

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

FORM 10-K

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

For the fiscal year ended September 30, 2024
or

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

For the transition period from _____ to _____

Commission file number: 000-23153

TRACK GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0543981

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

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

(Address of principal executive offices) (Zip Code)

(877) 260-2010

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant computed by reference to the closing price on March 31, 2024 was approximately \$1.4 million. As of December 2, 2024, there were 11,863,758 shares of Common Stock issued and outstanding.

Documents Incorporated by Reference

None.

Track Group, Inc.
FORM 10-K
For the Fiscal Year Ended September 30, 2024

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FORWARD LOOKING STATEMENTS

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

PART I

Item 1. Business

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

Company Background

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

Business Strategy

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

Recent Developments

As of September 30, 2024 the Company concluded that Track Group Chile met all of the criteria for classification as held for sale. As a result, the Company measured Track Group Chile as held for sale at its fair value, which equals the sales price of \$1.0 million and accordingly recorded an impairment of \$757,130. See Note 14.

Products and Services

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

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

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.

Operating System Software

IntelliTrack

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

TrackerPAL®

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

Application Software

IntelliTrack Mobile

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

TrackerPAL® Mobile

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

Data Analytics

Our data analytics services help facilitate the discovery and communication of meaningful patterns in diverse 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.

Real-Time Alcohol Monitoring

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

Empower

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

Socrates

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

Accessories

SecureCuff®

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

RF Beacon™

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

Product Support and Services

Monitoring Centers

Our monitoring centers provide live 24/7/365 monitoring of all alarms generated from our devices, as well as customer and technical support. Our monitoring center operators play a vital role, and as such, are staffed with highly trained, 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.

Customer Care

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

Research and Development Program

During the fiscal year ended September 30, 2024 (“*Fiscal 2024*”), we incurred research and development expenses of \$2,749,218, as compared to \$2,735,060 recognized during the fiscal year ended September 30, 2023 (“*Fiscal 2023*”). The \$14,158 increase in research and development was largely due to higher wages and payroll taxes. The Company has now significantly enhanced its technology platform to improve the efficiency of its software, firmware, user interface, and automation and invested considerable time in developing a new device expected to be completed in Fiscal 2025. As a result of these improvements, \$2,023,228 and \$1,020,604 was capitalized as developed technology, in accordance with the accounting guidance for internal-use software, during Fiscal 2024 and Fiscal 2023, respectively.

Competition

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

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

Competitive Strengths

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

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

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

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

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

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

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

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

Sources and Availability of Raw Materials

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

The Company has been able to purchase most components within reasonable lead times.

Dependence on Major Customers

We had sales to two entities that each represent 10% or more of our gross revenue, as follows, for the years ended September 30, 2024 and 2023, respectively:

	<u>2024</u>	<u>%</u>	<u>2023</u>	<u>%</u>
Customer A	\$ 5,746,451	16%	\$ 6,730,687	20%
Customer B	3,757,504	10%	3,804,951	11%

No other customer represented more than 10% of our total revenue for the fiscal years ended September 30, 2024 or 2023. On November 1, 2024 we sold our Chile subsidiary, which included Customer A.

Concentration of credit risk associated with our total and outstanding accounts receivable as of September 30, 2024 and 2023, respectively, are shown in the table below:

	<u>2024</u>	<u>%</u>	<u>2023</u>	<u>%</u>
Customer A	\$ 495,969	11%	\$ 490,848	11%
Customer C	489,618	11%	630,494	14%
Customer D	475,012	11%	465,320	10%

Dependence on Major Suppliers

We purchase cellular services from several major suppliers. The cost to us for these services during Fiscal 2024 and Fiscal 2023 was \$1,468,509 and \$1,569,639, respectively. The 6% decrease in cellular service expense in Fiscal 2024 compared to Fiscal 2023 was largely the result the completion of the replacement of all 3G devices with 4G LTE devices in the U.S. in Fiscal 2023.

During Fiscal 2024 and Fiscal 2023, we also purchased a significant portion of our monitoring equipment from certain suppliers. The cost of these purchases during Fiscal 2024 and Fiscal 2023 was \$1,539,269 and \$3,503,515, respectively. The 56% decrease in monitoring equipment was largely due to the completion of replacement of all 3G devices with 4G LTE devices in the U.S in Fiscal 2023.

Intellectual Property

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

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

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

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

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

The following table summarizes our trademark registrations:

Trademark	Application Number	Registration Number	Status/ Next Action
TrackerPAL®	78/843035	3345878	Registered
Mobile911®	78/851384	3212937	Registered
TrackerPAL®	MX 805365	960954	Registered
ReliAlert®	85/238049	4200738	Registered
SecureCuff®	85/626037	4271621	Registered
Track Group®	86/301716	4701636	Registered
Track Group® and Design*	MP 1257077	1257077	Registered
Track Group®	88/852471	6198974	Registered
Track Group®	90/245541	6408353	Registered

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

Patents. We have 11 patents issued in the United States. At foreign patent offices, we have 11 patents issued.

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

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

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

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

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

Government Regulation

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

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

Seasonality

Given the consistency in recurring domestic monitoring revenue by customers throughout Fiscal 2024, we detected no material seasonality in our business. However, as in previous years, incremental domestic device deployment opportunities typically slow down in the months of July and August. We believe this is due to the unavailability of judicial and corrections officials who observe a traditional vacation season during this period. In addition, the operation in Chile generally slows around Christmas time due to the courts willingness to permit offenders being monitored to visit family.

Employees

As of December 2, 2024, we had 91 full-time employees and 1 part-time employee. None of the employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and management believes that relations with employees are good.

Additional Available Information

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

All reports filed by us with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov.

Item 1A. Risk Factors

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

Risks Related to Our Business, Operations and Industry

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

As of September 30, 2024, excluding deferred financing costs, we had \$42,864,000 of indebtedness outstanding, of which \$0 becomes due and payable within the next 12 months, \$0 matures in 2026, and \$42,864,000 matures in 2027. We have \$547,707 of interest accrued at September 30, 2024 related to our outstanding indebtedness. Our significant indebtedness could adversely affect our ability to raise additional capital to fund our operations, make interest payments as they come due, limit our ability to react to changes in the economy or our industry, and prevent us from meeting our obligations under our outstanding debt instruments. See Note 7 to the Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During Fiscal 2024, our two top customers accounted for an aggregate of 26% of total sales. See Note 2 to the Consolidated Financial Statements. In the event any of our top customers were to terminate their agreements with the Company, our results of operations and financial condition may be adversely affected. On November 1, 2024 we sold our Chile subsidiary, which included our top customer. See Item 1. Business and Note 2.

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

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

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

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

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

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

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

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

We conduct business internationally with a variety of sovereign governments.

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

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

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

Our business is subject to risks arising from epidemic diseases, such as the 2021 global outbreak of the COVID-19 coronavirus.

The COVID-19 pandemic impacted worldwide economic activity. Any additional pandemics, including additional outbreaks of COVID-19 may have a material adverse effect on our results from operations and financial condition, as many of our clients worldwide may be similarly impacted.

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

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

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

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

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

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

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

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

We currently have one independent director sitting on our Board of Directors.

Our Board of Directors is currently comprised of three members, two of which would not be considered independent under the rules of the Nasdaq Capital Market and the OTC Markets. Additionally, we no longer maintain separate audit, compensation or nominating and governance committees, the duties of which are fulfilled by our entire Board of Directors. The rules of the OTC Markets require that companies whose securities are listed for quotation on the OTCQB maintain certain public float percentages and a minimum bid price for the Company's shares. In the event that we fail to meet these standards, our Common Stock would no longer be eligible for quotation on the OTCQB, resulting in the quotation of our Common Stock on an alternative market, such as the OTC Pink Open Market. Such change may affect the number and type of investors eligible to purchase our Common Stock. As a result, the price of our Common Stock may be adversely affected.

Risks Related to Acquisitions

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

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

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

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

- the potential disruption of our existing business;

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

Risks Related to International Operations

We are exposed to fluctuations in currency exchange rates.

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

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

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

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

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

Risks Related to Our Common Stock

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

Certain groups or persons, and in particular ETS Limited, who owned 39.7% of our issued and outstanding Common Stock as of December 2, 2024, beneficially own a substantial number of shares of our outstanding Common Stock or securities and debt instruments. As a result, these persons have the ability, acting as a group, to influence substantially our affairs and business, including the election of our directors and subject to certain limitations, of fundamental corporate transactions. This concentration of ownership may also have the effect of delaying or preventing a change of control or making other transactions more difficult or impossible without their support. In addition, these equity holders may have an interest in pursuing acquisitions, divestitures, financing or other transactions that, in their judgment, could enhance their equity investments, even though such transactions may involve significant risk to us or our other stockholders. Additionally, they may make investments in businesses that directly or indirectly compete with us, or may pursue acquisition opportunities that may be complementary to our business and as a result, those acquisition opportunities may not be available to us.

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

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

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

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

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

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

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

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

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

Our Certificate of Incorporation authorizes us to issue up to 20,000,000 shares of preferred stock, par value \$0.0001 per share (“*Preferred Stock*”), of which 1,200,000 shares have been designated as Series A Convertible Preferred Stock (“*Series A Preferred*”). Our Board of Directors is authorized to designate, and to determine the rights and preferences of any series or class of Preferred Stock, and may designate additional shares of Preferred Stock in the future. The Board of Directors may, without stockholder approval, issue shares of Preferred Stock with dividend, liquidation, conversion, voting or other rights which are senior to our Common Stock or which could adversely affect the voting power or other rights of the existing holders of outstanding shares of Preferred Stock or Common Stock. Additionally, the issuance of Preferred Stock may have the effect of decreasing the market price of the Common Stock and reduce the likelihood that holders of Common Stock will receive dividend payments and payments upon liquidation. The issuance of shares of Preferred Stock may also adversely affect an acquisition or change in control of the Company. As of December 2, 2024, there were no outstanding shares of Series A Preferred issued and outstanding.

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

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

Item 1C. Cybersecurity

At Track Group, Inc., we recognize the critical importance of maintaining the trust and confidence of our customers, partners, and employees. We maintain a comprehensive process for identifying, assessing, and managing material risks from cybersecurity threats (as such term is defined in Item 106(a) of Regulation S-K) as part of our broader risk management system and processes. The cybersecurity risk management system involves risk assessments, implementation of security measures, and ongoing monitoring of systems and networks, including networks on which we rely. We actively monitor the current threat landscape in an effort to identify material risks arising from new and evolving cybersecurity threats. We obtain input, as appropriate, for our cybersecurity risk management program on the security industry and threat trends from consultants, cybersecurity assessors, auditors and other third parties to gather certain insights designed to identify and assess material cybersecurity threat risks, their severity and potential mitigations. To protect the information that we gather and the availability of our information systems from cybersecurity threats, we have an ongoing cybersecurity risk mitigation program, which includes maintaining up-to-date detection, prevention and monitoring systems. We define a cybersecurity threat as any potential unauthorized occurrence on or conducted through our information systems or information systems of a third party that we utilize in our business that may result in adverse effects on the confidentiality, integrity or availability of our information systems or any information residing therein.

We depend on and engage various third parties, including suppliers, vendors, and service providers. Our risk management, legal, information technology, and compliance personnel identify and oversee risks from cybersecurity threats associated with our use of such entities. Any incident assessed as potentially being or potentially becoming material is immediately escalated for further assessment and then reported to the Board of Directors.

We comply with the AICPA Trust Services Criteria for Security and have based our Information Security Management System on the ISO 27001 standard.

Track Group’s Chief Information Security Officer, Tim Hardy, has oversight responsibility for risks and incidents relating to cybersecurity threats, including compliance with disclosure requirements, cooperation with law enforcement, and related effects on financial and other risks, and report any findings and recommendations, as appropriate, to the full Board of Directors for consideration.

Senior management regularly discusses cyber risks and trends and, should they arise, any material incidents with the Board of Directors.

Our business strategy, results of operations and financial condition have not been materially affected by risks from cybersecurity threats, but we cannot provide assurance that they will not be materially affected in the future by such risks or any future material incidents. Further, a cyber incident impacting our systems or a third-party's systems could subject us to business, regulatory, litigation and reputational risk, which could have a negative effect on our business, results of operations and financial condition. For more information on our cybersecurity related risks, see Item 1A Risk Factors of this Annual Report.

Item 2. Properties

Our headquarters is approximately 5,600 square feet of commercial office space located at 200 E. 5th Avenue Suite 100, Naperville, Illinois. The lease for this office space began on September 1, 2017 and expired on August 31, 2022, at which time the lease was extended for another five years. Base rent and common area maintenance payments are approximately \$12,000 per month.

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

At September 30, 2024, the operations of Track Group Chile S.p.A. were conducted in approximately 2,200 square feet of commercial office space and storage facilities located in Santiago, Chile with base rent and common area maintenance payments of approximately \$4,100 per month. The lease for this space ended on September 30, 2024. On November 1, 2024 we sold our Chile subsidiary and the lease transferred to the buyer.

We lease commercial office space in Sandy, Utah of approximately 1,500 square feet. The lease for this office space began on September 1, 2017 and expired on August 31, 2018. We are currently leasing this property on a month-to-month basis. Lease payments are \$2,000 per month.

Item 3. Legal Proceedings

The Company is, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of 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 as the Plaintiff 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.

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 2, 2024 (the “*Expiration Date*”). On January 17, 2024, a Chilean appellate court overturned the injunction.

On June 27, 2024 (the “*Effective Date*”), Track Chile entered into a settlement agreement (the “*Agreement*”) with the Customer (together, the “*Parties*”), whereby the Parties dismissed further legal and equitable issues between or among the Parties, including all asserted and existing claims asserted against Track Chile and the Company, and any related claims, and any potential claims related to the Parties’ disputes arising on or before the date hereof.

In connection with the Agreement, Track Chile paid 950,600,000 CLP (\$1,003,543 USD) (“*Settlement Payment*”) to Customer in full satisfaction of the Dispute, and in consideration, Customer returned to Track Chile its performance bond (See Note 23) in the amount of 1,328,279,704 CLP (approximately \$1,397,762 USD based on the exchange rate as of the Effective Date).

The Company has recorded the Settlement Payment in operating expense on the Condensed Consolidated Statements of Operations. Notwithstanding the judicial action, Track Chile executed new agreements with the Customer in February 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.

