

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

Orbital Tracking Corp.
Form 10-Q
November 10, 2016

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, 2016

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

(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 10, 2016 was 48,986,354.

Table of Contents

FORM 10-Q

INDEX

Page

PART I: FINANCIAL INFORMATION

| | |
|--|----|
| ITEM 1. FINANCIAL STATEMENTS (UNAUDITED) | 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> | 18 |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 30 |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u> | 30 |
| PART II. OTHER INFORMATION | 31 |
| <u>ITEM 1. LEGAL PROCEEDINGS</u> | 31 |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 31 |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u> | 31 |
| <u>ITEM 4. MINE SAFETY DISCLOSURES</u> | 31 |
| <u>ITEM 5. OTHER INFORMATION</u> | 31 |
| <u>ITEM 6. EXHIBITS</u> | 31 |

SIGNATURES

32

-i-

Table of Contents

Part I Financial Information

Item 1. Financial Statements

The Company's unaudited condensed financial statements for the nine months ended September 30, 2016 and for comparable periods in the prior year are included below. The unaudited condensed 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, 2016 | December 31, 2015 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| | (unaudited) | |
| Current assets: | | |
| Cash | \$118,248 | \$963,329 |
| Accounts receivable, net | 144,857 | 116,718 |
| Inventory | 350,719 | 251,518 |
| Unbilled revenue | 48,347 | 65,762 |
| Prepaid expenses - current portion | 162,500 | 191,677 |
| Other current assets | 45,253 | 43,345 |
| Total current assets | 869,925 | 1,632,349 |
| Property and equipment, net | 2,067,698 | 2,218,693 |
| Intangible assets, net | 256,250 | 275,000 |
| Prepaid expenses - long term portion | 39,178 | 189,968 |
| Total assets | \$3,233,051 | \$4,316,010 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$719,053 | \$610,232 |
| Deferred revenue | 2,724 | 16,661 |
| Related party payable | 131,857 | 74,051 |
| Derivative liabilities – current portion | 1,540 | 311,373 |
| Convertible note payable – current portion, net of unamortized discount | -- | 2,486 |
| Liabilities from discontinued operations | 112,397 | 112,397 |
| Total current liabilities | 967,571 | 1,127,200 |
| Derivative liabilities – long term portion | -- | 307,018 |

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

| | | |
|--|-------------|-------------|
| Total Liabilities | 967,571 | 1,434,218 |
| Stockholders' Equity: | | |
| Preferred Stock, \$0.0001 par value; 50,000,000 shares authorized | | |
| Series A (\$0.0001 par value; 20,000 shares authorized, and no shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | -- | -- |
| Series B (\$0.0001 par value; 30,000 shares authorized, 6,667 and 6,667 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | 1 | 1 |
| Series C (\$0.0001 par value; 4,000,000 shares authorized, 3,090,365 and 3,337,442 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | 309 | 334 |
| Series D (\$0.0001 par value; 5,000,000 shares authorized, 3,613,984 and 4,673,010 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | 361 | 467 |
| Series E (\$0.0001 par value; 8,746,000 shares authorized, 8,370,127 and 8,621,589 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | 837 | 862 |
| Series F (\$0.0001 par value; 1,100,000 shares authorized, 1,099,998 issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | 110 | 110 |
| Series G (\$0.0001 par value; 10,090,000 shares authorized, 10,083,351 issued and outstanding as of September 30, 2016 and December 31, 2015, respectively) | 1,008 | -- |
| Common Shares, \$0.0001 par value; 750,000,000 shares authorized, 46,004,604 and 19,252,082 outstanding as of September 30, 2016 and December 31, 2015, respectively | 4,600 | 1,925 |
| Additional paid-in capital | 5,716,950 | 4,901,839 |
| Accumulated (deficit) | (3,463,946) | (2,011,483) |
| Accumulated other comprehensive income (loss) | 5,250 | (12,263) |
| Total stockholder's equity | 2,265,480 | 2,881,792 |
| Total liabilities and stockholders' equity | \$3,233,051 | \$4,316,010 |

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

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE LOSS
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
 (unaudited)

| | Three Months Ended September 30, 2016 | Three Months Ended September 30, 2015 | Nine Months Ended September 30, 2016 | Nine Months Ended September 30, 2015 |
|--|---|--|---|--|
| Net sales | \$1,299,373 | \$982,775 | \$3,783,230 | \$2,955,453 |
| Cost of sales | 1,003,026 | 697,862 | 2,842,986 | 2,130,271 |
| Gross profit | 296,347 | 284,913 | 940,244 | 825,182 |
| Operating expenses: | | | | |
| Selling and general administrative | 182,276 | (27,638) | 549,526 | 429,991 |
| Salaries, wages and payroll taxes | 158,720 | 338,533 | 503,556 | 479,251 |
| Stock based compensation | - | - | - | 149,999 |
| Professional fees | 192,834 | 151,603 | 881,318 | 409,605 |
| Depreciation and amortization | 70,219 | 118,931 | 216,375 | 293,226 |
| Total operating expenses | 604,049 | 581,428 | 2,150,776 | 1,762,072 |
| Loss before other expenses and income taxes | (307,702) | (296,515) | (1,210,532) | (936,890) |
| Other (income) expense | | | | |
| Change in fair value of derivative instruments, net | (944) | (180) | (425,790) | (342) |
| Interest expense | 441 | 1,075 | 603,427 | 3,396 |
| Foreign currency exchange rate variance | 31,473 | 3,174 | 64,295 | 15,241 |
| Total other expense | 30,971 | 4,069 | 241,933 | 18,295 |
| Net loss | \$(338,672) | \$(300,584) | \$(1,452,463) | \$(955,185) |
| Comprehensive Income: | | | | |
| Net loss | (338,672) | (300,584) | (1,452,463) | (955,185) |
| Foreign currency translation adjustments | 19,888 | 2,530 | 17,513 | 8,172 |
| Comprehensive loss | (318,785) | (298,054) | (1,434,951) | (947,013) |
| NET INCOME LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS | | | | |
| Weighted number of common shares outstanding - basic | 39,545,787 | 11,456,612 | 29,272,457 | 9,711,044 |
| Weighted number of common shares outstanding - diluted | 39,545,787 | 11,456,612 | 29,272,457 | 9,711,044 |
| Basic net (loss) per share | \$(0.01) | \$(0.03) | \$(0.05) | \$(0.10) |
| Diluted net (loss) per share | \$(0.01) | \$(0.03) | \$(0.05) | \$(0.10) |

