | \$ -                  | \$ 100                             | \$ 452,600    |
| Peter Poli                                   | 2022 | \$ 275,000     | \$ 160,230    | \$ -                  | \$ 100                             | \$ 435,330    |
| Chief Financial Officer                      | 2021 | \$ 262,500     | \$ 75,000     | \$ -                  | \$ 100                             | \$ 337,600    |
| Matt Swando                                  | 2022 | \$ 262,885     | \$ 138,103    | \$ 240,500            | \$ 100                             | \$ 641,615    |
| Chief Revenue Officer                        | 2021 | \$ 226,250     | \$ 63,750     | \$ -                  | \$ 100                             | \$ 290,100    |

- (1) This column represents the grant date fair value in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, *Compensation – Stock Compensation*. These amounts do not represent the actual value that may be realized by the Named Executive Officers.
- (2) This column represents the value of holiday gift cards received by employees.

#### Narrative Disclosure to the Summary Compensation Table

##### Cassell Employment Agreement

On December 1, 2016, the Company entered into an employment agreement with Mr. Cassell, which was subsequently amended on February 13, 2017 (the "Cassell Employment Agreement"). Under the terms and conditions of the Cassell Employment Agreement, Mr. Cassell received a base salary equal to \$240,000 per annum, and received 60,000 unregistered restricted shares of the Company's Common Stock. One-half of these shares vested immediately upon issuance, and the remaining one-half vested on March 30, 2018. If the Company terminates Mr. Cassell's employment as a result of an involuntary termination, he would receive an amount equal to 12 months base salary, plus any annual bonus deemed to be vested and earned as well as certain COBRA benefits.

A second amendment to the Cassell Employment Agreement was approved at a Board meeting held on December 13, 2017, and such amendment was executed on January 4, 2018. Under the terms of the Cassell Agreement, as amended (the “*Second Cassell Amendment*”), effective January 1, 2018, Mr. Cassell was promoted from President to Chief Executive Officer of the Company, a position which he shall hold until December 31, 2020, unless earlier terminated or extended. Should Mr. Cassell elect to voluntarily terminate his employment with the Company, he must provide written notice of his intent to do so at least 180 days prior to terminating his employment. In addition, the Second Cassell Amendment provides: (i) an increase in Mr. Cassell’s base salary to \$275,000 per year; (ii) an increase, to 100% of his base salary, in his annual bonus effective for bonus plan year 2018 and thereafter; (iii) the issuance of 300,000 unregistered restricted shares of the Company’s Common Stock, which shall vest annually in increments of 100,000 beginning January 1, 2018; and (iv) in the event of a change of control, Mr. Cassell shall be entitled to a cash payment equal to one year’s salary, plus all restricted stock, warrants and options previously issued to Mr. Cassell shall become immediately vested and exercisable.

A third amendment to the Cassell Employment Agreement was approved at a Board meeting held on December 18, 2020, and such amendment was executed on December 21, 2020 (the “*Third Cassell Amendment*”). Under the terms of the Third Cassell Amendment, effective January 1, 2021, Mr. Cassell’s employment was extended one year and on February 23, 2021, the Board approved an increase in Mr. Cassell’s base salary to \$300,000 per year effective March 21, 2021. In the event of a change of control, Mr. Cassell shall be entitled to a cash payment equal to one year’s salary, plus all restricted stock, warrants and options previously issued to Mr. Cassell shall become immediately vested and exercisable.

A fourth amendment to the Cassell Employment Agreement was approved at a Board meeting held on December 15, 2021 (the “*Fourth Cassell Amendment*”). Under the terms of the Fourth Cassell Amendment, Mr. Cassell’s employment will continue in effect until terminated by either party in accordance with the terms established under the Cassell Employment Agreement.

#### *Poli Employment Agreement*

On December 12, 2016, the Company entered into a three-year employment agreement with Mr. Poli (the “*Poli Employment Agreement*”). Under the terms and conditions of the Poli Employment Agreement, Mr. Poli began receiving a base salary equal to \$240,000 per annum beginning in January 2017, and received an option to purchase 100,000 shares of the Company’s Common Stock at an exercise price per share equal to the closing price of the Company’s Common Stock on the date approved by the Board. One-half of this option vested on January 1, 2018, and the remaining one-half vested on January 1, 2019. If the Company terminates Mr. Poli’s employment as a result of an involuntary termination, he would receive an amount equal to 12 months base salary, plus any annual bonus deemed to be vested and earned as well as certain COBRA benefits.

An amendment to the Poli Employment Agreement was approved at a Board meeting on December 13, 2017, and such amendment was executed on January 3, 2018. Pursuant to the terms of the Poli Agreement, as amended (the “*Poli Amendment*”), effective January 1, 2018, Mr. Poli’s employment was extended three years, and shall automatically renew for successive one-year periods thereafter unless either party provides the other with notice of its intent not to renew the Poli Agreement at least six months prior to termination. In addition, the Poli Amendment provides: (i) an increase in Mr. Poli’s base salary to \$250,000 per year; (ii) the issuance of 150,000 unregistered restricted shares of the Company’s Common Stock, which shall vest annually in increments of 50,000 beginning January 1, 2018; and (iii) in the event of a change of control, Mr. Poli shall be entitled to a cash payment equal to one year’s salary, plus all restricted stock, warrants and options previously issued to Mr. Poli shall become immediately vested and exercisable.

The Poli Amendment renewed effective January 1, 2021 and on February 23, 2021 the Board approved an increase in Mr. Poli’s base salary to \$275,000 per year effective March 21, 2021. In the event of a change of control, Mr. Poli shall be entitled to a cash payment equal to one year’s salary, plus all restricted stock, warrants and options previously issued to Mr. Poli shall become immediately vested and exercisable.

#### *Swando Employment Agreement*

On December 6, 2016, the Company entered into an employment agreement with Mr. Swando (the “*Swando Employment Agreement*”). Under the terms and conditions of the Swando Employment Agreement, Mr. Swando received a base salary equal to \$185,000 per annum, and received a one-time grant of 25,000 registered shares of the Company’s Common Stock. One-half of these shares vested April 23, 2017, and the remaining one-half vested April 23, 2018. If the Company terminates Mr. Swando’s employment as a result of an involuntary termination, he would receive an amount equal to 6 months base salary, plus any annual bonus deemed to be vested and earned as well as certain COBRA benefits.

A first amendment to the Swando Employment Agreement was executed on April 23, 2018. Under the terms of the Swando Employment, as amended (the “*First Swando Amendment*”), effective April 23, 2018, (i) Mr. Swando’s base annual salary was increased to \$205,000, and (ii) in the event of a change of control, Mr. Swando shall be entitled to a cash payment equal to 6 months of his base annual salary, plus all restricted stock, warrants and options previously issued to Mr. Swando shall become immediately vested and exercisable, and (iii) for the purposes of any severance payment, the target bonus shall be deemed to be vested and earned.

A second amendment to the Swando Employment Agreement was executed on January 15, 2022 (the “*Second Swando Amendment*”). Under the terms of the Second Swando Amendment, Mr. Swando was promoted to Chief Revenue Officer. Mr. Swando’s base salary was increased to \$275,000 per calendar year, and Mr. Swando’s bonus target level was set at fifty percent of his new base salary. Additionally, in the event of a change of control, Mr. Swando shall be entitled to a cash payment equal to one year’s salary, plus all restricted stock, warrants and options previously issued to Mr. Swando shall become immediately vested and exercisable. Subject to the approval of the Company’s proposed 2022 Omnibus Equity Incentive Plan (the “*Plan*”) by the Board of Directors and the Company’s stockholders, Mr. Swando shall be entitled to a one-time grant of 185,000 share of common stock of the Company, subject to the terms and conditions of the Plan as approved.

#### ***Outstanding Equity Awards at September 30, 2022***

There are no outstanding shares, stock option awards and warrants held by any of the Named Executive Officers as of September 30, 2022. However, Mr. Swando does have 123,333 shares that will vest in equal parts on April 13, 2023 and October 13, 2023.

#### ***Director Compensation***

During the fiscal year ended September 30, 2022, each of our non-employee directors received \$25,000 per quarter for serving on the Board, which fees were payable in cash. The members of the Board are also eligible for reimbursement of their expenses incurred in attending Board meetings in accordance with our policies.

The following table sets forth the compensation awarded to, earned by, or paid to each non-employee director having served during the fiscal year ended September 30, 2022:

|                       | <u>Stock Awards</u><br>( <u>\$</u> ) | <u>Warrant Awards</u><br>( <u>\$</u> ) | <u>Cash</u><br>( <u>\$</u> ) | <u>Total Fees Earned</u><br>( <u>\$</u> ) |
|-----------------------|--------------------------------------|--|------------------------------|---|
| <b>Guy Dubois (1)</b> | \$ -                                 | \$ -                                   | \$ 100,000                   | \$ 100,000                                |
| <b>Karen Macleod</b>  | \$ -                                 | \$ -                                   | \$ 100,000                   | \$ 100,000                                |
| <b>Karim Sehnaoui</b> | \$ -                                 | \$ -                                   | \$ 100,000                   | \$ 100,000                                |

(1) Mr. Dubois served as the Company’s Chief Executive Officer from September 2016 until December 31, 2017. Effective January 1, 2018 he resigned from such position, and on December 8, 2022, Mr. Dubois tendered his resignation as a director of the Company and as Chair of the Board, effective December 31, 2022.