PART II

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

Market Information

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

	High		Low	
Fiscal Year Ended September 30, 2024				
First Quarter ended December 31, 2023	\$	0.49	\$	0.23
Second Quarter ended March 31, 2024	\$	0.32	\$	0.18
Third Quarter ended June 30, 2024	\$	0.33	\$	0.21
Fourth Quarter ended September 30, 2024	\$	0.25	\$	0.15
Fiscal Year Ended September 30, 2023				
First Quarter ended December 31, 2022	\$	0.66	\$	0.30
Second Quarter ended March 31, 2023	\$	1.25	\$	0.34
Third Quarter ended June 30, 2023	\$	0.70	\$	0.25
Fourth Quarter ended September 30, 2023	\$	0.85	\$	0.18

Holders

As of December 2, 2024, we had 166 holders of record of our Common Stock and 11,863,758 shares of Common Stock outstanding.

Dividends

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

Dilution

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

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

Transfer Agent and Registrar

The transfer agent and registrar for our Common Stock is Equiniti Trust Company, LLC, which is located at 48 Wall Street, Floor 23, New York, NY 10005.

Securities Authorized for Issuance under Equity Compensation Plans

The 2022 Stock Incentive Plan

At the annual meeting of stockholders on April 13, 2022, our stockholders approved the 2022 Omnibus Equity Incentive Plan (the “2022 Plan”), previously approved by the Company’s Board. The 2022 Plan provides for the grant of incentive options and nonqualified options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who provide services to the Company in lieu of cash. A total of 500,000 shares are authorized for issuance pursuant to awards granted under the 2022 Plan. The 2022 Plan supersedes and replaces the Company’s 2012 Equity Compensation Plan (the “2012 Plan”).

The 2012 Stock Incentive Plan

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

There were no issuances of restricted shares in Fiscal 2024.

On April 13, 2022, the Company issued 285,000 restricted shares of Common Stock to members of its executive team pursuant to the 2022 Plan valued at \$370,500. The Company recorded expense of \$3,431 and \$159,522 for the year ended September 30, 2024 and 2023, respectively in connection with the grant.

As of September 30, 2024, there were 215,000 shares of Common Stock remaining available for issuance under the 2022 Plan as well as 27,218 available under the 2012 plan.

The following table includes information as of September 30, 2024 for our equity compensation plans:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column, if any) (b)
Equity compensation plans approved by shareholders	-	\$ -	242,218
Equity compensation plan not approved by shareholders	-	-	-
Total	-	\$ -	242,218

(a) Consists of shares of our Common Stock issuable upon exercise of outstanding options issued under the Company’s 2012 Plan and the 2022 Plan.

(b) Consists of 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.

Recent Sales of Unregistered Securities

No securities were issued without registration under the Securities Act during Fiscal 2024, nor were any securities issued subsequent to September 30, 2024, that were not reported in our Quarterly Reports on Form 10-Q and in our Current Reports on Form 8-K filed with the Securities and Exchange Commission.

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

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

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The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (this “*MD&A*”) is intended to help the reader better understand Track Group, our operations and our present business environment. Our fiscal year ends on September 30 of each year. Reference to “*Fiscal 2024*” refers to the year ended September 30, 2024, and reference to “*Fiscal 2023*” refers to the year ended September 30, 2023 (Fiscal 2024 and Fiscal 2023 are collectively “*Fiscal Years 2024 and 2023*”). This MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements for Fiscal Years 2024 and 2023, and the accompanying notes thereto contained in this Annual Report. This introduction summarizes MD&A, which includes the following sections:

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

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

Overview

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

Results of Operations

Fiscal 2024 Compared to Fiscal 2023

Revenue

During Fiscal 2024, we had revenue of \$36,886,500 compared to revenue of \$34,475,865 for Fiscal 2023, an increase of \$2,410,635, or approximately 7%. Of this revenue, \$35,712,211 and \$33,503,687 were from monitoring and other related services revenue during Fiscal 2024 and Fiscal 2023, respectively, representing an increase of \$2,208,524 or approximately 7%. The increase in monitoring revenues is driven principally by an increase in people assigned to monitoring for clients in Illinois and the Bahamas. This increase was partially offset by revenue decreases for clients in Virginia 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 and other revenue for Fiscal 2024 increased to \$1,174,289 from \$972,178 in the same period in 2023, an increase of \$202,111 or approximately 21%. The increase in product and other revenue was largely due to increased international product sales, principally to a new customer in Brazil, partially offset by a decrease in product sales to Saudi Arabia. We continue to largely focus on recurring subscription-based opportunities as opposed to equipment sales.

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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 improved in Fiscal 2024 to within industry acceptable lead times.

Cost of Revenue

During Fiscal 2024, cost of revenue totaled \$19,677,456 compared to cost of revenue during Fiscal 2023 of \$19,178,790, an increase of \$498,666, or approximately 3%. The increase in cost of revenue was largely the result of higher device repair costs of \$572,527 and higher server costs of \$385,832, partially offset by lower communication costs of \$101,130 and lower monitoring center costs of \$111,785.

Depreciation and amortization included in cost of revenue for Fiscal Years 2024 and 2023, totaled \$3,061,520 and \$3,263,490, respectively, a decrease of \$201,970, or approximately 6%. These costs represent the depreciation of ReliAlert® and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. The decrease in depreciation and amortization costs is largely due to a decrease in amortization of \$262,500 for fully amortized device royalties. Amortization of a patent related to GPS and satellite tracking are also included in depreciation and amortization. Devices are depreciated over either a three- or five-year useful life. Monitoring software is amortized over a seven-year life. Royalty agreements are being amortized over a ten-year useful life. The Company believes these lives are appropriate due to changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses the useful life of the devices for appropriateness.

Gross Profit and Margin

During Fiscal 2024, gross profit totaled \$17,209,044, resulting in a 47% gross margin, compared to \$15,297,075, or a 44% gross margin, during Fiscal 2023. The increase in absolute gross profit of \$1,911,969 is due to an increase in revenue of \$2,410,635, lower communication costs and lower monitoring center costs, partially offset by higher device repair costs and higher server costs.

General and Administrative Expense

During Fiscal 2024, our general and administrative expense totaled \$11,521,826, compared to \$10,275,695 for Fiscal 2023. The increase of \$1,246,131, or approximately 12%, in general and administrative cost is primarily due to a settlement related to a contract dispute discussed in Note 12 of \$1,003,543 and an increase in payroll, benefits, and payroll taxes of \$469,775, partially offset by lower outside services of \$193,380.

Selling and Marketing Expense

For Fiscal 2024, our selling and marketing expense was \$3,121,239 compared to 2,842,661 for Fiscal 2023. The increase of \$278,578 or approximately 10% resulted largely from higher travel and entertainment of \$59,540 and higher payroll, benefits, and payroll taxes of \$311,146, partially offset by lower outside services of \$57,288.

Research and Development Expense

During Fiscal 2024, we incurred research and development expense of \$2,749,218 compared to those costs recognized during Fiscal 2023 totaling \$2,735,060, an increase of \$14,158 or approximately 1%. The increase was largely due to increased payroll, benefits and payroll taxes of \$137,882, partially offset by a decrease in outside services of \$126,368.

Depreciation and Amortization Expense

We maintain a significant portion of our tangible and intangible assets that are amortized or depreciated. During Fiscal 2024, depreciation and amortization included in operating expense totaled \$944,115 compared to \$987,472 for Fiscal 2023. This decrease of \$43,357 or approximately 4% was largely due to fully amortized intangible assets and fully depreciated fixed assets.

Impairment on Assets Held for Sale

As of September 30, 2024 the Company concluded that Track Group Chile met all of the criteria for classification as held for sale. As a result, the Company measured the property as held for sale at its fair value and accordingly recorded an impairment of \$757,130. See Note 14 to Consolidated Financial Statements for additional information.

Total Operating Expenses

During Fiscal 2024, total operating expenses increased to \$19,093,528 compared to \$16,840,888 for Fiscal 2023, an increase of \$2,252,640, or approximately 13%. The increase is primarily due to the factors disclosed above.

Other Income (Expense)

During Fiscal 2024, total other expense was \$1,786,383 compared to \$1,219,845 during Fiscal 2023, an increase of \$566,538 or approximately 46%. The increase in other expense is largely due to a decrease in currency exchange rate gain of \$352,566 between the US Dollar vs. the Chilean Peso, compared to the prior fiscal year and an increase in net interest expense of \$210,365 due to the escalating interest rate on the Amended Facility Agreement with Conrent (See Note 7).

Income taxes

During Fiscal 2024, income tax benefit totaled \$589,453 compared to expense of \$627,850 during Fiscal 2023. Tax benefit/expense in both fiscal years are income taxes largely related to a foreign jurisdiction.

Net Income (Loss) Attributable to Common Stockholders

We had a net loss attributable to common stockholders for Fiscal 2024 totaling \$3,081,414, compared to net loss of \$3,391,508 for Fiscal 2023, a decrease of \$310,094. This decrease in net loss is largely due to higher gross profit, and income tax benefit, partially offset by higher operating expense and higher other 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 (\$238,000USD) in five annual installments to Conrent. As of September 30, 2024, \$42,864,000 of principal and \$547,707 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. This note was paid in full upon maturity.

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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. This note was paid in full upon maturity.

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. This note was paid in full upon maturity.

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. This note was paid in full upon maturity.

On February 5, 2021, the Company borrowed 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. This note was paid in full upon maturity.

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. This loan was included in liabilities held for sale on the Consolidated Balance Sheet at September 30, 2024.

No borrowings or sales of equity securities occurred during the years ended September 30, 2024 or 2023.

Net Cash Flows Provided by Operating Activities.

During Fiscal 2024, we had cash flows from operating activities of \$4,911,208, compared to cash flows from operating activities of \$3,876,800 for Fiscal 2023, representing a \$1,034,408 increase. The increase in cash from operations was largely the result of increases in our gross profit, accounts payable and collections from customers.

Net Cash Flows used in Investing Activities.

The Company used \$3,840,812 of cash for investing activities during Fiscal 2024, compared to \$4,564,202 of cash used during Fiscal 2023, a decrease of \$723,390. The decrease was largely the result of a decrease monitoring equipment purchases, due to the completion of replacement of all 3G devices with 4G LTE devices in the U.S in Fiscal 2023.

Net Cash Flows used in Financing Activities.

The Company used \$365,070 of cash for financing activities during Fiscal 2024, which was the result of principal payments on long-term debt and payment of deferred financing fees, compared to \$511,474 of cash used in financing activities during Fiscal 2023. During the Fiscal Years 2024 and 2023, the Company received net proceeds of \$0 from borrowings and made principal payments of \$326,731 and \$467,323 on notes payable, respectively.

Liquidity, Working Capital and Management's Plan

As of September 30, 2024, the Company had unrestricted cash of \$3,574,215, compared to unrestricted cash of \$4,057,195 as of September 30, 2023. As of September 30, 2024, we had working capital of \$3,739,192, compared to working capital of \$4,813,777 as of September 30, 2023. This decrease in working capital of \$1,074,585 is principally due to the payment of a settlement related to a contract dispute discussed in Note 12 of \$1,003,543, a decrease in cash and inventory and an increase in accounts payable.

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 facility agreement (the *"Amendment"*) originally executed by and between the parties on December 30, 2013 and amended multiple times (the *"Amended Facility Agreement"*). The latest Amendment: (i) extended the maturity date from July 1, 2024, to July 1, 2027; (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 September 30, 2024, \$42,864,000 of principal and \$547,707 of interest was owed to Conrent. See Note 7 to the Consolidated Financial Statements.

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. Five of the six notes have matured and the remaining note matures in February 2025. This remaining note payable is included in liabilities held for sale on the Consolidated Balance Sheet at September 30, 2024. Principal repayments on the notes have commenced. No additional funds were borrowed during the years ended September 30, 2024 or 2023.

Inflation

Any rise in inflation could impact the Company's cost of labor, materials and other operating expense, but we would anticipate operational efficiencies to mitigate some or all of the inflationary pressures.

Off-Balance Sheet Financial Arrangements

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

Bond Guarantees

Prior to September 30, 2024, the Company had one performance bond in connection with a foreign customer totaling \$1,654,134 (*"Performance Bonds"*) of which \$1,157,867 was held in an interest-bearing account on behalf of the bank and was recorded in Other Assets on the Consolidated Balance Sheets. On June 27, 2024 (the *"Effective Date"*), Track Chile entered into a settlement agreement (the *"Agreement"*) with the Customer (together, the *"Parties"*), whereby the Parties dismissed further legal and equitable issues between or among the Parties, including all asserted and existing claims asserted against Track Chile and the Company, and any related claims, and any potential claims related to the Parties' disputes arising on or before the date hereof. In connection with the Agreement, Track Chile agreed to pay 950,600,000 CLP (\$1,003,543 USD) (*"Settlement Payment"*) to Customer in full satisfaction of the Dispute, and in consideration, Customer returned to Track Chile its performance bond in the amount of 1,328,279,704 CLP (approximately \$1,397,762 USD based on the exchange rate as of the Effective Date). The Company has recorded the Settlement Payment in operating expense on the Condensed Consolidated Statements of Operations.

The Company paid 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. The Company recorded interest expense of \$34,792 and \$54,676 for the years ended September 30, 2024 and September 30, 2023, respectively.

The Company had no performance bonds as of September 30, 2024.

Critical Accounting Estimates

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

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

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

Revenue Recognition

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

Monitoring and Other Related Services

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

Product Sales and Other

The Company sells devices and replacement parts to customers under certain contracts, as well as law enforcement software licenses and maintenance, and analytical software. Revenue from the sale of devices and parts is recognized upon their transfer of control to the customer, which is generally upon shipment, but may vary per contract. Payment terms are generally 30 days from invoice date. When purchasing products (such as ReliAlert® devices) from the Company, customers may, but are not required to, enter into monitoring service contracts with us. The Company recognizes revenue on monitoring services for customers that have previously purchased devices at the end of each month that monitoring services have been provided.

Multiple Element Arrangements

The majority of our revenue transactions do not have multiple elements. However, on occasion, the Company may enter into revenue transactions that have multiple elements. These may include different combinations of products or services that are included in a single billable rate. These products or services are delivered over time as the customer utilizes our services. In cases where obligations in a contract are distinct and thus require separation into multiple performance obligations, revenue recognition guidance requires that contract consideration be allocated to each distinct performance obligation based on its relative standalone selling price. The value allocated to each performance obligation is then recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met. There were no multiple element arrangements for the years ended September 30, 2024 and 2023.