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

-2-

Table of Contents

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

| | September 30, | September 30, |
|---|---------------|---------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(1,452,463) | \$(955,185) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Change in fair value of derivative liabilities | (425,790) | (342) |
| Depreciation expense | 197,625 | 53,908 |
| Amortization of intangible asset | 18,750 | 18,750 |
| Amortization of notes payable discount | 602,515 | -- |
| Amortization of license fee | -- | 166,667 |
| Stock based compensation | -- | 149,999 |
| Amortization of prepaid expense in connection | | |
| Amortization of prepaid expense in connection with the issuance of common stock issued for prepaid services | 164,608 | 53,901 |
| Imputed interest | 912 | 3,396 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (28,139) | (20,361) |
| Inventory | (99,202) | (29,821) |
| Unbilled revenue | 17,415 | (34,910) |
| Prepaid expenses | 115,359 | -- |
| Other current assets | (1,909) | (16,710) |
| Accounts payable and accrued liabilities | 131,321 | 161,670 |
| Deferred revenue | (13,937) | (28,891) |
| Net cash used in operating activities | (772,935) | (477,929) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Cash acquired from acquisition | -- | 30,934 |
| Purchase of property and equipment | (34,967) | (64,338) |
| Cash paid per Share Exchange Agreement | -- | (375,000) |
| Net cash used in investing activities | (34,967) | (408,404) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from common stock and preferred stock sales | -- | 1,097,500 |
| Payments of convertible notes payable | (100,834) | - |
| Proceeds of note payable, related party, net | 57,807 | (67,406) |
| Net cash (used in) provided by financing activities | (43,027) | 1,030,094 |

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

| | | |
|---------------------------------|-----------|-----------|
| Effect of exchange rate on cash | 5,849 | 8,172 |
| Net increase (decrease) in cash | (845,081) | 151,934 |
| Cash beginning of period | 963,329 | 65,982 |
| Cash end of period | \$118,248 | \$217,826 |

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for

| | | |
|------------|---------|------|
| Interest | \$-- | \$-- |
| Income tax | \$3,898 | \$-- |

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 | \$100,000 | \$153,312 |
| Common stock issued for payment of accounts payable | \$22,500 | \$-- |
| Preferred stock issued for conversion of debt | \$650,670 | \$175,000 |

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

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

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

The accompanying unaudited condensed consolidated 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, 2015 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, 2015, which are contained in Form 10-K as filed with the Securities and Exchange Commission on March 30, 2016. The consolidated balance sheet as of December 31, 2015 was derived from those financial statements.

Basis of Presentation and Principles of Consolidation

The unaudited condensed 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, 2016, and the results of operations and cash flows for the nine months ended September 30, 2016 have been included. The results of operations for the three and nine months ended September 30, 2016 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.

Going Concern Considerations

The accompanying unaudited condensed consolidated financial statements are prepared assuming the Company will continue as a going concern. At September 30, 2016, the Company had an accumulated deficit of approximately \$3.5 million. For the nine months ended September 30, 2016, the Company incurred a net loss of approximately \$1,452,463 and had cash flows used in operations in the amount of \$772,935. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon obtaining additional capital and financing. Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to raise additional funds, there can be no assurances to that effect.

The condensed consolidated financial statements do not include any adjustments relating to classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Use of Estimates

In preparing the condensed 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.

-4-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of nine 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.

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, 2016, and December 31, 2015, there is an allowance for doubtful accounts of \$11,229 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, 2016 closing rate at 1.29820 US\$: GBP, average rate at 1.31320 and 1.39353 US\$: GBP, 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 and for the year ended 2015 closing rate at 1.47373 US\$: GBP.

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.

-5-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

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.

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 |
| Appliques | 10 |
| Website development | 2 |

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, 2016 and December 31, 2015, respectively.

-6-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (unaudited)

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.

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, 2016 to September 30, 2016:

| | Conversion Feature Derivative Liability | Warrant Liability | Total |
|---|---|-------------------|-----------|
| Balance at January 1, 2016 | \$614,036 | \$4,355 | \$618,391 |
| Change in fair value included in earnings | (422,974) | (2,815) | (425,789) |
| Net effect on additional paid in capital | (191,062) | - | (191,062) |
| Balance September 30, 2016 | \$- | \$1,540 | \$1,540 |

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.

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (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, 2016 and the year ended December 31, 2015, 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 nine months ended September 30, 2016 and 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, 2016 | September 30, 2015 |
|-----------------------------|-----------------------|-----------------------|
| Convertible preferred stock | 199,074,615 | 220,517,750 |
| Stock options | 2,850,000 | 2,150,000 |
| Stock warrants | 5,000 | 5,000 |
| Total | 201,229,615 | 222,672,750 |

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.

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (unaudited)

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.

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, 2016, there were 50,000,000 shares of Preferred Stock authorized.

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

As of September 30, 2016, 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, 2016, there were 30,000 shares of Series B Convertible Preferred Stock authorized and 6,667 shares issued and outstanding.

-9-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

As of September 30, 2016, there were 4,000,000 shares of Series C Convertible Preferred Stock authorized and 3,090,365 shares issued and outstanding, due to the conversion of 147,077 shares of Series C into 1,470,770 shares of common stock.

As of September 30, 2016, there were 5,000,000 shares of Series D Convertible Preferred Stock authorized and 3,613,984 shares issued and outstanding, due to the conversion of 609,167 shares of Series D into 12,183,340 shares of common stock.

As of September 30, 2016, there were 8,746,000 shares of Series E Convertible Preferred Stock authorized and 8,370,127 shares issued and outstanding, due to the conversion of 117,020 shares of Series E into 1,170,200 shares of common stock.

As of September 30, 2016, there were 1,100,000 shares of Series F shares authorized and 1,099,998 shares issued and outstanding.

As of September 30, 2016, there were 10,090,000 shares of Series G shares authorized and 10,083,351 shares issued and outstanding, upon the conversion of convertible notes in the amount of \$504,168 into 10,083,351 shares of common stock.

Common Stock

As of September 30, 2016, there were 750,000,000 shares of Common Stock authorized and 46,004,604 shares issued and outstanding.

On January 4, 2016, the Company issued an aggregate of 75,000 shares of common stock upon the conversion of 7,500 shares of Series E Preferred Stock.

On January 29, 2016, the Company issued an aggregate of 850,000 shares of common stock upon the conversion of 42,500 shares of Series D Preferred Stock.

On February 1, 2016, the Company issued an aggregate of 98,400 shares of common stock upon the conversion of 9,840 shares of Series E Preferred Stock.

On February 2, 2016, the Company issued an aggregate of 900,000 shares of common stock upon the conversion of 45,000 shares of Series D Preferred Stock.

