

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2023

or

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

For the transition period from _____ to _____

Commission file number: 0-23153

Track Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

87-0543981

(I.R.S. Employer
Identification Number)

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

(Address of principal executive offices) (Zip Code)

(877) 260-2010

(Registrant's telephone number, including area code)

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

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

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

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

Large, accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

The number of shares outstanding of the registrant's common stock as of February 1, 2024, was 11,863,758.

TRACK GROUP, INC.
FORM 10-Q

For the Quarterly Period Ended December 31, 2023

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(Unaudited) December 31, 2023	September 30, 2023
Assets		
<i>Current assets:</i>		
Cash	\$ 3,730,885	\$ 4,057,195
Accounts receivable, net of allowance for credit losses of \$298,969 and \$178,095, respectively	5,658,004	4,536,916
Prepaid expense and deposits	499,943	610,440
Inventory, net of reserves of \$3,772 and \$3,772, respectively	970,329	1,286,194
Total current assets	10,859,161	10,490,745
Property and equipment, net of accumulated depreciation of \$1,942,870 and \$1,920,850, respectively	97,393	115,808
Monitoring equipment, net of accumulated depreciation of \$6,863,281 and \$6,348,695, respectively	5,146,124	5,187,092
Intangible assets, net of accumulated amortization of \$18,138,039 and \$17,430,846, respectively	14,063,959	14,157,294
Goodwill	8,061,509	7,851,466
Other assets	2,382,312	2,442,154
Total assets	\$ 40,610,458	\$ 40,244,559
Liabilities and Stockholders' Equity (Deficit)		
<i>Current liabilities:</i>		
Accounts payable	\$ 3,276,912	\$ 2,796,712
Accrued liabilities	2,664,755	2,571,839
Current portion of long-term debt	228,317	308,417
Total current liabilities	6,169,984	5,676,968
Long-term debt, net of current portion	42,797,352	42,801,165
Long-term liabilities	238,865	259,359
Total liabilities	49,206,201	48,737,492
Commitments and contingencies (Note 23)		
<i>Stockholders' equity (deficit):</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 11,863,758 and 11,863,758 shares outstanding, respectively	1,186	1,186
Preferred stock, \$0.0001 par value: 20,000,000 shares authorized; 0 shares outstanding	-	-
Series A Convertible Preferred stock, \$0.0001 par value: 1,200,000 shares authorized; 0 shares outstanding	-	-
Paid in capital	302,600,546	302,597,115
Accumulated deficit	(309,609,936)	(309,610,397)
Accumulated other comprehensive loss	(1,587,539)	(1,480,837)
Total equity (deficit)	(8,595,743)	(8,492,933)
Total liabilities and stockholders' equity (deficit)	\$ 40,610,458	\$ 40,244,559

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

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

	Three Months Ended	
	December 31,	
	2023	2022
Revenue:		
Monitoring and other related services	\$ 8,674,485	\$ 8,289,782
Product sales and other	292,487	565,909
Total revenue	<u>8,966,972</u>	<u>8,855,691</u>
Cost of revenue:		
Monitoring, products and other related services	3,973,989	3,901,994
Depreciation & amortization included in cost of revenue	789,463	773,019
Total cost of revenue	<u>4,763,452</u>	<u>4,675,013</u>
Gross profit	4,203,520	4,180,678
Operating expense:		
General & administrative	2,757,887	2,754,521
Selling & marketing	706,531	729,470
Research & development	682,463	589,805
Depreciation & amortization	239,760	247,710
Total operating expense	<u>4,386,641</u>	<u>4,321,506</u>
Operating income (loss)	(183,121)	(140,828)
Other income (expense):		
Interest income	48,162	76,222
Interest expense	(486,084)	(495,772)
Currency exchange rate gain	538,945	483,151
Total other income (expense)	<u>101,023</u>	<u>63,601</u>
Income (loss) before income taxes	(82,098)	(77,227)
Income tax expense (benefit)	(82,559)	(113,611)
Net income attributable to common stockholders	461	36,384
Foreign currency translation adjustments	(106,702)	152,246
Comprehensive income (loss)	<u>\$ (106,241)</u>	<u>\$ 188,630</u>
Net income per share – basic		
Net income per common share	\$ 0.00	\$ 0.00
Weighted average common shares outstanding	<u>11,863,758</u>	<u>11,863,758</u>
Net income per share – diluted		
Net income per common share	\$ 0.00	\$ 0.00
Weighted average common shares outstanding	<u>11,863,758</u>	<u>11,863,758</u>

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

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

	Common Stock		Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Total
	Shares	Amount				
Balance September 30, 2023	11,863,758	\$ 1,186	\$ 302,597,115	\$ (309,610,397)	\$ (1,480,837)	\$ (8,492,933)
Stock-based compensation	-	-	3,431	-	-	3,431
Foreign currency translation adjustments	-	-	-	-	(106,702)	(106,702)
Net income	-	-	-	461	-	461
Balance December 31, 2023	<u>11,863,758</u>	<u>\$ 1,186</u>	<u>\$ 302,600,546</u>	<u>\$ (309,609,936)</u>	<u>\$ (1,587,539)</u>	<u>\$ (8,595,743)</u>

	Common Stock		Paid-in Capital	Accumulated Deficit	Comprehensive Loss	Total
	Shares	Amount				
Balance September 30, 2022	11,863,758	\$ 1,186	\$ 302,437,593	\$ (306,218,889)	\$ (1,274,617)	\$ (5,054,727)
Stock-based compensation	-	-	61,750	-	-	61,750
Foreign currency translation adjustments	-	-	-	-	152,246	152,246
Net income	-	-	-	36,384	-	36,384
Balance December 31, 2022	<u>11,863,758</u>	<u>\$ 1,186</u>	<u>\$ 302,499,343</u>	<u>\$ (306,182,505)</u>	<u>\$ (1,122,371)</u>	<u>\$ (4,804,347)</u>

