

Orbital Tracking Corp.
Form 10-Q
November 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____.

Commission File Number 000-25097

ORBITAL TRACKING CORP.

(Exact name of small business issuer as specified in its charter)

Nevada

65-0783722

(State or other jurisdiction of incorporation or
organization)

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

18851 NE 29th Avenue, Suite 700
Aventura, FL 33180
Telephone: (305)-560-5355

(Address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

The number of shares of the Registrant’s Common Stock outstanding as of November 12, 2015 was 12,818,172.

FORM 10-Q

INDEX

	Page
PART I: FINANCIAL INFORMATION	1
<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	1
<u>CONDENSED CONSOLIDATED BALANCE SHEETS</u>	1
<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS</u>	2
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	3
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	4
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	16
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	19
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	20
PART II. OTHER INFORMATION	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	26
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	26
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	26
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	26
<u>ITEM 5. OTHER INFORMATION</u>	26
<u>ITEM 6. EXHIBITS</u>	26
<u>SIGNATURES</u>	27

Table of Contents

Part I Financial Information

Item 1. Financial Statements

The Company's unaudited financial statements for the nine months ended September 30, 2015 and for comparable periods in the prior year are included below. The financial statements should be read in conjunction with the notes to financial statements that follow.

ORBITAL TRACKING CORP AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS AS OF

	September 30, 2015	December 31, 2014
	(unaudited)	
ASSETS		
Current assets:		
Cash	\$ 217,826	\$ 65,892
Accounts receivable, net	137,932	82,986
Inventory	253,762	183,780
Unbilled revenue	60,522	25,612
Prepaid expenses - current portion	222,222	-
Other current assets	143,360	25,764
Total current assets	1,035,625	384,034
Property and equipment, net	72,593	58,413
Intangible Assets, net	281,250	-
Prepaid expenses - long term portion	1,820,788	-
Total assets	\$ 3,210,256	\$ 442,447
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 755,543	\$ 299,877
Deferred revenue	--	28,891
Related party payable	114,441	59,308
Derivative liabilities	4,594	-
Liabilities from discontinued operations	112,397	-
Total current liabilities	986,975	388,076
Total Liabilities	986,975	388,076
Stockholders' Equity:		
Preferred Stock, \$0.0001 par value; 20,000,000 shares authorized		
Series A (\$0.0001 par value; 20,000 shares authorized, and no shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	-	-
Series B (\$0.0001 par value; 30,000 shares authorized, 6,666 and none shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	1	-
	334	-

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

Series C (\$0.0001 par value; 4,000,000 shares authorized, 3,337,442 and none shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)		
Series D (\$0.0001 par value; 5,000,000 shares authorized, 5,000,000 and none shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	500	-
Series E (\$0.0001 par value; 8,746,000 shares authorized, 8,711,000 and 8,746,000 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively)	871	875
Common Shares, \$0.0001 par value; 200,000,000 shares authorized, 11,568,172 and 2,540,000 issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1,157	254
Additional paid-in capital	3,115,554	1,363
Accumulated (deficit) earning	(902,457)	52,728
Accumulated other comprehensive loss	7,323	(849)
Total stockholder equity	2,223,281	54,371
Total liabilities and stockholders' equity	\$ 3,210,256	\$ 442,447

See the accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 AND COMPREHENSIVE (LOSS) INCOME
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net sales	\$982,775	\$603,551	\$2,955,453	\$1,883,544
Cost of sales	697,862	401,980	2,130,271	1,339,554
Gross profit	284,913	201,571	825,182	543,990
Operating expenses:				
Selling, general and administrative	(27,638)	172,610	429,991	366,871
Salaries, wages and payroll taxes	338,533	(3,764)	629,250	107,389
Professional fees	151,603	939	409,605	2,989
Depreciation and amortization	118,931	17,532	293,226	27,965
Total operating expenses	581,428	187,317	1,762,072	505,214
(Loss) income before other expenses and income taxes	(296,515)	14,255	(936,890)	38,777
Other (income) expense				
Change in fair value of derivative instruments, net	(180)	-	(342)	-
Interest expense	1,075	-	3,396	-
Foreign currency exchange rate variance	3,174	2,646	15,241	1,506
Total other expense	4,069	2,646	18,295	1,506
Net (loss) income	\$(300,584)	\$11,609	\$(955,185)	\$37,271
Comprehensive Income:				
Net (loss) income	\$(300,584)	\$11,609	\$(955,185)	\$37,271
Foreign currency translation adjustments	2,530	(4,390)	8,172	2,964
Comprehensive (loss) income	\$(298,054)	\$7,219	\$(947,013)	\$40,235
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS				
Weighted average number of common shares outstanding- basic	11,456,612	2,540,000	9,711,044	2,540,000
Weighted average number of common shares outstanding- diluted	11,456,612	90,000,000	9,711,044	90,000,000
Basic net (loss) income per share	\$(0.03)	\$0.00	\$(0.10)	\$0.02
Diluted net (loss) income per share	\$(0.03)	\$0.00	\$(0.10)	\$0.00

See the accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE NINE MONTHS ENDED

	September 30, 2015	September30 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (955,185)	\$ 37,270
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Change in fair value of derivative liabilities	(342)	-
Depreciation expense	53,908	27,965
Amortization of intangible asset	18,750	-
Amortization of license fee	166,667	-
Stock based compensation	149,999	-
Amortization of prepaid expense in connection with the issuance of common stock issued for prepaid services	53,901	-
Imputed interest	3,396	-
Change in operating assets and liabilities:		
Accounts receivable	(20,361))	(19,657)
Inventory	(29,821)	(102,298)
Unbilled revenue	(34,910)	(3,653)
Other current assets	(16,710)	(22,144)
Accounts payable and accrued liabilities	161,670	136,919
Deferred revenue	(28,891)	(18,838)
Net cash (used in) provided by operating activities	(477,929)	35,564
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash acquired from acquisition	30,934	-
Purchase of property and equipment	(64,338)	(33,401)
Cash paid per Share Exchange Agreement	(375,000)	-
Net cash (used in) investing activities	(408,404)	(33,401)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from common stock and preferred stock sales	1,097,500	-
Repayment of Funding Circle loan	-	(4,298)
Repayments of note payable, related party, net	(67,406)	(49,278)
Net cash provided by (used in) financing activities	1,030,094	(53,576)
Effect of exchange rate on cash	8,172	(2,964)
Net increase (decrease) in cash	151,934	(54,377)
Cash beginning of period	65,892	78,412
Cash end of period	\$ 217,826	\$ 24,036
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for		
Interest	\$ -	\$ -

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

Income tax	\$	-	\$	-
NON CASH FINANCE AND INVESTING ACTIVITY				
Notes payable issued per Share Exchange Agreement	\$	122,536	\$	-
Common stock issued for intellectual property	\$	50,000	\$	-
Common stock issued for prepaid services	\$	153,312	\$	-
Common stock issued for settlement of debt	\$	175,000	\$	-

See the accompanying notes to the unaudited condensed consolidated financial statements.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the financial statements not misleading. The consolidated financial statements as of December 31, 2014 have been audited by an independent registered public accounting firm. The accounting policies and procedures employed in the preparation of these condensed consolidated financial statements have been derived from the audited financial statements of the Company for the year ended December 31, 2014, which are contained in Form 8-K/A as filed with the Securities and Exchange Commission on April 29, 2015. The consolidated balance sheet as of December 31, 2014 was derived from those financial statements.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and the rules and regulations of the U.S Securities and Exchange Commission for Interim Financial Information. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company's financial position as of September 30, 2015, and the results of operations and cash flows for the three and nine months ended September 30, 2015 have been included. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Description of Business

Orbital Tracking Corp. (the "Company") was formerly Great West Resources, Inc., a Nevada corporation. The Company, through its wholly owned subsidiaries, Global Telesat Communications Limited ("GTCL") and Orbital Satcom Corp. ("Orbital Satcom") is a provider of satellite based hardware, airtime and related services both in the United States and internationally. The Company's principal focus is on growing the Company's existing satellite based hardware, airtime and related services business line and developing the Company's own tracking devices for use by retail customers worldwide.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition, and revenues and expenses for the years then ended. Actual results may differ significantly from those estimates. Significant estimates made by management include, but are not limited to, the assumptions used to calculate stock-based compensation, derivative liabilities, preferred deemed dividend and common stock issued for services.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when acquired to be cash equivalents. The Company places its cash with a high credit quality financial institution. The Company's account at this institution is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

Accounts receivable and allowance for doubtful accounts

The Company has a policy of reserving for questionable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the bad debt expense after all means of collection have been exhausted and the potential for recovery is considered remote. As of September 30, 2015 and December 31, 2014, there is an allowance for doubtful accounts of \$0 and \$0.