On February 5, 2016, the Company issued an aggregate of 1,600 shares of common stock upon the conversion of 160 shares of Series E Preferred Stock.

On February 11, 2016, the Company issued an aggregate of 136,612 shares of common stock calculated by the average closing price of the Company's common stock on its principal exchange for the 10 (ten) trading days immediately prior to the execution of the Agreement, or \$100,000, to an investor relations consultant as compensation for services, which is amortized over the period of service.

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

On February 16, 2016, the Company issued an aggregate of 100,000 shares of common stock upon the conversion of 10,000 shares of Series E Preferred Stock.

On March 1, 2016, the Company issued an aggregate of 98,400 shares of common stock upon the conversion of 9,840 shares of Series E Preferred Stock.

On March 8, 2016, the Company issued an aggregate of 73,320 shares of common stock upon the conversion of 3,666 shares of Series D Preferred Stock.

-10-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

On March 11, 2016, the Company issued an aggregate of 1,600 shares of common stock upon the conversion of 160 shares of Series E Preferred Stock.

On April 1, 2016, the Company issued an aggregate of 98,400 shares of common stock upon the conversion of 9,840 shares of Series E Preferred Stock.

On April 5, 2016, the Company issued an aggregate of 208,530 shares of common stock upon the conversion of 20,853 shares of Series C Preferred Stock.

On April 12, 2016, the Company issued an aggregate of 125,000 shares of common stock upon the conversion of 6,250 shares of Series D Preferred Stock.

On April 18, 2016, the Company issued an aggregate of 650,000 shares of common stock upon the conversion of 32,500 shares of Series D Preferred Stock.

On April 21, 2016, the Company issued an aggregate of 400,000 shares of common stock upon the conversion of 20,000 shares of Series D Preferred Stock.

On April 22, 2016, the Company issued an aggregate of 900,000 shares of common stock upon the conversion of 45,000 shares of Series D Preferred Stock.

On April 27, 2016, the Company issued an aggregate of 200,000 shares of common stock upon the conversion of 10,000 shares of Series D Preferred Stock.

On May 2, 2016, the Company issued an aggregate of 92,840 shares of common stock upon the conversion of 9,284 shares of Series E Preferred Stock.

On May 4, 2016, the Company issued an aggregate of 5,560 shares of common stock upon the conversion of 556 shares of Series E Preferred Stock.

On May 17, 2016, the Company issued an aggregate of 1,376,470 shares of common stock upon the conversion of 64,147 shares of Series C Preferred Stock and 36,750 shares of Series D Preferred Stock.

On May 18, 2016, the Company issued an aggregate of 2,420,770 shares of common stock upon the conversion of 62,077 shares of Series C Preferred Stock and 90,000 shares of Series D Preferred Stock. Also, on May 18, 2016 the Company issued an aggregate of 10,083,351 shares of Series G Preferred Stock upon the conversion of convertible notes of \$504,168. Upon the conversion, additional paid in capital increased \$649,662 from the decrease in convertible notes payable of \$504,168, decrease in derivative liabilities of \$146,502 and increase in Preferred Stock Series G of \$1,008.

On May 20, 2016, the Company issued an aggregate of 760,000 shares of common stock upon the conversion of 38,000 shares of Series D Preferred Stock.

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

On May 23, 2016, the Company issued an aggregate of 250,000 shares of common stock upon the conversion of 12,500 shares of Series D Preferred Stock.

On May 25, 2016, the Company issued an aggregate of 950,000 shares of common stock upon the conversion of 47,500 shares of Series D Preferred Stock.

On June 1, 2016, the Company issued an aggregate of 98,400 shares of common stock upon the conversion of 9,840 shares of Series E Preferred Stock.

On June 6, 2016, the Company issued an aggregate of 1,531,020 shares of common stock upon the conversion of 76,551 shares of Series D Preferred Stock.

-11-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

On June 8, 2016, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 50,000 shares of Series D Preferred Stock.

On June 13, 2016, the Company issued an aggregate of 500,000 shares of common stock upon the conversion of 25,000 shares of Series D Preferred Stock.

On June 30, 2016, the Company issued an aggregate of 500,000 shares of common stock upon the conversion of 50,000 shares of Series E Preferred Stock.

On July 5, 2016, the Company issued an aggregate of 1,058,400 shares of common stock upon the conversion of 48,000 shares of Series D Preferred Stock and 9,840 shares of Series E Preferred Stock.

On July 12, 2016, the Company issued an aggregate of 750,000 shares of common stock upon the conversion of 37,500 shares of Series D Preferred Stock.

On August 1, 2016, the Company issued an aggregate of 123,010 shares of common stock upon the conversion of 12,301 shares of Series E Preferred Stock.

On August 10, 2016, the Company issued an aggregate of 4,787,180 shares of common stock upon the conversion of 239,359 shares of Series D Preferred Stock.

On August 11, 2016, the Company issued an aggregate of 500,000 shares of common stock upon the conversion of 50,000 shares of Series E Preferred Stock.

On August 12, 2016, the Company issued an aggregate of 450,000 shares of common stock for payment of accounts payable.

On August 22, 2016, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 50,000 shares of Series D Preferred Stock.

On September 1, 2016, the Company issued an aggregate of 123,010 shares of common stock upon the conversion of 12,301 shares of Series E Preferred Stock.

On September 21, 2016, the Company issued an aggregate of 500,000 shares of common stock upon the conversion of 50,000 shares of Series E Preferred Stock.

On September 23, 2016, the Company issued an aggregate of 1,500,000 shares of common stock upon the conversion of 75,000 shares of Series D Preferred Stock.

On September 26, 2016, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 100,000 shares of Series C 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.

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (unaudited)

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 for the year ended December 31, 2015 of \$107,500.

On December 28, 2015, the Company issued Ms. Carlise, Chief Financial Officer, a ten-year option to purchase 500,000 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 December 2025. The 500,000 options were valued on the grant date at approximately \$1.30 per option or a total of \$650,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$1.30 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 992%, expected term of 10 years, and a risk free interest rate of 1.05%. In connection with the stock option grant, the Company recorded stock based compensation for the nine months ended September 30, 2016 and for the year ended December 31, 2015 of \$0 and \$650,000, respectively.

Also on December 28, 2015, the Company issued Mr. Delgado, its Director, a ten-year option to purchase 200,000 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 December 2025. The 200,000 options were valued on the grant date at approximately \$1.30 per option or a total of \$260,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$1.30 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 992%, expected term of 10 years, and a risk free interest rate of 1.05%. In connection with the stock option grant, the Company recorded stock based compensation for the nine months ended September 30, 2016 and for the year ended December 31, 2015 of \$0 and \$260,000, respectively.