#### ***Director Warrants***

The following table lists the warrants to purchase shares of Common Stock held by each of our non-employee directors as of December 1, 2022, all of which were granted in connection with their services as directors:

| <u>Name</u>           | <u>Grant Date</u> | <u>Expiration Date</u> | <u>Exercise price</u> | <u>Number of warrants</u> | <u>Compensation Expense</u> |
|-----------------------|-------------------|------------------------|-----------------------|---------------------------|-----------------------------|
| <b>Guy Dubois (1)</b> | 1/2/2014          | 12/31/2023             | \$ 1.24               | 2,344                     | \$ 12,014                   |
|                       | 4/1/2014          | 3/31/2023              | \$ 1.24               | 2,432                     | \$ 8,684                    |
|                       | 6/3/2014          | 6/2/2023               | \$ 1.24               | 51,576                    | \$ 300,326                  |
|                       | 7/1/2014          | 6/30/2023              | \$ 1.24               | 2,647                     | \$ 7,270                    |
|                       | 1/15/2016         | 1/15/2023              | \$ 1.24               | 15,126                    | \$ 45,008                   |
|                       | 4/1/2016          | 3/31/2023              | \$ 1.24               | 14,286                    | \$ 47,572                   |
|                       | 7/1/2016          | 6/30/2023              | \$ 1.24               | 18,000                    | \$ 53,454                   |
| <b>Karen Macleod</b>  | 7/1/2016          | 6/30/2023              | \$ 1.24               | 9,000                     | \$ 37,154                   |

(1) Mr. Dubois served as the Company’s Chief Executive Officer from September 2016 until December 31, 2017. Effective January 1, 2018 he resigned from such position, and on December 8, 2022, Mr. Dubois tendered his resignation as a director of the Company and as Chair of the Board, effective December 31, 2022.

#### ***Compensation Risks Assessment***

As required by rules adopted by the SEC, management has assessed our compensation policies and practices with respect to all employees to determine whether risks arising from those policies and practices are reasonably likely to have a material adverse effect on us. In doing so, management considered various features and elements of the compensation policies and practices that discourage excessive or unnecessary risk taking. As a result of the assessment, we have determined that our compensation policies and practices do not create risks that are reasonably likely to have material adverse effects.

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

The following table presents information regarding beneficial ownership as of December 1, 2022 (the “*Table Date*”), of our Common Stock by (i) each stockholder known to us to be the beneficial owner of more than five percent of our Common Stock; (ii) each of our Named Executive Officers serving as of the Table Date; (iii) each of our directors serving as of the Table Date; and (iv) all of our executive officers and directors as a group.

We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and dispositive power with respect to all securities they beneficially own. As of the Table Date, the applicable percentage ownership is based on 11,863,758 shares of our Common Stock issued and outstanding.

Beneficial ownership representing less than one percent of the issued and outstanding shares of a class is denoted with an asterisk (“\*”). Holders of Common Stock are entitled to one vote per share.

| Name and Address of Beneficial Owner (1)                    | Common Stock |       |
|---|--------------|-------|
|   | Shares       | %     |
| <b>5% Beneficial Owners:</b>                                |              |       |
| ETS Limited (2)   | 4,871,745    | 41.1% |
| Safety Invest S.A., Compartment Secure I (3)                | 1,740,697    | 14.7% |
| <b>Directors and Named Executive Officers:</b>              |              |       |
| Guy Dubois (4)  | 466,331      | 3.9%  |
| Karen Macleod (5)   | 82,744       | 0.7%  |
| Karim Sehnaoui (6)  | 14,021       | 0.1%  |
| Derek Cassell (7)   | 317,209      | 2.7%  |
| Peter Poli (8)  | 187,241      | 1.6%  |
| Matt Swando (9)   | 205,340      | 1.7%  |
| All directors and executive officers as a group (5 persons) | 1,272,886    | 10.7% |

- (1) Except as otherwise indicated, the business address for these beneficial owners is c/o the Company, 200 E. 5th Avenue, Suite 100, Naperville, Illinois 60563.
- (2) Address is c/o Maurant Ozannes Corporate Services (Cayman) Limited, 94 Solaris Avenue, Camana Bay, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands. Holding information is based on Amendment No. 2 to Schedule 13D filed by ADS Securities LLC on February 9, 2018.
- (3) Secure I is a compartment of Safety Invest S.A. (“*Safety*”), a company established under the Luxembourg Securitization Law and incorporated as a “société anonyme” under the laws of the Grand Duchy of Luxembourg whose principal business is to enter into one or more securitization transactions. Holding information is based on Schedule 13D filed on March 20, 2019.
- (4) Holdings consist of 359,920 shares of Common Stock owned of record and 106,411 shares of Common Stock issuable upon exercise of stock purchase warrants. Mr. Dubois tendered his resignation as a director on December 8, 2022, effective December 31, 2022.
- (5) Holdings includes 73,744 shares of Common Stock owned of record and 9,000 shares of Common Stock issuable upon exercise of stock purchase warrants.
- (6) Holdings include 14,021 shares of Common Stock owned of record.
- (7) Holdings include 317,209 shares of Common Stock owned of record.
- (8) Holdings include 187,241 shares of Common Stock owned of record.
- (9) Holdings include 205,340 shares of Common Stock owned of record subject to additional vesting in April and October 2023.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of September 30, 2022 regarding equity compensation plans approved by our security holders and equity compensation plans that have not been approved by our security holders:

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) |
|--|---|---|---|
| Equity compensation plans approved by security holders     | 160,881 <sup>(1)</sup>  | \$ 1.24   | 242,218 <sup>(2)</sup>  |
| Equity compensation plans not approved by security holders | -   | -   | -   |
| Total  | 160,881   | \$ 1.24   | 242,218   |

(1) Consists of shares of our Common Stock issuable upon exercise of outstanding options issued under the Company's 2012 Equity Compensation Plan (the "2012 Plan"), and the Company's 2022 Omnibus Equity Incentive Plan (the "2022 Plan"). Excludes 25,352 options from the 2012 Plan that expired unexercised on October 14, 2022.

(2) Consists of shares of our Common Stock reserved for future issuance under the 2012 Plan and the 2022 Plan.

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

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 Board of Directors on February 7, 2018.

On September 8, 2020, the Company received a letter from ADS informing the Company that ADS had been assigned the right to payment under that certain Loan Facility dated September 14, 2015, by and between Sapinda Asia Limited and the Company (the "Sapinda Loan Agreement"). On September 30, 2020, the Company and ADS settled the outstanding amount due under the Sapinda Loan Agreement for \$2.7 million. The Company recorded a gain of approximately \$0.7 million during the fiscal year ended September 30, 2020.

### Item 14. Principal Accounting Fees and Services

During the years ended September 30, 2022 and 2021, Eide Bailly, LLP ("Eide Bailly") served as our independent registered public accounting firm. The following table presents approximate aggregate fees and other expenses for professional services rendered by Eide Bailly, our independent registered public accounting firm, for the audit of the Company's annual financial statements for the years ended September 30, 2022 and 2021 and fees and other expenses for other services rendered during those periods.

|                                   | 2022       | 2021       |
|-----------------------------------|------------|------------|
| Audit Fees <sup>(1)</sup>         | \$ 192,135 | \$ 183,000 |
| Audit-Related Fees <sup>(2)</sup> | \$ -       | \$ -       |
| Tax Fees <sup>(3)</sup>           | \$ 44,220  | \$ 35,700  |
| All Other Fees <sup>(4)</sup>     | \$ 20,080  | \$ 11,500  |
| Total                             | \$ 256,435 | \$ 230,200 |

(1) Audit services in 2022 and 2021 consisted of the audit of our annual consolidated financial statements, and other services related to filings and registration statements filed by us and our subsidiaries, and other pertinent matters including reviews of interim financial statements from our quarterly reports. Eide Bailly has served as our independent registered public accounting firm since September 24, 2013.

(2) There were no audit-related fees for the years ended September 30, 2022 and 2021.

(3) For permissible professional services related to income tax return preparation and compliance.

(4) All other fees are related to the audit of the 401(k) financial statements and an S-8 registration in 2022.

### **Audit Committee Pre-Approval Policies and Procedures**

Prior to May 31, 2018, our former Audit Committee had, and subsequent to such date our entire Board of Directors has, established pre-approval policies and procedures, pursuant to which the Audit Committee approved the foregoing audit and permissible non-audit services provided by Eide Bailly in the fiscal year ended September 30, 2018, and the full Board approved the foregoing audit and permissible non-audit services provided by Eide Bailly in the fiscal year ended September 30, 2021 (“*Fiscal 2021*”). Such procedures govern the ways in which the Audit Committee pre-approved, and the full Board of Directors now pre-approves, audit and various categories of non-audit services that the auditor provides to the Company. Services that have not received pre-approval must receive specific approval of the full Board for Fiscal 2022.

### **Auditor Independence**

Our Audit Committee and the full Board of Directors considered that the work done for us in Fiscal 2022 and Fiscal 2021, respectively, by Eide Bailly was compatible with maintaining Eide Bailly’s independence.

### **Report of the Audit Committee of the Board of Directors**

Date: December 16, 2022

The full Board of Directors of Track Group, Inc. (the “*Board*”), serving in the capacity of the Company’s Audit Committee, has reviewed and discussed with management and Eide Bailly, LLP, our independent registered public accounting firm, the audited consolidated financial statements in the Track Group, Inc. Annual Report on Form 10-K for the year ended September 30, 2022. The Board has also discussed with Eide Bailly, LLP those matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board (“*PCAOB*”).

Eide Bailly, LLP also provided the Board with the written disclosures and the letter required by the applicable requirements of the PCAOB regarding the independent auditor’s communication with the Board concerning independence. The Board has discussed with the registered public accounting firm their independence from our Company.

Based on its discussions with management and the registered public accounting firm, and its review of the representations and information provided by management and the registered public accounting firm, including as set forth above, the Board determined that the audited financial statements should be included in our Annual Report on Form 10-K for the year ended September 30, 2022.

Respectfully Submitted,  
Karen Macleod, Committee Chair  
Guy Dubois  
Karim Sehnaoui

The information contained above under the caption “*Report of the Audit Committee of the Board of Directors*” shall not be deemed to be soliciting material or to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into such filing.