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

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

	Three Months Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 461	\$ 36,384
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,029,223	1,020,729
Bad debt expense	120,703	39,041
Sales allowance	(3,065)	-
Stock based compensation	3,431	61,750
Loss on monitoring equipment included in cost of revenue	98,673	66,644
Amortization of debt issuance costs	35,413	48,762
Amortization of monitoring center assets included in cost of revenue	134,317	133,304
Foreign currency exchange (gain) loss	(538,945)	(483,151)
Change in assets and liabilities:		
Accounts receivable, net	(1,238,726)	469,642
Inventories	315,648	306,038
Prepaid expense, deposits and other assets	63,261	(192,380)
Accounts payable	480,200	536,982
Accrued liabilities	141,731	284,678
Net cash provided by operating activities	<u>642,325</u>	<u>2,328,423</u>
Cash flow from investing activities:		
Purchase of property and equipment	-	(6,120)
Capitalized software	(369,524)	(159,089)
Purchase of monitoring equipment and parts	(486,991)	(2,023,407)
Net cash used in investing activities	<u>(856,515)</u>	<u>(2,188,616)</u>
Cash flow from financing activities:		
Principal payments on long-term debt	(124,338)	(126,316)
Net cash used in financing activities	<u>(124,338)</u>	<u>(126,316)</u>
Effect of exchange rate changes on cash	12,218	218,745
Net increase (decrease) in cash	(326,310)	232,236
Cash, beginning of period	4,057,195	5,311,104
Cash, end of period	<u>\$ 3,730,885</u>	<u>\$ 5,543,340</u>
Cash paid for interest	\$ 29,720	\$ 46,056
Cash paid for taxes	\$ 239	\$ 72,213

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

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

(1) BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial information of Track Group, Inc. and subsidiaries (collectively, the “Company” or “Track Group”) has been prepared in accordance with the Instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting only of normal recurring adjustments necessary to present fairly the Company’s financial position as of December 31, 2023 and results of its operations for the three months ended December 31, 2023. These financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2023, filed with the SEC on December 20, 2023. The results of operations for the three months ending December 31, 2023, may not be indicative of the results for the fiscal year ending September 30, 2024.

As of December 31, 2023 and September 30, 2023, the Company had an accumulated deficit of \$309,609,936 and \$309,610,397, respectively. The Company had net income of \$461 and \$36,384 for the three months ended December 31, 2023 and 2022, respectively. On April 27, 2023, the Company announced a three-year extension of its \$42.9 million debt to July 1, 2027 (See Note 19). The Company also has six notes payable maturing between January 2, 2024, and February 17, 2025, related to the construction of two monitoring centers for a contract, with outstanding balances due for the six notes totaling \$252,020, net of deferred financing fees at December 31, 2023 (See Note 19). The Company’s ability to return to profitable operations is dependent upon generating a level of revenue adequate to support its cost structure. Management has evaluated the significance of these conditions, as well as the recent change in the maturity date, and has determined that the Company can meet its operating obligations for a reasonable period. The Company expects to fund operations using cash on hand and through operational cash flows through the upcoming twelve months.

(2) PRINCIPLES OF CONSOLIDATION

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

(3) RECENT ACCOUNTING STANDARDS

The Company evaluates all Accounting Standards Updates (“ASUs”) issued by the Financial Accounting Standards Board (“FASB”) for consideration of their applicability to our consolidated financial statements.

New Accounting Standards or Updates Adopted in Fiscal 2024

In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. ASU 2017-04 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 the 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. ASU 2017-04 became effective for accelerated filing companies 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 ASU 2017-04 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. The adoption of this accounting standard in the first quarter of fiscal 2024 did not have a significant impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which adds a current expected credit loss (“CECL”) impairment model to GAAP that is based on expected losses rather than incurred losses. Modified retrospective adoption is required with any cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. ASU 2016-13 became effective for fiscal years beginning after December 15, 2019, excluding smaller reporting entities, which became effective for fiscal years beginning after December 15, 2022. The adoption of this accounting standard in the first quarter of fiscal 2024 did not have a significant impact on our consolidated financial statements.

Recent Accounting Standards or Updates Not Yet Effective

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendment in Response to the SEC’s Disclosure Update and Simplification Initiative*. The ASU incorporates several disclosure and presentation requirements currently residing in the SEC Regulations S-X and S-K. The amendments will be applied prospectively and are effective when the SEC removes the related requirements from Regulations S-X or S-K. Any amendments the SEC does not remove by June 30, 2027 will not be effective. As we are currently subject to these SEC requirements, this ASU is not expected to have a material impact on our consolidated financial statements or related disclosures.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires all public entities to provide enhanced disclosures about significant segment expenses. The amendments in this ASU are to be applied retrospectively and are effective for our annual financial statements starting in fiscal 2025 and interim periods starting in fiscal 2026, with early adoption permitted. We are currently evaluating the impact of this accounting standard, but do not expect it to have a material impact on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which enhances transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid and to improve the effectiveness of income tax disclosures. This accounting standards update will be effective for us for fiscal year 2026 and interim periods beginning in the first quarter of fiscal 2027, with early adoption permitted. We are currently evaluating the impact of this accounting standard, but do not expect it to have a material impact on our consolidated financial statements.

No other new accounting pronouncements issued or effective as of December 31, 2023 have had or are expected to have a material impact on our consolidated financial statements.

(4) IMPAIRMENT OF LONG-LIVED ASSETS

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

(5) BUSINESS COMBINATIONS

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

Acquired Assets and Assumed Liabilities

Pursuant to ASC 805-10-25, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, but during the allowed measurement period not to exceed one year from the acquisition date, the Company retrospectively adjusts the provisional amounts recognized at the acquisition date, by means of adjusting the amount recognized for goodwill.

Contingent Consideration

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

(6) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) as currently reported under GAAP and other comprehensive income (loss). Other comprehensive income (loss) considers the effects of additional economic events, such as foreign currency translation adjustments, which are not required to be recorded in determining net income (loss), but rather are reported as a separate component of stockholders' equity. The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the following operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars at the prevailing exchange rate at December 31, 2023.

(7) NET INCOME 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 to purchase shares of the Company's common stock, \$0.0001 par value per share ("*Common Stock*") ("*options*") and warrants to purchase Common Stock ("*warrants*"). As of December 31, 2023 and 2022, there were 0 and 160,881 of outstanding common share equivalents that were not included in the computation of Diluted EPS for the three months ended December 31, 2023 and 2022, respectively, as their effect would be anti-dilutive.

At December 31, 2023 and 2022, all stock options and warrants had exercise prices that were above the market price of \$0.23 and \$0.35, respectively and have been excluded from the diluted earnings per share calculations.