Foreign Currency Translation

The Company's reporting currency is US Dollars. The accounts of one of the Company's subsidiaries is maintained using the appropriate local currency, (Great British Pound) GTCL as the functional currency. All assets and liabilities are translated into U.S. Dollars at balance sheet date, shareholders' equity is translated at historical rates and revenue and expense accounts are translated at the average exchange rate for the year or the reporting period. The translation adjustments are deferred as a separate component of stockholders' equity, captioned as accumulated other comprehensive (loss) gain. Transaction gains and losses arising from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are included in the statements of operations.

The relevant translation rates are as follows: for the three and nine months ended September 30, 2015 closing rate at 1.5164 US\$: GBP, average rate at 1.55048 and 1.5322 US\$: GBP, for the three and nine months ended September 30, 2014 closing rate at 1.6219 US\$: GBP, quarter average rate at 1.6707 and 1.66935 for the nine months ended September 30, 2014 US\$, : GBP and for the year ended 2014 closing rate at 1.5576 US\$: GBP, average rate at 1.6481 US\$.

Revenue Recognition and Unearned Revenue

The Company recognizes revenue from satellite services when earned, as services are rendered or delivered to customers. Equipment sales revenue is recognized when the equipment is delivered to and accepted by the customer. Only equipment sales are subject to warranty. Historically, the Company has not incurred significant expenses for warranties.

The Company's customers generally purchase a combination of our products and services as part of a multiple element arrangement. The Company's assessment of which revenue recognition guidance is appropriate to account for each element in an arrangement can involve significant judgment. This assessment has a significant impact on the amount and timing of revenue recognition.

Revenue is recognized when all of the following criteria have been met:

Persuasive evidence of an arrangement exists. Contracts and customer purchase orders are generally used to determine the existence of an arrangement.

Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery. The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

Collectability is reasonably assured. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

In accordance with ASC 605-25, Revenue Recognition — Multiple-Element Arrangements, based on the terms and conditions of the product arrangements, the Company believes that its products and services can be accounted for separately as its products and services have value to the Company's customers on a stand-alone basis. When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as products are delivered or as services are provided over the term of the customer contract.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

Goodwill and other intangible assets

In accordance with ASC 350-30-65, “Intangibles - Goodwill and Others”, the Company assesses the impairment of identifiable intangibles whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors the Company considers to be important which could trigger an impairment review include the following:

1. Significant underperformance relative to expected historical or projected future operating results;
2. Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
3. Significant negative industry or economic trends.

When the Company determines that the carrying value of intangibles may not be recoverable based upon the existence of one or more of the above indicators of impairment and the carrying value of the asset cannot be recovered from projected undiscounted cash flows, the Company records an impairment charge. The Company measures any impairment based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the current business model. Significant management judgment is required in determining whether an indicator of impairment exists and in projecting cash flows.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation. Depreciation is based on the estimated service lives of the depreciable assets and is calculated using the straight-line method. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in the property and equipment, and accumulated depreciation accounts until they are removed from service. When property and equipment are retired, sold or otherwise disposed of, the asset’s carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. Repairs and maintenance are expensed as incurred.

The estimated useful lives of property and equipment are generally as follows:

	Years
Office furniture and fixtures	4
Computer equipment	4
Website development	4

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset’s estimated fair value and its book

value. The Company did not consider it necessary to record any impairment charges during the periods ended September 30, 2015 and December 31, 2014 respectively.

Fair value of financial instruments

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, “Fair Value Measurements and Disclosures”, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that require the use of fair value measurements which establishes a framework for measuring fair value and expands disclosure about such fair value measurements.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis using significant unobservable input (Level 3) from January 1, 2015 to September 30, 2015:

	Conversion feature Derivative Liability	Warrant liability	Total
Balance at January 1, 2015	\$	—\$	—\$
Recapitalization on February 19, 2015		—	4,936
Change in fair value included in earnings		—	(342)
Balance at September 30, 2015	\$	—\$	\$ 4,594

The Company did not identify any other assets or liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with the accounting guidance. The carrying amounts reported in the balance sheet for cash, accounts payable, and accrued expenses approximate their estimated fair market value based on the short-term maturity of the instruments.

Stock Based Compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718 which requires recognition in the consolidated financial statements of the cost of employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award.

Pursuant to ASC Topic 505-50, for share-based payments to consultants and other third-parties, compensation expense is determined at the "measurement date." The expense is recognized over the vesting period of the award. Until the measurement date is reached, the total amount of compensation expense remains uncertain. The Company initially records compensation expense based on the fair value of the award at the reporting date.

Income Taxes

The Company has adopted Accounting Standards Codification subtopic 740-10, Income Taxes (“ASC740-10”) which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statement or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are recorded to reduce the deferred tax assets to an amount that will more likely than not be realized.

-7-

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

U.S. GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that will likely be sustained under examination. There were no adjustments related to uncertain tax positions recognized during the nine months ended September 30, 2015 and 2014, respectively.

Earnings per Common Share

Net income (loss) per common share is calculated in accordance with ASC Topic 260: Earnings per Share (“ASC 260”). Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. The computation of diluted net loss per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. For the three and nine months ended September 30, 2014, the Company had net income, therefore weighted average number of shares dilutive are noted. For the three and nine months ending September 30, 2015, periods where the Company has a net loss, all dilutive securities are excluded.

The following are dilutive common stock equivalents during the period ended:

	September 30, 2015	December 31, 2014
Convertible preferred stock	220,517,750	87,460,000
Stock options	2,150,000	--
Stock warrants	5,000	--
Total	222,672,750	87,460,000

Related Party Transactions

A party is considered to be related to the Company if the party directly or indirectly or through one or more intermediaries, controls, is controlled by, or is under common control with the Company. Related parties also include principal owners of the Company, its management, members of the immediate families of principal owners of the Company and its management and other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests. A party which can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests is also a related party.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not effective, accounting standards, if currently adopted, would have a material effect on the Company's financial statements.

NOTE 2 – ORBITAL TRACKING CORP AND GLOBAL TELESAT COMMUNICATIONS LIMITED SHARE EXCHANGE, REVERSE ACQUISITION AND RECAPITALIZATION

On February 19, 2015, the Company entered into a Share Exchange Agreement with Global Telesat Communications Limited, a Private Limited Company formed under the laws of England and Wales (“GTCL”) and all of the holders of the outstanding equity of GTCL (the “GTCL Shareholders”). Upon closing of the transactions contemplated under the Exchange Agreement the GTCL Shareholders (7 members) transferred all of the issued and outstanding equity of GTCL to the OTC in exchange for (i) an aggregate of 2,540,000 shares of the common stock of the OTC and 8,746,000 shares of the newly issued Series E Convertible Preferred Stock of the OTC with each share of Series E Convertible Preferred Stock convertible into ten shares of common stock, (ii) a cash payment of \$375,000 and (iii) a one-year promissory note in the amount of \$122,536. Such exchange caused GTCL to become a wholly owned subsidiary of the Company.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

For accounting purposes, this transaction is being accounted for as a reverse acquisition and has been treated as a recapitalization of Orbital Tracking Corp. with Global Telesat Communications Limited considered the accounting acquirer, and the financial statements of the accounting acquirer became the financial statements of the registrant. The completion of the Share Exchange resulted in a change of control. The Share Exchange was accounted for as a reverse acquisition and re-capitalization. The GTCL Shareholders obtained approximately 39% of voting control on the date of Share Exchange. GTCL was the acquirer for financial reporting purposes and the Orbital Tracking Corp. was the acquired company. The consolidated financial statements after the acquisition include the balance sheets of both companies at historical cost, the historical results of GTCL and the results of the Company from the acquisition date. All share and per share information in the accompanying consolidated financial statements and footnotes has been retroactively restated to reflect the recapitalization. As part of agreement, OTC shareholders retained 5,383,172 shares of the Common Stock, 20,000 shares of series A Convertible Preferred Stock, 6,666 shares of series B Convertible Preferred Stock, 1,197,442 shares of series C Convertible Preferred Stock and 5,000,000 shares of series D Convertible Preferred Stock.