## PART IV

### Item 15. Exhibits and Financial Statement Schedules

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

#### 1. Financial Statements

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

#### 2. Financial Statement Schedules.

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

| Exhibit Number           | Exhibit Description   | Filed Herewith | Incorporated by Reference   |                   |
|--------------------------|---|----------------|---|-------------------|
|                          |   |                | Form  | Filing Date       |
| <a href="#">3(i)(1)</a>  | Articles of Transfer of Track Group, Inc., a Utah corporation, dated August 5, 2016   |                | Exhibit 3(i)(3) to the Company's Current Report on Form 8-K   | August 9, 2016    |
| <a href="#">3(i)(2)</a>  | Certificate of Conversion Converting Track Group, Inc., a Utah corporation, to Track Group, Inc., a Delaware corporation, dated August 5, 2016  |                | Exhibit 3(i)(4) to the Company's Quarterly Report on Form 10-Q  | August 9, 2016    |
| <a href="#">3(i)(3)</a>  | Certificate of Incorporation of Track Group, Inc., a Delaware corporation, dated August 6, 2016   |                | Exhibit 3(i)(5) to the Company's Quarterly Report on Form 10-Q  | August 9, 2016    |
| <a href="#">3(i)(4)</a>  | Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock, dated October 12, 2017   |                | Exhibit 3.1 to the Company's Current Report on Form 8-K   | October 13, 2017  |
| <a href="#">3(ii)(2)</a> | Bylaws of Track Group, Inc., a Delaware corporation   |                | Exhibit 3(ii)(2) to the Company's Quarterly Report on Form 10-Q   | August 9, 2016    |
| <a href="#">10.1</a>     | 2012 Equity Incentive Award Plan  |                | Appendix II to the Company's <a href="#">Definitive Proxy Statement on Schedule 14A</a> filed on October 25, 2011, amended in accordance with the Company's <a href="#">Definitive Proxy Statement on Schedule 14A</a> filed on April 9, 2015 |                   |
| <a href="#">10.2</a>     | Amended and Restated Facility Agreement, dated June 30, 2015, by and between Track Group, Inc. and Conrent Invest S.A., acting on behalf of its compartment "Safety 2", dated June 30, 2015 |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | July 15, 2015     |
| <a href="#">10.4</a>     | Loan Agreement, by and between Conrent Invest S.A., acting with respect to its Compartment Safety III, and Track Group, Inc., dated May 1, 2016   |                | Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q   | May 9, 2016       |
| <a href="#">10.5</a>     | Employment agreement, by and between Track Group Inc. and Peter Poli, dated December 12, 2016   |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | December 16, 2016 |
| <a href="#">10.6</a>     | Employment Agreement by and between Track Group, Inc. and Derek Cassell dated, December 1, 2016   |                | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q   | February 14, 2017 |
| <a href="#">10.7</a>     | Services Agreement, dated December 7, 2016  |                | Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q   | February 14, 2017 |
| <a href="#">10.8</a>     | Amendment No. 1 to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated February 13, 2017  |                | Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q   | February 14, 2017 |
| <a href="#">10.9</a>     | Amendment No. 1 to Employment Agreement by and between Track Group, Inc. and Peter K. Poli dated, January 3, 2018   |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | January 5, 2018   |
| <a href="#">10.10</a>    | Amendment No. 2 to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated January 3, 2018  |                | Exhibit 10.2 the Company's Current Report on Form 8-K   | January 5, 2018   |
| <a href="#">10.11</a>    | Monitoring Services Agreement by and between Track Group, Inc. and Marion County Community Corrections Agency, dated December 18, 2017  |                | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q   | February 8, 2018  |
| <a href="#">10.12</a>    | Monitoring Services Agreement by and between Track Group, Inc. and Gendarmeria of Chile, the Republic of Chile's uniformed prison service, dated July 29, 2020                              |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | August 17, 2020   |
| <a href="#">10.13</a>    | Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated July 19, 2018   |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | July 19, 2018     |
| <a href="#">10.14</a>    | Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated February 24, 2019   |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | February 28, 2019 |
| <a href="#">10.15</a>    | Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated January 10, 2020  |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | January 15, 2020  |
| <a href="#">10.17</a>    | Monitoring Services Agreement between Track Group, Inc. and Gendarmeria de Chile, the Republic of Chile's uniform prison service, dated July 29, 2020                                       |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | August 17, 2020   |
| <a href="#">10.18</a>    | Amendment No. 3 to Employment Agreement between Track Group, Inc. and Derek Cassell, dated December 1, 2016   |                | Exhibit 10.19 to the Company's Annual Report on Form 10-K   | December 23, 2020 |
| <a href="#">10.19</a>    | Amendment to Facility Agreement by and between Track Group, Inc. and Conrent Invest S.A., acting on behalf of its compartment, "Safety 2", dated December 21, 2020                          |                | Exhibit 10.1 to the Company's Current Report on Form 8-K  | December 23, 2020 |
| <a href="#">10.20</a>    | Amendment No. 4 to the Executive Employment Agreement between Track Group, Inc. and Derek Cassell Dated December 15, 2021   |                | Exhibit 10.19 to the Company's Annual Report on Form 10-K   | December 16, 2021 |

|                               |   |   |                   |
|-------------------------------|---|---|-------------------|
|                               | (incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K, filed).  |   |                   |
| <a href="#"><u>10.21</u></a>  | Employment Agreement by and Between Track Group Inc. and Matthew Swando dated December 6, 2016.   | Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q         | February 10, 2022 |
| <a href="#"><u>10.22</u></a>  | Amendment No. 1 to Employment Agreement by and Between Track Group Inc. and Matthew Swando dated April 23, 2018.  | Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q         | February 10, 2022 |
| <a href="#"><u>10.23</u></a>  | Amendment No.2 to Employment Agreement by and Between Track Group Inc. and Matthew Swando dated January 15, 2022.   | Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q         | February 10, 2022 |
| <a href="#"><u>10.24</u></a>  | 2022 Omnibus Equity Incentive Plan (incorporated by reference to Annex A to our Definitive Proxy Statement on Schedule 14A, filed).                                   | Annex A to the Company's Definitive Proxy Statement on Schedule 14A | February 24, 2022 |
| <a href="#"><u>10.25</u></a>  | Settlement Agreement and Mutual Release entered into by the Company, Eli Sabag, Sapinda Asia Limited and Lars Windhorst, dated June 10, 2022                          | Exhibit 10.1 to the Company's Current Report on Form 8-K            | June 14, 2022     |
| <a href="#"><u>14.1</u></a>   | Code of Business Conduct & Ethics (incorporated by reference to our Annual Report on Form 10-K, filed).   | Exhibit 14.1 to the Company's Annual Report on Form 10-K            | December 19, 2017 |
| <a href="#"><u>21</u></a>     | Subsidiaries of the Registrant (incorporated by reference to Amendment No. 1 to our Annual Report on Form 10-K, filed).   | Exhibit 21 to the Company's Annual Report on Form 10-K              | January 28, 2019  |
| <a href="#"><u>31(i)</u></a>  | Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).  | X   |                   |
| <a href="#"><u>31(ii)</u></a> | Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).  | X   |                   |
| <a href="#"><u>32</u></a>     | Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).   | X   |                   |
| 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 | X   |                   |
| 101.SCH                       | Inline XBRL Taxonomy Extension Schema Document  | X   |                   |
| 101.CAL                       | Inline XBRL Taxonomy Extension Calculation Linkbase Document  | X   |                   |
| 101.DEF                       | Inline XBRL Taxonomy Extension Definition Linkbase Document   | X   |                   |
| 101.LAB                       | Inline XBRL Taxonomy Extension Label Linkbase Document  | X   |                   |
| 101.PRE                       | Inline XBRL Taxonomy Extension Presentation Linkbase Document   | X   |                   |
| 104                           | Cover Page Interactive Data File (embedded within the Inline XBRL Document and included in Exhibit 101)   | X   |                   |

**SIGNATURES**

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

Track Group, Inc.

Date: December 16, 2022

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

Date: December 16, 2022

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

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

| <u>Signature</u>                            | <u>Title</u>          | <u>Date</u>       |
|---|-----------------------|-------------------|
| <u>/s/ Guy Dubois</u><br>Guy Dubois         | Chairman of the Board | December 16, 2022 |
| <u>/s/ Karen Macleod</u><br>Karen Macleod   | Director              | December 16, 2022 |
| <u>/s/ Karim Sehnaoui</u><br>Karim Sehnaoui | Director              | December 16, 2022 |

**Index to Consolidated Financial Statements**

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## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Track Group, Inc. as of September 30, 2022 and 2021, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity/(deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Track Group, Inc. as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

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

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

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

### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

## Recoverability of Goodwill

As discussed in Notes 2 and 13 to the consolidated financial statements, the Company's balance of goodwill was \$8,061,002. The determination of the recoverability of goodwill requires management to make significant assumptions and complex judgments related to fair value of the goodwill. On an annual basis and at interim periods when circumstances require, management tests the recoverability of the Company's goodwill.

We identified the recoverability of goodwill as a critical audit matter. Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Evaluating management's analysis relating to their identification of reporting units, which is the unit of accounting for which goodwill is assigned and tested for impairment.
- Gaining an understanding of management's processes, controls and methodology for determining and developing the fair value estimate, including evaluating the appropriateness of the income approach and market approach used to develop the fair value estimate.
- Testing the completeness, accuracy and relevance of the underlying data used in these fair value approaches.
- Evaluating the significant assumptions used by management in the Company's income approach, including the amount and timing of cash flows throughout the forecasted period, the scheduled depreciation expense and capital expenditures necessary to sustain the business.
- Evaluating whether the assumptions used by management were reasonable by considering (i) the past performance of the Company, (ii) the consistency of these assumptions with third-party industry and economic data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.
- Utilizing a valuation specialist to assist in testing the Company's fair value determination.

/s/ Eide Bailly LLP

We have served as Track Group, Inc.'s auditor since 2013. Hansen, Barnett and Maxwell, P.C., who joined Eide Bailly LLP in 2013, had served as the Company's auditor since 2005.

Denver, Colorado  
December 16, 2022

**TRACK GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF SEPTEMBER 30, 2022 AND 2021**

|  | September 30,<br>2022 | September 30,<br>2021 |
|--|-----------------------|-----------------------|
| <b>Assets</b>  |                       |                       |
| <i>Current assets:</i>   |                       |                       |
| Cash   | \$ 5,311,104          | \$ 8,421,162          |
| Accounts receivable, net of allowance for doubtful accounts of \$102,570 and \$91,262, respectively                        | 6,236,555             | 7,163,615             |
| Prepaid expense and deposits   | 769,006               | 998,589               |
| Inventory, net of reserves of \$0 and \$0, respectively  | 1,053,245             | 305,210               |
| Other current assets   | 284,426               | -                     |
| Total current assets   | 13,654,336            | 16,888,576            |
| Property and equipment, net of accumulated depreciation of \$1,829,588 and \$2,615,967, respectively                       | 170,329               | 202,226               |
| Monitoring equipment, net of accumulated depreciation of \$5,950,639 and \$5,977,093, respectively                         | 3,624,101             | 3,068,100             |
| Intangible assets, net of accumulated amortization of \$14,804,269 and \$17,607,457, respectively                          | 15,661,417            | 20,434,143            |
| Goodwill   | 8,061,002             | 8,519,998             |
| Deferred tax asset   | -                     | 101,159               |
| Other assets   | 3,509,655             | 4,309,040             |
| Total assets   | \$ 44,680,840         | \$ 53,523,242         |
| <b>Liabilities and Stockholders' Equity (Deficit)</b>  |                       |                       |
| <i>Current liabilities:</i>  |                       |                       |
| Accounts payable   | \$ 2,858,915          | \$ 2,821,982          |
| Accrued liabilities  | 3,042,443             | 4,350,030             |
| Current portion of long-term debt  | 456,681               | 526,134               |
| Total current liabilities  | 6,358,039             | 7,698,146             |
| Long-term debt, net of current portion   | 42,979,243            | 43,452,216            |
| Long-term liabilities  | 398,285               | 3,650                 |
| Total liabilities  | 49,735,567            | 51,154,012            |
| Commitments and contingencies (Note 12)  |                       |                       |
| <i>Stockholders' equity (deficit):</i>   |                       |                       |
| Common stock, \$0.0001 par value: 30,000,000 shares authorized; 11,863,758 and 11,524,978 shares outstanding, respectively | 1,186                 | 1,152                 |
| Series A Convertible Preferred stock, \$0.0001 par value: 1,200,000 shares authorized; 0 shares outstanding                | -                     | -                     |
| Paid in capital  | 302,437,593           | 302,250,954           |
| Accumulated deficit  | (306,218,889)         | (298,828,527)         |
| Accumulated other comprehensive loss   | (1,274,617)           | (1,054,349)           |
| Total equity (deficit)   | (5,054,727)           | 2,369,230             |
| Total liabilities and stockholders' equity (deficit)   | \$ 44,680,840         | \$ 53,523,242         |

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

**TRACK GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

|  | <b>2022</b>    | <b>2021</b>   |
|--|----------------|---------------|
| <b>Revenue:</b>  |                |               |
| Monitoring and other related services                        | \$ 35,768,090  | \$ 39,179,699 |
| Product sales and other                                      | 1,200,409      | 481,626       |
| Total revenue  | 36,968,499     | 39,661,325    |
| <b>Cost of revenue:</b>                                      |                |               |
| Monitoring, products and other related services              | 16,377,573     | 16,151,644    |
| Depreciation and amortization                                | 3,237,970      | 2,402,367     |
| Total cost of revenue  | 19,615,543     | 18,554,011    |
| <b>Gross profit</b>  | 17,352,956     | 21,107,314    |
| <b>Operating expense:</b>                                    |                |               |
| General & administrative                                     | 12,462,931     | 10,232,116    |
| Selling & marketing  | 2,993,749      | 2,716,283     |
| Research & development                                       | 2,432,448      | 1,548,527     |
| Depreciation & amortization                                  | 1,563,729      | 1,896,481     |
| Total operating expense                                      | 19,452,857     | 16,393,407    |
| <b>Operating income (loss)</b>                               | (2,099,901)    | 4,713,907     |
| <b>Other income (expense):</b>                               |                |               |
| Interest income  | 162,975        | 21,573        |
| Interest expense   | (1,991,302)    | (2,192,108)   |
| Currency exchange rate gain (loss)                           | (1,619,018)    | 615,361       |
| Other income/(expense), net                                  | (959,628)      | 1,000,782     |
| <b>Total other income (expense)</b>                          | (4,406,973)    | (554,392)     |
| <b>Net income (loss) before income taxes</b>                 | (6,506,874)    | 4,159,515     |
| Income tax expense   | 883,488        | 717,109       |
| <b>Net income (loss) attributable to common stockholders</b> | (7,390,362)    | 3,442,406     |
| Foreign currency translation adjustments                     | (220,268)      | (133,276)     |
| <b>Comprehensive income (loss)</b>                           | \$ (7,610,630) | \$ 3,309,130  |
| <b>Net income (loss) per share – basic</b>                   |                |               |
| Net income (loss) per common share                           | \$ (0.64)      | \$ 0.30       |
| Weighted average common shares outstanding                   | 11,634,449     | 11,450,269    |
| <b>Net income (loss) per share – diluted:</b>                |                |               |
| Net income (loss) per common share                           | \$ (0.64)      | \$ 0.29       |
| Weighted average common shares outstanding                   | 11,634,449     | 12,036,577    |

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



**TRACK GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

|   | <b>Common Stock</b> |                 | <b>Paid-in</b>        | <b>Accumulated</b>      | <b>Comprehensive</b>  |                       |
|---|---------------------|-----------------|-----------------------|-------------------------|-----------------------|-----------------------|
|   | <b>Shares</b>       | <b>Amount</b>   | <b>Capital</b>        | <b>Deficit</b>          | <b>Loss</b>           | <b>Total</b>          |
| <b>Balance as of October 1, 2021</b>                                    | 11,524,978          | \$ 1,152        | \$ 302,250,954        | \$ (298,828,527)        | \$ (1,054,349)        | \$ 2,369,230          |
| Stock-based compensation  |                     |                 | 207,547               |                         |                       | 207,547               |
| Issuance of Common Stock to employees for services                      | 285,000             | 29              | (29)                  |                         |                       | -                     |
| Foreign currency translation adjustments                                |                     |                 |                       |                         | (220,268)             | (220,268)             |
| Issuance of Common Stock for options/warrants exercised                 | 53,780              | 5               | (5)                   |                         |                       | -                     |
| Cash received for options/warrants exercised                            |                     |                 | 10,570                |                         |                       | 10,570                |
| Tax withheld on issuance of Common Stock for options/warrants exercised |                     |                 | (31,444)              |                         |                       | (31,444)              |
| Net loss  |                     |                 |                       | (7,390,362)             |                       | (7,390,362)           |
| <b>Balance as of September 30, 2022</b>                                 | <u>11,863,758</u>   | <u>\$ 1,186</u> | <u>\$ 302,437,593</u> | <u>\$ (306,218,889)</u> | <u>\$ (1,274,617)</u> | <u>\$ (5,054,727)</u> |

|   | <b>Common Stock</b> |                 | <b>Paid-in</b>        | <b>Accumulated</b>      | <b>Comprehensive</b>  |                     |
|---|---------------------|-----------------|-----------------------|-------------------------|-----------------------|---------------------|
|   | <b>Shares</b>       | <b>Amount</b>   | <b>Capital</b>        | <b>Deficit</b>          | <b>Loss</b>           | <b>Total</b>        |
| <b>Balance as of October 1, 2020</b>                                    | 11,414,150          | \$ 1,141        | \$ 302,270,242        | \$ (302,270,933)        | \$ (921,073)          | \$ (920,623)        |
| Foreign currency translation adjustments                                | -                   | -               | -                     | -                       | (133,276)             | (133,276)           |
| Issuance of Common Stock for options/warrants exercised                 | 110,828             | 11              | (11)                  | -                       | -                     | -                   |
| Cash received for options/warrants exercised                            | -                   | -               | 10,823                | -                       | -                     | 10,823              |
| Tax withheld on issuance of Common Stock for options/warrants exercised | -                   | -               | (30,100)              | -                       | -                     | (30,100)            |
| Net income  | -                   | -               | -                     | 3,442,406               | -                     | 3,442,406           |
| <b>Balance as of September 30, 2021</b>                                 | <u>11,524,978</u>   | <u>\$ 1,152</u> | <u>\$ 302,250,954</u> | <u>\$ (298,828,527)</u> | <u>\$ (1,054,349)</u> | <u>\$ 2,369,230</u> |

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

**TRACK GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

|  | 2022           | 2021          |
|--|----------------|---------------|
| <b>Cash flows from operating activities:</b>   |                |               |
| Net income (loss)  | \$ (7,390,362) | \$ 3,442,406  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                |               |
| Depreciation and amortization  | 4,801,699      | 4,298,848     |
| (Recovery of)/Bad debt expense   | (16,814)       | 125,309       |
| Stock based compensation   | 207,547        | -             |
| Loss on monitoring equipment included in cost of sales                                   | 280,783        | 376,950       |
| Amortization of debt issuance costs  | 137,540        | 47,667        |
| Amortization of monitoring center assets included in cost of revenue                     | 494,001        | 109,416       |
| Impairment of intangible assets and loss from disposal of fixed assets                   | 1,729,658      | -             |
| Income on forgiveness of expense/debt  | (633,471)      | (1,000,756)   |
| Foreign currency exchange (gain) loss  | 1,619,018      | (615,361)     |
| Change in assets and liabilities:  |                |               |
| Accounts receivable, net   | 693,752        | (1,820,091)   |
| Inventories  | (748,035)      | 4,200         |
| Prepaid expense, deposits, deferred tax assets and other assets                          | 284,048        | (2,432,877)   |
| Accounts payable and accrued expense   | (656,403)      | 2,286,471     |
| Net cash provided by operating activities  | 802,961        | 4,822,182     |
| <b>Cash flow from investing activities:</b>  |                |               |
| Purchase of property and equipment   | (117,177)      | (126,720)     |
| Capitalized software   | (865,263)      | (1,349,550)   |
| Purchase of monitoring equipment and parts   | (2,077,840)    | (3,031,426)   |
| Net cash used in investing activities  | (3,060,280)    | (4,507,696)   |
| <b>Cash flow from financing activities:</b>  |                |               |
| Proceeds from long-term debt   | -              | 1,943,213     |
| Payment of deferred financing fees   | -              | (271,084)     |
| Principal payments on long-term debt   | (494,626)      | (275,628)     |
| Employee tax withholdings related to net share settlement of equity-based awards         | (31,444)       | (30,100)      |
| Proceeds from exercise of employee stock options   | 10,570         | 10,823        |
| Net cash provided by (used in) financing activities                                      | (515,500)      | 1,377,224     |
| <b>Effect of exchange rate changes on cash</b>   | (337,239)      | (32,647)      |
| <b>Net increase (decrease) in cash</b>   | (3,110,058)    | 1,659,063     |
| <b>Cash, beginning of year</b>   | 8,421,162      | 6,762,099     |
| <b>Cash, end of year</b>   | \$ 5,311,104   | \$ 8,421,162  |
|  | 2022           | 2021          |
| Cash paid for interest   | \$ 1,870,204   | \$ 696,149    |
| Cash paid for taxes  | \$ 212,268     | \$ 406,672    |
| <b>Non-cash investing and financing activities</b>                                       |                |               |
| Interest previously in accrued liabilities and added to Notes Payable (See Note 7)       | \$ -           | \$ 12,531,556 |

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

**TRACK GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Organization and Nature of Operations**

**General**

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

*Business Condition.* As of September 30, 2022 and 2021, the Company had an accumulated deficit of \$306,218,889 and \$298,828,527, respectively. The Company incurred a net loss of (\$7,390,362) and net income of \$3,442,406 for the years ended September 30, 2022 and 2021, respectively. The Company also has \$42,864,000 of debt maturing in July 2024 and six notes payable maturing between February 2, 2024 and February 17, 2025 related to the construction of two monitoring centers related to a new contract, with outstanding balances due for the six notes totaling \$818,514 at September 30, 2022 (See Note 7). The Company's continuation of profitable operations is dependent upon generating a level of revenue adequate to support its cost structure, which it achieved on an operating basis in Fiscal 2021 and was close to achieving in Fiscal 2022 excluding the approximate \$1.7 million asset impairment. In addition, the Company needs to resolve its largest 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) Summary of Significant Accounting Policies**

**Principles of Consolidation**

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

**Use of Estimates in the Preparation of Financial Statements**

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

**Business Combinations**

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

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

## Foreign Currency Translation

The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars (“USD”) at the exchange rate prevailing at September 30, 2022. Their respective statements of operations have been translated into USD using the average exchange rates prevailing during the periods of each statement. The corresponding translation adjustments are part of accumulated other comprehensive income and are shown as part of stockholders’ equity.

## Other Intangible Assets

Other intangible assets principally consist of patents, royalty purchase agreements, developed technology acquired, customer relationships, trade name, capitalized software development costs, and capitalized website development costs. The Company accounts for other intangible assets in accordance with generally accepted accounting principles and does not amortize intangible assets with indefinite lives. Intangible assets with finite useful lives are amortized over their respective estimated useful lives, which range from three to twenty years. Intangible assets are reviewed for impairment annually or more frequently whenever events or changes in circumstances indicate possible impairment. See Note 13.

## Fair Value of Financial Instruments

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

## Concentration of Revenue & Credit Risk

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

The Company had sales to entities, two of which each represent 10% or more of our gross revenue, as follows for the years ended September 30, 2022 and 2021.

|            | 2022         | %   | 2021         | %   |
|------------|--------------|-----|--------------|-----|
| Customer A | \$ 6,095,403 | 16% | \$ 6,155,718 | 16% |
| Customer B | 4,871,073    | 13% | 6,119,965    | 15% |

No other customer represented more than 10% of the Company’s total revenue for the fiscal years ended September 30, 2022 or 2021.

Concentration of credit risk associated with the Company’s total and outstanding accounts receivable as of September 30, 2022 and 2021, respectively, are shown in the table below:

|            | 2022      | %   | 2021      | %   |
|------------|-----------|-----|-----------|-----|
| Customer A | 1,346,854 | 22% | 1,150,046 | 16% |
| Customer B | 714,399   | 11% | 1,052,538 | 15% |
| Customer C | 675,725   | 11% | 753,618   | 11% |

## Cash Equivalents

Cash equivalents consist of investments with original maturities to the Company of three months or less. The Company has cash in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company had \$3,037,903 and \$5,907,344 of cash deposits in excess of federally insured limits as of September 30, 2022 and 2021, respectively.

## Accounts Receivable

Accounts receivable, which is made up of trade receivables for monitoring and other related services, are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. The allowance is estimated by management based on certain assumptions and variables, including the customer’s financial condition, age of the customer’s receivables and changes in payment histories. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when cash is received. A trade receivable is considered to be past due if any portion of the receivable balance has not been received by the Company within its normal terms. Interest income is not recorded on trade receivables that are past due, unless that interest is collected. For the fiscal years ended September 30, 2022 and September 30 2021, the Company wrote-off fully reserved accounts receivables of \$201,469 and \$91,611, respectively.

## Prepaid Expense and Other

Prepaid assets and other is comprised largely of performance bond deposits, tax deposits, vendor deposits and other prepaid supplier expenses. We generally expect deposits to be returned to the Company as cash within 12 months after the Company's contractual obligation has been completed and prepaid expenses to be allocated over the commitment.

## Inventory

Inventory is valued at the lower of the cost or net realizable value. Cost is determined using the first-in/first-out 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 parts used for minor repairs of ReliAlert™, and other tracking devices as well as completed circuit boards used to manufacture new devices and components used to manufacture circuit boards. Completed and shipped ReliAlert™ and other tracking devices are reflected in Monitoring Equipment. As of September 30, 2022 and September 30, 2021, inventory consisted of the following:

|   | 2022                | 2021              |
|---|---------------------|-------------------|
| Parts to repair devices, components and circuit board inventory | \$ 1,053,245        | \$ 305,210        |
| Reserve for damaged or obsolete inventory                       | -                   | -                 |
| Total inventory, net of reserves                                | <u>\$ 1,053,245</u> | <u>\$ 305,210</u> |

The Company uses a third-party fulfillment service provider. As a result of this service, the Company's employees do not actively assemble new product or repair 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 \$11,103 during the years ended September 30, 2022 and 2021, respectively, for inventory that was obsolete, lost or damaged. Obsolete, lost and damaged items are expensed in Monitoring, products & other related services in the Consolidated Statement of Operations.

## Property and Equipment

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

Property and equipment consisted of the following as of September 30, 2022 and 2021, respectively:

|  | 2022               | 2021               |
|--|--------------------|--------------------|
| Equipment, software and tooling                              | \$ 1,399,288       | \$ 1,332,379       |
| Automobiles  | 4,187              | 5,034              |
| Leasehold improvements                                       | 380,586            | 1,268,486          |
| Furniture and fixtures                                       | 215,856            | 212,294            |
| Total property and equipment before accumulated depreciation | <u>1,999,917</u>   | <u>2,818,193</u>   |
| Accumulated depreciation                                     | <u>(1,829,588)</u> | <u>(2,615,967)</u> |
| Property and equipment, net of accumulated depreciation      | <u>\$ 170,329</u>  | <u>\$ 202,226</u>  |

Property and equipment to be disposed of is reported at the lower of the carrying amount or fair value, less the estimated costs to sell and any gains or losses are included in the results of operations. During the fiscal years ended September 30, 2022 and September 30, 2021, the Company disposed of \$794,555 and \$202,353 fully depreciated fixed assets, respectively. Internally developed software costs related to the Company's monitoring platform are recorded as intangible assets on the Consolidated Balance Sheet.

Depreciation expense recognized for property and equipment for the fiscal years ended September 30, 2022 and 2021 was \$144,054 and \$309,869, respectively.

**Monitoring Equipment**

The Company leases monitoring equipment to agencies for offender tracking under contractual service agreements. The monitoring equipment is depreciated using the straight-line method over an estimated useful life of between one and five years. Monitoring equipment as of September 30, 2022 and 2021 is as follows:

|   | 2022                | 2021                |
|---|---------------------|---------------------|
| Monitoring equipment                                  | \$ 9,574,740        | \$ 9,045,193        |
| Less: accumulated depreciation                        | (5,950,639)         | (5,977,093)         |
| Monitoring equipment, net of accumulated depreciation | <u>\$ 3,624,101</u> | <u>\$ 3,068,100</u> |

Depreciation expense for the fiscal years ended September 30, 2022 and 2021 was \$1,380,558 and \$1,475,118, respectively. This expense was classified as a cost of revenue.

During the fiscal years ended September 30, 2022 and 2021, the Company recorded charges of \$280,783 and \$365,847, respectively, for devices that were lost, stolen or damaged. Lost, stolen and damaged items are expensed in Monitoring, product and other related services in the Consolidated Statements of Operations.

**Impairment of Long-Lived Assets and Goodwill**

The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable, and in the case of goodwill, at least annually. The Company evaluates whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. If the carrying amount of an asset exceeds its fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there is an identifiable fair value that is independent of other groups of assets. See Note 13.

**Revenue Recognition**

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

***Monitoring and Other Related Services***

Monitoring services include two components: (i) lease contracts pursuant to which the Company provides monitoring services and leased 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. The rates for leased devices and monitoring services are considered to be stated at their individual stand-alone selling prices. The Company recognizes revenue on leased devices and monitoring services at the end of each month the services have been provided and payment terms are 30 days from invoice date. In those circumstances in which the Company receives payment in advance, the Company records these payments as deferred revenue.

***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 transactions associated with the sale of devices and replacement parts comprise a single performance obligation. We satisfy the performance obligation when the Company has transferred control of the product to the customer and they receive substantially all of the benefits. Transfer of control passes to customers upon shipment or upon receipt depending on the country of the sale and the agreement with the customer. The transaction price is determined based upon the invoiced sales price and payment terms for the transaction depends on the agreement with the customer and payment is generally required within 60 days or less of shipment. The Company recognizes revenue from other services as the customer receives services and the Company has the right to payment. When purchasing products (such as ReliAlert™ devices) from the Company, customers may, but are not required to, enter into monitoring service contracts with us. The Company recognizes revenue on monitoring services for customers that have previously purchased devices at the end of each month that monitoring services have been provided.

***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.

### **Other Matters**

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

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

### **Research and Development Costs**

The Company expenses research and development costs as incurred.

During the fiscal year ended September 30, 2022 and September 30, 2021, the Company incurred research and development expense of \$2,432,448 and \$1,548,527, respectively.

### **Advertising Costs**

The Company expenses advertising costs as incurred. Advertising expense for the fiscal years ended September 30, 2022 and 2021 was \$14,037 and \$15,961, respectively.

### **Stock-Based Compensation**

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

### **Income Taxes**

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

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

The Company's policy is to recognize interest and penalties related to income tax issues as components of other noninterest expense. As of September 30, 2022 and September 30, 2021, we did not record a liability for uncertain tax positions.

### **Net Income (Loss) Per Common Share**

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

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

Common share equivalents consist of shares issuable upon the exercise of options and warrants to purchase shares of the Company's Common Stock, par value \$0.0001 per share ("Common Stock"). As of September 30, 2022, none of the outstanding common share equivalents were included in the computation of diluted net income per common share as their effect would be anti-dilutive. The Common Stock equivalents outstanding as of September 30, 2022 (excluding 25,352 options that expired unexercised on October 14, 2022) and 2021 consisted of the following:

|  | 2022    | 2021    |
|--|---------|---------|
| Issuable Common Stock options and warrants | 160,881 | 457,075 |
| Total Common Stock equivalents             | 160,881 | 457,075 |

At September 30, 2022 all stock options and warrants had exercise prices that were above the market price of \$0.51 per share and have not been included in the diluted earnings per share calculations. At September 30, 2021, 442,075 of the 457,075 stock options and warrants had exercise prices that were below the market price of \$3.00, and thus have been included in the diluted earnings per share calculation.

## Recent Accounting Pronouncements

### Recently Adopted Accounting Standards

N/A

### Recently Issued Accounting Standards

In January 2017, the FASB issued ASU 2017-04, "Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment". The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance for accelerated filing companies will be 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 is 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 2024. 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.

## (3) Revenue Recognition

*Monitoring and Other Related Services.* Monitoring services include two components: (i) lease contracts pursuant to which the Company provides monitoring services and leased 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. 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 receivable at September 30, 2022 of \$6,236,555 includes an unbilled balance of \$777,514. The balance of accounts receivable at September 30, 2021 of \$7,163,615 includes an unbilled balance of \$420,697 and the balance of accounts receivable at September 30, 2020 of \$5,546,213 includes an unbilled balance of \$509,095. The balance of the deferred revenue at September 30, 2022, September 30, 2021 and September 30, 2020 was \$3,299, \$22,500 and \$147,921, respectively, and were included in accrued liabilities on the Consolidated Balance Sheets. The Company recognized \$120,958 and \$155,518 of deferred revenue in the fiscal years ended September 30, 2022 and September 30, 2021, 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 tables present the Company's revenue disaggregated by geography, based on management's assessment of available data:

|               | Twelve Months Ended September 30, 2022 |                    | Twelve Months Ended September 30, 2021 |                    |
|---------------|--|--------------------|--|--------------------|
|               | Total Revenue                          | % of Total Revenue | Total Revenue                          | % of Total Revenue |
| United States | \$ 26,427,402                          | 72%                | \$ 29,053,294                          | 73%                |
| Latin America | 9,389,482                              | 25%                | 10,186,554                             | 26%                |
| Other         | 1,151,615                              | 3%                 | 421,477                                | 1%                 |
| Total         | \$ 36,968,499                          | 100%               | \$ 39,661,325                          | 100%               |

The above table includes total revenue for the Company, of which monitoring and other related services is the majority (approximately 97% for fiscal year ended September 30, 2022 and 99% for the fiscal year ended September 30, 2021) of the Company's revenue. Latin America includes Bahamas, Chile, Mexico, Puerto Rico and the U.S. Virgin Islands. Other includes Canada, New Zealand, Saudi Arabia, South Africa, the United Kingdom and Vietnam.

#### (4) Other Assets

As of September 30, 2022 and September 30, 2021, respectively, the balance of other assets was \$3,509,655 and \$4,309,040, respectively. Other assets at September 30, 2022 are comprised largely of cash used as collateral for Performance Bonds (as defined in Note 12), 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.

The Company was 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 incurred approximately \$1.5 million in costs for the monitoring centers and related equipment at September 30, 2022. The Santiago monitoring center began monthly amortization in Monitoring, products and other related service costs on the Consolidated Statement of Operations over the life of the new contract in June 2021. Amortization of costs related to the monitoring centers for the twelve-months ended September 30, 2022 were \$494,001. The Company recorded revenue from the customer based on a contractually agreed upon unit per day amount during the contract period. See Note 7 for details of the borrowings related to the monitoring centers construction and equipment.

## (5) Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2022 and 2021:

|  | September 30,<br>2022 | September 30,<br>2021 |
|--|-----------------------|-----------------------|
| Accrued payroll, taxes and employee benefits | \$ 1,412,055          | \$ 2,279,454          |
| Deferred revenue                             | 3,299                 | 22,500                |
| Accrued taxes - foreign and domestic         | 371,293               | 23,022                |
| Accrued other expense                        | 123,752               | 236,386               |
| Accrued legal and other professional costs   | 57,905                | 738,306               |
| Accrued costs of revenue                     | 352,060               | 248,963               |
| Right of use liability                       | 177,431               | 162,313               |
| Deferred financing fees                      | 88,685                | 180,000               |
| Accrued interest                             | 455,963               | 459,086               |
| Total accrued liabilities                    | \$ 3,042,443          | \$ 4,350,030          |

On March 1, 2021 accrued interest outstanding related to the Conrent Amended Facility Agreement was capitalized, increasing the principal of the outstanding loan. See Note 7.

## (6) Related Parties

ETS Limited is currently the beneficial owner of 4,871,745 shares of the Company's Common Stock (the "*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 (the "*Board*") on February 7, 2018 and is still serving on the Board in his current capacity as a senior executive at ADS.

## (7) Debt Obligations

Debt obligations, net of debt issuance costs, as of September 30, 2022 and 2021 consisted of the following:

|   | September 30,<br>2022 | September 30,<br>2021 |
|---|-----------------------|-----------------------|
| The unsecured loan (the " <i>Amended Facility Agreement</i> ") from Conrent Invest S.A. (" <i>Conrent</i> ") whereby, as of March 1, 2021, the Company had borrowed \$42,864,000, 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. Unamortized issuance costs at September 30, 2022 are \$210,351. The Company paid \$876,331 and \$862,043 interest on this loan on January 5, 2022 and June 30, 2022, respectively and intends to make its interest payments every six months going forward. | \$ 42,653,649         | \$ 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.   | 35,335                | 70,176                |
| Note Payable Agreement with Banco Santander, net of unamortized issuance costs of \$11,352, bearing interest at a rate of 5.04% per annum, with a maturity date of May 11, 2024.  | 177,463               | 332,354               |
| Note Payable Agreement with Banco Estado, net of unamortized issuance costs of \$7,419, bearing interest at a rate of 3.50% per annum, with a maturity date of January 2, 2024.   | 135,521               | 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.  | 79,375                | 153,984               |
| Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of \$161, bearing interest at a rate of 2.54% per annum, with a maturity date of March 4, 2024.   | 51,278                | 101,447               |
| Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of \$17,307, bearing interest at a rate of 3.12% per annum, with a maturity date of February 17, 2025.  | 303,303               | 507,071               |
| Total debt obligations  | 43,435,924            | 43,978,350            |
| Less: current portion   | (456,681)             | (526,134)             |
| Long-term debt, less current portion  | \$ 42,979,243         | \$ 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 September 30, 2022, \$42,864,000 of principal and \$438,165 of interest was owed to Conrent.

On January 6, 2021, the Company borrowed 70,443,375 Chilean Pesos (“*CLP*”) (\$101,186USD) from HP Financial Services Chile Limitada (the “*HP Note 1*”). To facilitate the HP Note 1, the Company entered into a Note Payable Agreement with HP Financial Services Chile Limitada as the lender. The HP Note 1 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 “*Santiago Monitoring Center*” and “*Puerto Montt Monitoring Center*”, respectively). The HP Note 1 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 347,198,500CLP (\$482,965USD), net of 2,801,500CLP fees (\$3,897USD), from Banco Santander (the “*Banco Santander Note*”). To facilitate the Banco Santander Note, the Company entered into a Note Payable Agreement with Banco Santander as the lender. The Banco Santander Note was used for the construction of the Santiago Monitoring Center and remodeling a temporary monitoring center. The Banco Santander Note bears 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 19,607,843CLP (\$27,275USD) in broker fees which are amortized over the life of the loan.

On February 2, 2021, the Company borrowed 247,999,300CLP (\$338,954USD), net of 2,000,700CLP fees (\$2,734USD), from Banco Estado (the “*Banco Estado Note*”). To facilitate the Banco Estado Note, the Company entered into a Note Payable Agreement with Banco Estado as the lender. The Banco Estado Note was used for the construction of the Santiago Monitoring Center and computer equipment for Gendarmeria branch offices. The Banco Estado Note bears interest at a 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 14,124,294CLP (\$19,304USD) in broker fees which are amortized over the life of the loan.

On February 4, 2021, the Company borrowed 149,794,432CLP (\$205,330USD) from HP Financial Services Chile Limitada (the “*HP Note 2*”). To facilitate the HP Note 2, the Company entered into a Note Payable Agreement with HP Financial Services Chile Limitada as the lender. The HP Note 2 was used to purchase computer equipment for the Santiago Monitoring Center. The HP Note 2 bears 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 99,808,328CLP (\$136,564USD), net of 210,485CLP fees (\$286USD), from Banco de Chile (the “*Banco de Chile Note 1*”). To facilitate the Banco de Chile Note, the Company entered into a Note Payable Agreement with Banco de Chile as the lender. The Banco de Chile Note was used to purchase HVAC equipment for the Santiago Monitoring Center. The Banco de Chile Note bears interest at a 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 500,000,000CLP (\$678,214USD) from Banco de Chile (the “*Banco de Chile Note 2*”). To facilitate the Banco de Chile Note 2, the Company entered into a Note Payable Agreement with Banco de Chile as the lender. The Banco de Chile Note 2 was used as working capital and to complete the construction of the Puerto Montt Monitoring Center. The Banco de Chile Note 2 bears 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 28,248,588CLP (\$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 September 30, 2022:

| Twelve months ended September 30:                   | Total                |
|---|----------------------|
| 2023  | \$ 456,681           |
| 2024  | 43,168,809           |
| 2025  | 57,024               |
| 2026  | -                    |
| Total   | 43,682,514           |
| Issuance costs                                      | (246,590)            |
| Debt obligations, net of unamortized issuance costs | <u>\$ 43,435,924</u> |

## (8) Preferred Stock

The Company's Certificate of Incorporation authorizes it to issue up to 20,000,000 shares of preferred stock, \$0.0001 par value per share ("*Preferred Stock*"), of which 1,200,000 shares have been designated as Series A Convertible Preferred Stock ("*Series A Preferred*"). The Company's Board of Directors has the authority to amend its Certificate of Incorporation, without further 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 additional series of Preferred Stock.

### *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 September 30, 2022, no shares of Series A Preferred were issued and outstanding.

## (9) Common Stock

### Common Stock Issuances

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

On April 14, 2022, a member of the Board of Directors received an after tax total of 37,306 shares of Common Stock by exercising 64,665 and 8,868 warrants, through a net exercise provision of the Common Stock Purchase Warrant Agreement and the payment of taxes.

On April 13, 2022, a member of management received an award of 185,000 shares of Common Stock based on a Restricted Stock Agreement.

On April 13, 2022, another member of the management received an award of 100,000 shares of Common Stock based on a Restricted Stock Agreement.

On December 30, 2021, a member of the Board of Directors received 9,191 shares of Common Stock by exercising 9,191 warrants.

On December 28, 2021, a member of the Board of Directors received an after tax total of 7,283 shares of Common Stock by exercising 14,988 and 2,385 warrants, through a net exercise provision of the Common Stock Purchase Warrant Agreement and the payment of taxes.

## (10) Stock Options and Warrants

### Stock Incentive Plan

At the annual meeting of stockholders on April 13, 2022, our stockholders approved the 2022 Omnibus Equity Incentive Plan (the “2022 Plan”), previously approved by the Company’s Board. The 2022 Plan provides for the grant of incentive options and nonqualified 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 500,000 shares are authorized for issuance pursuant to awards granted under the 2022 Plan.

The 2022 Plan supersedes and replaces the Company’s 2012 Equity Compensation Plan (the “2012 Plan”). As of June 30, 2020, the Board suspended further awards under the 2012 Plan. Any awards outstanding under the 2012 Plan will remain subject to the 2012 Plan. All shares of Common Stock remaining authorized and available for issuance under the 2012 Plan and any shares subject to outstanding awards under the 2012 Plan that subsequently expire, terminate, or are surrendered or forfeited for any reason without issuance of shares will automatically become available for issuance under our 2022 Plan.

On April 13, 2022, the Company issued 285,000 restricted shares to members of its executive team from the 2022 Plan valued at \$370,500.

The Company issued a nominal amount of stock for fully vested stock awards in fiscal 2021 and may issue stock in the future for warrants and options that were vested, but had not been exercised, at September 30, 2021.

During the fiscal years ended September 30, 2022 and 2021, no options to purchase shares of Common Stock were granted under the 2012 Plan. During the fiscal year 2022, the Company recorded \$207,547 of expense related to Common Stock granted.

The Company recorded expense of \$207,547 and \$0 for the year ended September 30, 2022 and 2021, respectively, related to the 2022 Plan, and no expense for the years ended September 30, 2022 and 2021, respectively, related to the 2012 Plan. There were 215,000 shares of Common Stock available for issuance under the 2022 Plan as of September 30, 2022.

### All Options and Warrants

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. During the fiscal years ended September 30, 2022 and 2021, the Company granted no options and warrants to purchase shares of Common Stock under the 2012 Plan. The warrants for Board members vest immediately and expire five years from grant date and warrants or options issued to employees vest annually over either a two to three-year period and expire five years after the final vesting date of the grant. The Company recorded no expense for the fiscal years ended September 30, 2022 and 2021, respectively, related to the issuance and vesting of outstanding stock options and warrants.

All options and warrants have vested and are exercisable at September 30, 2022 and no future issuances are expected.

As of September 30, 2022, no compensation expense associated with unvested stock options and warrants issued previously to members of the Board of Directors will be recognized over the next year.

A summary of the compensation-based options and warrants activity for the fiscal years ended September 30, 2022 and 2021 is presented below:

|                                      | Shares<br>Under<br>Option | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(years) | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------|---------------------------|--|---|---------------------------------|
| Outstanding as of September 30, 2020 | 685,259                   | \$ 1.56                                  | 1.90  | -                               |
| Granted                              | -                         | -  | -   | -                               |
| Expired                              | -                         | -  | -   | -                               |
| Exercised                            | (228,184)                 | \$ (1.21)                                | -   | -                               |
| Outstanding as of September 30, 2021 | 457,075                   | \$ 1.74                                  | 1.04  | -                               |
| Granted                              | -                         | -  | -   | -                               |
| Expired                              | (196,097)                 | (2.41)                                   | -   | -                               |
| Exercised                            | (100,097)                 | (1.23)                                   | -   | -                               |
| Outstanding as of September 30, 2022 | 160,881                   | \$ 1.24                                  | 0.60  | \$ 225                          |
| Exercisable as of September 30, 2022 | 160,881                   | \$ 1.24                                  | 0.60  | \$ 225                          |

The intrinsic value of options and warrants outstanding and exercisable is based on the Company’s share price of \$0.51 per share at September 30, 2022.

## (11) 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 fiscal years ended September 30, 2022 and 2021, the Company incurred no net losses for income tax purposes. The amount and ultimate realization of the benefits from the net operating losses is dependent, in part, upon the tax laws in effect, our future earnings, and other future events, the effects of which cannot be determined. The Company has established a valuation allowance for all deferred income tax assets not offset by deferred income tax liabilities due to the uncertainty of their realization. Accordingly, there is no benefit for income taxes in the accompanying statements of operations.

At September 30, 2022, the Company had net carryforwards available to offset future taxable income of approximately \$168,513,709, \$31,947,293 of which expires during the year ended September 30, 2023. The utilization of the net loss carryforwards is dependent upon the tax laws in effect at the time the net operating loss carryforwards can be utilized. The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of these net operating loss carryforwards. An ownership change generally affects the rate at which NOLs and potentially other deferred tax assets are permitted to offset future taxable income. Since the Company maintains a full valuation allowance on all U.S. and state deferred tax assets, the impact of prior year ownership changes on the future realizability of U.S. and state deferred tax assets did not result in an impact to the provision for income taxes for the year ended September 30, 2022, or on net deferred tax asset as of September 30, 2021. In the past, ownership changes of the Company resulted in a Sec. 382 limitation on the future realizability of U.S. state NOLs. Since the Company maintains a full valuation allowance on all U.S. and state deferred tax assets, the impact of the Sec. 382 limitation did not result in an impact to the provision for income taxes for the year ended September 30, 2022, or on net deferred assets as of September 30, 2022.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The tax provision for the year ended September 30, 2022 was due primarily to taxes on the income of a foreign-based subsidiary and U.S. state and local income taxes.