The common stock equivalents outstanding as of December 31, 2023 and 2022 consisted of the following:

	December 31, 2023	December 31, 2022
Issuable common stock options and warrants	-	160,881
Total common stock equivalents	-	160,881

(8) REVENUE RECOGNITION

Monitoring and Other Related Services. Monitoring services include two components: (i) lease contracts pursuant to which the Company provides monitoring services and lease devices to distributors or end users and the Company retains ownership of the leased device; and (ii) monitoring services purchased by distributors or end users who have previously purchased monitoring devices and opt to use the Company's monitoring services. Sales of devices and leased GPS devices are required to use the Company's monitoring service and both the GPS leased devices and monitoring services are accounted for as a single performance obligation. Monitoring revenue is recognized ratably over time, as the customer simultaneously receives and consumes the benefit of these services as they are performed. Payment due or received from the customers prior to rendering the associated services are recorded as deferred revenue.

The balance of accounts receivable at December 31, 2023 of \$5,658,004 includes an unbilled balance of \$513,921, and the balance of accounts receivable at September 30, 2023 of \$4,536,916 included an unbilled balance of \$490,848, and the balance of accounts receivable at September 30, 2022 of \$6,236,555 included an unbilled balance of \$777,514. Accounts receivable, which is made up of trade receivables for monitoring and other related services, are carried at original invoice amount less allowances for credits and for any potential uncollectible amounts due to credit losses. We make estimates of the expected credit and collectability trends for the allowance for credit losses based on our assessment of various factors, including historical experience, the age of the accounts receivable balances, credit quality of our customers, current economic conditions, and other factors that may affect our ability to collect from our customers. Expected credit losses are recorded as general and administrative expenses on our Condensed Consolidated Statements of Operations. As of December 31, 2023, September 30, 2023, and September 30, 2022 the Company had an allowance for doubtful accounts of \$278,969, \$155,029, and \$102,570 respectively. For the three months ended December 31, 2023 and December 31, 2022, the Company wrote-off accounts receivables of \$14 and \$107, respectively. For December 31, 2023, September 30, 2023, and September 30, 2022 the reserve for credit memos was \$20,000, \$23,065, and \$0 respectively. The balances of the deferred revenue at December 31, 2023, September 30, 2023, and September 30, 2022 are \$50,000, \$431, and \$3,299 respectively, and were included in accrued liabilities on the Condensed Consolidated Balance Sheets. The Company recognized \$150,431 and \$3,012 of deferred revenue in the three months ended December 31, 2023 and 2022, 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 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 from 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 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. There were no multiple element arrangements for the fiscal quarters ended December 31, 2023 and 2022.

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

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

	Three Months Ended December 31, 2023		Three Months Ended December 31, 2022	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
United States	\$ 6,457,328	72%	\$ 6,102,350	69%
Latin America	2,332,787	26%	2,282,372	26%
Other	176,857	2%	470,969	5%
Total	<u>\$ 8,966,972</u>	<u>100%</u>	<u>\$ 8,855,691</u>	<u>100%</u>

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The above table includes total revenue for the Company, of which monitoring and other related services is the majority (approximately 97% and 94% for the three months ended December 31, 2023 and 2022, respectively) of the Company's revenue. Latin America includes Bahamas, Chile, Puerto Rico, Brazil, Panama and the U.S. Virgin Islands. Other includes Canada and Saudi Arabia.

(9) PREPAID EXPENSE AND DEPOSITS

As of December 31, 2023 and September 30, 2023, the outstanding balance of prepaid expense and deposits was \$499,943 and \$610,440, respectively. These balances are comprised largely of performance bond deposits, tax deposits, vendor deposits and other prepaid supplier expense.

(10) INVENTORY

Inventory is valued at the lower of the cost or net realizable value. Cost is determined using the first-in/first-out method. Net realizable value is determined based on the item's selling price. Inventory is periodically reviewed in order to identify obsolete or damaged items or impaired values.

Inventory primarily consists of completed circuit boards and other parts used to manufacture new devices. Completed and shipped ReliAlert™ devices are reflected in Monitoring Equipment. As of December 31, 2023 and September 30, 2023, inventory consisted of the following:

	December 31, 2023	September 30, 2023
Monitoring equipment component boards inventory	\$ 974,101	\$ 1,289,966
Reserve for damaged or obsolete inventory	(3,772)	(3,772)
Total inventory, net of reserves	<u>\$ 970,329</u>	<u>\$ 1,286,194</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 products or repair a significant amount of 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.

(11) PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2023 and September 30, 2023:

	December 31, 2023	September 30, 2023
Equipment, software and tooling	\$ 1,429,570	\$ 1,427,522
Automobiles	4,573	4,460
Leasehold improvements	382,752	382,122
Furniture and fixtures	223,368	222,554
Total property and equipment before accumulated depreciation	<u>2,040,263</u>	<u>2,036,658</u>
Accumulated depreciation	(1,942,870)	(1,920,850)
Property and equipment, net of accumulated depreciation	<u>\$ 97,393</u>	<u>\$ 115,808</u>

Property and equipment depreciation expense for the three months ended December 31, 2023 and 2022 was \$18,989 and \$23,595, respectively. Depreciation expense for property and equipment is recognized in operating expense on the Condensed Consolidated Statements of Operations.

(12) 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 three years for customer tablets and three to five years for monitoring devices. Monitoring equipment as of December 31, 2023 and September 30, 2023 is as follows:

	December 31, 2023	September 30, 2023
Monitoring equipment	\$ 12,009,405	\$ 11,535,787
Less: accumulated depreciation	(6,863,281)	(6,348,695)
Monitoring equipment, net of accumulated depreciation	<u>\$ 5,146,124</u>	<u>\$ 5,187,092</u>

Depreciation of monitoring equipment for the three months ended December 31, 2023 and 2022 was \$382,453 and \$342,068, respectively. Depreciation expense for monitoring devices is recognized in cost of revenue on the Condensed Consolidated Statements of Operations. During the three months ended December 31, 2023 and 2022, the Company recorded charges of \$98,673 and \$66,644, respectively, for devices that were lost, stolen or damaged. Lost, stolen and damaged items are included in Monitoring, products & other related service costs in the Condensed Consolidated Statements of Operations.