Stock options outstanding at September 30, 2016 as disclosed in the table below have approximately \$57,000 of intrinsic value at the end of the period.

A summary of the status of the Company's outstanding stock options and changes during the nine months ended September 30, 2016 is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
|----------------------------|----------------------|------------------------------------|--|
| Balance at January 1, 2016 | 2,850,000 | \$0.05 | 7.08 |
| Granted | — | — | — |
| Exercised | — | — | — |
| Forfeited | — | — | — |
| Cancelled | — | — | — |

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

| | | | |
|--|-----------|--------|------|
| Balance outstanding and exercisable at September 30, 2016 | 2,850,000 | \$0.05 | 6.34 |
| Weighted average fair value of options granted during the period | | \$0.05 | |

-13-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (unaudited)

Stock Warrants

A summary of the status of the Company's outstanding stock warrants and changes during the nine months ended September 30, 2016 is as follows:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
|---|-----------------------|--|---|
| Balance at January 1, 2016 | 5,000 | \$ 4.50 | 1.36 |
| Granted | — | — | — |
| Exercised | — | — | — |
| Forfeited | — | — | — |
| Cancelled | — | — | — |
| Balance outstanding at September 30, 2016 | 5,000 | \$ 4.50 | 0.61 |

The following table summarizes the Company's stock warrants outstanding at September 30, 2016:

| Warrants Outstanding | | | | Warrants Exercisable | |
|----------------------|--|---|---------------------------------|--|---------------------------------|
| Exercise Price | Number Outstanding at September 30, 2016 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable at September 30, 2016 | Weighted Average Exercise Price |
| 4.50 | 5,000 | 0.61 Years | 4.50 | 5,000 | 4.50 |
| \$4.50 | 5,000 | 0.61 Years | \$4.50 | 5,000 | \$4.50 |

NOTE 4 – PREPAID EXPENSES

Prepaid expenses amounted to \$201,678 at September 30, 2016. Prepaid expenses include prepayments in cash for professional fees, prepayments in equity instruments which are being amortized over the terms of their respective agreements. Amortization of the prepaid expense will be included in professional fees. The current portion consists primarily of costs paid for future services which will occur within a year. Prepaid expense current portion and long-term portion were \$162,500 and \$39,178, as of September 30, 2016. As of December 31, 2015, prepaid expense current portion and long-term portion were \$191,677 and \$189,968, respectively.

NOTE 5 – INTANGIBLE ASSETS

On February 19, 2015, the Company purchased an intangible asset valued at \$250,000 for 1,000,000 shares of common stock. Amortization of customer contracts will be included in general and administrative expenses. The

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

Company began amortizing the customer contracts in January 2015. Amortization expense for the three and nine months ended September 30, 2016 was \$6,250 and \$18,750, respectively. Future amortization of intangible assets is as follows:

| | |
|---------------------|-----------|
| 2016 | \$6,250 |
| 2017 | 25,000 |
| 2018 | 25,000 |
| 2019 | 25,000 |
| 2020 and thereafter | 125,000 |
| Total | \$206,250 |

-14-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (unaudited)

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

| | September 30, | December 31, |
|-------------------------------|---------------|--------------|
| | 2016 | 2015 |
| Office furniture and fixtures | \$114,092 | \$95,434 |
| Computer equipment | 25,284 | 24,766 |
| Appliques | 2,160,096 | 2,160,096 |
| Website development | 108,706 | 92,399 |
| Less accumulated depreciation | (339,963) | (154,002) |
| Total | \$2,067,698 | \$2,218,693 |

Depreciation expense was \$197,625 for the nine months ended September 30, 2016. For the nine months ended September 30, 2015 depreciation expense was \$53,908.

NOTE 7 - INVENTORIES

At September 30, 2016 and December 31, 2015, inventories consisted of the following:

| | September 30, | December 31, |
|-------------------------------------|---------------|--------------|
| | 2016 | 2015 |
| Finished goods | \$350,719 | \$251,518 |
| Less reserve for obsolete inventory | - | - |
| Total | \$350,719 | \$251,518 |

For the nine months ended September 30, 2016 and the year ended December 31, 2015, the Company did not make any change to 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, 2017. The accounts payable due to related party includes advances for inventory due to David Phipps and compensation. Total payments due to David Phipps as of September 30, 2016 and December 31, 2015 are \$131,857 and \$74,051,

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 two individuals who are related to Mr. Phipps, of which earned gross wages totaling \$45,164 for the nine months ended September 30, 2016.

-15-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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.

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.

On December 28, 2015, the Company amended her employment agreement. Effective December 1, 2015, the term of Ms. Carlise's employment was extended to December 1, 2016 from June 9, 2016, her annual salary was increased to \$140,000 from \$72,000 and she agreed to devote her full business time to the Company. The term of the Original Agreement, as amended by the Amendment, shall automatically extend for additional terms of one year each, unless either party gives prior written notice of non-renewal to the other party no later than 60 days prior to the expiration of the initial term or the then current renewal term, as applicable.

On February 26, 2016, the Board of Directors of Orbital Tracking Corp., a Nevada corporation ("Orbital" or the "Company"), entered into a new executive employment agreement, (Employment Agreement) with its Chief Executive Officer and President, David Phipps and terminated the original employment agreement dated February 19, 2015, at a base salary of \$144,000 and £48,000 per annum, to be effective as of January 20, 2016, for a term of two years from effective date. In addition to the base salary Executive shall be entitled to receive an annual cash bonus in an amount equal to up to fifty (50%) percent of his then-current Base Salary, if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board 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 LIABILITY

In June 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 affect 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. On May 17, 2016, the Company entered into exchange agreements with holders of the Company's outstanding \$504,168 convertible notes originally issued on December 28, 2015 pursuant to which the Notes were cancelled and the exchanging holders were issued an aggregate of 10,083,351 shares of newly designated Series G Convertible Preferred. Upon the conversion, additional paid in capital increased \$649,662 from the decrease in convertible notes payable of \$504,168, decrease in derivative liabilities of \$146,502 and increase in Preferred Stock Series G of \$1,008.

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
 (unaudited)

The convertible notes were accounted for as liabilities at the date of issuance and adjusted to fair value through earnings at each reporting date. The Company recorded amortization for the discount to the convertible notes of \$602,515 at September 30, 2016. As of September 30, 2016 and December 31, 2015, the Company has unamortized discount balance of \$0 and \$602,515, respectively. The Company has recognized derivative liabilities of \$0 and \$614,036 at September 30, 2016 and December 31, 2015, respectively. The gain (loss) resulting from the decrease (increase) in fair value of this convertible instrument was \$422,974 and (\$64,035) for the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively.

The Company has recognized derivative liabilities for related warrants of \$1,540 and \$4,355 at September 30, 2016 and December 31, 2015, respectively. The gain resulting from the decrease in fair value of this convertible instrument was \$2,815 and \$580 for the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively. Weighted average term is 0.61 years.

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, 2016

| | |
|-------------------------|-------|
| Expected volatility | 221% |
| Expected term - years | 0.61 |
| Risk-free interest rate | 0.77% |
| Expected dividend yield | 0% |

NOTE 11 - CONCENTRATIONS

Customers:

No customer accounted for 10% or more of the Company's revenues during the nine months ended September 30, 2016 and 2015.

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, 2016 and 2015.

| September 30, 2016 | September 30, 2015 |
|-----------------------|-----------------------|
|-----------------------|-----------------------|

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

| | | | | |
|---------------------|-----------|-------|-----------|-------|
| Cygnus Telecom | \$368,254 | 18.2% | \$- | |
| DeLorme | \$259,275 | 12.8% | \$- | |
| Globalstar Europe | \$231,323 | 11.5% | \$- | |
| Network Innovations | \$588,901 | 29.2% | \$300,212 | 15.9% |

-16-

Table of Contents

ORBITAL TRACKING CORP AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED FOOTNOTES
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

NOTE 12 - SUBSEQUENT EVENTS

On October 26, 2016, the Company entered separate subscription agreements with accredited investors relating to the issuance and sale of \$350,000, out of a maximum of \$800,000, of shares of Series H convertible preferred stock at a purchase price of \$4.00 per share. The initial conversion price is \$0.04 per share, subject to adjustment as set forth in the Series H certificate of designation. The Company is prohibited from effecting a conversion of the Series H Preferred Stock to the extent that, because of such conversion, the investor would beneficially own more than 4.99% of the number of shares of the Company's common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the Series H Preferred Stock. Each Series H Preferred Stock entitles the holder to cast one vote per share of Series H Preferred Stock owned as of the record date for the determination of shareholders entitled to vote, subject to the 4.99% beneficial ownership limitation. The Company received the necessary consents as required from prior subscription agreements, Preferred Series C, Preferred Series G and Preferred Series H, as well as antidilution rights. Certain shareholders have waived their right to adjustment, equal treatment, most favored nations and other rights to which they were entitled pursuant to the Prior Offerings, including without limitation, certain rights granted to holders of our Series C Preferred Stock, Series F Preferred Stock and G Preferred Stock. The Company was required to issue 550,000 shares of its Preferred Series C, which is convertible into 5,500,000 shares of the Company's common stock and 114,944 shares of Preferred Series I, which is convertible into 11,494,400 shares of the Company's common stock. Preferred Series I was issued to certain holders in lieu of Preferred Series G and Preferred Series H.

On October 1, 2016, the Company issued an aggregate of 123,010 shares of common stock upon the conversion of 12,301 shares of Series E Preferred Stock.

On October 31, 2016, the Company issued an aggregate of 640,000 shares of common stock upon the conversion of 64,000 shares of Series E Preferred Stock.

On October 31, 2016, the Company issued an aggregate of 87,500 shares of Preferred Series H, upon execution of a subscription agreement for proceeds of \$350,000.

On October 31, 2016, the Company issued an aggregate of 550,000 shares of Preferred Series C, and 114,944 shares of Preferred Series I, upon the execution of the subscription agreement for Preferred Series H, in accordance with their anti-dilution rights under their prior subscriptions. The Preferred Series C and Preferred Series I is convertible into 5,500,000 and 11,494,400 shares of the Company's common stock, respectively, subject to the 4.99% beneficial ownership limitation.

On November 1, 2016, the Company issued an aggregate of 123,010 shares of common stock upon the conversion of 12,301 shares of Series E Preferred Stock.

On November 2, 2016, the Company issued an aggregate of 1,395,730 shares of common stock upon the conversion of 139,573 shares of Series E Preferred Stock.

On November 2, 2016, the Company, upon notice from the holder, rescinded and reissued 40,000 shares Series D Preferred for an aggregate of 800,000 shares of common stock.

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

On November 2, 2016, the Company issued an aggregate of 500,000 shares of common stock upon the conversion of 50,000 shares of Series E Preferred Stock.

On November 4, 2016, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 100,000 shares of Series C 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, 2015, filed on March 30, 2016.

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.

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.

On June 18, 2015, the Company issued an aggregate of 150,000 shares of its common stock, valued at \$0.79 per share, or \$118,500 to an investor relations consultant for compensation of services.

On October 13, 2015, the Company through its wholly owned subsidiary, Orbital Satcom Corp, purchased from World Surveillance Group, Inc., and its wholly owned subsidiary, Global Telesat Corp the “Globalstar” license and equipment, which it had previously leased. On December 10, 2014, the Company, entered into a License Agreement with World Surveillance Group, Inc., and its wholly owned subsidiary, Global Telesat 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 an asset on its balance sheet with a ten-year amortization, the term of the license. On October 13, 2015, the Company acquired the license for additional consideration of \$125,000 in cash. The Company valued the asset at \$2,160,016, which is the unamortized balance of the Appliques License, \$2,043,010 plus the consideration of \$125,000.

-20-

Table of Contents

On December 21, 2015, the Company entered into a Placement Agent Agreement with Chardan Capital Markets LLC, as Agent, pursuant to which the Placement Agent agreed to serve as the non-exclusive placement agent for the Company in connection with any private placement from December 21, 2015 through January 15, 2017. The Company agreed to pay the Placement Agent a cash fee of \$50,000 and issue the Placement agent 250,000 shares of common stock following the issuance of at least \$900,000 of securities prior to the expiration of the term of the Placement Agent Agreement. On December 28, 2015, upon closing of the note purchase and Series F subscription agreements, the Company paid the respective fees and issued the common shares.

On December 28, 2015, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series F Convertible Preferred Stock, setting forth the rights, powers, and preferences of the Series F Convertible Preferred Stock. Pursuant to the Series F Certificate of Designation, the Company designated 1,100,000 shares of its blank check preferred stock as Series F Convertible Preferred Stock. Each share of Series F 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 F Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series F Convertible Preferred Stock's preferential payment and over our common stock. The Series F Convertible Preferred is convertible into one (1) share of the Company's common stock. The Company is prohibited from effecting the conversion of the Series F 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 F Convertible Preferred Stock. Each share of Series F 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 F Convertible Preferred Stock entitles the holder to cast one (1) vote per share of Series F Convertible Preferred Stock owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

On December 28, 2015, the Company entered into separate subscription agreements with accredited investors relating to the issuance and sale of \$550,000 of shares of Series F convertible preferred stock at a purchase price of \$0.50 per share. The Preferred F Shares are convertible into shares of common stock based on a conversion calculation equal to the stated value of such Preferred F Share divided by the conversion price. The stated value of each Preferred F Share is \$0.50 and the initial conversion price is \$0.50 per share, each subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, subdivisions or other similar events. Subject to certain specified exceptions, in the event the Company issues securities at a per share price less than the conversion price for a period of two years from the closing, each holder will be entitled to receive from the Company additional shares of common stock such that the holder shall hold that number of conversion shares, in total, had such holder purchased the Preferred F Shares with a conversion price equal to the lower price issuance.

