

Orbital Tracking Corp.
Form 10-K
April 07, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2016

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

For the transition period from _____ to _____

Commission file number 000-25097

ORBITAL TRACKING CORP.

(Exact name of registrant as specified in its charter)

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

Nevada

(State or other jurisdiction of
incorporation or organization)

65-0783722

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

18851 NE 29th Avenue, Suite 700

Aventura, FL

(Address of principal executive offices)

33180

(Zip Code)

Registrant's telephone number, including area code: **(305) 560-5355**

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

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

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

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

Indicate by check 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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such filed). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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 definition 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 ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant as of the last business day of the registrant’s most recently completed first fiscal quarter, based on the price at which the common equity was last sold on the OTC Bulletin Board on such date was approximately \$3,862,868. For purposes of this computation only, all officers, directors and 10% or greater stockholders of the registrant are deemed to be affiliates.

Indicate the number of shares outstanding of each of the registrant’s classes of common stock as of the latest practicable date.

Class	Outstanding at April 4, 2017
Common Stock, \$0.0001 par value	64,832,314

ORBITAL TRACKING CORP.

ANNUAL REPORT ON FORM 10-K

Fiscal Year Ended December 31, 2016

TABLE OF CONTENTS

	Page
 <u>PART I</u>	
<u>Item 1. Business</u>	3
<u>Item 1A. Risk Factors</u>	6
<u>Item 1B. Unresolved Staff Comments</u>	13
<u>Item 2. Properties</u>	13
<u>Item 3. Legal Proceedings</u>	13
<u>Item 4. Mine Safety Disclosures</u>	13
 <u>PART II</u>	
<u>Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	13
<u>Item 6. Selected Financial Data</u>	14
<u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	22
<u>Item 8. Financial Statements and Supplementary Data</u>	22
<u>Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	22
<u>Item 9A. Controls and Procedures</u>	22
<u>Item 9B. Other Information</u>	23
 <u>PART III</u>	
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	23
<u>Item 11. Executive Compensation</u>	25
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	27
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	32
<u>Item 14. Principal Accountant Fees and Services</u>	34
 <u>PART IV</u>	
<u>Item 15. Exhibits, Financial Statement Schedules</u>	35
<u>Signatures</u>	39

PART I

Item 1. Business

Corporate History

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.

For accounting purposes, this transaction was accounted for as a reverse acquisition and has been treated as a recapitalization of the Company. with GTCL 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 Company 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.

Our Current Business

The Company is a distributor, developer and reseller of satellite enabled communications hardware and provides products, airtime and related services to customers located both in the United States and internationally through its subsidiaries, US based Orbital Satcom Corp. (“Orbital Satcom”) and UK based GTCL. We sell equipment and airtime for use on all major satellite networks including Globalstar, Inmarsat, Iridium and Thuraya. We specialize in offering a range of satellite enabled personal and asset tracking products and provide an advanced mapping portal for customers using our range of GSM and satellite based GPS tracking devices. Additionally, we operate a short-term rental service for customers who require use of our equipment for a limited time without the up-front expense of purchasing hardware.

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 which entitle us to transmit GPS tracking coordinates and other information at preferential rates through one of the world’s largest commercial satellite networks.

We now have a physical or storefront presence in more than 10 countries, and have in excess of 15,000 customers located in almost 60 countries across every continent in the world. Our customers include businesses, U.S. and foreign governments, non-governmental and charitable organizations, military users and private individuals located all over the world.

MSS Products

Through GTCL, we believe we are one of the leading providers in Europe of Mobile Satellite Solutions (MSS) including satellite trackers, satellite phones, mobile broadband Wi-Fi hotspots and terminals. By enabling wireless communications in areas not served or underserved by terrestrial wireless networks, or 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 anywhere in the world.

Our MSS products rely on satellite networks and thus are not reliant on cell towers or other local infrastructure. As a result, our MSS solutions are suitable for recreational travelers and adventurers, government and military users, and corporations and individuals in the event of an emergency such as a power outage, hurricane or other natural disaster during which regular cell phone, telephone and internet service may not be available. We purchase these products directly from the manufacturers or distribution partners and sell them directly to end users and a growing base of resellers that we have around the world.

Our principal focus is on growing our existing satellite based hardware, airtime and related services, specifically services attracting recurring revenue for the Company. We are developing our own dual mode tracking device for use by retail, corporate and governmental customers worldwide.