(13) INTANGIBLE ASSETS

The following table summarizes the activity of intangible assets at December 31, 2023 and September 30, 2023:

	December 31, 2023			September 30, 2022		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patent & royalty agreements	\$ 21,120,565	\$ (14,691,173)	\$ 6,429,392	\$ 21,120,565	\$ (14,358,431)	\$ 6,762,134
Developed technology	10,941,260	(3,306,693)	7,634,567	10,328,125	(2,933,499)	7,394,626
Trade name	140,173	(140,173)	-	139,450	(138,916)	534
Total intangible assets	<u>\$ 32,201,998</u>	<u>\$ (18,138,039)</u>	<u>\$ 14,063,959</u>	<u>\$ 31,588,140</u>	<u>\$ (17,430,846)</u>	<u>\$ 14,157,294</u>

The intangible assets summarized above were purchased or developed on various dates from July 2011 through December 31, 2023. Total amortization expense for the three months ended December 31, 2023 and 2022 was \$627,781 and \$655,066, respectively. Included in the total amortization expense is \$407,010 and \$430,951 in amortization expense included in cost of revenue on the Condensed Consolidated Statements of Operations for three months ended December 31, 2023 and 2022, respectively and \$220,771 and \$224,115 in amortization expense included in operating expense on the Condensed Consolidated Statements of Operations for three months ended December 31, 2023 and 2022, respectively.

(14) GOODWILL

The following table summarizes the activity of Goodwill at December 31, 2023 and September 30, 2023, respectively:

	Three Months Ended December 31, 2023	Year Ended September 30, 2023
Balance - beginning of period	\$ 7,851,466	\$ 8,061,002
Effect of foreign currency translation on goodwill	210,043	(209,536)
Balance - end of period	<u>\$ 8,061,509</u>	<u>\$ 7,851,466</u>

Goodwill is recognized in connection with acquisition transactions in accordance with ASC 805. The Company performs an impairment test for goodwill annually or more frequently if indicators of potential impairment exist. No impairment of goodwill was recognized through December 31, 2023.

(15) OTHER ASSETS

As of December 31, 2023 and September 30, 2023, the balance of other assets was \$2,382,312 and \$2,442,154, respectively. Other assets at December 31, 2023 are comprised largely of cash used as collateral for Performance Bonds as well as contractually required monitoring center and other equipment, right of use assets, lease deposits and other long-term assets. The Company anticipates these performance bonds will be reimbursed to the Company upon completion of its contracts with the customer. See Note 23.

The Company 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 have been owned by the customer since construction was completed. The monitoring center equipment is amortized using the straight-line method over the contract period between 32 and 40 months. Monitoring center equipment as of December 31, 2023 and September 30, 2023 was as follows:

	December 31, 2023	September 30, 2023
Monitoring center equipment	\$ 1,660,012	\$ 1,619,278
Less: accumulated amortization	(1,252,164)	(1,088,825)
Monitoring center equipment, net of accumulated amortization	<u>\$ 407,848</u>	<u>\$ 530,453</u>

The Santiago and Puerto Montt monitoring centers amortization is recorded in Monitoring, products and other related service costs on the Condensed Consolidated Statements of Operations. Amortization of costs related to the Santiago and Puerto Montt monitoring centers for the three months ended December 31, 2023 and 2022 were \$134,317 and \$133,304, respectively. The Company recorded revenue from the customer based on a contractually agreed upon unit per day amount during the contract period. See Note 19 for details of the borrowings related to the monitoring centers construction and equipment.

(16) LEASES**Leases as Lessor***Monitoring Equipment and Other Related Services*

The Company leases monitoring equipment and provides monitoring services 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.

Operating lease and monitoring revenue associated with the Company's monitoring equipment for the three months ended December 31, 2023 and 2022, respectively, are shown in the table below:

	Three Months Ended December 31,	
	2023	2022
Monitoring equipment operating revenue	\$ 7,317,614	\$ 6,977,443

The Company cannot accurately estimate 5-years of future minimum lease receipts for its devices leased to customers because none of its customers make any contractual commitment regarding the number of active devices utilized in any given year and those quantities of active devices vary significantly for every customer each and every day.

Leases as Lessee

The following table shows right of use assets and lease liabilities for real estate and equipment, with the associated financial statement line items as of December 31, 2023 and September 30, 2023.

	December 31, 2023		September 30, 2023	
	Operating lease asset	Operating lease liability	Operating lease asset	Operating lease liability
Other assets	\$ 400,259		\$ 403,205	\$ -
Accrued liabilities		161,394	-	143,846
Long-term liabilities		238,865	-	259,359

The following table summarizes the supplemental cash flow information for the three months ended December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Cash paid for noncancelable operating leases included in operating cash flows	\$ 69,940	\$ 69,992
Right of use assets obtained in exchange for operating lease liabilities	\$ 43,974	\$ 5,459

The future minimum lease payments under noncancelable operating leases with terms greater than one year as of December 31, 2023 are:

	Operating Leases
From January 2024 to December 2024	\$ 174,191
From January 2025 to December 2025	92,933
From January 2026 to December 2026	94,719
From January 2027 to December 2027	63,898
From January 2028 to December 2028	482
Undiscounted cash flow	426,223
Less: imputed interest	(25,964)
Total	\$ 400,259
Reconciliation to lease liabilities:	
Lease liabilities - current	\$ 161,394
Lease liabilities - long-term	238,865
Total lease liabilities	\$ 400,259

The weighted-average remaining lease term and discount rate related to the Company's lease liabilities as of December 31, 2023 were 3.07 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.

(17) ACCRUED LIABILITES

Accrued liabilities consisted of the following as of December 31, 2023 and September 30, 2023:

	December 31, 2023	September 30, 2023
Accrued payroll, taxes and employee benefits	\$ 1,111,082	\$ 1,116,036
Deferred revenue	50,000	431
Accrued taxes - foreign and domestic	187,058	260,697
Accrued other expense	84,711	108,476
Accrued legal and other professional costs	63,751	80,210
Accrued costs of revenue	128,186	410,726
Right of use liability	161,394	143,846
Accrued interest	878,573	451,417
Total accrued liabilities	\$ 2,664,755	\$ 2,571,839

(18) RELATED PARTIES

ETS Limited is currently the beneficial owner of 4,706,579 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 the Track Group Shares to ETS Limited in exchange for all 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.