On December 28, 2015, the Company entered into separate note purchase agreements with accredited investors relating to the issuance and sale of an aggregate of \$605,000 in principal amount of original issue discount convertible notes for an aggregate purchase price of \$550,000.

The Notes mature on December 28, 2017. The Company must repay 1/24th of the principal of the Notes each month commencing January 18, 2016. The Notes do not bear interest except that all overdue and unpaid principal bears interest at a rate equal to the lesser of 18% per year or the maximum rate permitted by applicable law. The Notes are convertible into common stock at the option of the holder at a conversion price of \$1.00, subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, subdivisions or other similar events; provided however, that the principal and interest, if any, on the Notes may not be converted to the extent that, as a result of such conversion, the holder would beneficially own more than 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the Notes. Subject to

certain specified exceptions, in the event the Company issues securities at a per share price less than the conversion price for a period of one year from the closing, each holder will be entitled to receive from the Company additional shares of common stock such that the holder shall hold that number of conversion shares, in total, had such holder purchased the Notes with a conversion price equal to the lower price issuance.

-21-

Table of Contents

Pursuant to the Subscription Agreement and Note Purchase Agreement, the Company agreed to use its reasonable best efforts to effectuate the increase of its authorized shares of common stock from 200,000,000 shares of common stock to 750,000,000 shares of common stock on or prior to January 31, 2016. The Company's shareholders on March 5, 2016, approved the increase in authorized common and preferred shares. \$350,000 of the proceeds from the sale of Preferred F Shares and the Notes are intended to be utilized for public relations and expenses associated with publications, reports and communications with shareholders and others concerning the company's business. The Subscription Agreement provides the purchasers of the Preferred F Shares with a 100% right of participation in all future securities offerings of the Company, subject to customary exceptions.

On December 28, 2015 the Company and Theresa Carlise, its Chief Financial Officer, amended her employment agreement, dated June 9, 2015. Pursuant to the Amendment, which is effective December 1, 2015, the term of Ms. Carlise's employment was extended to December 1, 2016 from June 9, 2016, her annual salary was increased to \$140,000 from \$72,000 and she agreed to devote her full business time to the Company. The term of the Original Agreement, as amended by the Amendment, shall automatically extend for additional terms of one year each, unless either party gives prior written notice of non-renewal to the other party no later than 60 days prior to the expiration of the initial term or the then current renewal term, as applicable.

Also on December 28, 2015, the Company issued Ms. Carlise options to purchase up to 500,000 shares of common stock and issued Hector Delgado, a director of the Company, options to purchase up to 200,000 shares of common stock. The options were issued outside of the Company's 2014 Equity Incentive Plan and are not governed by the Plan. The options have an exercise price of \$0.05 per share, vest immediately, and have a term of ten years.

On January 15, 2016, the Company engaged IRTH Communications LLC., for a term of 12 months to provide investor relations, public relations, internet development, communication and consulting services. As consideration for its services, IRTH will receive from the Corporation a monthly fee of \$7,500 and as a single one-time retainer payment, \$100,000 worth of shares of the Company's common stock; calculated by the average closing price of the Company's common stock on its principal exchange for the 10 (ten) trading days immediately prior to the execution of this Agreement; which shares shall be Restricted Securities, pursuant to the provisions of Rule 144. As additional compensation, in the event the Company, during or within two (2) years after the term of this Agreement, receives investment monies (debt, equity or a combination thereof) from investor(s) introduced to the Company by IRTH as described herein, Company agrees to pay IRTH a finder's fee equal to three percent (3%) of all gross monies invested by investor(s) and received by Company.

On February 11, 2016, the Company issued 136,612 shares of its common stock, valued at \$0.60 per share, or \$81,967, to IRTH Communications LLC for services, as disclosed above.

On March 3, 2016, the Company entered into an Executive Employment Agreement with David Phipps, its Chairman, President and Chief Executive Officer, effective January 1, 2016. Under the Employment Agreement, Mr. Phipps will serve as the Company's Chief Executive Officer and President, and receive an annual base salary equal to the sum of \$144,000 and \$48,000. Mr. Phipps is also eligible for bonus compensation in an amount equal to up to fifty (50%) percent of his then-current base salary if the Company meets or exceeds criteria adopted by the Compensation Committee, if any, or Board and equity awards as may be approved in the discretion of the Compensation Committee or Board. Also on March 3, 2016 and effective January 1, 2016, the Corporation's wholly owned subsidiary Orbital Satcom Corp. and Mr. Phipps terminated an employment agreement between them dated February 19, 2015 pursuant to which Mr. Phipps was employed as President of Orbital Satcom for an annual base salary of \$180,000. The other terms of the Original Agreement are identical to the terms of the Employment Agreement. Mr. Phipps remains the President of Orbital Satcom.

On May 17, 2016, the Company entered into exchange agreements with holders of the Company's outstanding \$504,168 convertible notes originally issued on December 28, 2015, pursuant to which the Notes were cancelled and the exchanging holders were issued an aggregate of 10,083,351 shares of newly designated Series G Convertible Preferred Stock.

-22-

Table of Contents

The terms of the shares of Series G Preferred Stock are set forth in the Certificate of Designation of Series G Convertible Preferred Stock as filed with the Secretary of State of the State of Nevada. The Series G COD authorizes 10,090,000 Preferred G Shares. The Preferred G Shares are convertible into shares of common stock based on a conversion calculation equal to the stated value of such Preferred G Share divided by the conversion price. The stated value of each Preferred G Share is \$0.05 and the initial conversion price is \$0.05 per share, each subject to adjustment for stock splits, stock dividends, recapitalizations, combinations, subdivisions or other similar events. The Company is prohibited from effecting a conversion of the Preferred G Shares to the extent that, as a result of such conversion, such investor would beneficially own more than 4.99% of the number of shares of common stock outstanding immediately after giving effect to the issuance of shares of Common Stock upon conversion of the Preferred G Shares. Each Preferred G Share 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 Preferred G Share entitles the holder to cast one vote per share of Series G Preferred Stock owned at the time of such vote subject to the 4.99% beneficial ownership limitation. Subject to certain specified exceptions, in the event the Company issues securities at a per share price less than the conversion price prior to December 28, 2016, each holder will be entitled to receive from the Company additional shares of common stock such that the holder shall hold that number of conversion shares, in total, had such holder purchased the Preferred G Shares with a conversion price equal to the lower price issuance.

