

Orbital Tracking Corp.  
Form 10-Q  
May 15, 2017

**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 March 31, 2017

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    (I.R.S. Employer

incorporation or organization) 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

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

Indicate by check mark whether the registrant 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 May 15, 2017 was 65,832,314.

**FORM 10-Q**

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**Part I Financial Information**

## Item 1. Financial Statements

The Company's unaudited financial statements for the three months ended March 31, 2017 and for comparable periods in the prior year are included below. The financial statements should be read in conjunction with the notes to financial statements that follow.

## ORBITAL TRACKING CORP AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF

	March 31, 2017 (unaudited)	December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash	\$214,990	\$114,733
Accounts receivable, net	149,877	96,758
Inventory	369,189	335,267
Unbilled revenue	56,553	54,344
Prepaid expenses	121,096	171,164
Other current assets	59,639	29,841
Total current assets	970,844	802,107
Property and equipment, net	1,917,544	1,978,338
Intangible assets, net	243,750	250,000
Total assets	\$3,132,138	\$3,030,445
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$808,390	\$536,906
Deferred revenue	1,424	2,624
Related party payable	113,428	67,453
Derivative liabilities	123	1,237
Liabilities from discontinued operations	112,397	112,397
Total current liabilities	1,035,762	720,617

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Total Liabilities	1,035,762	720,617
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 March 31, 2017 and December 31, 2016, respectively)	-	-
Series B (\$0.0001 par value; 30,000 shares authorized, 6,666 and 6,666 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	1	1
Series C (\$0.0001 par value; 4,000,000 shares authorized, 3,540,365 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	354	354
Series D (\$0.0001 par value; 5,000,000 shares authorized, 3,158,984 and 3,428,984 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	316	343
Series E (\$0.0001 par value; 8,746,000 shares authorized, 7,717,356 and 7,929,651 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	772	793
Series F (\$0.0001 par value; 1,100,000 shares authorized, 1,099,998 issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	110	110
Series G (\$0.0001 par value; 10,090,000 shares authorized, 10,083,351 issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	1,008	1,008
Series H (\$0.0001 par value; 200,000 shares authorized, 87,500 issued and outstanding as of March 31, 2017 and December 31, 2016, respectively)	9	9
Series I (\$0.0001 par value; 114,944 shares authorized, 92,944 issued)	9	9
Common Shares, \$0.0001 par value; 750,000,000 shares authorized, 64,832,314 and 57,309,364 outstanding as of March 31, 2017 and December 31, 2016, respectively	6,483	5,731
Additional paid-in capital	6,935,331	6,935,817
Accumulated (deficit)	(4,820,668 )	(4,601,406)
Accumulated other comprehensive loss	(27,349 )	(32,941 )
Total stockholder equity	2,096,376	2,309,828
Total liabilities and stockholders' equity	\$3,132,138	\$3,030,445

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

## ORBITAL TRACKING CORP AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

## AND COMPREHENSIVE (LOSS) INCOME

## FOR THE THREE MONTHS ENDED

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Net sales	\$1,382,330	\$1,295,264
Cost of sales	1,067,752	856,920
Gross profit	314,578	438,344
Operating expenses:		
Selling, general and administrative	155,254	184,775
Salaries, wages and payroll taxes	152,951	173,855
Professional fees	148,859	300,568
Depreciation and amortization	75,978	82,822
Total operating expenses	533,042	742,020
(Loss) before other expenses and income taxes	(218,464 )	(303,676 )
Other (income) expense		
Change in fair value of derivative instruments, net	(1,114 )	(464,505 )
Interest expense	218	75,878
Foreign currency exchange rate variance	1,694	25,005
Total other (income) expense	798	(363,622 )
Net income (loss)	\$(219,262 )	\$59,946
Comprehensive Income:		
Net income (loss)	\$(219,262 )	\$59,946
Foreign currency translation adjustments	5,592	2,039
Comprehensive income (loss)	\$(213,670 )	\$61,985
Weighted average number of common shares outstanding- basic	62,203,378	20,714,532
Weighted average number of common shares outstanding- diluted	62,203,378	23,102,865
Basic net income (loss) per share	\$(0.00 )	\$0.00

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Diluted net income (loss) per share	\$ (0.00	) \$ 0.00	)
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See the accompanying notes to the unaudited condensed consolidated financial statements.

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## ORBITAL TRACKING CORP AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE THREE MONTHS ENDED

	March 31, 2017	March 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(219,262)	\$59,946
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Change in fair value of derivative liabilities	(1,114 )	(464,505)
Depreciation expense	69,728	69,529
Amortization of intangible asset	6,250	6,250
Amortization of notes payable discount	-	75,626
Amortization of prepaid expense in connection with the issuance of common stock issued for prepaid services	-	74,091
Imputed interest	218	252
Change in operating assets and liabilities:		
Accounts receivable	(53,119 )	(118,924)
Inventory	(33,922 )	(61,142 )
Unbilled revenue	(2,209 )	9,398
Prepaid expense	50,068	(130,582)
Other current assets	(29,798 )	(2,676 )
Accounts payable and accrued liabilities	301,484	7,272
Deferred revenue	(1,200 )	5,996
Net cash provided by (used in) operating activities	87,124	(469,469)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(8,934 )	(3,318 )
Net (cash used) in investing activities	(8,934 )	(3,318 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	-	(75,626 )
Proceeds (repayments) of note payable, related party, net	15,975	(25,632 )
Net cash provided by (used in) financing activities	15,975	(101,259)
Effect of exchange rate on cash	5,592	2,039
Net increase (decrease) in cash	99,757	(572,007)
Cash beginning of period	114,733	963,329
Cash end of period	\$214,490	\$391,322

## SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for

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Interest	\$-	\$-
Income tax	\$-	\$-
NON CASH FINANCE AND INVESTING ACTIVITY		
Common stock issued for prepaid services	\$-	\$100,000

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

ORBITAL TRACKING CORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited interim condensed consolidated 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, 2016 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, 2016, which are contained in Form 10-K as filed with the Securities and Exchange Commission on April 7, 2017. The consolidated balance sheet as of December 31, 2016 was derived from those financial statements.

*Basis of Presentation and Principles of Consolidation*

The 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. The condensed consolidated financial statements of the Company include the Company and its wholly owned subsidiaries. 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 March 31, 2017, and the results of operations and cash flows for the three months ended March 31, 2017 have been included. The results of operations for the three months ended March 31, 2017 are not necessarily indicative of the results to be expected for the full year.

*Description of Business*

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

*Use of Estimates*

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

*Cash and Cash Equivalents*

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

*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 March 31, 2017, and December 31, 2016, there is an allowance for doubtful accounts of \$7,678 and \$6,720.

*Foreign Currency Translation*

The Company's reporting currency is US Dollars. The accounts of one of the Company's subsidiaries, GTCL, is maintained using the appropriate local currency, (Great British Pound) 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 months ended March 31, 2017 closing rate at 1.2555 US\$: GBP, average rate at 1.23801 US\$: GBP, for the three months ended March 31, 2016 closing rate at 1.438034 US\$: GBP, average rate at 1.43284 US\$: GBP, for the year ended 2016 closing rate at 1.2345 US\$: GBP, average rate at 1.35585 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.

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.

*Intangible assets*

Intangible assets include customer contracts purchased and recorded based on the cost to acquire them. These assets are amortized over 10 years. Useful lives of intangible assets are periodically evaluated for reasonableness and the assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable.

*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: