

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **December 16, 2022**

Commission File Number: **0-23153**

Track Group, Inc.

(Exact name of registrant as specified in its charter.)

Delaware

(State or other jurisdiction
of incorporation or organization)

87-0543981

(IRS Employer
Identification No.)

200 E 5th Ave, Suite 100, Naperville, Illinois 60563

(Address of principal executive offices)

(877) 260-2010

(Registrant's Telephone number)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2)

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.

Item 2.02 Results of Operations and Financial Condition.

Track Group, Inc. (the "*Company*") issued a press release on December 16, 2022, announcing its financial results for the year ended September 30, 2022. A copy of the press release is attached hereto as Exhibit 99.1.

In accordance with General Instruction B.2 for Form 8-K, the information in this Form 8-K, including Exhibit 99.1, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

| <u>Exhibit No.</u> | <u>Description</u> |
|----------------------|---|
| 99.1 | Press Release, dated December 16, 2022. |
| 104 | Cover Page Interactive Data File (embedded within the Inline XBRL document) |

SIGNATURES

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

TRACK GROUP, INC.

Date: December 28, 2022

By: /s/ Peter K. Poli
Peter K. Poli
Chief Financial Officer

FOR IMMEDIATE RELEASE
December 16, 2022

Peter Poli
Chief Financial Officer
peter.poli@trackgrp.com

Track Group Reports Fiscal 2022 Financial Results

NAPERVILLE, ILLINOIS – Track Group, Inc. (OTCQX: TRCK), a global leader in offender tracking and monitoring services, today announced financial results for its fiscal year ended September 30, 2022 (“FY22”). In FY22, the Company posted (i) total revenue of \$37.0 Million (“M”), a decrease of approximately 7% over total revenue of \$39.7M for the year ended September 30, 2021 (“FY21”); (ii) FY22 operating loss of (\$2.1M) compared to FY21 operating income of \$4.7M; and (iii) net loss attributable to common shareholders of (\$7.4M) in FY22 compared to net income attributable to common shareholders of \$3.4M in FY21.

“The fiscal year ended September 30, 2022 was challenging given supply chain constraints and reinvestment in our infrastructure caused by the phase out of 3G networks in the U.S. and our results reflect both. However, due to the adaptive strategies deployed early in the fiscal year, by early September 2022, we were able to resume manufacturing new devices toward targeted, pre-pandemic volumes. As a result, we have commenced implementation of new programs and are confident in our ability to support the expected growth from our customers in FY23. Consequently, we look forward to much improved results in the coming year,” said Derek Cassell, Track Group’s CEO.

FINANCIAL HIGHLIGHTS

- Total FY22 revenue of \$37.0M was down 7% compared to FY21 revenue of \$39.7M. The drop in revenue was caused by the limitations on manufacturing new devices, less activity at customers in the U.S. and Bahamas offset by increases in revenue for customers in Chile and Saudi Arabia.
- Gross profit of \$17.4M in FY22 was down approximately 18% compared to FY21 gross profit of \$21.1M due to over \$0.8M increase in depreciation and amortization costs associated with implementation of the new software platform as well as higher server costs and communication costs offset by lower lost, stolen and damaged device expenses.
- Operating loss in FY22 of (\$2.1M) compared to operating income of \$4.7M in FY21. Approximately 80% of the total change to the loss in FY22 is attributable to the decline in gross profit and the impairment charge of \$1.7M associated with the discontinuance of two product lines.
- Adjusted EBITDA for FY22 of \$6.6M, compared to \$10.3M for FY21 due to the drop in revenue, gross profit and the increase in certain operating expenses. Adjusted EBITDA in FY22 as a percentage of revenue declined to 18.0%, compared to 25.9% for FY21 for the same reasons.
- Cash balance of \$5.3M for FY22, compared to \$8.4M for FY21. The change in cash position was due to a drop in net cash provided by operating activities and the absence of new loans in FY22 offset by a decline in capital expenditures or the cash used in investing activities.
- Net loss attributable to shareholders in FY22 was (\$7.4M) compared to net income of \$3.4M in FY21, a change principally attributable to the changes in the Company’s operating performance.