Other Matters

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

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

Assets and Liabilities Held for Sale

The Company presents the assets and liabilities of a disposal group as held for sale upon meeting all of the following criteria:

- Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
- The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
- An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
- The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year.
- The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The determination as to whether the sale of the disposal group is probable may include significant judgments from management related to the estimated timing of the closing of a future sales transaction. For information regarding significant judgments related to fair value estimates of the disposal group held for sale, refer to the *Impairment* subheading within the *Critical Accounting Estimates*.

Assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell. See Note 14 of our Financial Statements for impairments of our assets held for sale.

As of September 30, 2024, the Company concluded that Track Group Chile met all of the criteria listed above for classification as held for sale. On November 1, 2024, the Company completed the sale.

Impairment

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

Assets held for sale are carried at the lower of their carrying values or estimated fair values less costs to sell. The fair value of a disposal group, less any costs to sell, is assessed each reporting period it remains classified as held for sale and any remeasurement to the lower of carrying value or fair value less costs to sell is reported as an adjustment to the carrying value. The estimates of fair value consider matters such as contracts, the results of negotiations with prospective purchasers, broker quotes, or recent comparable sales. These estimates are subject to revision as market conditions, and our assessment of such conditions, change.

As of September 30, 2024 the Company concluded that Track Group Chile met all of the criteria for classification as held for sale. As a result, the Company measured Track Group Chile as held for sale at its fair value and accordingly recorded an impairment of \$757,130.

Allowance for Credit Losses and Credit Memos

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.

The Company also maintains an allowance for estimated credit memos to be issued against current sales. Estimates of allowance for credit memos are based upon the application of a historical issuance lag period to the average credit memos issued each month.

Recent Accounting Pronouncements

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

Accounting for Stock-Based Compensation

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

Government Regulation

Our operations are subject to various federal, state, local and international laws and regulations. We are not involved in any pending or, to our knowledge, threatened governmental proceedings, which would require curtailment of our operations because of such laws and regulations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risks

We had \$5,745,546 and \$6,383,735 in foreign currency revenue for Fiscal Years 2024 and 2023, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange gain of \$115,302 and foreign exchange gain of \$467,868 in Fiscal Years 2024 and 2023, respectively. Fluctuations in the exchange loss or gain in any given period are due to the strengthening or weakening of the U.S. dollar against the Chilean Peso and Canadian dollar which have been magnified by 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. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement additional strategies to minimize the effects of foreign currency exchange on our business and/or require some international customers to receive invoices and make payments in US dollars.

Item 8. Financial Statements and Supplementary Data

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

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

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2024 was completed pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of September 30, 2024.

Management's Report on Internal Control over Financial Reporting

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

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

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Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“*COSO*”) issued in May 2013 and related COSO guidance. Based on our evaluation under this framework, our management concluded that our internal control over financial reporting was effective as of September 30, 2024.

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

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our fiscal year ended September 30, 2024, that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

Derek Cassell	51	Chief Executive Officer
James A. Berg	61	Chief Financial Officer
Matthew Swando	49	Chief Revenue Officer
Arthur Gigler	45	Chief Marketing Officer
Timothy Hardy	56	Chief Information Officer
Karen Macleod	61	Director
Karim Sehnaoui	46	Director
Peter K. Poli	63	Director

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

James A. Berg was appointed as Chief Financial Officer of the Company effective April 2024. Mr. Berg has served as the Company's Controller since November 2022. Prior to joining the Company, Mr. Berg served as the Controller for ABC Plumbing, Sewer, Heating, Cooling and Electric from January 2022 to November 2022; as a Finance and Accounting Consultant for DLC from January 2020 to August 2021; in Interim Controller and Accounting Director roles for Tatum and Harmer Financial Solutions from February 2018 to October 2019; and as the Senior Director of Finance for Arjo from June 2014 to January 2018, among other positions. Mr. Berg holds an MBA from the Quinlan School of Business at Loyola University in Chicago, Illinois and is also a Certified Public Accountant.

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

Arthur Gigler oversees the development and execution of Track Group's marketing vision and product strategy. Working in collaboration with all department heads, Mr. Gigler manages our company branding, content, public relations, customer experience, product roadmap, and positioning to support our long-term success. Mr. Gigler has over 19 years experience in electronic monitoring technology and rehabilitative program development. Before joining Track Group in 2019 as our Vice President of Marketing & Product Development, he gained an extensive background- spanning from field operations to product design- in the field of electronic monitoring and its adjacencies. Mr. Gigler has co-developed and launched multiple disruptive hardware and software products in the community corrections space and is a U.S. Patent holder. Previously, Mr. Gigler served as Vice President of Product Marketing for Alcohol Monitoring Systems, Inc. (AMS/SCRAM) where his team helped turn a one-product company into a full-suite EM and software development organization. As National Sales Manager, he co-led the company's pivot from private to federal, state & county level contracting. Prior to Mr. Gigler's business-oriented roles, he worked hands-on in field operations as an Install Services Supervisor for the Illinois Department of Corrections Electronic Monitoring program. From there, he moved into business development of electronic monitoring and evidence-based, cognitive rehabilitative programs for BI Incorporated (now known as GeoCare). Mr. Gigler holds a Bachelor of Science in Family Consumer Sciences from Northern Illinois University.

Timothy Hardy joined Track Group in 2021 with over 20 years of experience leading the information technology, software development, SaaS operations, and information security programs of rapidly growing and transforming organizations. Prior to joining Track Group, Mr. Hardy served as the Chief Technology Officer of World Book Publishing, transforming the traditional publisher to a provider of award-winning SaaS products used by millions of students. As the Chief Information Officer of Interactive Health, Mr. Hardy built and led the startup's information technology and security programs achieving HITRUST information security and privacy certification. Mr. Hardy holds a B.S. in Computer Engineering from the University of Illinois Urbana-Champaign as well as an M.B.A. from the University of Chicago Booth School of Business.

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

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

Karim Sehnaoui was appointed as a director in February 2018. Mr. Sehnaoui is an entrepreneur and investment professional, who specializes in private equity, venture capital, and corporate finance. From October 2021 to November 2024 Mr. Sehnaoui served as a Senior Executive Officer and Board Director of ADS Investment Solutions and as a Director of ETS Limited., and additionally as Chief Investment Officer of ADS Securities LLC, a position he held since October 2018. From 2012 to 2016, Mr. Sehnaoui taught graduate level finance courses as a visiting Assistant Professor at MSB Mediterranean School of Business in Tunisia. Prior to that, Mr. Sehnaoui spent several years in investment banking and private equity, serving as Acting Chief Investment Officer of Abu Dhabi Investment House PJSC and General Manager for Abu Dhabi Investment House S.A., and Business Development Director at Ithmaar Bank. Mr. Sehnaoui holds Bachelor's and Master's degrees in Civil Engineering from McGill University in Montreal, Canada, and was a Global Leadership Fellow at the World Economic Forum in Geneva, Switzerland from 2005 to 2007.

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

Peter K. Poli was appointed as a director in March 2024, and served as Chief Financial Officer of the Company from January 2017 until his appointment as a director. In addition, he has served as the Chief Financial Officer and Treasurer of Emerge Monitoring, Inc., Secretary and Treasurer of Track Group – Puerto Rico, Inc., Secretary of Track Group Analytics, Limited and Manager of Emerge Monitoring LLC, all of which are subsidiaries of the Company, since May 2017. Before joining the Company, Mr. Poli served as the Chief Financial Officer of Grand Banks Yachts Limited from August 18, 2004 through December 31, 2015. In addition, he served as an Executive Director of Grand Banks Yachts from March 31, 2008 through October 28, 2015. Prior to his time with Grand Banks Yachts Limited, Mr. Poli served as the Chief Financial Officer for Acumen Fund Inc., I-Works Inc., and as Vice President and Chief Financial Officer of FTD.COM. Mr. Poli also spent nine years as an Investment Banker with Dean Witter Reynolds, Inc. and served as the CFO of a wholly-owned subsidiary of Morgan Stanley Dean Witter from 1997 to 1999. In addition, Mr. Poli served as an Independent Director of Leapnet, Inc. from 2000 to 2002. Mr. Poli earned a Bachelor of Arts in Economics and Engineering from Brown University in 1983 and an MBA from Harvard Business School in 1987.

Mr. Poli's extensive financial and accounting experience, including serving as the Chief Financial Officer of the Company for over seven years, provides the Board with institutional knowledge and experience relating to the Company's business, operations and accounting matters, therefore benefiting the Board in its management of the Company and oversight regarding the Company's financial statements.

Section 16(a) Beneficial Ownership Reporting Compliance

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

Based solely upon a review of these forms that were furnished to us, we believe that all reports required to be filed by these individuals and persons under Section 16(a) were filed during Fiscal 2024 and that such filings were timely.

Code of Business Conduct and Ethics

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

Board Leadership Structure

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

Board Role in Risk Assessment

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

Director Nominations

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

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

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

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

Stockholder Communications

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

Board Meetings

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

The Board is elected by and is accountable to our stockholders. The Board establishes policy and provides strategic direction, oversight, and control. The Board met 7 times during the year ended September 30, 2024 and incumbent directors attended 100% of the aggregate number of meetings of the Board exclusive of meetings where a Director was excused from attendance based upon the subject matter of discussion.

Board Committees and Charters

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

Audit Committee

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

Currently, the entire Board serves in the capacity as an Audit Committee with Ms. Macleod also serving as Committee Chair. The Audit Committee is comprised of three members, two of which would not be considered independent under the OTC Rules and all members are financially literate. In accordance with Section 407 of the Sarbanes-Oxley Act of 2002, the Board designated Ms. Macleod as the Audit Committee's "audit committee financial expert" as defined by the applicable regulations promulgated by the SEC. The Audit Committee met with our Chief Financial Officer and with our independent registered public accounting firm and evaluated the responses by the Chief Financial Officer, both to the facts presented and to the judgments made by our independent registered public accounting firm.

Our full Board reviewed and discussed the matters required by United States auditing standards required by the Public Company Accounting Oversight Board (the "PCAOB") and our audited financial statements for the fiscal year ended September 30, 2024 ("Fiscal 2024") with management and our independent registered public accounting firm. Our Board received the written disclosures and the letter from our independent registered public accounting firm required by applicable PCAOB standards, and our Board discussed with the independent registered public accounting firm the independent registered public accounting firm's independence.

Compensation Committee

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

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

Nominating and Corporate Governance Committee

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

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

Independent Directors

The Board has determined that Ms. Macleod is an independent director of the Company as defined by the rules and regulations of the OTC Markets. Ms. Macleod meets the independence standards established by the OTC Markets and the SEC. In addition, the Board has determined that of its current directors, Ms. Macleod satisfies the definition of an "audit committee financial expert" under SEC rules and regulations. These designations do not impose any duties, obligations or liabilities that are greater than those generally imposed as members of the Board, and the designation as an audit committee financial expert does not affect the duties, obligations or liability of any other member of the Board.

Indemnification of Officers and Directors

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

Item 11. Executive Compensation

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

Summary Compensation Table

The following summary compensation table sets forth the compensation awarded to the following persons for our fiscal years ended September 30, 2024 and 2023:

- (a) our principal executive officer;
- (b) our other two most highly compensated executive officers who were serving as executive officers at the end of Fiscal 2024 and who had total compensation exceeding \$100,000

Name and Principal Position	Year	Salary (\$)	Non-Equity Incentive Plan Compensation \$(1)	Stock Awards (\$)	All Other Compensation \$(2)	Total (\$)
Derek Cassell	2024	\$ 300,000	\$ 256,800	\$ -	\$ 7,600	\$ 564,400
Chief Executive Officer	2023	\$ 300,000	\$ 60,000	\$ -	\$ 36,322	\$ 396,322
Matt Swando	2024	\$ 275,000	\$ 117,700	\$ -	\$ 3,931	\$ 396,631
Chief Revenue Officer	2023	\$ 275,000	\$ 27,500	\$ -	\$ 12,661	\$ 315,161
Arthur J. Gigler	2024	\$ 197,700	\$ 51,578	\$ -	\$ 1,600	\$ 250,878
Chief Marketing Officer	2023	\$ 195,000	\$ 11,700	\$ -	\$ 9,098	\$ 215,798

- (1) The Non-Equity Incentive compensation reported in this column was earned in fiscal years 2024 and 2023 and will be paid in fiscal year 2025 and was paid in fiscal year 2024, respectively.
- (2) This column represents the value of holiday gift cards received by employees, cell phone reimbursement, company paid 401(k) match, and accrued vacation payouts.

Narrative Disclosure to the Summary Compensation Table

Cassell Employment Agreement

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

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

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

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

Swando Employment Agreement

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

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

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

Gigler Employment Agreement

On December 26, 2018, the Company entered into an employment agreement with Mr. Gigler (the “*Gigler Employment Agreement*”). Under the terms and conditions of the Gigler Employment Agreement, Mr. Gigler received a base salary equal to \$160,000 per annum. If the Company elects to enforce Mr. Gigler’s non-compete agreement, he would receive an amount equal to 6 months base salary. If the Company terminates Mr. Gigler’s employment as a result of an involuntary termination, he would receive any annual bonus deemed to be vested and earned as well as certain COBRA benefits.

A first amendment to the Gigler Employment Agreement was executed on March 17, 2022 (the “*First Gigler Amendment*”). Under the terms of the First Gigler Amendment, Mr. Gigler was promoted to Chief Marketing Officer. Mr. Gigler’s base salary was increased to \$195,000 per calendar year. If the Company terminates Mr. Gigler’s employment as a result of an involuntary termination, he would receive an amount equal to 6 months base salary, plus any annual bonus deemed to be vested and earned as well as certain COBRA benefits. Additionally, in the event of a change of control, Mr. Gigler shall be entitled to a cash payment equal to one year’s salary, plus all restricted stock, warrants and options previously issued to Mr. Gigler shall become immediately vested and exercisable. Subject to the approval of the Company’s proposed 2022 Omnibus Equity Incentive Plan (the “*Plan*”) by the Board of Directors and the Company’s stockholders, Mr. Gigler shall be entitled to a one-time grant of 100,000 shares of common stock of the Company, subject to the terms and conditions of the Plan as approved.