(19) DEBT OBLIGATIONS

Debt obligations, net of debt issuance costs, as of December 31, 2023 and September 30, 2023, consisted of the following:

	<u>December 31, 2023</u>	<u>September 30, 2023</u>
The unsecured loan (the "Amended Facility Agreement") from Conrent Invest S.A. ("Conrent") whereby, as of March 1, 2021, the Company had borrowed \$42,864,000, 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. On April 26, 2023, the Company and Conrent entered into an amendment to the facility agreement, which extended the maturity date from July 1, 2024 to July 1, 2027. Interest payments are scheduled to be made on June 30 and December 31 each year. Unamortized issuance costs at December 31, 2023 are \$90,351. As of December 31, 2023, \$42,864,000 of principal and \$876,331 of interest was owed to Conrent. The Company has not paid Conrent any interest for the three months ended December 31, 2023.	\$ 42,773,649	\$ 42,743,599
The unsecured 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.	4,727	11,435
The unsecured Note Payable Agreement with Banco Santander, net of unamortized issuance costs \$3,099, bearing interest at a rate of 5.04% per annum, with a maturity date of May 11, 2024.	50,099	77,670
The unsecured Note Payable Agreement with Banco Estado, net of unamortized issuance costs of \$506, bearing interest at a rate of 3.50% per annum, with a maturity date of January 2, 2024.	9,469	36,773
The unsecured 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.	15,048	29,118
The unsecured Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of \$29, bearing interest at a rate of 2.54% per annum, with a maturity date of March 4, 2024.	9,482	18,440
The unsecured Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of \$9,124, bearing interest at a rate of 3.12% per annum, with a maturity date of February 17, 2025.	163,195	192,547
Total debt obligations	<u>43,025,669</u>	<u>43,109,582</u>
Less: current portion	<u>(228,317)</u>	<u>(308,417)</u>
Long-term debt, less current portion	<u>\$ 42,797,352</u>	<u>\$ 42,801,165</u>

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On December 21, 2020, Conrent and the Company signed an amendment to the Amended Facility Agreement which extended the maturity date of the Amended Facility Agreement to July 1, 2024 (“*Amended Facility*”), capitalized the accrued and unpaid interest increasing the outstanding principal amount and reduced the interest rate of the Amended Facility from 8% to 4%. On April 26, 2023, the Company and Conrent entered into another amendment to the Amended Facility (the “*Amendment*”). The Amendment: (i) extended the maturity date from July 1, 2024, to July 1, 2027 (the “*Maturity Date*”); (ii) amended the applicable interest rate resulting in an escalating interest rate as follows: 4% through June 30, 2024, 5% through June 30, 2025, 5.5% through June 30, 2026, and 6% through the Maturity Date and (iii) removed section 7.3 “*Change of Control*” of the Amended Facility Agreement. In return, the Company agreed to pay certain fees to Conrent. As of December 31, 2023, \$42,864,000 of principal and \$876,331 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 December 31, 2023:

Twelve months ended December 31:	Total
2024	\$ 239,772
2025	25,006
2026	-
2027	42,864,000
Total	43,128,778
Issuance costs	(103,109)
Debt obligations, net of unamortized issuance costs	\$ 43,025,669

(20) PREFERRED AND COMMON STOCK

The Company is authorized to issue up to 30,000,000 shares of Common Stock and up to 20,000,000 shares of preferred stock, \$0.0001 par value per share (“*Preferred Stock*”). The Company’s Board has the authority to amend the Company’s Certificate of Incorporation, without further stockholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the Preferred Stock before any issuance of the Preferred Stock, and to create one or more series of Preferred Stock. As of December 31, 2023, there were no shares of Preferred Stock outstanding.

No dividends were paid during the three months ended December 31, 2023 or 2022, respectively.

Common Stock Issuances

There were no issuances of Common Stock in the three months ended December 31, 2023.

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 (“*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 Series A Preferred is convertible shall, upon issuance, have all of the same voting rights as other issued and outstanding shares of our Common Stock.

The Series A Preferred has no separate dividend rights; however, whenever the Board declares a dividend on the Company’s Common Stock, if ever, each holder of record of a share of Series A Preferred shall be entitled to receive an amount equal to such dividend declared on one share of Common Stock multiplied by the number of shares of Common Stock into which such share of Series A Preferred could be converted on the Record Date.

Each share of Series A Preferred has a liquidation preference of \$35.00 per share, and is convertible, at the holder’s option, into ten shares of the Company’s Common Stock, subject to adjustments as set forth in the Certificate of Designation, at any time beginning five hundred and forty days after the date of issuance.

As of December 31, 2023, no shares of Series A Preferred were issued and outstanding.

(21) STOCK OPTIONS AND WARRANTS

Stock Incentive Plan

At the annual meeting of stockholders on 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*”).

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The Board suspended further awards under the 2012 Plan as of June 30, 2020. 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.

There were no issuances of restricted shares in the three months ended December 31, 2023.

The Company recorded expense of \$3,431 and \$61,750 for the three months ended December 31, 2023 and 2022, respectively, related to the 2022 Plan. As of December 31, 2023, there were 215,000 shares of our Common Stock reserved for future issuance under the 2022 Plan and 27,218 shares of our Common Stock reserved for future issuance under the 2012 Plan.

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. The Company recorded no expense for the three months ended December 31, 2023 and 2022, respectively, related to the issuance and vesting of outstanding options and warrants. During the three months ended December 31, 2023 and 2022, the Company granted no options or warrants under the 2022 Plan or under the 2012 Plan.

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

A summary of stock option (warrant) activity for the three months ended December 31, 2023, is presented below:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
Outstanding as of September 30, 2023	4,688	\$ 1.24	0.25	\$ -
Granted	-	-	-	-
Expired/Cancelled	(4,688)	1.24	-	-
Exercised	-	-	-	-
Outstanding as of December 31, 2023	-	\$ -	-	\$ -
Exercisable as of December 31, 2023	-	\$ -	-	\$ -

(22) INCOME TAXES

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

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.

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

(23) COMMITMENTS AND CONTINGENCIES

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. Although preliminary rulings have been unfavorable to the Company, the Company's counsel continues to review its remaining claims which are upwards of \$4.0 million. 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 recover allegedly 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. At this time, the case remains stayed by Court order. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

Jeffrey Mohamed Abed v. Track Group, Inc., et al. On June 7, 2021, Jeffrey Mohamed Abed filed a complaint seeking unspecified damages in the Superior Court of the State of California, 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 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., a wholly-owned subsidiary of the Company ("*Track Chile*") initiated a judicial action in the Court of Justice of Chile to settle a contract dispute with the Republic of Chile related to its contract with the Chilean National Prisoner Service, the Company's customer in the Republic of Chile (the "*Customer*"). The judicial action followed the issuance by the Customer on December 19, 2021 of the first of two letters fining Track Chile approximately USD \$1.5 million for delays in completing two offender monitoring centers caused principally by the COVID-19 global pandemic. Track Chile also was granted an injunction preventing the Chilean government from drawing down on the performance bond (the "*Performance Bond*") posted by Track Chile on July 2, 2020 with an expiration date of July 1, 2024 (the "*Expiration Date*"). On January 17, 2024, a Chilean appellate court overturned the injunction. The Company's Chilean counsel is considering Track Chile's options in light of the appellate court's decision. The Company is confident that resolution of these issues can be reached prior to the Expiration Date and remains confident in its position regarding the merits of the contract dispute. As a result, and after consultation with legal counsel, no accrual for a potential loss related to the Performance Bond has been made. Notwithstanding the judicial action, management expects that Track Chile will execute new agreements with the Customer in the near future.