The exchanging holders, GRQ Consultants Inc. 401K, Michael Brauser and Intracoastal Capital LLC, are each holders of over 5% of a class of the Company's voting securities. The Exchange Agreements contain customary representations, warranties and agreements by the Company and the other parties thereto. The representations, warranties and covenants contained therein were made only for purposes of such agreements and as of specific dates, were solely for the benefit of the parties to such agreements and may be subject to limitations agreed upon by the contracting parties.

On October 26, 2016, the Company entered separate subscription agreements with accredited investors relating to the issuance and sale of \$350,000, out of a maximum of \$800,000, of shares of Series H convertible preferred stock at a purchase price of \$4.00 per share. The initial conversion price is \$0.04 per share, subject to adjustment as set forth in the Series H COD. The Company is prohibited from effecting a conversion of the Series H Preferred Stock to the extent that, because of such conversion, the investor would beneficially own more than 4.99% of the number of shares of the Company's common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the Series H Preferred Stock. Each Series H Preferred Stock entitles the holder to cast one vote per share of Series H Preferred Stock owned as of the record date for the determination of shareholders entitled to vote, subject to the 4.99% beneficial ownership limitation. The Company received the necessary consents as required from prior subscription agreements, Preferred Series C, Preferred Series G and Preferred Series H, as well as antidilution rights. Certain shareholders have waived their right to adjustment, equal treatment, most favored nations and other rights to which they were entitled pursuant to the Prior Offerings, including without limitation, certain rights granted to holders of our Series C Preferred Stock, Series F Preferred Stock and G Preferred Stock. The Company was required to issue 550,000 shares of its Preferred Series C, which is convertible into 5,500,000 shares of the Company's common stock and 114,944 shares of Preferred Series I, which is convertible into 11,494,400 shares of the Company's common stock. Preferred Series I was issued to certain holders in lieu of Preferred Series G and Preferred Series H.

At September 30, 2016, the Company had an accumulated deficit of approximately \$3.5 million. For the nine months ended September 30, 2016, the Company incurred a net loss of approximately \$1,454,120 and had cash flows used in operations in the amount of \$772,933. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon obtaining additional capital and financing. Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to raise additional funds, there can be no assurances to that effect.

Table of Contents

Results of Operations for the Three and Nine Months Ended September 30, 2016 compared to the Three and Nine Months Ended September 30, 2015

Revenue. Sales for the three and nine months ended September 30, 2016 consisted primarily of sales of satellite phones, accessories and airtime plans. For the three months ended September 30, 2016, revenues generated were approximately \$1,299,373 compared to approximately \$982,775 of revenues for the three months ended September 30, 2015, an increase in total revenues of \$316,598 or 32.2%. Sales for the nine months ended September 30, 2016 generated approximately \$3,783,230 compared to approximately \$2,955,453 of revenues during the nine months ended September 30, 2015, a \$827,777 increase in total revenues or 28.0%.

Factors relative to the increase in revenue for the three months ended September 30, 2016 compared to the same period in 2015 are related to increased presence in several international e-commerce storefronts, the introduction of GTC's new mobile friendly website, and it being awarded a recurring revenue contract for lone worker trackers from the UK Forestry Commission. Comparable sales for Global Telesat Communications Ltd. were \$998,878 for the three months ended September 30, 2016 as compared to \$650,749 for the three months ended September 30, 2015, an increase of \$348,129 or 53.5%. For the nine months ended September 30, 2016 and September 30, 2015 comparable sales were \$2,791,808 and \$2,082,863, an increase of \$708,945 or 34.0%. Comparable sales for Orbital Satcom for the three months ended September 30, 2016 were \$300,495 as compared to \$332,026 for the three months ended September 30, 2015, a decrease of \$31,531 or 9.5%. This decrease was attributable to decreased Amazon US sales, which was more than offset by an increase in Global Telesat Communications sales on the same storefront following its launch in 2015. Comparable sales for Orbital Satcom for the nine months ended September 30, 2016 were \$991,422 as compared to \$872,590 for the nine months ended September 30, 2015, an increase of \$118,832 or 13.6%.

Cost of Sales. During the three months ended September 30, 2016, cost of revenues increased to \$1,003,026 compared to \$697,862 for the three months ended September 30, 2015, an increase of \$305,164 or 43.7%. During the nine months ended September 30, 2015, cost of revenues increased to \$2,842,986 compared to \$2,130,271 for the nine months ended September 30, 2015 an increase of \$712,715 or 33.5%. Gross profit margins for the three months and nine months ended September 30, 2016, were 22.8% and 24.9%, respectively. For the three and nine months ended September 30, 2015, gross profit margins were 29.0% and 27.9%, respectively. Selling and general administrative costs decreased with certain costs being absorbed as cost of sales. We expect our cost of revenues, to continue to increase during fiscal 2016 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.

Operating Expenses. Total operating expenses for the three months ended September 30, 2016 were \$605,705, an increase of \$24,277, or 4.2%, from total operating expenses for the three months ended September 30, 2015 of \$581,428. For the nine months ended September 30, 2016, total operating expenses were \$2,152,432 an increase of \$390,360 or 22.2%. Factors contributing to the increase are described below.

Selling, general and administrative expenses were \$182,276 and (\$27,638) for the three months ended September 30, 2016 and 2015, respectively, an increase of \$209,914. For the nine months ended September 30, 2016 and 2015, selling, general and administrative expenses were \$549,526 and \$429,991, respectively, an increase of \$119,535 or 27.8%. The increase during the three months ended September 30, 2016 as compared to the same period in 2015 were due to reclassification from selling, general and administrative to professional fees. The increase for the nine months ended September 30, 2016 as compared to the same period in 2015, was primarily due to variable expenses which increase with sales, such as e-commerce fees, bank charges and postage and delivery.

Salaries, wages and payroll taxes were \$158,720 and \$338,533 for the three months ended September 30, 2016 and 2015, respectively, a decrease of \$179,813 or 53.1%. The decrease was attributable to additional wages expensed

from a prior period for the three months ended September 30, 2015. For the nine months ended September 30, 2016 and 2015, salaries, wages and payroll taxes were \$503,556 and \$479,251, respectively, an increase of \$24,305 or 5.1%. The company has added additional personnel to accommodate and support its revenue goals and compliance needs for reporting as a public company, as well as, build its infrastructure for future growth and opportunities.