A second amendment to the Gigler Employment Agreement was executed on August 4, 2022 (the “*Second Gigler Amendment*”). Under the terms of the Second Gigler Amendment, the Pre-Employment Invention clause was clarified to confirm that the Company has no rights in or claims to a disclosed, pre-employment invention of Mr. Gigler, and Mr. Gigler is free to monetize, license or divest the pre-employment invention in any way he sees fit.

Outstanding Equity Awards at September 30, 2024

At September 30, 2024 there were no outstanding equity awards.

Director Compensation

During the fiscal year ended September 30, 2024, each of our non-employee directors received \$25,000 per quarter for serving on the Board, which fees were payable in cash. The members of the Board are also eligible for reimbursement of their expenses incurred in attending Board meetings in accordance with our policies.

The following table sets forth the compensation awarded to, earned by, or paid to each non-employee director having served during the fiscal year ended September 30, 2024:

	Fees Earned or Paid in Cash (\$)	All Other Compensation \$(2)	Total \$(3)
Karen Macleod	\$ 100,000	\$ -	\$ 100,000
Karim Sehnaoui	\$ 100,000	\$ -	\$ 100,000
Peter K. Poli (1)	\$ 50,000	\$ 8,762	\$ 58,762

- (1) Mr. Poli was appointed as a member of the Board of Directors effective April 1, 2024. Mr. Poli served as Chief Financial Officer from January 3, 2017 to March 31, 2024. Mr. Poli received \$148,077 in salary and \$3,869 in other compensation in Fiscal 2024 for his employment as Chief Financial Officer. Other compensation includes cell phone reimbursement and company paid 401(k) match.
- (2) This column includes reimbursements for health insurance.
- (3) Additionally, we reimburse non-employee directors for travel expenses incurred in connection with their duties as our director. Travel expense reimbursements are not included in this table.

Compensation Risks Assessment

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

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

Security Ownership of Certain Beneficial Owners

The following table presents information regarding beneficial ownership as of December 2, 2024 (the “*Table Date*”), of our Common Stock by (i) each stockholder known to us to be the beneficial owner of more than five percent of our Common Stock; (ii) each of our Named Executive Officers serving as of the Table Date; (iii) each of our directors serving as of the Table Date; and (iv) all of our executive officers and directors as a group.

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

Name and Address of Beneficial Owner (1)	Common Stock	
	Shares	%
<i>Directors and Named Executive Officers:</i>		
Derek Cassell	317,209	2.7%
James A. Berg	-	*
Timothy Hardy	-	*
Matt Swando	205,340	1.7%
Arthur J. Gigler	100,000	*
Karen Macleod	73,744	*
Karim Sehnaoui	388,421	3.3%
Peter Poli	187,241	1.6%
All directors and executive officers as a group (8 persons)	1,271,955	10.7%
<i>5% Beneficial Owners:</i>		
ETS Limited (2)	4,706,579	39.7%
Conrent Invest S.A., Compartment Track-PPN (3)	1,446,447	12.2%
CRC Founders Fund, LP (4)	691,691	5.8%

* Less than 1%

- (1) Except as otherwise indicated, the business address for these beneficial owners is c/o the Company, 200 E. 5th Avenue, Suite 100, Naperville, Illinois 60563.
- (2) The business address of ETS Limited, a wholly owned subsidiary of ADS Securites LLC, is c/o Mourant Ozannes Corporate Services (Cayman) Limited, 94 Solaris Avenue, Camana Bay, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands. As controlling shareholder of ADS Holding LLC, the controlling shareholder of ADS Securities, LLC, Mahmood Ebraheem Al Mahmood may be deemed to have beneficial ownership over the shares reported herein. Number of shares is based on Amendment No. 4 to Schedule 13D filed by ADS Securities LLC on July 1, 2022.
- (3) Includes 1,370,697 shares held by Track-PPN, a compartment of Conrent Invest S.A., and 75,000 shares held by Conrent Invest S.A. directly. The business address of Conrent Invest S.A is 2, Rue des Gaulois, L-1618 Luxembourg (Luxembourg). The owner of Conrent is Conrent Invest Trust, an Irish charitable trust for which Constitutional Trustees Limited (“*Constitutional*”) acts as trustee. The Conrent Invest Trust is a charitable trust with no named beneficiaries where any dividend or other distribution received by Constitutional will be distributed in its entirety to charity. Information is based on Amendment No. 2 to Schedule 13D filed by Conrent on March 25, 2024.
- (4) Denver J. Smith is the Lead Manager for the CRC Founders Fund, LP, an investment partnership, and has the shared power to vote and dispose of the shares held by the CRC Founders Fund, LP. The business address of CRC Founders Fund, LP is 1040 S Gaylord Street, Suite 25, Denver, CO, 80209. Information is based on Amendment No. 1 to the Schedule 13G filed by CRC Founders Fund, LP on January 10, 2024.

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

ETS Limited is currently the beneficial owner of 4,706,579 shares of the Company's Common Stock ("*Track Group Shares*") held by ADS Securities LLC ("*ADS*") under an agreement dated September 28, 2017 pursuant to which ADS transferred all of the Track Group Shares to ETS Limited in exchange for all of the outstanding shares of ETS Limited. A Director of ETS Limited was elected to the Company's Board of Directors on February 7, 2018.

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

Item 14. Principal Accounting Fees and Services

During the years ended September 30, 2024 and 2023, Eide Bailly, LLP ("*Eide Bailly*") served as our independent registered public accounting firm. The following table presents approximate aggregate fees and other expenses for professional services rendered by Eide Bailly, our independent registered public accounting firm, for the audit of the Company's annual financial statements for the years ended September 30, 2024 and 2023 and fees and other expenses for other services rendered during those periods.

	2024	2023
Audit Fees (1)	\$ 248,550	\$ 226,150
Audit-Related Fees (2)	\$ -	\$ -
Tax Fees (3)	\$ 33,346	\$ 37,214
All Other Fees (4)	\$ 7,150	\$ 21,050
Total	<u>\$ 289,046</u>	<u>\$ 284,414</u>

- (1) Audit services in 2024 and 2023 consisted of the audit of our annual consolidated financial statements, and other services related to filings and registration statements filed by us and our subsidiaries, and other pertinent matters including reviews of interim financial statements from our quarterly reports. Eide Bailly has served as our independent registered public accounting firm since September 24, 2013.
- (2) There were no audit-related fees for the years ended September 30, 2024 and 2023.
- (3) For permissible professional services related to income tax return preparation and compliance.
- (4) All other fees are related to the audit of the 401(k) financial statements.

Audit Committee Pre-Approval Policies and Procedures

Our entire Board of Directors, in serving in the capacity of the Audit Committee has established pre-approval policies and procedures, pursuant to which the Board of Directors approved the foregoing audit and permissible non-audit services provided by Eide Bailly in the fiscal year ended September 30, 2024 ("*Fiscal 2024*"). Such procedures govern the ways in which the full Board of Directors now pre-approves audit and various categories of non-audit services that the auditor provides to the Company. Services that have not received pre-approval must receive specific approval of the full Board of Directors for Fiscal 2024.

Auditor Independence

Our Audit Committee and the full Board of Directors considered that the work done for us in Fiscal 2024 and Fiscal 2023, respectively, by Eide Bailly was compatible with maintaining Eide Bailly's independence.

Report of the Audit Committee of the Board of Directors

Date: December 23, 2024

The full Board of Directors of Track Group, Inc. (the “*Board*”), serving in the capacity of the Company’s Audit Committee, has reviewed and discussed with management and Eide Bailly, LLP, our independent registered public accounting firm, the audited consolidated financial statements in the Track Group, Inc. Annual Report on Form 10-K for the year ended September 30, 2024. The Board has also discussed with Eide Bailly, LLP those matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board (“*PCAOB*”).

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

Based on its discussions with management and the registered public accounting firm, and its review of the representations and information provided by management and the registered public accounting firm, including as set forth above, the Board determined that the audited financial statements should be included in our Annual Report on Form 10-K for the year ended September 30, 2024.

Respectfully Submitted,

Karen Macleod, Committee Chair
Karim Sehnaoui
Peter Poli

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

1. *Financial Statements*

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Consolidated Balance Sheets	F-4
Consolidated Statements of Operations and Comprehensive Income (Loss)	F-5
Consolidated Statements of Stockholders’ Equity (Deficit)	F-6
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2. *Financial Statement Schedules.*

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

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference	
			Form	Filing Date
3(i)(1)	Articles of Transfer of Track Group, Inc., a Utah corporation, dated August 5, 2016		Exhibit 3(i)(3) to the Company’s Current Report on Form 8-K	August 9, 2016
3(i)(2)	Certificate of Conversion Converting Track Group, Inc., a Utah corporation, to Track Group, Inc., a Delaware corporation, dated August 5, 2016		Exhibit 3(i)(4) to the Company’s Quarterly Report on Form 10-Q	August 9, 2016
3(i)(3)	Certificate of Incorporation of Track Group, Inc., a Delaware corporation, dated August 6, 2016		Exhibit 3(i)(5) to the Company’s Quarterly Report on Form 10-Q	August 9, 2016
3(i)(4)	Certificate of Designation of the Relative Rights and Preferences of the Series A Convertible Preferred Stock, dated October 12, 2017		Exhibit 3.1 to the Company’s Current Report on Form 8-K	October 13, 2017
3(ii)(2)	Bylaws of Track Group, Inc., a Delaware corporation		Exhibit 3(ii)(2) to the Company’s Quarterly Report on Form 10-Q	August 9, 2016
10.1	2012 Equity Incentive Award Plan		Appendix II to the Company’s Definitive Proxy Statement on Schedule 14A filed on October 25, 2011, amended in accordance with the Company’s Definitive Proxy Statement on Schedule 14A filed on April 9, 2015	
10.2	Amended and Restated Facility Agreement, dated June 30, 2015, by and between Track Group, Inc. and Conrent Invest S.A, acting on behalf of its compartment “Safety 2”, dated June 30, 2015		Exhibit 10.1 to the Company’s Current Report on Form 8-K	July 15, 2015
10.4	Loan Agreement, by and between Conrent Invest S.A., acting with respect to its Compartment Safety III, and Track Group, Inc., dated May 1, 2016		Exhibit 10.9 to the Company’s Quarterly Report on Form 10-Q	May 9, 2016
10.5	Employment agreement, by and between Track Group Inc. and Peter Poli, dated December 12, 2016		Exhibit 10.1 to the Company’s Current Report on Form 8-K	December 16, 2016
10.6	Employment Agreement by and between Track Group, Inc. and Derek Cassell dated, December 1, 2016		Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q	February 14, 2017
10.7	Services Agreement, dated December 7, 2016		Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q	February 14, 2017
10.8	Amendment No. 1 to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated February 13, 2017		Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q	February 14, 2017
10.9	Amendment No. 1 to Employment Agreement by and between Track Group, Inc. and Peter K. Poli dated, January 3, 2018		Exhibit 10.1 to the Company’s Current Report on Form 8-K	January 5, 2018

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10.10	Amendment No. 2 to Employment Agreement by and between Track Group Inc. and Derek Cassell, dated January 3, 2018	Exhibit 10.2 the Company’s Current Report on Form 8-K	January 5, 2018
10.11	Monitoring Services Agreement by and between Track Group, Inc. and Marion County Community Corrections Agency, dated December 18, 2017	Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q	February 8, 2018
10.12	Monitoring Services Agreement by and between Track Group, Inc. and Gendarmeria of Chile, the Republic of Chile’s uniformed prison service, dated July 29, 2020	Exhibit 10.1 to the Company’s Current Report on Form 8-K	August 17, 2020
10.13	Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated July 19, 2018	Exhibit 10.1 to the Company’s Current Report on Form 8-K	July 19, 2018
10.14	Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated February 24, 2019	Exhibit 10.1 to the Company’s Current Report on Form 8-K	February 28, 2019
10.15	Amendment Agreement by and between Track Group, Inc. and Conrent Invest S.A., dated January 10, 2020	Exhibit 10.1 to the Company’s Current Report on Form 8-K	January 15, 2020
10.17	Monitoring Services Agreement between Track Group, Inc. and Gendarmeria de Chile, the Republic of Chile’s uniform prison service, dated July 29, 2020	Exhibit 10.1 to the Company’s Current Report on Form 8-K	August 17, 2020
10.18	Amendment No. 3 to Employment Agreement between Track Group, Inc. and Derek Cassell, dated December 1, 2016	Exhibit 10.19 to the Company’s Annual Report on Form 10-K	December 23, 2020
10.19	Amendment to Facility Agreement by and between Track Group, Inc. and Conrent Invest S.A., acting on behalf of its compartment, “Safety 2”, dated December 21, 2020	Exhibit 10.1 to the Company’s Current Report on Form 8-K	December 23, 2020
10.20	Amendment No. 4 to the Executive Employment Agreement between Track Group, Inc. and Derek Cassell Dated December 15, 2021 (incorporated by reference to Exhibit 10.19 to our Annual Report on Form 10-K, filed).	Exhibit 10.19 to the Company’s Annual Report on Form 10-K	December 16, 2021
10.21	Employment Agreement by and Between Track Group Inc. and Matthew Swando dated December 6, 2016.	Exhibit 10.1 to the Company’s Quarterly Report on Form 10-Q	February 10, 2022
10.22	Amendment No. 1 to Employment Agreement by and Between Track Group Inc. and Matthew Swando dated April 23, 2018.	Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q	February 10, 2022
10.23	Amendment No.2 to Employment Agreement by and Between Track Group Inc. and Matthew Swando dated January 15, 2022.	Exhibit 10.3 to the Company’s Quarterly Report on Form 10-Q	February 10, 2022
10.24	2022 Omnibus Equity Incentive Plan (incorporated by reference to Annex A to our Definitive Proxy Statement on Schedule 14A, filed).	Annex A to the Company’s Definitive Proxy Statement on Schedule 14A	February 24, 2022
10.25	Settlement Agreement and Mutual Release entered into by the Company, Eli Sabag, Sapinda Asia Limited and Lars Windhorst, dated June 10, 2022	Exhibit 10.1 to the Company’s Current Report on Form 8-K	June 14, 2022