Business Outlook

Despite the short-term challenges created by supply chain delays, the Coronavirus and the phase out of 3G communication networks in the U.S., Track Group remains confident that our continued focus on strategic adaptation, and growth, which evidenced success in FY21, will allow us to be well-positioned for a return to growth in FY23. As a result, the Company's preliminary outlook for FY23 is as follows:

| | Actual | | Outlook |
|-------------------------|----------|----------|-----------|
| | FY 2021 | FY 2022 | FY 2023 |
| Revenue: | \$ 39.7M | \$ 37.0M | \$ 38-41M |
| Adjusted EBITDA Margin: | 25.9% | 18.0% | 19-21% |

About Track Group, Inc.

Track Group designs, manufactures, and markets location tracking devices; as well as develops and sells a variety of related software, services, and accessories, networking solutions, and monitoring applications. The Company's products and services are designed to empower professionals in security, law enforcement, corrections, and rehabilitation organizations worldwide with single-sourced offender management solutions that integrate reliable intervention technologies to support re-socialization and monitoring initiatives.

The Company currently trades under the ticker symbol "TRCK" on the OTCQX exchange. For more information, visit www.trackgrp.com.

Forward-Looking Statements

Any statements contained in this document that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words such as "anticipate," "believe," "estimate," "expect," "forecast," "intend," "may," "plan," "project," "predict," "if," "should" and "will" and similar expressions as they relate to Track Group, Inc., and subsidiaries ("Track Group") are intended to identify such forward-looking statements. These statements are only predictions and reflect Track Group's current beliefs and expectations with respect to future events and are based on assumptions and subject to risks and uncertainties and subject to change at any time. Track Group may from time-to-time update these publicly announced projections, but it is not obligated to do so. Any projections of future results of operations should not be construed in any manner as a guarantee that such results will in fact occur. These projections are subject to change and could differ materially from final reported results. For a discussion of such risks and uncertainties, see "Risk Factors" in Track Group's annual report on Form 10-K, its quarterly report on Form 10-Q, and its other reports filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. New risks emerge from time to time. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the dates on which they are made.

Non-GAAP Financial Measures

This release includes financial measures defined as "non-GAAP financial measures" by the Securities and Exchange Commission including non-GAAP EBITDA. These measures may be different from non-GAAP financial measures used by other companies. The presentation of this financial information, which is not prepared under any comprehensive set of accounting rules or principles, is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with generally accepted accounting principles. Reconciliations of these non-GAAP financial measures are based on the financial figures for the respective period.

Non-GAAP Adjusted EBITDA excludes items included but not limited to interest, taxes, depreciation, amortization, impairment charges, gains and losses, currency effects, one-time charges or benefits that are not indicative of operations, charges to consolidate, integrate or consider recently acquired businesses, costs of closing facilities, stock based or other non-cash compensation or other stated cash and non-cash charges (the "Adjustments").

The Company believes the non-GAAP measures provide useful information to both management and investors when factoring in the Adjustments. Specific disclosure regarding the Company's financial results, including management's analysis of results from operations and financial condition, are contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2022, and other reports filed with the Securities and Exchange Commission. Investors are encouraged to carefully read and consider such disclosure and analysis contained in the Company's Form 10-K and other reports, including the risk factors contained in such Form 10-K.

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

| | <u>September 30,</u> <u>2022</u> | <u>September 30,</u> <u>2021</u> |
|--|-------------------------------------|-------------------------------------|
| Assets | | |
| <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 | <u>13,654,336</u> | <u>16,888,576</u> |
| 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 | <u>\$ 44,680,840</u> | <u>\$ 53,523,242</u> |
| Liabilities and Stockholders' Equity (Deficit) | | |
| <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 | <u>6,358,039</u> | <u>7,698,146</u> |
| Long-term debt, net of current portion | 42,979,243 | 43,452,216 |
| Long-term liabilities | 398,285 | 3,650 |
| Total liabilities | <u>49,735,567</u> | <u>51,154,012</u> |
| 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) | <u>(5,054,727)</u> | <u>2,369,230</u> |
| Total liabilities and stockholders' equity (deficit) | <u>\$ 44,680,840</u> | <u>\$ 53,523,242</u> |