Stock-based compensation was \$0, for the three months ended September 30, 2016 and 2015. On February 19, 2015, the Company issued options to its former Chief Executive Officer, valued using the Black-Scholes option pricing model at \$107,500, as well as issued stock as compensation to its Controller and certain consultants. For the nine months ended September 30, 2016 stock based compensation was \$0 as compared to \$149,999 for the same period in 2015.

Professional fees were \$192,834 and \$151,603 for the three months ended September 30, 2016 and 2015, respectively, an increase of \$41,231 or 27.2%. For the nine months ended September 30, 2016 and 2015, professional fees were \$881,318 and \$409,605, respectively, an increase of \$471,713 or 115.2%. The increase during the three and nine months ended September 30, 2016 as compared to the same period in 2015, were primarily attributable to fees incurred for investor awareness, fees associated with the compliance requirements of public companies are included in Professional fees, as well as fees associated with raising capital.

Table of Contents

Depreciation and amortization expenses were \$70,219 and \$118,931 for the three months ended September 30, 2016 and 2015, respectively, a decrease of \$48,712 or 40.0%. For the nine months ended September 30, 2016 and 2015, depreciation and amortization were \$216,375 and \$293,226, a decrease of \$76,851 or 26.2%. The decrease during the 2016 period was primarily attributable to decrease in amortization, as expenses were offset to professional fees.

We expect our expenses in each of these areas to continue to increase during fiscal 2016 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 (income) expenses were \$30,971 compared to \$4,069, during the three months ended September 30, 2016 and 2015 respectively, increase of \$26,902 or 661%. The increase is attributable to an increase in costs for foreign currency exchange rates fluctuations. Our total other expenses were \$241,933 compared to \$18,295 during the nine months ended September 30, 2016 and 2015 respectively, an increase of \$223,638 or 1,222.2%. The increase is related to interest expense incurred for convertible debt, offset by the decrease recognized to the change in fair value of derivative instruments and an increase for exchange rate variances, during the nine months ended September 30, 2016.

Net Income (Loss)

We recorded net loss before income tax of \$338,672 for the three months ended September 30, 2016 as compared to a net loss of \$300,584, for the three months ended September 30, 2015. For the nine months ended September 30, 2016 we recorded a net loss of \$1,452,463 as compared to a net loss of \$955,185. The decrease in income is a result of the factors as described above.

Comprehensive (Loss) Income

We recorded a gain for foreign currency translation adjustments for the three and nine months ended September 30, 2016, of \$19,888 and \$17,513. For the three and nine months ended September 30, 2015 \$2,530 and \$8,172, was recorded as a gain for foreign currency translation adjustments. The gains are attributable to exchange rate variances. Comprehensive loss was \$318,785 as compared to loss of \$298,054 for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, comprehensive loss was \$1,434,951 and \$947,013, 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, 2016, we had a cash balance of \$118,248. Our working capital is (\$97,646) at September 30, 2016.

Our current assets at September 30, 2016 decreased by approximately 46.7% from December 31, 2015 and included cash, accounts receivable, inventory, unbilled revenue, prepaid expenses and other current assets and inventory.

Our current liabilities at September 30, 2016 decreased by 14.2% from December 31, 2015 and included our accounts payable, derivative liabilities and deferred revenue and other liabilities in the ordinary course of our business.

Operating Activities

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

Net cash flows used in operating activities for the nine months ended September 30, 2016 amounted to \$772,935 and were primarily attributable to our net loss of \$1,452,463, total amortization expense of \$621,265, depreciation of \$197,625, imputed interest of \$912, issuance of common stock for prepaid services of \$164,608 and offset by change in fair value of derivative liabilities of \$425,790 and net change in asset and liabilities of \$120,908, primarily attributable to an increase in accounts receivable of \$28,139, increase in inventory of \$99,202, decrease in unbilled revenue of \$17,415, decrease in prepaid expense of \$115,359, increase in other current assets of \$1,909, increase in accounts payable of \$131,321 and an decrease in deferred revenue of \$13,937.

-25-

Table of Contents

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 \$149,999, 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 \$30,977, 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 \$16,710, increase in accounts payable of \$161,670, offset by a decrease in deferred revenue of \$28,891.

Investing Activities

Net cash flows used in investing activities were (\$34,967) and (\$408,404) for the nine months ended September 30, 2016 and 2015, respectively. We purchased property and equipment of \$34,970 during the nine months ended September 30, 2016. 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.

Financing Activities

Net cash flows (used in) provided by financing activities were (\$43,027) and \$1,030,094 for the nine months ended September 30, 2016 and 2015, respectively. Net cash used in financing activities were repayments of convertible notes payable of \$100,834 and proceeds from related party payable of \$57,807, 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.

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.

Table of Contents

Basis of Presentation and Principles of Consolidation

The unaudited condensed 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, 2016, and the results of operations and cash flows for the nine months ended September 30, 2016 have been included. The results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year.

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, 2016 and December 31, 2015, there is an allowance for doubtful accounts of \$11,229 and \$0, respectively.

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.

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

The relevant translation rates are as follows: for the three and nine months ended September 30, 2016 closing rate at 1.29820 US\$: GBP, average rate at 1.31320 and 1.39353 US\$: GBP, 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 and for the year ended 2015 closing rate at 1.47373 US\$: GBP.

-27-

Table of Contents

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.

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 |
| Appliques | 10 |
| Website development | 2 |

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, 2016 and December 31, 2015, respectively.

Table of Contents

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.

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, 2016 to September 30, 2016:

| | Conversion feature Derivative Liability | Warrant liability | Total |
|---|--|-------------------|-----------|
| Balance at January 1, 2016 | \$614,036 | \$4,355 | \$618,391 |
| Change in fair value included in earnings | (422,974) | (2,815) | (425,789) |
| Net effect on additional paid in capital | (191,062) | - | (191,062) |
| Balance at September 30, 2016 | \$- | \$1,540 | \$1,540 |

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.

Table of Contents

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.

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 nine months ending September 30, 2016, 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, 2016 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 ensure 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 nine months ended September 30, 2016 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, 2016 that were not otherwise disclosed by us in a Current Report on Form 8-K except as set forth below:

On August 12, 2016, the Company issued an aggregate of 450,000 shares of common stock to an investor relations consultant for payment of accounts payable.

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 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 Link base Document
- 101.pre XBRL Taxonomy Presentation Link base 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 10, 2016 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)