Property and equipment	\$ 4,973
Accounts receivable	34,585
Cash in bank	30,934
Prepaid expenses	2,219,677
Inventory	40,161
Intangible asset	250,000
Current liabilities	(469,643)
Due to related party	(2,174)
Derivative liability	(4,936)
Liabilities of discontinued operations	(112,397)
Total purchase price/assets acquired	\$ 1,991,180

NOTE 3 - STOCKHOLDERS' EQUITY (DEFICIT)

Preferred Stock

As of September 30, 2015, there were 20,000,000 shares of Preferred Stock authorized.

As of September 30, 2015, there were 20,000 shares of Series A Convertible Preferred Stock authorized and 0 shares issued and outstanding, due to the conversion of 20,000 shares of Series A into 20,000 shares of common stock.

As of September 30, 2015, there were 30,000 shares of Series B Convertible Preferred Stock authorized and 6,666 shares issued and outstanding.

As of September 30, 2015, there were 4,000,000 shares of Series C Convertible Preferred Stock authorized and 3,337,442 shares issued and outstanding.

As of September 30, 2015, there were 5,000,000 shares of Series D Convertible Preferred Stock authorized and 5,000,000 shares issued and outstanding.

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

As of September 30, 2015, there were 8,746,000 shares of Series E Convertible Preferred Stock authorized and 8,711,000 shares issued and outstanding, due to the conversion of 35,000 shares of Series E into 350,000 shares of common stock.

Common Stock

As of September 30, 2015, there were 200,000,000 shares of Common Stock authorized and 11,568,172 shares issued and outstanding.

-9-

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

On February 19, 2015, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series E Convertible Preferred Stock, setting forth the rights, powers, and preferences of the Series E Convertible Preferred Stock. Pursuant to the Series E Certificate of Designation, the Company designated 8,746,000 shares of its blank check preferred stock as Series E Convertible Preferred Stock. Each share of Series E Convertible Preferred Stock has a stated value equal to its par value of \$0.0001 per share. In the event of a liquidation, dissolution or winding up of the Company, the holder of the Series E Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series E Convertible Preferred Stock's preferential payment and over our common stock. The Series E Convertible Preferred is convertible into ten (10) shares of the Company's common stock. Each share of Series E Convertible Preferred Stock entitles the holder to vote on all matters voted on by holders of common stock as a single class. With respect to any such vote, each share of Series E Convertible Preferred Stock entitles the holder to cast ten (10) votes per share of Series E Convertible Preferred Stock owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

On February 19, 2015, the Company entered into a Share Exchange Agreement (the "Exchange Agreement") with Global Telesat Communications Limited, a Private Limited Company formed under the laws of England and Wales ("GTCL") and all of the holders of the outstanding equity of GTCL (the "GTCL Shareholders"). Upon closing of the transactions contemplated under the Exchange Agreement (the "Share Exchange"), the GTCL Shareholders (7 members) transferred all of the issued and outstanding equity of GTCL to the Company in exchange for (i) an aggregate of 2,540,000 shares of the common stock of the Company and 8,746,000 shares of the newly issued Series E Convertible Preferred Stock of the Company with each share of Series E Convertible Preferred Stock convertible into ten shares of common stock, (ii) a cash payment of \$375,000 (the "Cash Payment") and (iii) a one-year promissory note in the amount of \$122,536 (the "Note"). Such exchange caused GTCL to become a wholly owned subsidiary of the Company. This transaction was accounted for as a reverse recapitalization of GTCL since the shareholders of GTCL obtained approximately 39% voting control and management control of the Company, whereby GTCL is considered the acquirer for accounting purposes. The Company is deemed to have issued 5,383,172 shares of common stock, 20,000 shares of Series A convertible preferred stock, 6,666 shares of Series B convertible preferred stock, 1,197,442 shares of Series C convertible preferred stock, and 5,000,000 shares of Series D convertible preferred stock which represent the outstanding common shares and preferred shares of the Company just prior to the closing of the transaction.

On February 19, 2015, David Phipps, the founder, principal owner and sole director of GTCL, was appointed President of Orbital Satcom Corp., the Company's wholly owned subsidiary. Following the transaction, Mr. Phipps was appointed Chief Executive Officer and Chairman of the Board of Directors of the Company. Mr. Phipps, who was one of the GTCL Shareholders, received 400,000 shares of the Company's common stock and 6,692,000 shares of Series E Convertible Preferred Stock in connection with the Share Exchange of GTCL shares, and was paid the Cash Payment and the Note. The Company also paid Mr. Phipps an additional \$25,000 at closing as compensation for transition services previously provided by him to the Company in anticipation of the Share Exchange.

On February 19, 2015, the Company issued an aggregate of 1,675,000 shares of common stock to certain current consultants, former consultants and employees. These shares consist of (i) 250,000 shares of common stock issued to a consultant as compensation for services relating to the provision of satellite tracking hardware and related services, sales and lead generation, valued at \$12,500 (ii) 1 million shares of common stock issued to a consultant as compensation for the design and delivery of dual mode gsm/Globalstar Simplex tracking devices and related hardware

and intellectual property, valued at \$50,000 (iii) 250,000 shares of common stock, subject to a one year lock up, issued to the Company's controller, valued at \$12,500 and (iv) 175,000 shares of common stock issued to MJI in full satisfaction of outstanding debts of \$175,000. MJI agreed to sell only up to 5,000 shares per day and the Company has a nine month option to repurchase these shares at a purchase price of \$0.75 per share.

-10-

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

On February 19, 2015, the Company issued to Mr. Rector, the former Chief Executive Officer, Chief Financial Officer and director of the Company, 850,000 shares of the Company's common stock and a seven year option to purchase 2,150,000 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$0.05 per share, were fully vested on the date of grant and shall expire in February 2022. The Company valued these common shares at the fair value of \$0.05 per common share based on the sale of common stock in a private placement at \$0.05 per common share. In connection with issuance of these common shares, the Company recorded stock-based compensation of \$42,500. The 2,150,000 options were valued on the grant date at approximately \$0.05 per option or a total of \$107,500 using a Black-Scholes option pricing model with the following assumptions: stock price of \$0.05 per share (based on the sale of common stock in a private placement), volatility of 380%, expected term of 7 years, and a risk free interest rate of 1.58%. In connection with the stock option grant, the Company recorded stock based compensation for the three and nine months ended September 30, 2015 of \$107,500.

On February 19, 2015, the Company sold an aggregate of 550,000 units at a per unit purchase price of \$2.00, in a private placement to certain accredited investors for gross proceeds of \$1,100,000. Each unit consists of: forty (40) shares of the Company's common stock or, at the election of any purchaser who would, as a result of purchase of units become a beneficial owner of five (5%) percent or greater of the outstanding common stock of the Company, four (4) shares of the Company's Series C Convertible Preferred Stock, par value \$0.0001 per share, with each share convertible into ten (10) shares of common stock. The 550,000 units sale included 15,000 units consisting of an aggregate of 600,000 shares of common stock and 535,000 units consisting of an aggregate of 2,140,000 shares of Series C Convertible Preferred Stock. Included in this 550,000 units private placement was a sale to Frost Gamma Investments Trust, a holder of 5% or more of its securities, of an aggregate of 450,000 units of its securities, with 15,000 units consisting of 40 shares of common stock per unit and 435,000 units consisting of 4 shares of its Series C Convertible Preferred Stock per unit at a purchase price of \$2.00 per unit for gross proceeds to the Company of \$900,000.

Immediately prior to the closing of the private placement, the Company filed an amendment to the Certificate of Designation of Rights and Preferences of its Series C Convertible Preferred Stock, increasing the authorized shares of Series C Convertible Preferred Stock to 4,000,000 from 3,000,000.

On June 18, 2015, the Company issued an aggregate of 150,000 shares of common stock valued at \$0.79 per share, or \$118,500 to a marketing consultant as compensation for services, which is amortized over the period of service.