Michael Matthews v. Track Group, Inc., et al. On December 13, 2022, Plaintiff Michael Matthews filed a complaint in the Circuit Court of Cook County, Illinois, amended on July 23, 2023, against the Company and other defendants alleging wrongful arrest and incarceration and a deprivation of his rights following his purportedly erroneous violation of home monitoring program requirements. On January 10, 2024, the court dismissed the Plaintiff's second amended complaint with leave to replead by January 30, 2024. Plaintiff filed a third amended complaint on January 30, 2024, however, subsequently filed a motion to voluntarily dismiss the case on January 31, 2024.

Kevin Barnes v. Track Group, Inc., et al. On December 28, 2023, the Company was served with a second amended complaint filed in the Circuit Court of Cook County, Illinois naming the Company and alleging strict liability and negligence against the Company and other defendants related to alleged injuries sustained by Barnes from an electronic monitoring device. The Company disputes Barnes' 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.

Performance Bonds

As of December 31, 2023, the Company has one performance bond in connection with a foreign customer totaling \$1,695,741, the Performance Bond, of which \$1,186,991 is held in an interest-bearing account on behalf of the bank and is recorded in Other Assets on the Consolidated Balance Sheets. The amount held on the Performance Bond will be released following the Expiration Date, all contract extensions have been exhausted, and the consent of the Customer, but in no event before July 2024 and more likely in 2025; *provided, however*, as disclosed above in [Track Group Chile SpA. v. Republic of Chile](#), the Performance Bond has not been drawn down as of the date of this Report.

The amounts held on two additional performance bonds posted by Track Chile were released in the second quarter of 2023 and the Company received \$1,041,797, including interest.

The Company pays interest on the full amount of the Performance Bond to the financial institution providing the guarantee at 2.8% interest per annum for the Performance Bond expiring in July 2024. The Company recorded interest expense for the three months ended December 31, 2023 and 2022 of \$11,960 and \$31,525, respectively.

(24) SUBSEQUENT EVENTS

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

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

Forward-Looking Statements

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2023, and Current Reports on Form 8-K that have been filed with the SEC through the date of this Report. Except as otherwise indicated, as used in this Report, the terms the "Company", "Track Group", "we", "our", and "us" refer to Track Group, Inc., a Delaware corporation.

General

Our core business is based on the leasing of patented tracking and monitoring solutions to federal, state and local law enforcement agencies, both in the U.S. and abroad, for the electronic monitoring of offenders and offering unique data analytics services on a platform-as-a-service ("PaaS") business model. Currently, we deploy offender-based management services that combine patented GPS tracking technologies, full-time 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.

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

ReliAlert®XC4 is our flagship GPS device, which is among the safest and most reliable monitoring devices ever made. 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 capabilities, increased battery life and sleep mode.

ReliAlert®XC3 - 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.

Monitoring Center Services - 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, bilingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power sources, battery backup and triple redundancy in voice, data and IP. We have assisted in the establishment of monitoring centers for customers and local partners in the United States, Chile and other global locations.

Data Analytics Services - Our IntelliTrack, TrackerPAL® software, IntelliTrack Mobile, TrackerPAL® Mobile, combined with our Data Analytic analysis tools, provide an integrated platform allowing case managers and law enforcement officers quick access views of an offender's travel behavior, mapping, and inference on patterns. Our data analytics services help facilitate the discovery and communication of meaningful patterns in diverse locations 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.

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

Business Strategy

We are committed to helping our customers improve offender rehabilitation and re-socialization outcomes through our innovative hardware, software and services. We treat our business as a service business. Although we still manufacture patented tracking technology, we see the physical goods as only a small part of the integrated offender monitoring solutions we provide. Accordingly, rather than receiving a payment just for a piece of manufactured equipment, the Company receives a recurring stream of revenue for ongoing device agnostic subscription contracts. As part of our strategy, we continue to expand our device-agnostic platform to not only collect, but also store, analyze, assess and correlate location data for both accountability and auditing reasons, as well as to use for predictive analytics and assessment of effective and emerging techniques in criminal behavior and rehabilitation. We believe a high-quality customer experience along with knowledgeable salespeople who can convey the value of our products and services greatly enhances our ability to attract and retain customers. Therefore, our strategy also includes building and expanding our own direct sales force and our third-party distribution network to effectively reach more customers and provide them with a world-class sales and post-sales support experience. In addition, we are developing related service offerings to address adjacent market opportunities in both the public and private sectors. We believe continual investment in research and development (“R&D”), including smartphone applications and other monitoring services is critical to the development and sale of innovative technologies and integrated solutions today and in the future.

Critical Accounting Policies

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

A description of the Company's critical accounting policies that affect the preparation of the Company's financial statements is set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2023, filed with the SEC on December 20, 2023. During the three months ended December 31, 2023, there have been two changes to the Company's critical accounting policies.

In January 2017, the FASB issued Accounting Standards Update ("ASU") 2017-04, *Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment*. ASU 2017-04 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 the 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. ASU 2017-04 became effective for accelerated filing companies 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 ASU 2017-04 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. The adoption of this accounting standard in the first quarter of fiscal 2024 did not have a significant impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which adds a current expected credit loss ("CECL") impairment model to GAAP that is based on expected losses rather than incurred losses. Modified retrospective adoption is required with any cumulative-effect adjustment recorded to retained earnings as of the beginning of the period of adoption. ASU 2016-13 became effective for fiscal years beginning after December 15, 2019, excluding smaller reporting entities, which became effective for fiscal years beginning after December 15, 2022. The adoption of this accounting standard in the first quarter of fiscal 2024 did not have a significant impact on our consolidated financial statements.

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

Government Regulation

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

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.