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10.26	Amendment to Facility Agreement by and between Track Group, Inc. and Conrent Invest S.A., acting on behalf of its compartment, "Safety 2", dated April 26, 2023.		Exhibit 10.1 to the Company's Current Report on Form 8-K	April 27, 2023
10.27	Sales, Licensing, Maintenance, & Services Agreement by and between Marion County Community Corrections and Track Group, Inc., dated March 11, 2024		Exhibit 10.1 to the Company's Current Report on Form 8-K	March 15, 2024
10.28	Separation Agreement and General Release of Claims by and between Peter Poli and Track Group, Inc., dated March 21, 2024		Exhibit 10.1 to the Company's Current Report on Form 8-K	March 22, 2024
10.29	Employment Agreement by and between James A. Berg and Track Group, Inc., dated March 21, 2024		Exhibit 10.2 to the Company's Current Report on Form 8-K	March 22, 2024
10.30	Employment Agreement by and between Arthur Jacob Gigler and Track Group, Inc., dated December 26, 2018	X		
10.31	Amendment No.1 to Employment Agreement by and Between Track Group Inc. and Arthur Jacob Gigler dated March 17, 2022.	X		
10.32	Amendment No.2 to Employment Agreement by and Between Track Group Inc. and Arthur Jacob Gigler dated August 4, 2022	X		
14.1	Code of Business Conduct & Ethics (incorporated by reference to our Annual Report on Form 10-K, filed).		Exhibit 14.1 to the Company's Annual Report on Form 10-K	December 19, 2017
21	Subsidiaries of the Registrant (incorporated by reference to Amendment No. 1 to our Annual Report on Form 10-K, filed).		Exhibit 21 to the Company's Annual Report on Form 10-K	January 28, 2019
31(i)	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).	X		
31(ii)	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).	X		
32	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).	X		
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	X		
101.SCH	Inline XBRL Taxonomy Extension Schema Document	X		
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document	X		
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	X		
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	X		
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document	X		
104	Cover Page Interactive Data File (embedded within the Inline XBRL Document and included in Exhibit 101)	X		

SIGNATURES

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

Date: December 23, 2024

Track Group, Inc.
By: /s/ Derek Cassell
Derek Cassell
Chief Executive Officer (Principal Executive Officer)

Date: December 23, 2024

By: /s/ James A. Berg
James A. Berg
Chief Financial Officer (Principal Accounting Officer)

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Karen Macleod</u> Karen Macleod	Director	December 23, 2024
<u>/s/ Karim Sehnaoui</u> Karim Sehnaoui	Director	December 23, 2024
<u>/s/ Peter Poli</u> Peter Poli	Director	December 23, 2024

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Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Track Group, Inc. as of September 30, 2024 and 2023, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity/(deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Track Group, Inc. as of September 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matter

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

Recoverability of Goodwill

As discussed in Note 2 and disclosed in Note 13 to the consolidated financial statements, the Company's balance of goodwill was \$7,941,190. The determination of the recoverability of goodwill requires management to make significant assumptions and complex judgments related to fair value of the reporting unit. On an annual basis and at interim periods when circumstances require, management tests the recoverability of the Company's goodwill.

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

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

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

/s/ Eide Bailly LLP

We have served as the Company's auditor since 2005 (such date incorporates the acquisition of certain assets of Hansen, Barnett and Maxwell, P.C. by Eide Bailly LLP in 2013).

Denver, Colorado
December 23, 2024

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2024 AND 2023

	September 30, 2024	September 30, 2023
Assets		
<i>Current assets:</i>		
Cash	\$ 3,574,215	\$ 4,057,195
Accounts receivable, net of allowance for credit losses of \$432,904 and \$178,095, respectively	4,428,535	4,536,916
Prepaid expense and deposits	638,293	610,440
Inventory, net of reserves of \$82,848 and \$3,772, respectively	582,481	1,286,194
Assets held for sale	969,481	-
Total current assets	10,193,005	10,490,745
Property and equipment, net of accumulated depreciation of \$430,003 and \$1,920,850, respectively	317,206	115,808
Monitoring equipment, net of accumulated depreciation of \$5,982,972 and \$6,348,695, respectively	4,598,864	5,187,092
Intangible assets, net of accumulated amortization of \$19,699,966 and \$17,430,846, respectively	13,959,571	14,157,294
Goodwill	7,941,190	7,851,466
Other assets, net	660,170	2,442,154
Total assets	<u>\$ 37,670,006</u>	<u>\$ 40,244,559</u>
Liabilities and Stockholders' Equity (Deficit)		
<i>Current liabilities:</i>		
Accounts payable	\$ 3,082,467	\$ 2,796,712
Accrued liabilities	2,639,318	2,571,839
Current portion of long-term debt	-	308,417
Liabilities held for sale	732,028	-
Total current liabilities	6,453,813	5,676,968
Long-term debt, net of current portion	42,639,197	42,801,165
Long-term liabilities	186,407	259,359
Total liabilities	<u>49,279,417</u>	<u>48,737,492</u>
Commitments and contingencies (Note 12)		
<i>Stockholders' equity (deficit):</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 11,863,758 and 11,863,758 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	(312,691,811)	(309,610,397)
Accumulated other comprehensive loss	(1,519,332)	(1,480,837)
Total equity (deficit)	(11,609,411)	(8,492,933)
Total liabilities and stockholders' equity (deficit)	<u>\$ 37,670,006</u>	<u>\$ 40,244,559</u>

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

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME/(LOSS)
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	2024	2023
Revenue:		
Monitoring and other related services	\$ 35,712,211	\$ 33,503,687
Product sales and other	1,174,289	972,178
Total revenue	36,886,500	34,475,865
Cost of revenue:		
Monitoring, products and other related services	16,615,936	15,915,300
Depreciation and amortization included in cost of revenue	3,061,520	3,263,490
Total cost of revenue	19,677,456	19,178,790
Gross profit	17,209,044	15,297,075
Operating expense:		
General & administrative	11,521,826	10,275,695
Selling & marketing	3,121,239	2,842,661
Research & development	2,749,218	2,735,060
Depreciation & amortization	944,115	987,472
Impairment on assets held for sale	757,130	-
Total operating expense	19,093,528	16,840,888
Operating income (loss)	(1,884,484)	(1,543,813)
Other income (expense):		
Interest income	126,365	272,775
Interest expense	(2,024,443)	(1,960,488)
Currency exchange rate gain (loss)	115,302	467,868
Other income/(expense), net	(3,607)	-
Total other income (expense)	(1,786,383)	(1,219,845)
Income (loss) before income taxes	(3,670,867)	(2,763,658)
Income tax expense (benefit)	(589,453)	627,850
Net income (loss) attributable to common stockholders	(3,081,414)	(3,391,508)
Foreign currency translation adjustments	(38,495)	(206,220)
Comprehensive income (loss)	\$ (3,119,909)	\$ (3,597,728)
Net income (loss) per share – basic:		
Net income (loss) per common share	\$ (0.26)	\$ (0.30)
Weighted average common shares outstanding	11,863,758	11,863,758
Net income (loss) per share – diluted:		
Net income (loss) per common share	\$ (0.26)	\$ (0.30)
Weighted average common shares outstanding	11,863,758	11,863,758

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

TRACK GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Comprehensive Loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
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	-	-	-	-	(38,495)	(38,495)
Net loss	-	-	-	(3,081,414)	-	(3,081,414)
Balance September 30, 2024	<u>11,863,758</u>	<u>\$ 1,186</u>	<u>302,600,546</u>	<u>(312,691,811)</u>	<u>(1,519,332)</u>	<u>(11,609,411)</u>

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Comprehensive Loss</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>				
Balance September 30, 2022	11,863,758	\$ 1,186	\$ 302,437,593	\$ (306,218,889)	\$ (1,274,617)	\$ (5,054,727)
Stock-based compensation	-	-	159,522	-	-	159,522
Foreign currency translation adjustments	-	-	-	-	(206,220)	(206,220)
Net loss	-	-	-	(3,391,508)	-	(3,391,508)
Balance September 30, 2023	<u>11,863,758</u>	<u>\$ 1,186</u>	<u>\$ 302,597,115</u>	<u>\$ (309,610,397)</u>	<u>\$ (1,480,837)</u>	<u>\$ (8,492,933)</u>

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

TRACK GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2024 AND 2023

	2024	2023
Cash flows from operating activities:		
Net loss	\$ (3,081,414)	\$ (3,391,508)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,005,635	4,250,962
Bad debt expense	276,561	166,737
Sales allowance	46,935	23,065
Stock-based compensation	3,431	159,522
Deferred Taxes	(516,697)	(133,671)
Loss on monitoring equipment included in cost of revenue	332,702	305,300
Amortization of debt issuance costs	111,357	152,663
Amortization of monitoring center assets included in cost of revenue	519,341	572,135
Foreign currency exchange (gain)/loss	(115,303)	(467,868)
Loss on disposal of assets	3,607	-
Loss on impairment of assets held for sale	757,130	-
Change in assets and liabilities:		
Accounts receivable, net	(215,115)	1,509,837
Inventories, net	775,328	(234,262)
Current assets held for sale	(719,201)	-
Prepaid expense, deposits and other assets	1,715,515	1,510,493
Noncurrent assets	10,614	-
Accounts payable	285,755	(62,203)
Accrued liabilities	41,245	(484,402)
Current liabilities held for sale	732,028	-
Other current liabilities	(58,246)	-
Net cash provided by operating activities	<u>4,911,208</u>	<u>3,876,800</u>
Cash flow from investing activities:		
Purchase of property and equipment	(278,315)	(40,083)
Capitalized software	(2,023,228)	(1,020,604)
Purchase of monitoring equipment and parts	(1,539,269)	(3,503,515)
Net cash used in investing activities	<u>(3,840,812)</u>	<u>(4,564,202)</u>
Cash flow from financing activities:		
Principal payments on long-term debt	(326,731)	(467,323)
Payment of deferred financing fees	(38,339)	(44,151)
Net cash used in financing activities	<u>(365,070)</u>	<u>(511,474)</u>
Effect of exchange rate changes on cash	(180,896)	(55,033)
Net increase (decrease) in cash	<u>524,430</u>	<u>(1,253,909)</u>
Cash, beginning of year	<u>4,057,195</u>	<u>5,311,104</u>
Cash and cash held for sale, end of year (See Note 2)	<u>\$ 4,581,625</u>	<u>\$ 4,057,195</u>
Cash paid for interest	\$ 1,813,569	\$ 1,894,972
Cash paid for taxes	\$ 35,980	\$ 670,231

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

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

(1) Organization and Nature of Operations

General

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

Business Condition. As of September 30, 2024 and 2023, the Company had an accumulated deficit of \$312,691,811 and \$309,610,397, respectively. The Company incurred a net loss of \$3,081,414 and \$3,391,508 for the years ended September 30, 2024 and 2023, respectively. On April 27, 2023, the Company announced a three-year extension of its \$42.9 million debt to July 1, 2027 (See Note 7). The Company also has one note payable maturing February 17, 2025, related to the construction of two monitoring centers for a contract, with an outstanding balance due of \$58,246, net of deferred financing fees at September 30, 2024 (See Note 14). This remaining note payable was classified as held for sale as of September 30, 2024 and is recorded in liabilities held for sale on the Consolidated Balance Sheet. 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 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) Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

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

Foreign Currency Translation

The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars ("USD") at the exchange rate prevailing at September 30, 2024. Their respective statements of operations have been translated into USD using the average exchange rates prevailing during the periods of each statement. The corresponding translation adjustments are part of accumulated other comprehensive income and are shown as part of stockholders' equity.

Other Intangible Assets

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

Fair Value of Financial Instruments

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

Concentration of Revenue & Credit Risk

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

The Company had sales to entities, two of which each represent 10% or more of our gross revenue, as follows for the years ended September 30, 2024 and 2023.

	2024	%	2023	%
Customer A	\$ 5,746,451	16%	\$ 6,730,687	20%
Customer B	3,757,504	10%	3,804,951	11%

No other customer represented more than 10% of the Company's total revenue for the fiscal years ended September 30, 2024 or 2023. On November 1, 2024 we sold our Chile subsidiary, which includes Customer A.

Concentration of credit risk associated with the Company's total and outstanding accounts receivable as of September 30, 2024 and 2023, respectively, are shown in the table below:

	2024	%	2023	%
Customer A	\$ 495,969	11%	\$ 490,848	11%
Customer C	489,618	11%	630,494	14%
Customer D	475,012	11%	465,320	10%

Cash and Cash Held for Sale

Cash and cash held for sale consisted of the following:

	2024	2023
Cash	\$ 3,574,215	\$ 4,057,195
Cash held for sale	1,007,410	-
Total cash and cash held for sale	<u>\$ 4,581,625</u>	<u>\$ 4,057,195</u>

The Company has cash in bank accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. The Company had \$4,319,894 and \$3,715,850 of cash deposits in excess of federally insured limits as of September 30, 2024 and 2023, respectively.

Accounts Receivable

Accounts receivable, which is made up of trade receivables for monitoring and other related services, are carried at original invoice amount less 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. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when cash is received. A trade receivable is considered to be past due if any portion of the receivable balance has not been received by the Company within its normal terms. Interest income is not recorded on trade receivables that are past due, unless that interest is collected. For the fiscal years ended September 30, 2024 and September 30 2023, the Company wrote-off accounts receivables of \$111,324 and \$154,978, respectively which are recorded as general and administrative expense on our Condensed Consolidated Statements of Operations. The Company also maintains an allowance for credit memos for estimated credit memos to be issued against current sales. Estimates of allowance for credit memos are based upon the application of a historical issuance lag period to the average credit memos issued each month. For the fiscal years ended September 30, 2024 and September 30 2023, the reserve for credit memos was \$70,000 and \$23,065, respectively.

Prepaid Expense and Other

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

Inventory

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

Inventory consists of parts used for minor repairs of ReliAlert™, and other tracking devices. Inventory also consists of completed circuit boards and the components used to manufacture circuit boards. Completed and shipped ReliAlert™ and other tracking devices are reflected in Monitoring Equipment. As of September 30, 2024 and 2023, inventory consisted of the following:

	2024	2023
Monitoring equipment component boards inventory	\$ 665,329	\$ 1,289,966
Reserve for damaged or obsolete inventory	(82,848)	(3,772)
Total inventory, net of reserves	\$ 582,481	\$ 1,286,194

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. Management reviews inventory regularly to identify damaged or obsolete inventory and reserves for potential losses. The Company recorded charges of \$82,848 and \$3,772 during the years ended September 30, 2024 and 2023, respectively, for inventory that was obsolete, lost or damaged. Obsolete, lost and damaged items are expensed in Monitoring, products & other related services in the Consolidated Statement of Operations.