On July 15, 2015, the Company issued an aggregate of 200,000 shares of common stock upon conversion of 20,000 shares of Series E Preferred Stock held by the Chief Executive Officer.

On July 24, 2015, the Company issued an aggregate of 20,000 shares of common stock upon conversion of 20,000 shares of Series A Preferred Stock held by a former majority shareholder of the company.

On August 3, 2015, the Company issued and aggregate of 63,825 shares of common stock upon the conversion of 6,382.50 shares of Series E Preferred Stock.

On August 4, 2015, the Company issued and aggregate of 5,325 shares of common stock upon the conversion of 532.50 shares of Series E Preferred Stock.

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

On August 5, 2015, the Company issued and aggregate of 5,850 shares of common stock upon the conversion of 585 shares of Series E Preferred Stock.

On September 1, 2015, the Company issued and aggregate of 73,800 shares of common stock upon the conversion of 7,380 shares of Series E Preferred Stock.

On September 8, 2015, the Company issued and aggregate of 1,200 shares of common stock upon the conversion of 120 shares of Series E Preferred Stock.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited)

On October 1, 2015, the Company issued and aggregate of 73,800 shares of common stock upon the conversion of 7,380 shares of Series E Preferred Stock.

On October 2, 2015, the Company issued an aggregate of 1,200 shares of common stock, upon the conversion of 120 shares of Series E preferred Stock.

On October 5, 2015, the Company issued and aggregate of 400,000 shares of common stock upon the conversion of 20,000 shares of Series D Preferred Stock.

On October 8, 2015, the Company issued an aggregate of 400,000 shares of common stock upon conversion of 20,000 shares of Series D Preferred Stock held by beneficial shareholder of the company.

On October 20, 2015, the Company issued an aggregate of 300,000 shares of common stock upon conversion of 15,000 shares of Series D Preferred Stock held by beneficial shareholder of the company.

On November 2, 2015, the Company issued and aggregate of 73,800 shares of common stock upon the conversion of 7,380 shares of Series E Preferred Stock.

On November 5, 2015, the Company issued and aggregate of 1,200 shares of common stock upon the conversion of 120 shares of Series E Preferred Stock.

Stock Options

2014 Equity Incentive Plan

On January 21, 2014, the Board approved the adoption of a 2014 Equity Incentive Plan (the “2014 Plan”). The purpose of the 2014 Plan is to promote the success of the Company and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons. The 2014 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and other types of stock-based awards to the Company’s employees, officers, directors and consultants. Pursuant to the terms of the 2014 Plan, either the Board or a board committee is authorized to administer the plan, including by determining which eligible participants will receive awards, the number of shares of common stock subject to the awards and the terms and conditions of such awards. Unless earlier terminated by the Board, the Plan shall terminate at the close of business on January 21, 2024. Up to 226,667 shares of common stock are issuable pursuant to awards under the 2014 Plan, as adjusted in a single adjustment for an issuance no later than sixty (60) days following the date of shareholder approval of the Plan in connection with (i) a private placement of the Company’s securities in which the Corporation receives gross proceeds of at least \$1,000,000 and (ii) an acquisition of at least 50 mining leases and/or claims in the Holbrook Basin.

On February 19, 2015, the Company issued to Mr. Rector, the former Chief Executive Officer, Chief Financial Officer and director of the Company, a seven year option to purchase 2,150,000 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$0.05 per share, were fully vested on the date of grant and shall expire in February 2022. The 2,150,000 options were valued on the grant date at approximately \$0.05 per option or a total of \$107,500 using a Black-Scholes option pricing model with the following assumptions:

stock price of \$0.05 per share (based on the sale of common stock in a private placement), volatility of 380%, expected term of 7 years, and a risk free interest rate of 1.58%. In connection with the stock option grant, the Company recorded stock based compensation for the three and nine months ended September 30, 2015 of \$0 and \$107,500, respectively.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

A summary of the status of the Company's outstanding stock options and changes during the nine months ended September 30, 2015 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at January 1, 2015		—\$	—
Recapitalization at February 19, 2015	2,150,000	0.05	6.4
Granted	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Cancelled	—	—	—
Balance outstanding at September 30, 2015	2,150,000	\$ 0.05	6.4
Options exercisable at September 30, 2015	2,150,000	\$ 0.05	6.4
Weighted average fair value of options granted during the period		\$ 0.05	

Stock options outstanding at September 30, 2015 as disclosed in the above table have approximately \$1.6 million of intrinsic value at the end of the period.

Stock Warrants

A summary of the status of the Company's outstanding stock warrants and changes during the nine months ended September 30, 2015 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at January 1, 2015		—\$	—
Recapitalization at February 19, 2015	171,666	3.77	1.61
Granted	—	—	—
Exercised	—	—	—
Forfeited	(166,666)	3.75	—
Cancelled	—	—	—
Balance outstanding at September 30, 2015	5,000	\$ 4.50	1.61

The following table summarizes the Company's stock warrants outstanding at September 30, 2015:

Exercise Price	Number Outstanding	Warrants Outstanding			Weighted Average	Warrants Exercisable	
		Weighted Average	Remaining Contractual Life	Number Exercisable		Weighted Average	

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

	at September 30, 2015			Exercise Price	at September 30, 2015		Exercise Price
	4.50	5,000	1.61 Years	4.50	5,000	4.50	
\$	4.50	5,000	1.61 Years	\$ 4.50	\$ 5,000	\$ 4.50	\$ 4.50

-13-

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

NOTE 4 – PREPAID LICENSE FEES

Amortization of prepaid license fees is included in general and administrative expenses as reflected in the accompanying consolidated statements of operations. Amortization expense for the nine months ended September 30, 2015 was \$172,913. Prepaid license fees – current and long-term portion amounted to \$222,222 and \$1,820,788 at September 30, 2015, respectively, and are included in prepaid expenses. Future amortization of prepaid license fees is as follows:

September 30,	
2016	\$ 222,222
2017	222,222
2018	222,222
2019	222,222
2020 and thereafter	1,154,122
Total	\$ 2,043,010

NOTE 5 – INTANGIBLE ASSETS

On February 19, 2015, the Company purchased an intangible asset valued at \$50,000 for 1,000,000 shares of common stock. Amortization of customer contracts will be included in general and administrative expenses. The Company began amortizing the customer contracts in January 2015. Amortization expense for the three and nine months ended September 30, 2015 was \$6,250 and \$18,750, respectively. Future amortization of intangible assets is as follows:

2015	\$ 6,250
2016	25,000
2017	25,000
2018	25,000
2019 and thereafter	150,000
Total	\$ 231,250

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	September 30, 2015	December 31, 2014
Office furniture and fixtures	\$84,261	\$69,411
Computer equipment	19,716	11,155
Website development	84,814	42,283
	188,791	122,849
Less accumulated depreciation	(116,198)	(64,436)
Total	\$72,593	\$58,413

Depreciation expense was \$24,393 and \$53,908 for the three and nine months ended September 30, 2015, respectively. For the three and nine months ended September 30, 2014 depreciation expense was \$17,532 and \$27,965, respectively.

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

NOTE 7 - INVENTORIES

At September 30, 2015 and December 31, 2014, inventories consisted of the following:

	September 30, 2015	December 31, 2014
Finished goods	\$ 253,762	\$ 183,780
Less reserve for obsolete inventory	-	-
Total	\$ 253,762	\$ 183,780

For the nine months ended September 30, 2015 and the year ended December 31, 2014, the Company did not make any change for reserve for obsolete inventory.

NOTE 8 - RELATED PARTY TRANSACTIONS

The Company has received financing from the Company's Chief Executive Officer. No formal repayment terms or arrangements existed prior to February 19, 2015, when as part of the Share Exchange Agreement, the Company entered into a note with David Phipps where the stockholder loans bear no interest and are due February 19, 2016. The accounts payable due to related party includes advances for inventory due to David Phipps. Total payments due to David Phipps as of September 30, 2015 and December 31, 2014 are \$114,441 and \$59,308, respectively.

Also, as part of the Share Exchange Agreement entered into on February 19, 2015, Mr. Phipps received a payment of \$25,000 as compensation for transition services that he provided.