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

|                               | Fiscal Years Ended |               |
|-------------------------------|--------------------|---------------|
|                               | September 30,      |               |
|                               | 2022               | 2021          |
| Net loss carryforwards        | \$ 34,261,003      | \$ 34,505,872 |
| Accruals and reserves         | 723,617            | 840,656       |
| Severance indemnity reserve   | 76,918             | 88,495        |
| Contributions                 | 2,478              | 1,028         |
| Depreciation and amortization | (219,722)          | 75,339        |
| Stock-based compensation      | 109,397            | 633,677       |
| Valuation allowance           | (35,182,109)       | (36,043,908)  |
| Total                         | \$ (228,418)       | \$ 101,159    |

Reconciliations between the benefit for income taxes at the federal statutory income tax rate and the Company's benefit for income taxes for the years ended September 30, 2022 and 2021 are as follows:

|  | Fiscal Years Ended<br>September 30, |                   |
|--|-------------------------------------|-------------------|
|  | 2022                                | 2021              |
| Federal income tax benefit at statutory rate               | \$ (78,091)                         | \$ 739,557        |
| State income tax benefit, net of federal income tax effect | 42,086                              | 149,910           |
| Effect of foreign income taxes                             | 679,605                             | 644,307           |
| Return to Provision  | (4,473)                             | 65,144            |
| Withholding Taxes  | 147,109                             | 61,999            |
| Deferred only adjustment                                   | 471,609                             | (896,662)         |
| Gain/(Loss) on deductible expenses                         | 487,442                             | 120,624           |
| Change in valuation allowance                              | (861,799)                           | (167,770)         |
| Provision for income taxes                                 | <u>\$ 883,488</u>                   | <u>\$ 717,109</u> |

The Company's open tax years for federal and state income tax returns are for the tax years ended September 30, 2017 through September 30, 2022. The Company was examined by the Internal Revenue Service for fiscal years ended September 30, 2018 and September 30, 2017. The examinations were closed as of November 29, 2021, with no additional tax assessment.

## (12) 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 nearly 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. (a predecessor entity to Track Group, Inc. or the Company) 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. Although preliminary rulings have been unfavorable to the Company, the Company's counsel continues to review its remaining claims and analyzing its options. 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 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, which was confirmed on March 15, 2022, and effective April 15, 2022. On April 14, 2022, the newly appointed Avoidance Action Trustee moved to establish case management procedures, which motion was granted in part on May 23, 2022, further extending the stay. The parties held a mediation on November 1, 2022 but were unable to reach an agreement but left open the possibility of additional discussions. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

*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, alleged breach of the Share Purchase Agreement (“SPA”) between the Company and Sabag. To avoid the uncertainty and expense of continued arbitration, the Company reached a settlement of \$1.6 million with the claimant on June 10, 2022. The settlement is recorded on the Condensed Consolidated Statement of Operations as “Other income (loss), net”.

*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. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

*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. The case remains pending.

*Jesus Valle Gonzalez, et al. v. Track Group-Puerto Rico, et al.* On May 9, 2022 Plaintiff, Jesus Valle Gonzalez filed a Complaint in the Court of First Instance, San Juan Superior Court, Commonwealth of Puerto Rico against the Company, and associated parties alleging the death of his mother on June 8, 2016 was as a direct and immediate result of the gross negligence and guilty indifferent actions and omissions of all the defendants. This claim follows a similar claim made against the Company in June 2017 by different relatives of the deceased. Plaintiff in this matter asserts his claim now having reached the age of majority. Plaintiff is requesting damages of no less than \$1.5 million. The Company disputes the Plaintiff’s claims, and the Company’s Answer and Affirmative Defenses were filed June 29, 2022. On October 5, 2022, the Plaintiff voluntarily dismissed the case without prejudice.

## Leases

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

The following table shows right of use assets and lease liabilities and the associated financial statement line items as of September 30, 2022.

|                       | September 30, 2022    |                           | September 30, 2021    |                           |
|-----------------------|-----------------------|---------------------------|-----------------------|---------------------------|
|                       | Operating lease asset | Operating lease liability | Operating lease asset | Operating lease liability |
| Other assets          | \$ 575,716            | \$ -                      | \$ 165,963            | \$ -                      |
| Accrued liabilities   | -                     | 177,431                   | -                     | 162,313                   |
| Long-term liabilities | -                     | 398,285                   | -                     | 3,650                     |

The following table summarizes the supplemental cash flow information for the year ended September 30, 2022:

|   | September 30, 2022 | September 30, 2021 |
|---|--------------------|--------------------|
| Cash paid for noncancelable operating leases included in operating cash flows | \$ 272,921         | \$ 304,693         |
| Right of use assets obtained in exchange for operating lease liabilities:     | \$ 626,047         | \$ 2,245           |



The future minimum lease payments under noncancelable operating leases with terms greater than one year as of September 30, 2022 are:

|                                      | <b>Operating Leases</b> |
|--------------------------------------|-------------------------|
| From October 2022 to September 2023  | \$ 198,236              |
| From October 2023 to September 2024  | 163,851                 |
| From October 2024 to September 2025  | 91,480                  |
| From October 2025 to September 2026  | 93,267                  |
| From October 2026 to September 2027  | 78,740                  |
| Thereafter                           | -                       |
| Undiscounted Cash Flow               | 625,574                 |
| Less: imputed interest               | (49,858)                |
| Total                                | <u>\$ 575,716</u>       |
| Reconciliation to lease liabilities: |                         |
| Lease liabilities - current          | \$ 177,431              |
| Lease liabilities - long-term        | 398,285                 |
| Total Lease Liabilities              | <u>\$ 575,716</u>       |

The weighted-average remaining lease term and discount rate related to the Company's lease liabilities as of September 30, 2022 were 4 years and 4%, 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.

### 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 as of September 30, 2022 and 2021, respectively, are shown in the table below:

|  | 2022          | 2021          |
|--|---------------|---------------|
| Monitoring equipment operating revenue | \$ 29,867,266 | \$ 33,749,781 |

### Performance Bonds

As of September 30, 2022, the Company has two performance bonds in connection with a foreign customer totaling \$2,027,970, ("*Performance Bonds*") of which \$1,449,497 is held in an interest-bearing account on behalf of the customer. The remaining amount of \$578,473 is guaranteed by a foreign financial institution on behalf of the Company. The amounts held on the two Performance Bonds will be released after the expiration of the Performance Bonds and the consent of the customer, as follows: \$284,426 in calendar year 2023, recorded in other current assets on the Consolidated Balance Sheet and \$1,165,071 in calendar year 2024, recorded in other assets on the Consolidated Balance Sheet.

In March 2021, the Company placed a \$653,220 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 upon acceptance by the foreign customer.

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 which will expire in January 2023 and 2.8% interest per annum for the Performance Bond expiring in July 2024. The Company recorded interest expense of \$56,343 and \$68,204 for the years ended September 30, 2022 and September 30, 2021, respectively.

### (13) Intangible Assets

The following table summarizes the activity of intangible assets for the years ended September 30, 2022 and 2021, respectively:

|  | September 30,<br>2022 | September 30,<br>2021 |
|--|-----------------------|-----------------------|
| Patent & royalty agreements                        | \$ 21,120,565         | \$ 21,120,565         |
| Developed technology                               | 9,206,006             | 14,919,562            |
| Customer relationships                             | -                     | 1,860,000             |
| Trade name   | 139,115               | 141,473               |
| Total intangible assets                            | 30,465,686            | 38,041,600            |
| Accumulated amortization                           | (14,804,269)          | (17,607,457)          |
| Intangible assets, net of accumulated amortization | \$ 15,661,417         | \$ 20,434,143         |

The intangible assets summarized above were purchased or developed on various dates from July 2011 through September 30, 2022. The assets have useful lives ranging from three to twenty years. Amortization expense for the years ended September 30, 2022 and 2021 was \$3,277,088 and \$2,513,862, respectively. The Company wrote-off fully amortized intangible assets at September 30, 2022 and September 30, 2021 of \$1,860,000 and \$1,353,425, respectively. In the fourth quarter of fiscal year 2022, based on future sales trends, operating margins and capital expenditures, the Company made a decision to discontinue the Shadow and InTouch products. This resulted in a developed technology impairment charge of \$1,728,961 for the year ended September 30, 2022 and is recorded in general and administrative expense on the Consolidated Statements of Operations.

The following table summarizes the future maturities of amortization of intangible assets as of September 30, 2022:

| Fiscal Year | Amortization  | STOP<br>Royalty |
|-------------|---------------|-----------------|
| 2023        | 2,317,048     | 450,000         |
| 2024        | 2,364,084     | 187,500         |
| 2025        | 2,363,913     | -               |
| 2026        | 2,363,913     | -               |
| 2027        | 2,279,461     | -               |
| Thereafter  | 3,335,498     | -               |
| Total       | \$ 15,023,917 | \$ 637,500      |

**Goodwill** – In accordance with accounting principles generally accepted in the United States of America, we do not amortize goodwill. These principles require the Company to periodically perform tests for goodwill impairment, at least annually, or sooner if evidence of possible impairment arises. We evaluated the goodwill for impairment as of September 30, 2022. Based on the evaluation made, the Company concluded that no impairment of goodwill was necessary.

Goodwill, as of September 30, consisted of the following:

|  | September 30,<br>2022 | 2021         |
|--|-----------------------|--------------|
| Balance - beginning of year                        | \$ 8,519,998          | \$ 8,220,380 |
| Effect of foreign currency translation on goodwill | (458,996)             | 299,618      |
| Balance - end of year                              | \$ 8,061,002          | \$ 8,519,998 |

### (14) Subsequent Events

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

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

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

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

Date: December 16, 2022

/s/ Derek Cassell

Derek Cassell

Chief Executive Officer and Principal Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

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

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

/s/ Peter K. Poli

Peter K. Poli

Chief Financial Officer, Principal Financial and Accounting  
Officer

Date: December 16, 2022

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

In connection with the Quarterly Report of Track Group, Inc. on Form 10-K for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “*Report*”), Derek Cassell, Chief Executive Officer (Principal Executive Officer), and Peter K. Poli, Chief Financial Officer (Principal Financial Officer), of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Dated: December 16, 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.*