Results of Operations

Three Months Ended December 31, 2023, Compared to Three Months Ended December 31, 2022

Revenue

For the three months ended December 31, 2023, the Company recognized total revenue from operations of \$8,966,972 compared to \$8,855,691 for the three months ended December 31, 2022, an increase of \$111,281, or approximately 1%. The increase in monitoring revenues is driven principally by an increase in people assigned to monitoring for clients in Illinois and Canada. This increase was partially offset by revenue decreases for clients in Puerto Rico and Chile who experienced decreases in the number of people assigned to monitoring. These increases and reductions from all of these locations represent typical fluctuations which occur daily.

Product sales and other revenue for the three months ended December 31, 2023 decreased to \$292,487 from \$565,909 in the same period in 2022, a decrease of \$273,422 or approximately 48%. The decrease in product and other revenue was largely due to lower international product sales, principally in Saudi Arabia, partially offset by product sales to a new customer in Brazil. 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. The availability of semiconductor parts has continued to improve in Fiscal 2024; however, long lead times remain with certain parts.

Cost of Revenue

During the three months ended December 31, 2023, cost of revenue totaled \$4,763,452 compared to cost of revenue during the three months ended December 31, 2022 of \$4,675,013, an increase of \$88,439 or 2%. The increase in cost of revenue was largely the result of higher device repair costs related to regreasing some outstanding devices of \$275,154, partially offset by lower communication costs of \$125,947 and lower hardware purchase costs of \$43,704.

Depreciation and amortization included in cost of revenue for the three months ended December 31, 2023 and 2022 totaled \$789,463 and \$773,019, respectively, an increase of \$16,444. These costs represent the depreciation of ReliAlert® and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. The increase in depreciation and amortization costs is largely due to an increase in device depreciation expense of \$40,385, offset by a decrease in amortization of \$23,941 for fully amortized developed technology and trade names. 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.

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Gross Profit and Margin

During the three months ended December 31, 2023, gross profit totaled \$4,203,520, resulting in a gross margin of approximately 47%. During the three months ended December 31, 2022, gross profit totaled \$4,180,678, resulting in a gross margin of approximately 47%. The increase in absolute gross profit of \$22,842 is due to an increase in revenue of \$111,281, lower communication costs and lower hardware purchase costs, partially offset by higher device repair costs and nominally higher depreciation and amortization costs.

General and Administrative Expense

During the three months ended December 31, 2023, general and administrative expense totaled \$2,757,887 compared to \$2,754,521 for the three months ended December 31, 2022. The nominal increase of \$3,366 in general and administrative cost resulted largely from an increase in bad debt expense, partially offset by a decrease in insurance costs.

Selling and Marketing Expense

During the three months ended December 31, 2023, selling and marketing expense totaled \$706,531 compared to \$729,470 for the three months ended December 31, 2022. The decrease of \$22,939 or approximately 3% resulted largely from lower wages and related payroll taxes of \$19,283 and lower outside services of \$38,876, partially offset by higher travel and entertainment costs of \$48,657.

Research and Development Expense

During the three months ended December 31, 2023, research and development expense totaled \$682,463 compared to \$589,805 for the three months ended December 31, 2022. The increase of \$92,658 or approximately 16% was largely due to increased payroll and related tax expense of \$140,225, partially offset by a decrease in outside services of \$20,536.

Depreciation and Amortization Expense

During the three months ended December 31, 2023, depreciation and amortization expense totaled \$239,760 compared to \$247,710 for the three months ended December 31, 2022, a decrease of \$7,950 or approximately 3%, largely due to fully amortized intangible assets and fully depreciated furniture and equipment.

Total Operating Expense

During the three months ended December 31, 2023, total operating expense increased to \$4,386,641 compared to \$4,321,506 for the three months ended December 31, 2022, an increase of \$65,135 or approximately 2%. The increase is principally due to the factors disclosed above.

Operating Income (Loss)

During the three months ended December 31, 2023, operating loss was \$183,121 compared to \$140,828 for the three months ended December 31, 2022. The increase of \$42,293 in operating loss was principally due to an increase in operating expense of \$65,135, partially offset by an increase in gross profit of \$22,842.

Other Income (Expense)

For the three months ended December 31, 2023, other income (expense) totaled income of \$101,023 compared to other income of \$63,601 for the three months ended December 31, 2022, an increase of \$37,422. The increase in other income is largely due to positive currency exchange rate movements of \$55,794 between the US Dollar vs. the Chilean Peso, compared to the prior period.

Net Income Attributable to Common Stockholders

The Company had net income attributable to common stockholders of \$461 for the three months ended December 31, 2023, compared to \$36,384 for the three months ended December 31, 2022, a decrease of \$35,923. This decrease in net income is largely due to higher research and development expense and higher interest expense, partially offset by lower selling and marketing expense, higher other income and lower tax expense.

Liquidity and Capital Resources

The company believes that its existing cash and its future cash flow from operations will be sufficient to meet the cash requirements of its existing business for the foreseeable future.

On December 21, 2020, Conrent and the Company signed an amendment to the Amended Facility Agreement which extended the maturity date of the Amended Facility Agreement to July 1, 2024 (“*Amended Facility*”), capitalized the accrued and unpaid interest, increasing the outstanding principal amount and reduced the interest rate of the Amended Facility from 8% to 4%. On April 26, 2023, the Company and Conrent entered into another amendment to the Amended Facility (the “*Amendment*”). The Amendment: (i) extended the maturity date from July 1, 2024, to July 1, 2027 (the “*Maturity Date*”); (ii) amended the applicable interest rate resulting in an escalating interest rate as follows: 4% through June 30, 2024, 5% through June 30, 2025, 5.5% through June 30, 2026, and 6% through the Maturity Date; and (iii) removed section 7.3 “*Change of Control*” of the Amended Facility Agreement. In return, the Company agreed to pay total fees of EUR 225,000 in five annual installments to Conrent. As of December 31, 2023, \$42,864,000 of principal and \$876,331 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. 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 remodel a temporary monitoring center. The loan bears an interest 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 was used for the construction of the Gendarmeria de Chile monitoring center in Santiago 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 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 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.

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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 was used as working capital and to complete the construction of the Gendarmeria monitoring center in Puerto Montt, Chile. The loan 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.

No borrowings or sales of equity securities occurred during the three months ended December 31, 2023 or during the years ended September 30, 2023 or 2022.

Net Cash Flows Provided by Operating Activities.

During the three months ended December 31, 2023, we had cash flows from operating activities of \$642,325, compared to cash flows from operating activities of \$2,328,423 for the three months ended December 31, 2022, representing a \$1,686,098 decrease or approximately 72%. The decrease in cash from operations was largely the result of decreases in our net income and increases in accounts receivable and foreign currency exchange gain.