The Company employs three individuals who are related to Mr. Phipps, of which earned gross wages totaled \$52,378 and \$110,639, for the three and nine months ended September 30, 2015, respectively.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Consulting Agreement

On December 10, 2014, the Company entered into a two year agreement with a consultant to assist the Company with business development, corporate structure, strategic and business planning, selecting management and other functions reasonably necessary for advancing the business of the Company. The Company agreed to pay the consultant an aggregate of \$240,000 payable in 24 equal monthly payments, at the sole discretion of the Company, of either (i) \$10,000 cash or (ii) 200,000 shares of common stock. On January 28, 2015, the Company entered into a termination and cancellation agreement with the consultant whereby both parties agreed to terminate the contractual relationship and cancel 400,000 shares of common stock issued under this consulting agreement. The parties agreed that the consulting agreement has no further force and effect and neither party have any further obligations there under.

Employment Agreements

On February 19, 2015, Orbital Satcom entered into an employment agreement with Mr. Phipps, whereby Mr. Phipps agreed to serve as the President of Orbital Satcom for a period of two years, subject to renewal, in consideration for an

annual salary of \$180,000. Additionally, under the terms of the employment agreement, Mr. Phipps shall be eligible for an annual bonus if the Company meets certain criteria, as established by the Board of Directors. Mr. Phipps remains the sole director of GTCL following the closing of the Share Exchange. Mr. Phipps and the Company entered into an Indemnification Agreement at the closing.

-15-

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

The Company entered into an employment agreement with Ms. Carlise on September 9, 2015. The agreement has a term of one year, and shall automatically be extended for additional terms of one year each. The agreement provides for an annual base salary of \$72,000. In addition to the base salary Ms. Carlise shall be eligible to receive an annual cash bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board of Directors and shall be eligible for grants of awards under stock option or other equity incentive plans of the Company.

Litigation

From time to time, the Company may become involved in litigation relating to claims arising out of our operations in the normal course of business. The Company is not currently involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which the Company is a party or to which any of the Company's properties is subject, which would reasonably be likely to have a material adverse effect on the Company's business, financial condition and operating results.

NOTE 10- DERIVATIVE INSTRUMENTS

In September 2008, a FASB approved guidance related to the determination of whether a freestanding equity-linked instrument should be classified as equity or debt under the provisions of FASB ASC Topic No. 815-40, Derivatives and Hedging – Contracts in an Entity's Own Stock. The adoption of this requirement will affected accounting for convertible instruments and warrants with provisions that protect holders from declines in the stock price ("down-round" provisions). Warrants with such provisions are no longer recorded in equity and are reclassified as a liability.

Instruments with down-round protection are not considered indexed to a company's own stock under ASC Topic 815, because neither the occurrence of a sale of common stock by the company at market nor the issuance of another equity-linked instrument with a lower strike price is an input to the fair value of a fixed-for-fixed option on equity shares.

In connection with the issuance of its 6% convertible debentures and related warrants, the Company has determined that the terms of the convertible warrants include down-round provisions under which the exercise price could be affected by future equity offerings. Accordingly, the warrants are accounted for as liabilities at the date of issuance and adjusted to fair value through earnings at each reporting date. The Company has recognized derivative liabilities of \$4,594 and \$0 at September 30, 2015 and December 31, 2014, respectively. The gain (loss) resulting from the decrease in fair value of this convertible instrument was \$(163) and \$ (325) for the three and nine months ended September 30, 2015, respectively.

The Company used the following assumptions for determining the fair value of the convertible instruments granted under the Black-Scholes option pricing model:

	September 30, 2015
Expected volatility	323%
Expected term - years	1.61
Risk-free interest rate	0.64%
Expected dividend yield	0%

Table of Contents

ORBITAL TRACKING CORP. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
 (Unaudited)

NOTE 11 - CONCENTRATIONS

Customers:

No customer accounted for 10% or more of the Company's revenues during the nine months ended September 30, 2015 and 2014.

Suppliers:

The following table sets forth information as to each supplier that accounted for 10% or more of the Company's purchases for the nine months ended September 30, 2015 and 2014.

	September 30, 2015		September 30, 2014	
Company A	\$ 300,212	15.9%	\$ 137,753	10.3%

NOTE 12 - SUBSEQUENT EVENTS

On December 10, 2014 the Company, through its wholly owned subsidiary, Orbital Satcom Corp, entered into a License Agreement with World Surveillance Group, Inc., and its wholly owned subsidiary, Global Telestat Corp, by which the Company had an irrevocable non-exclusive license to use certain equipment, consisting of Appliques for a term of ten years. Appliques are demodulator and RF interfaces located at various ground stations for gateways. The Company issued 2,222,222 common shares, valued at \$1 per share based on the quoted trading price on date of issuance, or \$2,222,222. The company reflected the license as a asset on its balance sheet with a ten year amortization, the term of the license. As of September 30, 2015, there was an unamortized balance of \$2,043,010 in regards to the licenses. On October 13, 2015 the Company purchased the license and equipment for an additional \$125,000 in cash. The Company values the equipment at the unamortized balance at the time of acquisition plus the consideration of \$125,000 or \$2,160,096. The Company will amortize the life of the asset for ten years from date of acquisition.

On October 1, 2015, the Company issued and aggregate of 73,800 shares of common stock upon the conversion of 7,380 shares of Series E Preferred Stock.

On October 2, 2015, the Company issued an aggregate of 1,200 shares of common stock, upon the conversion of 120 shares of Series E preferred Stock.

On October 5, 2015, the Company issued and aggregate of 400,000 shares of common stock upon the conversion of 20,000 shares of Series D Preferred Stock.

On October 8, 2015, the Company issued an aggregate of 400,000 shares of common stock upon conversion of 20,000 shares of Series D Preferred Stock held by beneficial shareholder of the company.

On October 20, 2015, the Company issued an aggregate of 300,000 shares of common stock upon conversion of 15,000 shares of Series D Preferred Stock held by beneficial shareholder of the company.

On November 2, 2015, the Company issued an aggregate of 73,800 shares of common stock upon the conversion of 7,380 shares of Series E Preferred Stock.

On November 5, 2015, the Company issued an aggregate of 1,200 shares of common stock upon the conversion of 120 shares of Series E Preferred Stock.

-17-

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following information should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this report. Statements made in this Item 2, "Management's Discussion and Analysis or Plan of Operation," and elsewhere in this 10-Q that do not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing words such as "may," "will," "should," "believes," "expects," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" constitute forward-looking statements, and as such, are not a guarantee of future performance. The statements involve factors, risks and uncertainties, the impact or occurrence of which can cause actual results to differ materially from the expected results described in such statements. Risks and uncertainties can include, among others, fluctuations in general business cycles and changing economic conditions; changing product demand and industry capacity; increased competition and pricing pressures; advances in technology that can reduce the demand for the Company's products, as well as other factors, many or all of which may be beyond the Company's control. Consequently, investors should not place undue reliance upon forward-looking statements as predictive of future results. The Company disclaims any obligation to update the forward-looking statements in this report.

You should read the following information in conjunction with our financial statements and related notes contained elsewhere in this report. You should consider the risks and difficulties frequently encountered by early-stage companies, particularly those engaged in new and rapidly evolving markets and technologies. Our limited operating history provides only a limited historical basis to assess the impact that critical accounting policies may have on our business and our financial performance.

We encourage you to review our periodic reports filed with the SEC and included in the SEC's Edgar database, including the annual report on Form 10-K filed for the year ended December 31, 2014 as well as the 8-K/A filed on April 29, 2015.

Corporate Information

On January 22, 2015, the Company changed its name to "Orbital Tracking Corp." from "Great West Resources, Inc." pursuant to a merger with a newly-formed wholly owned subsidiary.

On March 28, 2014, the Company merged with a newly-formed wholly-owned subsidiary of the Company solely for the purpose of changing its state of incorporation to Nevada from Delaware, effecting a 1:150 reverse split of its common stock, and changing its name to Great West Resources, Inc. in connection with the plans to enter into the business of potash mining and exploration. During late 2014 the Company abandoned its efforts to enter the potash business.