Property and Equipment

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

Property and equipment consisted of the following as of September 30, 2024 and 2023, respectively:

	<u>2024</u>	<u>2023</u>
Equipment, software and tooling	\$ 114,088	\$ 1,427,522
Automobiles	-	4,460
Leasehold improvements	237,722	382,122
Furniture and fixtures	120,364	222,554
Other fixed assets	275,035	-
Total property and equipment before accumulated depreciation	747,209	2,036,658
Accumulated depreciation	(430,003)	(1,920,850)
Property and equipment, net of accumulated depreciation	<u>\$ 317,206</u>	<u>\$ 115,808</u>

Property and equipment in the table above as of September 30, 2024 exclude amounts classified as held for sale of \$10,614, which are recorded as assets held for sale on the Consolidated Balance Sheet. See Note 14 for additional information.

Property and equipment to be disposed of is reported at the lower of the carrying amount or fair value, less the estimated costs to sell and any gains or losses are included in the results of operations. During the fiscal years ended September 30, 2024 and September 30, 2023, the Company disposed of \$1,461,526 and \$8,669 of fixed assets, respectively. The fixed assets disposed of in Fiscal 2024 were mostly fully depreciated assets that were obsolete. Internally developed software costs related to the Company's monitoring platform are recorded as intangible assets on the Consolidated Balance Sheet.

Depreciation expense recognized for property and equipment for the fiscal years ended September 30, 2024 and 2023 was \$62,620 and \$95,099, respectively. Depreciation expense for property and equipment is recognized in operating expense in the Consolidated Statements of Operations.

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 September 30, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
Monitoring equipment	\$ 10,581,836	\$ 11,535,787
Less: accumulated depreciation	(5,982,972)	(6,348,695)
Monitoring equipment, net of accumulated depreciation	<u>\$ 4,598,864</u>	<u>\$ 5,187,092</u>

Depreciation expense for the fiscal years ended September 30, 2024 and 2023 was \$1,695,501 and \$1,539,234, respectively. This expense was classified as a cost of revenue in the Consolidated Statements of Operations.

During the fiscal years ended September 30, 2024 and 2023, the Company recorded charges of \$332,702 and \$305,300, respectively, for devices that were lost, stolen or damaged. Lost, stolen and damaged items are expensed in Monitoring, products and other related services in the Consolidated Statements of Operations.

Impairment of Long-Lived Assets and Goodwill

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

Assets and Liabilities Held for Sale

Assets and liabilities to be disposed of by sale are reclassified into *Assets held for sale* and *Liabilities held for sale* on our consolidated balance sheets. The Company presents the assets and liabilities of a disposal group as held for sale upon meeting all of the following criteria:

- Management, having the authority to approve the action, commits to a plan to sell the asset (disposal group).
- The asset (disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (disposal groups).
- An active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated.
- The sale of the asset (disposal group) is probable, and transfer of the asset (disposal group) is expected to qualify for recognition as a completed sale, within one year.
- The asset (disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value.
- Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The determination as to whether the sale of the disposal group is probable may include significant judgments from management related to the estimated timing of the closing of a future sales transaction. For information regarding significant judgments related to fair value estimates of the disposal group held for sale, refer to the *Impairment* subheading within the *Critical Accounting Estimates*.

Assets held for sale are measured at the lower of their carrying amount or fair value less cost to sell and are not depreciated or amortized. See Note 14 of our Financial Statements for impairments of our assets held for sale.

As of September 30, 2024, the Company concluded that Track Group Chile met all of the criteria listed above for classification as held for sale. On November 1, 2024, the Company completed the sale.

Revenue Recognition

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

Monitoring and Other Related Services

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

Product Sales and Other

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

Multiple Element Arrangements

The majority of our revenue transactions do not have multiple elements. However, on occasion, the Company may enter into revenue transactions that have multiple elements. These may include different combinations of products or services that are included in a single billable rate. These products or services are delivered over time as the customer utilizes our services. In cases where obligations in a contract are distinct and thus require separation into multiple performance obligations, revenue recognition guidance requires that contract consideration be allocated to each distinct performance obligation based on its relative standalone selling price. The value allocated to each performance obligation is then recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met. There were no multiple element arrangements for the years ended September 30, 2024 and 2023.

Other Matters

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

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

Research and Development Costs

The Company expenses research and development costs as incurred. During the fiscal year ended September 30, 2024 and September 30, 2023, the Company incurred research and development expense of \$2,749,218 and \$2,735,060, respectively.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense for the fiscal years ended September 30, 2024 and 2023 was \$14,925 and \$13,707, respectively.

Stock-Based Compensation

The Company recognizes compensation expense for stock-based awards expected to vest on a straight-line basis over the requisite service period of the award based on their grant date fair value. The fair value of stock options is estimated using a Black-Scholes option pricing model, which requires management to make estimates for certain assumptions regarding risk-free interest rate, expected life of options, expected volatility of stock and expected dividend yield of stock. Outstanding restricted stock units are amortized over the vesting period. We recorded \$3,431 and \$159,522 of expense related to these awards for fiscal years ended September 30, 2024 and 2023, respectively.

Income Taxes

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

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

The Company's policy is to recognize interest and penalties related to income tax issues as components of other noninterest expense. As of September 30, 2024 and September 30, 2023, we did not record a liability for uncertain tax positions.

Net Income (Loss) Per Common Share

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

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

Common share equivalents consist of shares issuable upon the exercise of options and warrants to purchase shares of the Company's Common Stock, par value \$0.0001 per share ("*Common Stock*"). As of September 30, 2024, there were no outstanding common share equivalents.

At September 30, 2023, all stock options and warrants had exercise prices that were above the market price of \$0.49 and have been excluded from the diluted earnings per share calculations. There were no outstanding stock options or warrants as of September 30, 2024.

The common stock equivalents outstanding as of June 30, 2024 and 2023 consisted of the following:

	2024	2023
Issuable Common Stock options and warrants	-	4,688
Total Common Stock equivalents	-	4,688

Recent Accounting Standards

New Accounting Standards or Updates Adopted in Fiscal 2024

In July 2023, the FASB issued ASU 2023-03, *Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock*. This ASU amends or supersedes various SEC paragraphs in the Accounting Standards Codification to primarily reflect the issuance of Staff Accounting Bulletin No. 120. ASU 2023-03 provides clarifying guidance related to employee and non-employee share-based payment accounting. ASU 2023-03 does not provide new guidance so there is no transition or effective date associated with it. Therefore, these updates were immediately effective. The adoption of ASU 2023-03 did not have a material impact on our consolidated financial statements and related disclosures.

In January 2017, the FASB issued 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 September 30, 2024 have had or are expected to have a material impact on our consolidated financial statements.

(3) Revenue Recognition

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

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.

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 years ended September 30, 2024 and 2023.

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

The following tables present the Company’s revenue disaggregated by geography, based on management’s assessment of available data:

	Year Ended September 30, 2024		Year Ended September 30, 2023	
	Total Revenue	% of Total Revenue	Total Revenue	% of Total Revenue
United States	\$ 25,984,679	70%	\$ 24,295,601	71%
Latin America	9,877,373	27%	9,370,160	27%
Other	1,024,448	3%	810,104	2%
Total	\$ 36,886,500	100%	\$ 34,475,865	100%

The above table includes total revenue for the Company, of which monitoring and other related services is the majority (approximately 97% for fiscal years ended September 30, 2024 and 2023) of the Company’s revenue. Latin America includes Bahamas, Chile, Puerto Rico, Brazil, Panama, Caymen Islands and the U.S. Virgin Islands. Other includes Canada and Saudi Arabia.

The balance of accounts receivable at September 30, 2024 of \$4,428,535 does not include an unbilled balance, which is now included in assets held for sale on the Consolidated Balance Sheet. The balance of accounts receivable at September 30, 2023 of \$4,536,916 includes an unbilled balance of \$490,848. 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 expense on our Condensed Consolidated Statements of Operations. As of September 30, 2024, September 30, 2023, and September 30, 2022 the Company had an allowance for credit losses of \$362,904, \$155,030, and \$102,570 respectively.

The following table summarizes the activity of allowance for credit losses on accounts receivable for the year ended September 30, 2024:

	Year Ended September 30, 2024
Balance - beginning of period	\$ 178,095
Increase to provision for credit losses	322,940
Write offs charged against allowance	(111,324)
Recoveries of credit losses previously written off	43,193
Balance - end of period	<u>\$ 432,904</u>

For the year ended September 30, 2024 and September 30, 2023 the Company wrote-off accounts receivables of \$111,324 and \$154,978, respectively. As of September 30, 2024, September 30, 2023, and September 30, 2022 the reserve for credit memos was \$70,000, \$23,065, and \$0 respectively. The balances of the deferred revenue at September 30, 2024, September 30, 2023, and September 30, 2022 were \$0, \$431, and \$3,299 respectively, and were included in accrued liabilities on the Condensed Consolidated Balance Sheets. The Company recognized \$301,249 and \$12,928 of deferred revenue in the fiscal years ended September 30, 2024 and September 30, 2023, respectively.

(4) Other Assets

As of September 30, 2024 and September 30, 2023, respectively, the balance of other assets was \$660,170 and \$2,442,154, respectively. Other assets at September 30, 2024 are comprised largely of contractually required monitoring center and other equipment, right of use assets, lease deposits, cash used as collateral for a performance bond and deferred income tax. Other assets as of September 30, 2024 exclude amounts classified as held for sale on the Condensed Consolidated Balance Sheet of \$246,397. See Note 14 for additional information.

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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 September 30, 2024 and 2023, was as follows:

	September 30, 2024	September 30, 2023
Monitoring center equipment	\$ 1,638,411	\$ 1,619,278
Less: accumulated amortization	(1,638,411)	(1,088,825)
Monitoring center equipment, net of accumulated amortization	<u>\$ -</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 twelve-months ended September 30, 2024 and 2023 were \$519,341 and \$572,135, respectively. The Company recorded revenue from the customer based on a contractually agreed upon unit per day amount during the contract period. See Note 7 for details of the borrowings related to the monitoring centers construction and equipment.

(5) Accrued Liabilities

Accrued liabilities consisted of the following as of September 30, 2024 and 2023:

	September 30, 2024	September 30, 2023
Accrued payroll, taxes and employee benefits	\$ 1,243,926	\$ 1,116,036
Deferred revenue	-	431
Accrued taxes - foreign and domestic	169,951	260,697
Accrued other expense	110,118	108,476
Accrued legal and other professional costs	61,779	80,210
Accrued costs of revenue	214,727	410,726
Right of use liability	128,360	143,846
Deferred financing fees	162,750	-
Accrued interest	547,707	451,417
Total accrued liabilities	<u>\$ 2,639,318</u>	<u>\$ 2,571,839</u>

Accrued liabilities in the table above as of September 30, 2024 exclude amounts classified as held for sale of \$636,640. See Note 14 for additional information.

(6) 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.

(7) **Debt Obligations**

Debt obligations, net of debt issuance costs, as of September 30, 2024 and 2023 consisted of the following:

	<u>September 30, 2024</u>	<u>September 30, 2023</u>
The unsecured loan (the “ <i>Amended Facility Agreement</i> ”) from Conrent Invest S.A. (“ <i>Conrent</i> ”) whereby, as of March 1, 2021, the Company had borrowed \$42,864,000, bearing interest at a rate of 4% per annum, payable in arrears annually beginning July 1, 2021, with all principal and accrued and unpaid interest due on July 1, 2024. 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 September 30, 2024 are \$224,803. As of September 30, 2024, \$42,864,000 of principal and \$547,707 of interest was owed to Conrent. The Company paid Conrent \$1,743,136 in interest for the year ended September 30, 2024.	\$ 42,639,197	\$ 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. This note was paid in full upon maturity.	-	11,435
The unsecured Note Payable Agreement with Banco Santander, net of unamortized issuance costs \$0, bearing interest at a rate of 5.04% per annum, with a maturity date of May 11, 2024. This note was paid in full upon maturity.	-	77,670
The unsecured Note Payable Agreement with Banco Estado, net of unamortized issuance costs of \$0, bearing interest at a rate of 3.50% per annum, with a maturity date of January 2, 2024. This note was paid in full upon maturity.	-	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. This note was paid in full upon maturity.	-	29,118
The unsecured Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of \$0, bearing interest at a rate of 2.54% per annum, with a maturity date of March 4, 2024. This note was paid in full upon maturity.	-	18,440
The unsecured Note Payable Agreement with Banco de Chile, net of unamortized issuance costs of \$3,216, bearing interest at a rate of 3.12% per annum, with a maturity date of February 17, 2025. This loan is included in liabilities held for sale on the Consolidated Balance Sheet.	-	192,547
Total debt obligations	<u>42,639,197</u>	<u>43,109,582</u>
Less: current portion	-	(308,417)
Long-term debt, less current portion	<u>\$ 42,639,197</u>	<u>\$ 42,801,165</u>

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 September 30, 2024, \$42,864,000 of principal and \$1,743,136 of interest was owed to Conrent.

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On January 6, 2021, the Company borrowed 70,443,375 Chilean Pesos (“CLP”) (\$101,186USD) from HP Financial Services Chile Limitada (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. This note was paid in full upon maturity.

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. This note was paid in full upon maturity.

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. This note was paid in full upon maturity.

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. This note was paid in full upon maturity.

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. This note was paid in full upon maturity.

On February 15, 2021, the Company borrowed 500,000,000CLP (\$678,214USD) from Banco de Chile (the “Banco de Chile Note 2”). To facilitate the Banco de Chile Note 2, the Company entered into a Note Payable Agreement with Banco de Chile as the lender. The Banco de Chile Note 2 was used as working capital and to complete the construction of the Puerto Montt Monitoring Center. The Banco de Chile Note 2 bears interest at a rate of 3.12% per annum, payable monthly with principal beginning March 2021, and a maturity of February 17, 2025. The Company also paid 28,248,588CLP (\$38,317USD) in broker fees which are amortized over the life of the loan.