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

| | <u>2022</u> | <u>2021</u> |
|--|-----------------------|---------------------|
| Revenue: | | |
| Monitoring and other related services | \$ 35,768,090 | \$ 39,179,699 |
| Product sales and other | 1,200,409 | 481,626 |
| Total revenue | <u>36,968,499</u> | <u>39,661,325</u> |
| Cost of revenue: | | |
| 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 | <u>19,615,543</u> | <u>18,554,011</u> |
| Gross profit | 17,352,956 | 21,107,314 |
| Operating expense: | | |
| 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 | <u>19,452,857</u> | <u>16,393,407</u> |
| Operating income (loss) | (2,099,901) | 4,713,907 |
| Other income (expense): | | |
| 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 |
| Total other income (expense) | <u>(4,406,973)</u> | <u>(554,392)</u> |
| Net income (loss) before income taxes | (6,506,874) | 4,159,515 |
| Income tax expense | 883,488 | 717,109 |
| Net income (loss) attributable to common stockholders | <u>(7,390,362)</u> | <u>3,442,406</u> |
| Foreign currency translation adjustments | (220,268) | (133,276) |
| Comprehensive income (loss) | <u>\$ (7,610,630)</u> | <u>\$ 3,309,130</u> |
| Net income (loss) per share – basic | | |
| Net income (loss) per common share | \$ (0.64) | \$ 0.30 |
| Weighted average common shares outstanding | 11,634,449 | 11,450,269 |
| Net income (loss) per share – diluted: | | |
| Net income (loss) per common share | \$ (0.64) | \$ 0.29 |
| Weighted average common shares outstanding | 11,634,449 | 12,036,577 |

TRACK GROUP, INC. AND SUBSIDIARIES
NON-GAAP ADJUSTED EBITDA SEPTEMBER 30 (UNAUDITED)
(amounts in thousands, except share and per share data)

| | Three Months Ended September 30, | | Twelve Months Ended September 30, | |
|--|-------------------------------------|-----------------|--------------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Non-GAAP Adjusted EBITDA | | | | |
| Net income (loss) attributable to common shareholders | \$ (3,932) | \$ (1,264) | \$ (7,390) | \$ 3,442 |
| Interest expense, net | 438 | 497 | 1,828 | 2,171 |
| Depreciation and amortization | 1,104 | 1,288 | 4,802 | 4,299 |
| Income taxes ⁽¹⁾ | 163 | 581 | 883 | 717 |
| Board compensation and stock-based compensation | 189 | 75 | 508 | 300 |
| Foreign exchange expense (gain) | 1,159 | 519 | 1,619 | (615) |
| Settlement of litigation | - | - | 1,600 | - |
| Gain on forgiveness of accrued vendor expenses | - | - | (633) | - |
| Impairment of intangible assets | 1,729 | - | 1,729 | - |
| Gain on settlement of note payable | - | - | - | (1,001) |
| Other charges, net ⁽²⁾ | 529 | 263 | 1,699 | 972 |
| Non GAAP Adjusted EBITDA | \$ 1,379 | \$ 1,959 | \$ 6,645 | \$ 10,285 |
| Non GAAP Adjusted EBITDA, percent of revenue | 15.5% | 19.3% | 18.0% | 25.9% |
| Non-GAAP earnings per share - Basic | | | | |
| Weighted average common shares outstanding | 11,863,758 | 11,490,804 | 11,643,449 | 11,450,269 |
| Non-GAAP earnings per share | \$ 0.12 | \$ 0.17 | \$ 0.57 | \$ 0.90 |
| Non-GAAP earnings per share - Diluted | | | | |
| Weighted average common shares outstanding | 11,863,758 | 11,991,766 | 11,663,449 | 12,036,577 |
| Non-GAAP earnings per share | \$ 0.12 | \$ 0.16 | \$ 0.57 | \$ 0.85 |

- (1) Currently, the Company has significant U.S. tax loss carryforwards that may be used to offset future taxable income, subject to IRS limitations. However, the Company is still subject to certain state, commonwealth, and other foreign based taxes.
- (2) Other charges may include gains or losses and non-recurring accrual adjustments.