The Company was originally incorporated in 1997 as a Florida corporation. On April 21, 2010, the Company merged with and into a newly-formed wholly-owned subsidiary for the purpose of changing its state of incorporation to Delaware, effecting a 2:1 forward split of its common stock, and changing its name to EClips Media Technologies, Inc. On April 25, 2011, the Company changed its name to "Silver Horn Mining Ltd." pursuant to a merger with a newly-formed wholly-owned subsidiary.

Global Telesat Communications Limited ("GTCL") was formed under the laws of England and Wales in 2008. On February 19, 2015, the Company entered into a share exchange agreement with GTCL and all of the holders of the outstanding equity of GTCL pursuant to which GTCL became a wholly owned subsidiary of the Company.

Table of Contents

For accounting purposes, this transaction is being accounted for as a reverse acquisition and has been treated as a recapitalization of Orbital Tracking Corp. with Global Telesat Communications Limited considered the accounting acquirer, and the financial statements of the accounting acquirer became the financial statements of the registrant. The completion of the Share Exchange resulted in a change of control. The Share Exchange was accounted for as a reverse acquisition and re-capitalization. The GTCL Shareholders obtained approximately 39% of voting control on the date of Share Exchange. GTCL was the acquirer for financial reporting purposes and the Orbital Tracking Corp. was the acquired company. The consolidated financial statements after the acquisition include the balance sheets of both companies at historical cost, the historical results of GTCL and the results of the Company from the acquisition date. All share and per share information in the accompanying consolidated financial statements and footnotes has been retroactively restated to reflect the recapitalization.

The Company is a provider of satellite based hardware, airtime and related services both in the United States and internationally. We sell equipment and airtime for use on all of the major satellite networks including Globalstar, Inmarsat, Iridium and Thuraya and operate a short-term rental service for customers who desire to use our equipment for a limited time period. Our acquisition of GTCL in February 2015 expanded our global satellite based infrastructure and business, which was first launched in December 2014 through the purchase of certain contracts.

Through GTCL, we believe we are one of the largest providers in Europe of retail satellite based hardware, airtime and services through various ecommerce storefronts, and one of the largest providers of personal satellite tracking devices. Our customers include businesses, the U.S. and foreign governments, non-governmental organizations and private consumers. By enabling wireless communications in areas not served or underserved by terrestrial wireless and wireline networks and in circumstances where terrestrial networks are not operational due to natural or man-made disasters, we seek to meet our customers' increasing desire for connectivity. Our principal focus is on growing our existing satellite based hardware, airtime and related services business line and developing our own tracking devices for use by retail customers worldwide.

Recent Transactions

On January 22, 2015, the Company changed its name to “Orbital Tracking Corp.” from “Great West Resources, Inc.” The Company effectuated the name change through a short-form merger pursuant to Chapter 92A of the Nevada Revised Statutes where a subsidiary formed solely for the purpose of the name change was merged with and into the Company, with the Company as the surviving corporation in the merger. The merger had the effect of amending the Company’s Articles of Incorporation to reflect its new legal name.

On February 19, 2015, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series E Convertible Preferred Stock, setting forth the rights, powers, and preferences of the Series E Convertible Preferred Stock. Pursuant to the Series E Certificate of Designation, the Company designated 8,746,000 shares of its blank check preferred stock as Series E Convertible Preferred Stock. Each share of Series E Convertible Preferred Stock has a stated value equal to its par value of \$0.0001 per share. In the event of a liquidation, dissolution or winding up of the Company, the holder of the Series E Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series E Convertible Preferred Stock’s preferential payment and over our common stock. The Series E Convertible Preferred is convertible into ten (10) shares of the Company’s common stock. The Company is prohibited from effecting the conversion of the Series E Convertible Preferred Stock to the extent that, as a result of such conversion, the holder beneficially owns more than 4.99%, in the aggregate, of the issued and outstanding shares of common stock calculated immediately after giving effect to the issuance of shares of common stock upon the conversion of the Series E Convertible Preferred Stock. Each share of Series E Convertible Preferred Stock entitles the holder to vote on all matters voted on by holders of common stock as a single class. With respect to any such vote, each share of Series E Convertible Preferred Stock entitles the holder to cast ten (10) votes per share of Series E Convertible Preferred Stock

owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

-19-

Table of Contents

On February 19, 2015, the Company entered into a share exchange agreement with Global Telesat Communications Limited, a Private Limited Company formed under the laws of England and Wales (“GTCL”) and all of the holders of the outstanding equity of GTCL (the “GTCL Shareholders”). Upon closing of the transactions contemplated under the share exchange agreement, the GTCL Shareholders transferred all of the issued and outstanding equity of GTCL to the Company in exchange for (i) an aggregate of 2,540,000 shares of the common stock of the Company and 8,746,000 shares of the newly issued Series E Convertible Preferred Stock of the Company (the “Series E Preferred Stock”) with each share of Series E Preferred Stock convertible into ten shares of common stock, (ii) a cash payment of \$375,000 and (iii) a one-year promissory note in the amount of \$122,536. Such exchange caused GTCL to become a wholly owned subsidiary of the Company.

Also on February 19, 2015, David Phipps, the founder, principal owner and sole director of GTCL and the former founder and president of GTC, was appointed President of Orbital Satcom. Following the transaction, Mr. Phipps was appointed Chief Executive Officer and Chairman of the Board of Directors of the Company. The acquisition of GTCL expands the Company’s global satellite based business and enables the Company to operate as a vertically integrated satellite services business with experienced management operating from additional locations in Poole, England in the United Kingdom and Aventura, Florida.

On February 19, 2015, the Company issued to Mr. Rector, the former Chief Executive Officer, Chief Financial Officer and director of the Company, 850,000 shares of common stock and a seven year immediately vested option to purchase 2,150,000 shares of common stock at a purchase price of \$0.05 per share as compensation for services provided to the Company.

On February 19, 2015, the Company sold an aggregate of 550,000 units at a per unit purchase price of \$2.00, in a private placement to certain accredited investors for gross proceeds of \$1,100,000. Each unit consists of: forty (40) shares of the Company’s common stock or, at the election of any purchaser who would, as a result of purchase of units become a beneficial owner of five (5%) percent or greater of the outstanding common stock of the Company, four (4) shares of the Company’s Series C Convertible Preferred Stock, par value \$0.0001 per share, with each share convertible into ten (10) shares of common stock. The Company sold 15,000 units consisting of an aggregate of 600,000 shares of common stock and 535,000 units consisting of an aggregate of 2,140,000 shares of Series C Convertible Preferred Stock.

On February 19, 2015, the Company issued an aggregate of 1,675,000 shares of common stock to certain current consultants, former consultants and employees. These shares consist of (i) 250,000 shares of common stock issued to a consultant as compensation for services relating to the provision of satellite tracking hardware and related services, sales and lead generation, valued at \$12,500 (ii) 1 million shares of common stock issued to a consultant as compensation for the design and delivery of dual mode gsm/Globalstar Simplex tracking devices and related hardware and intellectual property, valued at \$50,000 (iii) 250,000 shares of common stock, subject to a one year lock up, issued to the Company’s controller, valued at \$12,500 and (iv) 175,000 shares of common stock issued to MJI in full satisfaction of outstanding debts of \$175,000. MJI agreed to sell only up to 5,000 shares per day and the Company has a nine month option to repurchase these shares at a purchase price of \$0.75 per share.

Results of Operations for the Three and Nine Months Ended September 30, 2015 compared to the Three and Nine Months Ended September 30, 2015

Revenue. Sales for the three and nine months ended September 30, 2015 consisted primarily of sales of satellite phones, accessories and airtime plans. For the three months ended September 30, 2015, revenues generated were approximately \$982,775 compared to approximately \$603,551 of revenues for the three months ended September 30, 2014, an increase in total revenues of \$379,224 or 62.8%. Sales for the nine months ended September 30, 2015 generated approximately \$2,955,453 compared to approximately \$1,883,544 of revenues during the nine months

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

ended September 30, 2014, a \$1,071,909 increase in total revenues or 56.9%. The increase in revenue is reflected in the additional sales created by Orbital Satcom Corp, the Company's wholly owned subsidiary, as well as an increase presence on e-commerce web sites internationally. Orbital Satcom Corp's revenue for the three and nine months ended September 30, 2015 was \$331,035 and \$871,621, respectively. Comparable revenue of Global Telesat Communication Ltd for the three and nine months ended September 30, 2015 was \$717,153 and \$2,083,832, or an increase of 18.8% and 10.6% as compared to the three and six months ended September 30, 2014.