The following table summarizes our future maturities of debt obligations, net of the amortization of debt discounts as of September 30, 2024:

Twelve months ended September 30:	Total
2025	-
2026	-
2027	42,864,000
Total	42,864,000
Issuance costs	(224,803)
Debt obligations, net of unamortized issuance costs	\$ 42,639,197

(8) Preferred Stock

The Company's Certificate of Incorporation authorizes it to issue up to 20,000,000 shares of preferred stock, \$0.0001 par value per share ("*Preferred Stock*"), of which 1,200,000 shares have been designated as Series A Convertible Preferred Stock ("*Series A Preferred*"). The Company's Board of Directors has the authority to amend its Certificate of Incorporation, without further stockholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the preferred stock before any issuance of the Preferred Stock and to create additional series of Preferred Stock.

Series A Convertible Preferred Stock

On October 12, 2017, the Company filed a Certificate of Designation of the Relative Rights and Preferences ("*Certificate of Designation*") with the Delaware Division of Corporations, designating 1,200,000 shares of the Company's preferred stock as Series A Preferred. Shares of Series A Preferred rank senior to the Company's Common Stock, and all other classes and series of equity securities of the Company that by their terms do not rank senior to the Series A Preferred.

Except with respect to transactions upon which holders of the Series A Preferred are entitled to vote separately as a class under the terms of the Certificate of Designation, the Series A Preferred has no voting rights. The shares of Common Stock into which the Series A Preferred is convertible shall, upon issuance, have all of the same voting rights as other issued and outstanding shares of our Common Stock.

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

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

As of September 30, 2024, there were no shares of Series A Preferred issued and outstanding.

(9) Common Stock

Common Stock Issuances

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

There were no issuances of Common Stock in fiscal year 2024 or 2023.

(10) Stock Options and Warrants

Stock Incentive Plan

At the annual meeting of stockholders on April 13, 2022, our stockholders approved the 2022 Omnibus Equity Incentive Plan (the "*2022 Plan*"), previously approved by the Company's Board. The 2022 Plan provides for the grant of incentive options and nonqualified options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who provide services to the Company in lieu of cash. A total of 500,000 shares are authorized for issuance pursuant to awards granted under the 2022 Plan.

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

There were no issuances of restricted shares in fiscal year 2024 or 2023.

On April 13, 2022, the Company issued 285,000 restricted shares, at a grant date value of \$1.30, to members of its executive team from the 2022 Plan with a total value of \$370,500. The restricted shares are amortized over the vesting period. One-third of the restricted shares vested on the grant date and one-third of the restricted shares vested on October 13, 2022 and October 13, 2023, respectively.

The Company recorded expense of \$3,431 and \$159,522 during the fiscal years ended September 30, 2024 and 2023, respectively. As of September 30, 2024 there were 215,000 shares of Common Stock available for issuance under the 2022 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. During the fiscal years ended September 30, 2024 and 2023, the Company granted no options and warrants to purchase shares of Common Stock under the 2022 Plan or under the 2012 Plan. The Company recorded no expense for the fiscal years ended September 30, 2024 and 2023, respectively, related to the issuance and vesting of outstanding stock options and warrants.

All options and warrants have vested and are exercisable at September 30, 2024 and no future issuances are expected.

As of September 30, 2024, no compensation expense associated with unvested stock options and warrants issued previously to members of the Board of Directors will be recognized over the next year.

A summary of the compensation-based options and warrants activity for the fiscal years ended September 30, 2024 and 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, 2022	160,881	\$ 1.24	0.60	\$ -
Granted	-	-	-	-
Expired	(156,193)	(1.24)	-	-
Exercised	-	-	-	-
Outstanding as of September 30, 2023	4,688	\$ 1.24	0.25	\$ -
Granted	-	-	-	-
Expired	(4,688)	(1.24)	-	-
Exercised	-	-	-	-
Outstanding as of September 30, 2024	-	\$ -	-	\$ -
Exercisable as of September 30, 2024	-	\$ -	-	\$ -

(11) Income Taxes

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

For the fiscal years ended September 30, 2024 and 2023, the Company incurred no net losses for income tax purposes. The amount and ultimate realization of the benefits from the net operating losses is dependent, in part, upon the tax laws in effect, our future earnings, and other future events, the effects of which cannot be determined. The Company has established a valuation allowance for all deferred income tax assets not offset by deferred income tax liabilities due to the uncertainty of their realization. Accordingly, there is no benefit for income taxes in the accompanying statements of operations.

At September 30, 2024, the Company had net carryforwards available to offset future taxable income of approximately \$162,912,903, \$2,101,038 of which expires during the year ended September 30, 2024. The utilization of the net loss carryforwards is dependent upon the tax laws in effect at the time the net operating loss carryforwards can be utilized. The Internal Revenue Code contains provisions that likely could reduce or limit the availability and utilization of these net operating loss carryforwards. An ownership change generally affects the rate at which NOLs and potentially other deferred tax assets are permitted to offset future taxable income. Since the Company maintains a full valuation allowance on all U.S. and state deferred tax assets, the impact of prior year ownership changes on the future realizability of U.S. and state deferred tax assets did not result in an impact to the provision for income taxes for the year ended September 30, 2024, or on net deferred tax asset as of September 30, 2024. In the past, ownership changes of the Company resulted in a Sec. 382 limitation on the future realizability of U.S. state NOLs. Since the Company maintains a full valuation allowance on all U.S. and state deferred tax assets, the impact of the Sec. 382 limitation did not result in an impact to the provision for income taxes for the year ended September 30, 2024, or on net deferred assets as of September 30, 2024.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The tax provision for the year ended September 30, 2024 was due primarily to taxes on the income of a foreign-based subsidiary and U.S. state and local income taxes.

The expense for income taxes consisted of the following:

	Fiscal Years Ended	
	September 30,	
	2024	2023
Current		
Federal	\$ (207,709)	\$ 79,000
State	-	-
Foreign	-	-
Total current	(207,709)	79,000
Deferred		
Federal	-	-
State	-	-
Foreign	(381,744)	548,850
Total tax expense	\$ (589,453)	\$ 627,850

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

	Fiscal Years Ended September 30,	
	2024	2023
Net loss carryforwards	\$ 31,667,146	\$ 33,396,062
Accruals and reserves	134,414	(44,816)
Severance indemnity reserve	114,837	98,735
Contributions	3,911	3,911
Depreciation and amortization	(494,657)	(378,920)
Stock-based compensation	-	93,031
Interest expense carryforward	708,230	397,566
Valuation allowance	(31,925,292)	(33,661,256)
Total	\$ 208,589	\$ (95,687)

Reconciliations between the benefit for income taxes at the federal statutory income tax rate and the Company's benefit for income taxes for the years ended September 30, 2024 and 2023 are as follows:

	Fiscal Years Ended September 30,	
	2024	2023
Federal income tax benefit at statutory rate	\$ (5,004)	\$ (169,121)
State income tax benefit, net of federal income tax effect	(941)	(31,811)
Effect of foreign income taxes	(383,254)	548,851
Return to provision	(18,566)	(33,604)
Withholding taxes	(207,709)	79,000
Deferred only adjustment	1,746,831	1,740,896
Gain/(Loss) on deductible expenses	15,154	14,493
Change in valuation allowance	(1,735,964)	(1,520,854)
Provision for income taxes	\$ (589,453)	\$ 627,850

The Company's open tax years for federal and state income tax returns are for the tax years ended September 30, 2019 through September 30, 2024. The Company was examined by the Internal Revenue Service for fiscal years ended September 30, 2018 and September 30, 2017. The examinations were closed as of November 29, 2021, with no additional tax assessment.

(12) Commitments and Contingencies

Legal Matters

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

SecureAlert, Inc. v. Federal Government of Mexico (Department of the Interior). On March 24, 2017, SecureAlert Inc. (a predecessor entity to Track Group, Inc. or the Company) filed a complaint as the Plaintiff 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.

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 2, 2024 (the “Expiration Date”). On January 17, 2024, a Chilean appellate court overturned the injunction.

On June 27, 2024 (the “Effective Date”), Track Chile entered into a settlement agreement (the “Agreement”) with the Customer (together, the “Parties”), whereby the Parties dismissed further legal and equitable issues between or among the Parties, including all asserted and existing claims asserted against Track Chile and the Company, and any related claims, and any potential claims related to the Parties’ disputes arising on or before the date hereof.

In connection with the Agreement, Track Chile paid 950,600,000 CLP (\$1,003,543 USD) (“Settlement Payment”) to Customer in full satisfaction of the Dispute, and in consideration, Customer returned to Track Chile its performance bond (See Note 23) in the amount of 1,328,279,704 CLP (approximately \$1,397,762 USD based on the exchange rate as of the Effective Date).

The Company has recorded the Settlement Payment in operating expense on the Condensed Consolidated Statements of Operations. Notwithstanding the judicial action, Track Chile executed new agreements with the Customer in February 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.

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 as of September 30, 2024 and 2023, respectively, are shown in the table below:

	2024	2023
Monitoring equipment operating revenue	\$ 31,319,769	\$ 28,106,916

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. The amounts as of September 30, 2024 and 2023 exclude operating lease right of use assets and lease liabilities, which were nominal amounts, that were classified as held for sale on the Condensed Consolidated Balance Sheet. See Note 14 for additional information.

	September 30, 2024		September 30, 2023	
	Operating lease asset	Operating lease liability	Operating lease asset	Operating lease liability
Other assets	\$ 314,767		\$ 403,205	\$ -
Accrued liabilities		128,360	-	143,846
Long-term liabilities		186,407	-	259,359

The following table summarizes the supplemental cash flow information for the year ended September 30, 2024 and 2023:

	September 30, 2024	September 30, 2023
Cash paid for noncancelable operating leases included in operating cash flows	\$ 278,553	\$ 284,897
Right of use assets obtained in exchange for operating lease liabilities:	\$ 61,941	\$ 5,459

The future minimum lease payments under noncancelable operating leases with terms greater than one year as of September 30, 2024 are:

	Operating Leases
From October 2024 to September 2025	\$ 138,301
From October 2025 to September 2026	97,577
From October 2026 to September 2027	90,899
From October 2027 to September 2028	4,077
From October 2028 to September 2029	1,377
Thereafter	-
Undiscounted Cash Flow	332,221
Less: imputed interest	(17,454)
Total	\$ 314,767
Reconciliation to lease liabilities:	
Lease liabilities - current	\$ 128,360
Lease liabilities - long-term	186,407
Total Lease Liabilities	\$ 314,767

The weighted-average remaining lease term and discount rate related to the Company's lease liabilities as of September 30, 2024 were 2.67 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. Lease assets are recorded as other assets on the Consolidated Balance Sheet. Lease liabilities are recorded as accrued liabilities and long-term liabilities on the Consolidated Balance Sheet.

Performance Bonds

Prior to September 30, 2024, the Company had one Performance Bond posted with the Customer totaling approximately \$1,654,134, of which \$1,157,867 was held in an interest-bearing account on behalf of the bank and was previously recorded in other current assets on the Company's Consolidated Balance Sheets. As disclosed above in [Track Group Chile SpA. v. Republic of Chile](#), the Performance Bond was subject to litigation due to a dispute with the Republic of Chile related to Track Chile's contract with the Customer; *however*, the Company, Track Chile and the Republic of Chile entered into the Agreement, thereby settling all litigation. In connection with the settlement, Track Chile agreed to pay the Settlement Payment of 950,600,000CLP (\$1,003,543USD) in full satisfaction of all disputes, and in consideration, the Republic of Chile committed to return to Track Chile its Performance Bond in full. The performance bond was returned to the Company on July 12, 2024 in the amount of 1,328,279,704 CLP (approximately \$1,397,762 USD based on the exchange rate as of the Effective Date).

The Company has recorded the Settlement Payment in operating expense on the Condensed Consolidated Statements of Operations.

The Company paid 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 expenses of \$34,792 and \$54,676 for the years ended September 30, 2024 and September 30, 2023, respectively.

(13) Intangible Assets

The following table summarizes the activity of intangible assets for the years ended September 30, 2024 and 2023, respectively:

	September 30, 2024			September 30, 2023		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Patent & royalty agreements	\$ 21,120,565	\$ (15,426,897)	\$ 5,693,668	\$ 21,120,565	\$ (14,358,431)	\$ 6,762,134
Developed technology	12,399,380	(4,133,477)	8,265,903	10,328,125	(2,933,499)	7,394,626
Trade name	139,592	(139,592)	-	139,450	(138,916)	534
Total intangible assets	<u>\$ 33,659,537</u>	<u>\$ (19,699,966)</u>	<u>\$ 13,959,571</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 September 30, 2024. The assets have useful lives ranging from three to twenty years.

Total amortization expense for the years ended September 30, 2024 and 2023 was \$2,247,513 and \$2,616,629, respectively. Included in the total amortization expense was \$1,366,019 and \$1,724,256 included in cost of revenue in the Consolidated Statements of Operations for the years ended September 30, 2024 and 2023, respectively, and \$881,495 and \$892,373 in amortization expense included in operating expense in the Consolidated Statements of Operations for the years ended September 30, 2024 and 2023, respectively.

The following table summarizes the future maturities of amortization of intangible assets as of September 30, 2024:

Fiscal Year	Amortization
2025	2,422,431
2026	2,795,334
2027	2,830,641
2028	2,534,145
2029	1,644,656
Thereafter	1,732,364
Total	<u>\$ 13,959,571</u>

Goodwill – In accordance with accounting principles generally accepted in the United States of America, we do not amortize goodwill. These principles require the Company to periodically perform tests for goodwill impairment, at least annually, or sooner if evidence of possible impairment arises. We evaluated the goodwill for impairment as of September 30, 2024. Based on the evaluation made, the Company concluded that no impairment of goodwill was necessary.

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

	September 30,	
	2024	2023
Balance - beginning of year	\$ 7,851,466	\$ 8,061,002
Effect of foreign currency translation on goodwill	89,724	(209,536)
Balance - end of year	<u>\$ 7,941,190</u>	<u>\$ 7,851,466</u>

(14) Assets and Liabilities Held for Sale

As of September 30, 2024 the Company concluded that Track Group Chile met all of the criteria for classification as held for sale. As a result, the Company measured the assets and liabilities below as held for sale at its fair value, which was a selling price of \$1.0 million and accordingly recorded an impairment of \$757,130.