Net Cash Flows Used in Investing Activities.

The Company used \$856,515 of cash from investing activities during the three months ended December 31, 2023, compared to \$2,188,616 of cash used for investing activities during the three months ended December 31, 2022. Cash used for investing activities was primarily related to purchases of monitoring and other equipment to meet customer demand during the three months ended December 31, 2023 and 2022.

Net Cash Flows Used in Financing Activities.

The Company used \$124,338 of cash from financing activities during the three months ended December 31, 2023, which was the result of principal payments on long-term debt, as compared to \$126,316 during the three months ended December 31, 2022.

Liquidity, Working Capital and Management's Plan

As of December 31, 2023, the Company had unrestricted cash of \$3,730,885, compared to unrestricted cash of \$4,057,195 as of September 30, 2023. As of December 31, 2023, we had working capital of \$4,689,177, compared to working capital of \$4,813,777 as of September 30, 2023. This decrease in working capital of \$124,600 is principally due to the purchase of monitoring equipment, offset by an increase in accounts receivable.

On December 21, 2020, Conrent and the Company signed an amendment to the Amended Facility, which extended the maturity date of the Amended Facility to July 1, 2024, capitalized the accrued and unpaid interest, increasing the outstanding principal amount, and reduced the interest rate of the Amended Facility from 8% to 4%. On April 26, 2023, the Company and Conrent entered into another amendment to the Amended Facility (the "*Amendment*"). The Amendment: (i) extended the maturity date from July 1, 2024 to the Maturity Date; (ii) amended the applicable interest rate resulting in an escalating interest rate as follows: 4% through June 30, 2024, 5% through June 30, 2025, 5.5% through June 30, 2026, and 6% through the Maturity Date; and (iii) removed section 7.3 "*Change of Control*" of the Amended Facility Agreement. In return, the Company agreed to pay certain fees to Conrent. As of December 31, 2023, \$42,864,000 of principal and \$876,331 of interest was owed to Conrent.

During the fiscal year ended September 30, 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 during the three months ended December 31, 2023 or during the years ended September 30, 2023 or 2022.

Off-Balance Sheet Financial Arrangements

The Company has not entered any transactions with unconsolidated entities whereby the Company has financial guarantees, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation that provides financing, liquidity, market risk, or credit risk support to the Company.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risks

We had \$1,515,051 and \$1,525,021 in foreign currency revenue from sources outside of the United States for the three months ended December 31, 2023 and 2022, respectively. Our foreign currency revenue is made up of sales in Chile. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange gain of \$538,945 in the three months ended December 31, 2023 and a gain of \$483,151 in the three months ended December 31, 2022. Fluctuations in the exchange loss or gain in any given period are due to the strengthening or weakening of the U.S. dollar against the Chilean Peso and Canadian dollar which have been magnified by global matters, inflation, and the government policies established to address those issues. 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 to mitigate the risk of repatriating funds converted from foreign currency into U.S. dollars. 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 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. The Company had no active foreign currency exchange contracts as of December 31, 2023.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2023, was completed pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of December 31, 2023.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There was no change in our internal control over financial reporting during the quarter ended December 31, 2023, that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of 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. Although preliminary rulings have been unfavorable to the Company, the Company's counsel continues to review its remaining claims which are upwards of \$4.0 million. 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 recover allegedly 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. At this time, the case remains stayed by Court order. The Company remains confident in its position and no accrual for a potential loss has been made, after consultation with legal counsel.

Jeffrey Mohamed Abed v. Track Group, Inc., et al. On June 7, 2021, Jeffrey Mohamed Abed filed a complaint seeking unspecified damages in the Superior Court of the State of California, 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 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., a wholly-owned subsidiary of the Company ("Track Chile") initiated a judicial action in the Court of Justice of Chile to settle a contract dispute with the Republic of Chile related to its contract with the Chilean National Prisoner Service, the Company's customer in the Republic of Chile (the "Customer"). The judicial action followed the issuance by the Customer on December 19, 2021 of the first of two letters fining Track Chile approximately USD \$1.5 million for delays in completing two offender monitoring centers caused principally by the COVID-19 global pandemic. Track Chile also was granted an injunction preventing the Chilean government from drawing down on the performance bond (the "Performance Bond") posted by Track Chile on July 2, 2020 with an expiration date of July 1, 2024 (the "Expiration Date"). On January 17, 2024, a Chilean appellate court overturned the injunction. The Company's Chilean counsel is considering Track Chile's options in light of the appellate court's decision. The Company is confident that resolution of these issues can be reached prior to the Expiration Date and remains confident in its position regarding the merits of the contract dispute. As a result, and after consultation with legal counsel, no accrual for a potential loss related to the Performance Bond has been made. Notwithstanding the judicial action, management expects that Track Chile will execute new agreements with the Customer in the near future.

Michael Matthews v. Track Group, Inc., et al. On December 13, 2022, Plaintiff Michael Matthews filed a complaint in the Circuit Court of Cook County, Illinois, amended on July 23, 2023, against the Company and other defendants alleging wrongful arrest and incarceration and a deprivation of his rights following his purportedly erroneous violation of home monitoring program requirements. The Company disputes the allegations of the complaint, has retained counsel, and intends to vigorously defend the case. On January 10, 2024, the court dismissed the Plaintiff's second amended complaint with leave to replead by January 30, 2024. Plaintiff filed a third amended complaint on January 30, 2024 however, subsequently filed a motion to voluntarily dismiss the case on January 31, 2024.

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Kevin Barnes v. Track Group, Inc., et. al. On December 28, 2023, the Company was served with a second amended complaint filed in the Circuit Court of Cook County, Illinois naming the Company and alleging strict liability and negligence against the Company and other defendants related to alleged injuries sustained by Barnes from an electronic monitoring device. The Company disputes Barnes' 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.

Item 1A. Risk Factors

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended September 30, 2023, filed on December 20, 2023. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report and other reports we file with the SEC. Should any of these risks materialize or deteriorate further, our business, financial condition and future prospects could be negatively impacted.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

Exhibit Number	Title of Document
31(i)	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31(ii)	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)

SIGNATURES

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

Track Group, Inc.

Date: February 8, 2024

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

Date: February 8, 2024

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

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

Date: February 8, 2024

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

Date: February 8, 2024

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

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

In connection with the Quarterly Report of Track Group, Inc. on Form 10-Q for the period ended December 31, 2023 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 and Accounting 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 Financial and Accounting
Officer)

Date: February 8, 2024

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.