

February 14, 2017



Track Group Reports First Quarter 2017 Results

Continued focus on growing core judicial business drives revenue increase of 21%. New financial leadership and organization restructuring positions company to manage and scale business more effectively

ROMEDEVILLE, Ill., Feb. 14, 2017 /PRNewswire/ -- Track Group today announced financial results for its fiscal 2017 first quarter ended December 31, 2016.

First Quarter Highlights

- *Growth in core business remains strong*— Revenue from Track Group's core judicial customers increased 21%, principally the result of growth from Gendarmerie de Chile, Marion County Community Corrections, and Virginia Department of Corrections.
- *Restructuring* – The Company recently approved a plan to restructure its business in order to streamline operations by consolidating its headquarters from Salt Lake City, Utah into its existing Chicagoland office. This decision will enable the Company to reduce fixed costs and improve scalability as it continues to execute on its outsourcing strategy.
- *Peter Poli Joins Track Group as CFO*— Seasoned financial executive, Peter Poli, leads the Company's financial operations, finance team, sourcing and investor relations.

"I'm very pleased with the progress we've made on our restructuring commitments as part of the ongoing transformation process to accelerate future growth," said Guy Dubois, Chairman and CEO of Track Group. "Through the restructuring, Track Group will reduce expenses, streamline the organization, and reallocate resources to drive shareholder value and align more closely with customer needs going forward."

Financial Results

- *Revenue increased 21%* - For the three months ended December 31, 2016, the Company recognized revenue from operations of \$7,671,490 compared to \$6,317,604 for the three months ended December 31, 2015, an increase of

\$1,353,886 or 21%. The increase in revenue was principally the result of (i) expansion and growth of offender monitoring in Chile, and (ii) growth of our North American monitoring operations driven by Marion County Community Corrections, and by Virginia Department of Corrections.

- *Gross Profit Margin decreased 7%* - This decrease is the result of one-time restructuring expenses and a short-term change in product focus resulting from a higher proportion of revenue growth coming from US customers.
- *Operating expenses increased approximately 15%* - This increase is largely due to a one-time restructuring expense of \$566,330 and the remainder is due to an increase in revenue.
- *Loss from operations increased by \$460,066* - This increase in net loss is largely due to the one-time restructuring expense indicated above. Cost of revenue and general and administrative increases were offset by reductions in depreciation and amortization and R&D.
- *Net Loss of \$2.6M* – The Company had a net loss of \$2,613,759 for the three months ended December 31, 2016, compared to a net loss of \$2,127,238 for the three months ended December 31, 2015, an increase of \$486,521 largely resulting from the items indicated above.
- *Cash from operations remains positive* – Net cash provided by operations improved to \$2,136,796 from a loss of \$458,130 compared to the same period in 2016.
- *Adjusted EBITDA Increased 20%* – Adjusted EBITDA for the first quarter of 2017 increased approximately 20% to \$406,000, up from \$337,000 in the same period in 2016.

The Company reaffirms Outlook from its December 22, 2016 news release indicating FY2017 Revenue of \$33-35 million and Adjusted EBITDA Margin of 15-20%.

About Track Group, Inc.

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

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

Forward-Looking Statements

Any statements contained in this document that are not historical facts are forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. Words

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

Non-GAAP Financial Measures

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

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

The Company believes the non-GAAP measures provide useful information to both management and investors when factoring in the Adjustments. Specific disclosure regarding the Company's financial results, including management's analysis of results from operations and financial condition, are contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2016, and other reports filed with the Securities and Exchange Commission. Investors are encouraged to carefully read and consider such disclosure and analysis contained in the Company's Form 10-K and other reports, including the risk factors contained in such Form 10-K.

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2016	September 30, 2016
Assets	2016	2016
<i>Current assets:</i>	(Unaudited)	

Cash	2,486,390	\$ 1,769,921
Accounts receivable, net of allowance for doubtful accounts of \$2,695,060 and \$2,335,508, respectively	5,920,597	6,894,095
Note receivable, current portion	334,733	334,733
Prepaid expenses and other	515,000	816,708
Inventory, net of reserves of \$98,150 and \$98,150, respectively	464,151	521,851
Total current assets	9,720,871	10,337,308
Property and equipment, net of accumulated depreciation of \$1,503,512 and \$1,421,389, respectively	1,075,212	1,226,461
Monitoring equipment, net of accumulated amortization of \$3,535,297 and \$3,438,074, respectively	4,583,890	4,358,117
Intangible assets, net of accumulated amortization of \$8,821,745 and \$8,233,659, respectively	25,286,897	25,540,650
Other assets	3,016,318	2,900,911
Goodwill	7,841,220	7,955,876
Total assets	51,524,408	\$ 52,319,323
Liabilities and Stockholders' Equity		
<i>Current liabilities:</i>		
Accounts payable	3,263,481	2,771,101
Accrued liabilities	5,637,673	3,976,192
Current portion of long-term debt, net of discount of \$222,973 and \$222,973, respectively	3,245,732	3,245,732
Total current liabilities	12,146,886	9,993,025
Stock payable - related party	3,289,879	3,289,879
Long-term debt, net of current portion and discount of \$130,068 and \$185,811, respectively	30,379,358	30,345,803
Total Liabilities	45,816,126	43,628,707
<i>Stockholders' equity:</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 10,333,516 outstanding at December 31 and September 30, 2016	1,034	1,034
Additional paid-in capital	299,001,399	298,876,399
Accumulated deficit	(291,955,262)	(289,341,503)