The following table summarizes the assets and liabilities held for sale for the year ended September 30, 2024:

	September 30,
	2024
Assets	
Cash	\$ 1,007,410
Accounts receivable, net	321,372
Prepaid expenses	88,358
Property and equipment, net	10,614
Other assets	246,397
Monitoring equipment, net	52,460
Impairment of carrying value	(757,130)
Total assets held for sale	<u>969,481</u>
Liabilities	
Accounts payable	37,142
Accrued expenses	636,640
Current portion of long-term debt	58,246
Total liabilities held for sale	<u>\$ 732,028</u>

(15) Subsequent Events

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events for their potential impact on the consolidated financial statements and disclosures through the filing date and determined that, except as set forth below, no subsequent events occurred that are reasonably likely to have an impact on the financial statements presented herein.

On November 1, 2024, Track Group, Inc. (the “Company”) announced the entry into a Stock Purchase Agreement dated October 29, 2024, by and between the Company and Inversiones Santa Hortensia SpA, a stock corporation organized under the laws of Chile (“ISA”) (the “Agreement”), pursuant to which the Company agreed to sell to ISA all of the issued and outstanding shares of capital stock of Track Group – Chile SpA (“Track Group Chile”) beneficially owned by the Company (the “Shares”). The purchase price of the Shares was \$1.0 million USD, which amount will be paid at the closing of the transactions contemplated by the Agreement. The assets and liabilities held for sale at September 30, 2024 were included in the Agreement.

EMPLOYMENT AGREEMENT

This Employment Agreement (“Agreement”) is made and effective this date of December 26, 2018, by and between TRACK GROUP, INC., a Delaware corporation and its subsidiaries (collectively “Company”) and Arthur Jacob Gigler, an individual resident of the State of Colorado (“Employee”).

NOW, THEREFORE, the parties hereto agree as follows:

1. **Employment.** Company here by agrees to employ Employee as its Vice President of Marketing and Product Management, Employee hereby accepts such employment in accordance with the terms of this Agreement and the terms of employment applicable to regular employees of Company. In the event of any conflict or ambiguity between the terms of this Agreement and terms of employment applicable to regular employees, the terms of this Agreement shall be definitive. Employee’s duties shall be performed remotely. The parties acknowledge that Employee will be required to travel in connection with the performance of his duties.
2. **Duties of Employee.** During the Employment Term as defined in Paragraph 5, Employee will perform his duties faithfully and to the best of his ability and will devote his full business efforts and time during normal working hours to the Company. Employee will report to the Chief Executive Officer of the Company. Employee shall be responsible for duties typical of the office held by the Employee including but not limited to, sales and customer relations for the Company’s products and services. Furthermore, Employee shall perform such other duties and projects as may be assigned by the Chief Executive Officer of the Company that are consistent with his position.
3. **Compensation.** Employee shall be paid compensation during the Employment Term as follows:
 - A. A base salary of \$160,000.00 per calendar year, payable in installments according to the Company’s regular payroll schedule.
 - B. Employee shall continue as a full participant in any Employee Bonus Plan instituted by the Company (“the Plan”). Such Plan shall allow the Employee to earn: (i) a variable cash bonus based on individual and Company performance achieving specific Company milestones. In addition, Employee shall be entitled reimbursement of up to \$115.00 per month for cell phone and internet usage charges (supported by receipts); Employee shall submit for such reimbursement on official Company expense reports with supporting documentation.
4. **Benefits.**
 - A. **Holidays and Personal Time.** Employee shall be entitled to paid holidays and personal time off in accordance with the Company’s holiday and personal time off policies but not less than fifteen (15) days of each calendar year during the Employment Term, (as prorated for partial years) with the time and duration of any specific personal time off mutually and reasonably agreed to by the parties hereto.
 - B. **Medical, Dental and Group Life Insurance.** Company agrees to include Employee (and if desired Employee’s family) in the group medical, dental and hospital plan of the company and provide group life insurance for Employee. These practices and procedures are subject to change up on mutual agreement. Employee will be subject to all applicable fees and rules of such plans.

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

5. **Term, Termination and Severance.**

A. Employment Term of Agreement. The employment Term of this Agreement shall commence on January 21, 2019 and shall continue in effect until terminated by one of the parties pursuant to the terms of this Section 5.

B. Termination and Severance:

(I) Definitions:

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

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

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

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

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

6. **Voluntary Termination; Termination for Cause.** If Employee's employment with the Company terminates voluntarily by Employee or for Cause by the Company, then Employee is not eligible for any benefits under this Agreement (except as to Accrued Obligations and amounts already earned and/or stock options, warrants and/or restricted stock already vested at that time). If Employee voluntarily terminated his employment with the Company he shall provide written notice to the Company Executive Chief of Operations at least thirty (30) days prior to terminating such employment.

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

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

9. **Non-Competition.** Employee acknowledges that the nature of the Company's business is such that if Employee were to become employed by, or substantially involved in, the business of a competitor the Company during the six (6) months following the termination of Employee's employment, would cause substantial and irreparable harm to the Company. Thus, to protect the Company's goodwill, trade secrets and confidential information, Employee agrees and acknowledges that the Company may require in its sole discretion that Employee will not directly or indirectly engage in (whether as an employee, consultant, agent, proprietor, principal, partner, stockholder, corporate officer, director or otherwise), nor have any ownership interest in or participation in the financing, operation, management or control of, consulting with, any firm, corporation or business that competes with the Company in the electronic GPS or include but are not limited to, the following entities and their respective subsidiaries: The Geo Group, Inc., Core Civic, Numerex Corp., 3M Company, Corrisoft LLC, Outreach Smartphone Monitoring, LLC, and Securus Technologies. For this purpose, ownership of no more than one-half of one percent (.5%) of the outstanding voting stock of a publicly traded corporation shall not constitute a violation of this provision. If the Company elects to enforce the Non-Compete defined above then in exchange, the Employee shall receive a cash payment equal to six (6) months of Employee's Base Annual Salary (at the Employee's highest Base Salary). The "Non-Compete" Payment shall be payable over six (6) months in accordance with the Company's regular pay-roll schedule.

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

- (a) The terms used herein will be interpreted to comply with the requirements of Section 409A, including (without limitation) that a termination of employment must constitute a “separation from service,” as such term is defined in Section 409A.
- (b) Neither the Company nor Employee shall have the right to accelerate or defer the delivery of payments except in accordance with Section 409A.
- (c) Employee’s right to receive installment payments will be treated as a right to receive a series of separate and distinct payments.
- (d) With regards to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit., (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, and (iii) such payments shall be made on or before the last day of the taxable year following the taxable year in which the expense was incurred.
- (e) No payment shall be subject to offset by any other payment unless otherwise permitted by Section 409A.

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

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

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

If to the Employee: Arthur Jacob Gigler
5537 S. King St.
Littleton, CO 80123

If to the Company: Attn: Chief Executive Officer
Track Group, Inc.
200 E. 5th Ave Suite #100
Naperville, IL. 60563

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

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

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

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

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

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

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

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

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

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

Track Group, Inc.

Employee

By: _____
Derek Cassell
CEO

AJ Gigler

Date: _____

Date: _____

EXHIBIT "A"
Employee Bonus Formula

EXHIBIT "B"
Confidentiality Agreement

**Amendment No. 1 to the Executive Employment Agreement
Between Track Group, Inc. and Arthur Jacob Gigler Dated December 26, 2018**

THIS AMENDMENT NO. 1 to that certain Executive Employment Agreement by and between Track Group, Inc. (the “Company”) and Arthur Jacob Gigler (the “Executive”) is entered into and effective as of March 17, 2022.

WHEREAS, the Company and the Executive entered into that certain Executive Employment Agreement dated December 26, 2018 (the “Employment Agreement”); and

WHEREAS, the Board of Directors of the Company has agreed to promote the Executive, and Executive has agreed to accept a promotion, from the position of Vice President of Marketing and Product Management to Chief Marketing Officer effective March 21, 2022 and agreed to the other terms contained herein.

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

1. Paragraph 3A shall be modified to change the base salary to \$195,000 per calendar year effective March 21, 2022.

2. A new Paragraph 3C shall be added to read: “Subject to approval of the Board of Directors, you will be granted a one-time grant, before taxes, of one hundred thousand (100,000) shares of common stock of the Company under the terms of the Company’s proposed 2022 Omnibus Equity Incentive Plan (“the Plan”) (the “Shares”); provided, however, the grant of Shares shall be conditioned upon the approval of the Plan by the Board of Directors and Company’s shareholders. The Shares shall be valued at the closing price as shown on the OTC as of the date the Shares are issued by the Company’s stock registrar. The Shares will be subject to the terms and conditions of the Plan.”

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

“(iii) **Change of Control.** In the event that, at any time during the Executive’s employment under this Agreement, the Company experiences a Change of Control (as hereinafter defined), and the Executive’s employment with the Company is involuntarily terminated other than for cause (as herein defined) within 6 months of the date of consummation of such Changed in Control, the Executive shall be entitled to receive a cash payment equal to twelve (12) months of Executive’s Base Annual Salary (at the Executive’s highest Base Annual Salary), plus all Restricted Stock, Warrant and Options shall become one hundred percent (100%) vested and fully exercisable and the Company shall have no repurchase right.

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

4. A new Paragraph 5(II)(ii) shall be added to read: “Restricted Stock, Warrants and Option Vesting. All Restricted Stock, Warrants and Options shall become one hundred percent (100%) vested and fully exercisable and the Company shall have no repurchase right. All Restricted Stock, Warrants and Options shall contain a cashless exercise provision for Executive’s acquisition of the Stock, Warrants and/or Options, and piggyback registrations rights.”

5. A new Paragraph 5(II)(iii) shall be added to read: "Severance Payment. Executive shall receive a cash payment equal to six (6) months of Executive's Base Annual Salary (at the Executive's highest Base Annual Salary) plus annual bonus compensation, at the time of the Executive's highest compensation level, if such bonus is earned prior to his employment with the Company terminating. The Severance Payment shall be payable over six (6) months in accordance with the Company's regular pay-roll schedule. "

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

7. The final sentence of Paragraph 6 shall be stricken in its entirety and replaced with the following: "If Executive voluntarily terminates his employment with the Company he shall provide written notice to the Company Chief Executive Officer at least sixty (60) days prior to terminating such employment."

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

IN WITNESS WEHEREOF, each of the parties has executed this Amendment No. 1 to the Executive Employment Agreement between Track Group, Inc. and Arthur Jacob Gigler dated March 17, 2022, in the case of the Company by its duly authorized Officer.

TRACK GROUP, INC.

EXECUTIVE

By: _____

By: _____

Derek Cassell

Arthur Jacob Gigler

Chief Executive Officer

**Amendment No. 2 to the
Executive Employment
Agreement
Between Track Group, Inc. and Arthur
Jacob Gigler Dated December 26, 2018**

THIS AMENDMENT NO. 2 to that certain Executive Employment Agreement by and between Track Group, Inc. (the “Company”) and Arthur Jacob Gigler (the “Executive”) is entered into and effective as of August 4, 2022.

WHEREAS, the Company and the Executive entered into that certain Executive Employment Agreement dated December 26, 2018 (the “Employment Agreement”), inclusive of exhibits, one such exhibit being a “Confidentiality, Non-Solicitation and Inventions Agreement” (the “Inventions Agreement”), through which Executive, pursuant to the terms therein, effectively disclosed the existence of an invention/provisional patent application conceived prior to his employment, as more fully set forth therein, and as subsequently memorialized as Patent No. 1098465 (the “Pre-Employment Invention”); and

WHEREAS, both the Company and the Executive wish to clarify and confirm certain provisions, agreements, and obligations in the Employment Agreement, as amended on March 17, 2022, with respect to the Pre-Employment Invention.

NOW THEREFORE, the Company and the Executive agree as follows:

1. Executive validly disclosed, pursuant to Section 7(c) of the Inventions Agreement, the Pre-Employment Invention, and as such, the Pre-Employment Invention is not subject to the terms of the Inventions Agreement and Company has no rights in or claims said Pre-Employment Invention or improvements thereto; and
2. Executive is free to monetize, license or divest the Pre-Employment Invention in any manner Executive sees fit, including but not limited to establishing a legal entity to so monetize, license or divest, so long as Executive does not violate of any of the remaining obligations of his Employment Agreement, including the Inventions Agreement; and
3. For the avoidance of doubt, as it relates to the Pre-Employment Invention *only*, and any activities noted in Par. 2 above related thereto, any such activity, to the extent conducted with any such entity (or their respective subsidiaries) noted in Par. 9 of the Employment Agreement (as amended), shall not be deemed to be a violation of Par. 9 (as amended), whether occurring during Executive’s employment with Company, or any time thereafter.
4. For the avoidance of doubt, the Company and the Executive agree that Executive remains prohibited from using Confidential Information, as that term is defined in Par. 5(a) of the Inventions Agreement, in furtherance of his permitted activities, as set forth in Par. 2 and 3, above, and remains bound by the obligations as set forth in Par. 9 of the Employment Agreement (as amended) to the extent they are unrelated to the Pre-Employment Invention (i.e., the non-compete obligations of Par. 9 remain in effect in all other respects except for as they relate solely to the Pre-Employment Invention).

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

IN WITNESS WHEREOF, each of the parties has executed this Amendment No. 2 to the Executive Employment Agreement between Track Group, Inc. and Arthur Jacob Gigler dated August 4, 2022, in the case of the Company by its duly authorized Officer.

TRACK GROUP, INC.

EXECUTIVE

By: _____

By: _____

Derek Cassell

Arthur Jacob Gigler

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

Date: December 23, 2024

/s/ Derek Cassell

Derek Cassell

Chief Executive Officer and Principal Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, James A. Berg, Chief Financial Officer, Principal Financial and Accounting Officer, of Track Group, Inc. (the “Company”), certify that:

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

Date: December 23, 2024

/s/ James A. Berg
James A. Berg
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-K for the period ended September 30, 2024 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Derek Cassell, Chief Executive Officer (Principal Executive Officer), and James A. Berg, Chief Financial Officer (Principal Financial Officer), of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

By: /s/ James A. Berg
James A. Berg
Chief Financial Officer
(Principal Accounting Officer)

Dated: December 23, 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.