-20-

Table of Contents

Cost of Sales. During the three months ended September 30, 2015, cost of revenues increased to \$697,862 compared to \$401,980 for the three months ended September 30, 2014, an increase of \$295,882 or 73.6%. During the nine months ended September 30, 2015, cost of revenues increased to \$2,130,271 compared to \$1,339,554 for the nine months ended September 30, 2014, an increase of \$790,717 or 59.0%. We expect our cost of revenues to continue to increase during fiscal 2015 and beyond, as we expand our operations and begin generating additional revenues under our current business. However, we are unable at this time to estimate the amount of the expected increases. Gross profit margins during the three months and nine months ended September 30, 2015 were 29% and 27.9%, as compared to 33.4% and 28.9% for the comparable period in the prior year.

Operating Expenses. Total operating expenses for the three months ended September 30, 2015 were \$581,428, an increase of \$394,112, or 210.4%, from total operating expenses for the three months ended September 30, 2014 of \$187,317. For the nine months ended September 30, 2015, total operating expenses increased \$1,256,858, or 248.8%. Factors contributing to the increase are described below.

Selling, general and administrative expenses were (\$27,638) and \$172,610 for the three months ended September 30, 2015 and 2014, respectively, a decrease of \$200,248 or 116.0%. For the nine months ended September 30, 2015 and 2014, selling, general and administrative expenses were \$429,991 and \$366,871, respectively, an increase of \$63,120 or 17.2%. The decrease for the three months ended September 30, 2015, was due to a reclassification of certain professional fees. The increase during the nine months ended September 30, 2015 as compared to the same periods in 2014 were attributable to variable costs which increase with revenue, such as credit card processing fees, online service fees, bank charges, postage, advertising and marketing.

Salaries, wages and payroll taxes were \$338,533 and \$(3,764) for the three months ended September 30, 2015 and 2014, respectively, an increase of \$342,297, which related primarily to adjustments in the current period which were cumulative in the prior year. For the nine months ended September 30, 2015 and 2014, salaries, wages and payroll taxes were \$629,250 and \$107,389, respectively, an increase of \$521,861 or 486.0%. The company has added additional personnel to accommodate and support its revenue goals, as well as, build its infrastructure for future growth and opportunities.

Professional fees were \$195,136 and \$939 for the three months ended September 30, 2015 and 2014, respectively, an increase of \$194,197. For the nine months ended September 30, 2015 and 2014, professional fees were \$453,138 and \$2,989, respectively, an increase of \$450,149 or 15,060.9%. The increase during the three and nine months ended September 30, 2015 as compared to the same periods in 2014 were primarily attributable to the Company's reverse merger into a public company and the costs attributable to such. Other fees associated with the compliance requirements of public companies are included in Professional fees as well as fees associated with raising capital.

Depreciation and amortization expenses were \$118,931 and \$17,532 for the three months ended September 30, 2015 and 2014, respectively, an increase of \$101,399 or 578%. For the nine months ended September 30, 2015 and 2014, depreciation and amortization were \$293,226 and \$27,965, an increase of \$265,260 or 948.5% increase. The increase during the 2015 period was primarily attributable to increases in intangible assets and the associated amortization.

We expect our expenses in each of these areas to continue to increase during fiscal 2015 and beyond as we expand our operations and begin generating additional revenues under our current business. However, we are unable at this time to estimate the amount of the expected increases.

Total Other (Income) Expense. Our total other expenses were \$4,069 compared to \$2,646 during the three months ended September 30, 2015 and 2014 respectively, increase of \$1,423 or 53.8%. Our total other expenses were \$18,296 compared to \$1,506 during the nine months ended September 30, 2015 and 2014 respectively, a increase of \$16,790 or 1,114.8%. The increase is primarily attributed to the increase recognized due to exchange rate

variances offset by changes in the fair value of derivative instruments and interest expense.

-21-

Table of Contents

Net Income (Loss)

We recorded net loss before income tax of \$300,585 for the three months ended September 30, 2015 as compared to a net income of \$11,609, for the three months ended September 30, 2014. For the nine months ended September 30, 2015 we recorded a net loss of \$955,185 as compared to a net income of \$37,271. The decrease is a result of the factors as described above.

Comprehensive (Loss) Income

We recorded a gain (loss) for foreign currency translation adjustments for the three and nine months ended September 30, 2015 and 2014, of \$2,530 and \$8,172, respectively and (\$4,390) and \$2,964, respectively. The fluctuations of the increase/decrease is primarily attributed to the increase recognized due to exchange rate variances. Comprehensive loss was \$298,055 as compared to income of \$7,219 for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, comprehensive loss was \$947,013 and comprehensive income was \$40,235, respectively.

Liquidity and Capital Resources

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its obligations, and otherwise operate on an ongoing basis. At September 30, 2015, we had a cash balance of \$217,826. Our working capital is \$48,651 at September 30, 2015.

Our current assets at September 30, 2015 increased by approximately 169.7% from December 31, 2014 and included accounts receivable and inventory.

Our current liabilities at September 30, 2015 increased by 154.3% from December 31, 2014 and included our accounts payable and deferred revenue in the ordinary course of our business.

Operating Activities

Net cash flows used in operating activities for the nine months ended September 30, 2015 amounted to \$477,929 and were primarily attributable to our net loss of \$955,185, offset by stock based compensation of \$203,900, total amortization expense of \$185,417, depreciation of \$53,908, and add back of change in fair value of derivative liabilities of \$342 and net change in asset and liabilities of \$63,613, primarily attributable to an increase in accounts receivable of \$20,361, increase in inventory of \$29,821, increase in unbilled revenue of \$34,910, increase in other current assets of \$16,711, increase in accounts payable of \$161,670, offset by a decrease in deferred revenue of \$28,891.

Net cash flows provided by operating activities for the nine months ended September 30, 2014 amounted to \$35,564 and were primarily attributable to our net income of \$37,270 offset by net changes in assets and liabilities a of \$29,672 and add back of depreciation of \$27,965. These changes in assets and liabilities are primarily attributable to an increase in accounts receivable of \$19,657, increase in inventory of \$102,298, increase in unbilled revenue of \$3,653, increase in other current assets of \$22,144, an increase in accounts payable of \$136,919 and a decrease in deferred revenue of \$18,838.

Investing Activities

Net cash flows used in investing activities were (\$408,404) and (\$33,401) for the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, we used cash to pay \$375,000 in

connection with the Share Exchange Agreement, purchase of property and equipment of \$64,338 and offset by \$30,934 of cash acquired from acquisition. We purchased property and equipment of \$33,401 during the nine months ended September 30, 2014.

-22-

Table of Contents

Financing Activities

Net cash flows provided by (used in) financing activities were \$1,030,094 and (\$53,576) for the nine months ended September 30, 2015 and 2014, respectively. During the nine months ended September 30, 2015, we received net proceeds from the sale of our common stock and preferred stock of \$1,097,500 offset by repayments of related party note payable of \$67,406. During the nine months ended September 30, 2014, we paid loans of \$4,298 and related party note of \$49,278.

Off-Balance Sheet Arrangements

We do not currently have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our stockholders.

Our company has not entered into any transaction, agreement or other contractual arrangement with an entity unconsolidated with us under which we have

an obligation under a guarantee contract, although we do have obligations under certain sales arrangements including purchase obligations to vendors
a retained or contingent interest in assets transferred to the unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets,
any obligation, including a contingent obligation, under a contract that would be accounted for as a derivative instrument, or
any obligation, including a contingent obligation, arising out of a variable interest in an unconsolidated entity that is held by us and material to us where such entity provides financing, liquidity, market risk or credit risk support to, or engages in leasing, hedging or research and development services with us.

Plan of Operation

Critical Accounting Policies and Estimates

Critical accounting estimates are those that management deems to be most important to the portrayal of our financial condition and results of operations, and that require management's most difficult, subjective or complex judgments, due to the need to make estimates about the effects of matters that are inherently uncertain. We have identified our critical accounting estimates which are discussed below.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and revenue and expenses during the reporting period. Actual results could differ from those estimates. The Company's significant estimates include the valuation of stock based charges, the valuation of derivatives and the valuation of inventory reserves.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and the rules and regulations of the U.S Securities and Exchange Commission for Interim Financial Information. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company's financial position as of September 30, 2015, and the results of operations and cash flows for the nine months ended September 30, 2015 have been included. The results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year.