Accumulated other comprehensive income	(1,338,886)	(845,314)
Total equity	5,708,285	8,690,616
Total liabilities and stockholders' equity	\$ 51,524,408	\$ 52,319,323

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

	Three Months Ended	
	December 31,	
	2016	2015
Revenues:		
Monitoring services	\$ 7,265,013	\$ 5,957,426
Other	406,477	360,178
Total revenues	7,671,490	6,317,604
Cost of revenues:		
Monitoring, products and other related services	2,933,622	1,880,212
Depreciation & amortization included in cost of revenues	445,493	488,967
Impairment of monitoring equipment and parts	74,787	60,000
Total cost of revenues	3,453,902	2,429,179
Gross profit	4,217,588	3,888,425
Operating expenses:		
General & administrative	3,768,099	3,411,643
Restructuring costs	566,330	-
Selling & marketing	627,749	620,029
Research & development	530,806	547,159
Depreciation & amortization	575,111	700,035
Total operating expenses	6,068,095	5,278,866
Loss from operations	(1,850,507)	(1,390,441)
Other income (expense):		
Loss on disposal of equipment	-	(33,805)
Interest expense, net	(647,103)	(694,508)
Currency exchange rate gain (loss)	(116,442)	(18,149)
Other income, net	293	9,665
Net loss attributable to common shareholders	(2,613,759)	(2,127,238)
Foreign currency translation adjustments	(493,572)	215,095
Comprehensive loss	\$ (3,107,331)	\$ (1,912,143)
Net loss per common share, basic and diluted	\$ (0.25)	\$ (0.21)

Weighted average common shares outstanding, basic and diluted	10,333,516	10,261,288
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TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	December 31,	
	2016	2015
	<hr/>	<hr/>
Cash flows from operating activities:		
Net loss	\$ (2,613,759)	\$ (2,127,238)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,020,604	1,189,003
Impairment of monitoring equipment and parts	74,787	60,000
Bad debt expense	359,551	199,854
Amortization of debt discount	55,743	55,743
Stock based compensation	225,374	159,469
Vesting and re-pricing of stock options	-	196,114
Loss on disposal of property and equipment	-	33,805
Change in assets and liabilities:		
Accounts receivable, net	660,834	(836,330)
Notes receivable	-	(9,099)
Inventories	57,700	131,348
Prepaid expenses and other assets	149,428	(76,313)
Accounts payable	684,987	146,921

Accrued expenses	1,461,547	418,593
Net cash provided by (used in) operating activities	<u>2,136,796</u>	<u>(458,130)</u>
Cash flow from investing activities:		
Purchase of property and equipment	(12,762)	(46,970)
Capitalized software	(570,093)	(442,578)
Purchase of monitoring equipment and parts	(818,600)	(898,500)
Net cash used in investing activities	<u>(1,401,455)</u>	<u>(1,388,048)</u>
Cash flow from financing activities:		
Principal payments on notes payable	(17,266)	(587,608)
Net cash used in financing activities	<u>(17,266)</u>	<u>(587,608)</u>
Effect of exchange rate changes on cash	(1,606)	3,766
Net increase (decrease) in cash	716,469	(2,430,020)
Cash, beginning of period	<u>1,769,921</u>	<u>4,903,045</u>
Cash, end of period	<u>\$ 2,486,390</u>	<u>\$ 2,473,025</u>

TRACK GROUP, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL MEASURES
(Unaudited)

	Three Months ended	
	December 31,	
	2016	2015
Non-GAAP Adjusted EBITDA		
Net loss attributable to common shareholders	(2,614)	(2,127)
Interest expense, net	647	695
Income taxes (1)	-	5
Depreciation, amortization and impairment	1,095	1,249
Stock based compensation	225	356
Restructuring charges (2)	566	-
Other non-cash charges (3)	487	159
Non GAAP Adjusted EBITDA	<u>406</u>	<u>337</u>
Non GAAP Adjusted EBITDA, percent of revenue	5.3%	5.3%

	Three Months ended	
	December 31,	
	2016	2015
Non-GAAP EPS (In \$000's, except share data)		
Net loss attributable to common shareholders	(2,614)	(2,127)
Interest expense, net	647	695
Income taxes (1)	-	5
Depreciation, amortization and impairment	1,095	1,249

Stock based compensation	225	356
Restructuring charges (2)	566	-
Other non-cash charges (3)	487	159
Non GAAP net income to common shareholders	406	337
Weighted average common shares outstanding	10,334	10,261
Non-GAAP earnings per share	\$ 0.04	\$ 0.03

(1) Currently, the Company has significant U.S. tax loss carryforwards that may be used to offset future taxable income, subject to IRS limitations. However, the Company is still subject to certain state, commonwealth, and other foreign based taxes.

(2) Includes restructuring charges associated with outsourcing one of our monitoring centers and moving our headquarters to the Chicagoland area.

(3) Other non-cash charges may include gains or losses, non-cash currency impacts, non-recurring accrual adjustments and reserves associated with contracts in Mexico.

To view the original version on PR Newswire, visit <http://www.prnewswire.com/news-releases/track-group-reports-first-quarter-2017-results-300407127.html>

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