Table of Contents

Accounts Receivable

The Company extends credit to its customers based upon a written credit policy. Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate for the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance of doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not require collateral on accounts receivable. As of September 30, 2015 and December 31, 2014, there is no allowance for doubtful accounts.

Accounting for Derivative Instruments

Derivatives are required to be recorded on the balance sheet at fair value. These derivatives, including embedded derivatives in the Company's structured borrowings, are separately valued and accounted for on the Company's balance sheet. Fair values for exchange traded securities and derivatives are based on quoted market prices. Where market prices are not readily available, fair values are determined using market based pricing models incorporating readily observable market data and requiring judgment and estimates

Research and Development

Research and Development ("R&D") expenses are charged to expense when incurred. The Company has consulting arrangements which are typically based upon a fee paid monthly or quarterly. Samples are purchased that are used in testing, and are expensed when purchased. R&D costs also include salaries and related personnel expenses, direct materials, laboratory supplies, equipment expenses and administrative expenses that are allocated to R&D based upon personnel costs.

Foreign Currency Translation

The Company's reporting currency is US Dollars. The accounts of one of the Company's subsidiaries is maintained using the appropriate local currency, (Great British Pound) GTCL as the functional currency. All assets and liabilities are translated into U.S. Dollars at balance sheet date, shareholders' equity is translated at historical rates and revenue and expense accounts are translated at the average exchange rate for the year or the reporting period. The translation adjustments are deferred as a separate component of stockholders' equity, captioned as accumulated other comprehensive (loss) gain. Transaction gains and losses arising from exchange rate fluctuation on transactions denominated in a currency other than the functional currency are included in the statements of operations.

The relevant translation rates are as follows: for the three and nine months ended September 30, 2015 closing rate at 1.5164 US\$: GBP, average rate at 1.55048 and 1.5322 US\$: GBP, for the three and nine months ended September 30, 2014 closing rate at 1.6219 US\$: GBP, quarter average rate at 1.6707 and 1.66935 for the nine months ended September 30, 2014 US\$, : GBP and for the year ended 2014 closing rate at 1.5576 US\$: GBP, average rate at 1.6481 US\$.

Revenue Recognition and Unearned Revenue

The Company recognizes revenue from satellite services when earned, as services are rendered or delivered to customers. Equipment sales revenue is recognized when the equipment is delivered to and accepted by the customer. Only equipment sales are subject to warranty. Historically, the Company has not incurred significant expenses for warranties.

The Company's customers generally purchase a combination of our products and services as part of a multiple element arrangement. The Company's assessment of which revenue recognition guidance is appropriate to account for each element in an arrangement can involve significant judgment. This assessment has a significant impact on the amount and timing of revenue recognition.

Table of Contents

Revenue is recognized when all of the following criteria have been met:

Persuasive evidence of an arrangement exists. Contracts and customer purchase orders are generally used to determine the existence of an arrangement.

Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery. The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

Collectability is reasonably assured. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer’s payment history.

In accordance with ASC 605-25, Revenue Recognition — Multiple-Element Arrangements, based on the terms and conditions of the product arrangements, the Company believes that its products and services can be accounted for separately as its products and services have value to the Company’s customers on a stand-alone basis. When a transaction involves more than one product or service, revenue is allocated to each deliverable based on its relative fair value; otherwise, revenue is recognized as products are delivered or as services are provided over the term of the customer contract.

Property and Equipment

Property and equipment are carried at historical cost less accumulated depreciation. Depreciation is based on the estimated service lives of the depreciable assets and is calculated using the straight-line method. Expenditures that increase the value or productive capacity of assets are capitalized. Fully depreciated assets are retained in the property and equipment, and accumulated depreciation accounts until they are removed from service. When property and equipment are retired, sold or otherwise disposed of, the asset’s carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations. Repairs and maintenance are expensed as incurred.

The estimated useful lives of property and equipment are generally as follows:

	Years
Office furniture and fixtures	4
Computer equipment	4
Website development	4

Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset’s estimated fair value and its book value. The Company did not consider it necessary to record any impairment charges during the periods ended September 30, 2015 and December 31, 2014 respectively.

Fair value of financial instruments

The Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, “Fair Value Measurements and Disclosures”, for assets and liabilities measured at fair value on a recurring basis. ASC 820 establishes a common definition for fair value to be applied to existing US GAAP that require the use of fair value measurements which establishes a framework for measuring fair value and expands disclosure about such fair value

measurements.

-25-

Table of Contents

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis using significant unobservable input (Level 3) from January 1, 2015 to September 30, 2015:

	Conversion feature Derivative Liability	Warrant liability	Total
Balance at January 1, 2015	\$ —	\$ —	\$ —
Recapitalization on February 19, 2015		4,936	4,936
Change in fair value included in earnings		(342)	(342)
Balance at September 30, 2015	\$ —	\$ 4,594	\$ 4,594

The Company did not identify any other assets or liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with the accounting guidance. The carrying amounts reported in the balance sheet for cash, accounts payable, and accrued expenses approximate their estimated fair market value based on the short-term maturity of the instruments.

Share-Based Payments

Compensation cost relating to share based payment transactions be recognized in the financial statements. The cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity award).

Recent Accounting Pronouncements

The Company does not believe that any recently issued accounting pronouncements will have a material impact on its financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

We maintain “disclosure controls and procedures,” as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

With respect to the fiscal quarter ending September 30, 2015, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures. Based upon this evaluation, our management has concluded that our disclosure controls and procedures were not effective as of September 30, 2015 due to a lack of segregation of duties and the need for an updated accounting system. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals. We believe that the foregoing steps will remediate the significant deficiency identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate.

Management is in the process of determining how best to change our current system and implement a more effective system to insure that information required to be disclosed in this quarterly report on Form 10-Q has been recorded, processed, summarized and reported accurately. Our management acknowledges the existence of this problem, and intends to develop procedures to address them to the extent possible given limitations in financial and manpower resources. While management is working on a plan, no assurance can be made at this point that the implementation of such controls and procedures will be completed in a timely manner or that they will be adequate once implemented.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered securities sold by us during the quarter ended September 30, 2015 that were not otherwise disclosed by us in a Current Report on Form 8-K except as set forth below:

On July 15, 2015, the Company issued an aggregate of 200,000 shares of common stock upon conversion of 20,000 shares of Series Series E Preferred Stock held by the Chief Executive Officer.

On July 24, 2015, the Company issued an aggregate of 20,000 shares of common stock upon conversion of 20,000 shares of Series A Preferred Stock held by a former majority shareholder of the company.

On August 3, 2015, the Company issued and aggregate of 63,825 shares of common stock upon the conversion of 6,382.50 shares of Series E Preferred Stock.

On August 4, 2015, the Company issued and aggregate of 5,325 shares of common stock upon the conversion of 532.50 shares of Series E Preferred Stock.

On August 5, 2015, the Company issued and aggregate of 5,850 shares of common stock upon the conversion of 585 shares of Series E Preferred Stock.

On September 1, 2015, the Company issued and aggregate of 73,800 shares of common stock upon the conversion of 7,380 shares of Series E Preferred Stock.

On September 8, 2015, the Company issued and aggregate of 1,200 shares of common stock upon the conversion of 120 shares of Series E Preferred Stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

31.2

Edgar Filing: Orbital Tracking Corp. - Form 10-Q

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

101.ins XBRL Instance Document

101.sch XBRL Taxonomy Schema Document

101.cal XBRL Taxonomy Calculation Document

101.def XBRL Taxonomy Linkbase Document

101.lab XBRL Taxonomy Label Linkbase Document

101.pre XBRL Taxonomy Presentation Linkbase Document

* Filed herein

Table of Contents

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: November 12, 2015

ORBITAL TRACKING CORP.

By: /s/ David Phipps
David Phipps
Chief Executive Officer and Chairman
(Principal Executive Officer)

/s/ Theresa Carlise
Chief Financial Officer, Treasurer and
Secretary
(Principal Financial Officer and
Principal Accounting Officer)