Satellite Communications Services

As a result of the purchase of contracts and assets from Global Telesat Corp. (“GTC”) in December 2014, we commenced providing satellite communications services globally via satellite over Globalstar’s satellite based simplex data network. We provide this service through our Orbital Satcom and GTCL subsidiaries. Our rights under the purchased contracts allow us to have preferred pricing arrangements with Globalstar for each account used during the term of contracts. We then offer our customers a range of prepaid and monthly fee satellite communications airtime options.

The simplex service is a one-way burst data transmission from a commercial simplex device over the Globalstar network that can be used to track and monitor assets. We can use each simplex or one-way transmission account to transmit an unlimited number of locational or status messages from tracking devices used anywhere within the Globalstar simplex coverage area. At the heart of the simplex service is a demodulator and RF interface, called an applique, which is located at a Globalstar gateway. The gateways equipped with appliques, many of which are owned by us, provide coverage for simplex tracking devices over vast areas of the globe. The applique receives and collates messages from all simplex devices transmitting over the Globalstar network. Simplex devices consist of a telemetry unit, an application specific sensor, a battery and optional global positioning functionality. The small size of the devices makes them attractive for use in tracking asset shipments, monitoring unattended remote assets, trailer tracking and mobile security together with lone worker or recreational user safety.

Aside from providing services over Globalstar’s simplex data network, we are, through GTCL and Orbital Satcom, an authorized reseller of Globalstar’s two-way voice and data transmissions service, called the duplex service, and simplex and duplex satellite telecommunications services offered by other leading networks such as Iridium, Inmarsat and Thuraya. We offer a range of pay-as-you-go and monthly fee satellite communications airtime options from these network providers. We typically pay the network providers a monthly access fee per subscriber, as well as usage fees for airtime minutes used by our subscribers. This is a rapidly growing market and we believe we are well positioned to take advantage of this growth. Our customers are in industries such as maritime, aviation, government/military, emergency/humanitarian services, mining, forestry, oil and gas, heavy equipment, transportation and utilities as well as recreational users. We are focused on growing and diversifying our customer base, increasing our product range and making maximum use of our preferred pricing arrangements with Globalstar and other networks to generate increased revenue.

Online Storefronts

We operate two mobile friendly e-commerce websites through our Orbital Satcom and GTCL subsidiaries which offer a range of MSS products and solutions. These websites produce sales and attract enquiries from customers and potential customers from all around the world. Over the long term, we plan to develop additional country-specific websites or offer translation options on our existing websites to target customers in South America, Asia and Europe where we anticipate there will be substantial further demand for our products.

In addition to our two main e-commerce websites, we make portable satellite voice, data and tracking solutions easier to find and buy online through our various third party e-commerce storefronts offered by Amazon, eBay, Sears and Walmart. We currently have storefronts in the UK, US, Germany, France, Spain, Italy, Mexico, Japan and Canada. We have invested in personnel to translate our listings correctly in the different countries we are represented in and are regularly improving and increasing our listings on all Amazon sites. We currently have more than 3,000 product listings on all third party sites and invest in inventory to hold at Amazon's various warehouses around the world to ensure that orders are shipped and received by customers as quickly as possible. The products include handheld satellite phones, personal and asset tracking devices, portable high speed broadband terminals, and satellite Wi-Fi hotspots. We expect to open more third party storefronts during 2017.

Mapping and Tracking Portal

Our advanced mapping and tracking portals, www.orbitaltrack.com, (OrbitalTrack"), offered by Orbital Satcom, and www.gtctrack.com, ("GTCTrack") offered by GTCL, have been developed by us and are available for use by registered customers. OrbitalTrack and GTCTrack display real-time worldwide asset location reports including position, speed, altitude and heading and also provides past location and movement history reports on a wide range of tracking devices. These mapping portals are available to all of our customers to monitor their assets and we intend to aggressively pursue new customers for this application.

Proprietary Satellite Tracking Products

We have developed our first own brand global tracking product, a dual-mode asset tracker, which will be available in the marketplace later in 2017 following final testing and receipt of necessary regulatory and compatibility certifications. The Company's dual-mode asset tracker was designed to address the current technical and service cost challenges facing the global Asset Management Systems market, a market growing at a 20.5% compound annual growth rate and estimated to reach a value of \$18.87 billion by 2020 according to research by Market and Markets. The first product designed and developed by the Company, the dual-mode tracker utilizes both cellular and satellite technology to provide truly global tracking, automatically switching between the cellular and satellite links making it an ideal solution for use in both populated and remote areas, including trans-oceanic routes. For commercial users in transportation, shipping, logistics, fleet management and construction, it features detailing reporting alerts, status and GPS location data allowing cargo and vehicles to be tracked nearly anywhere in the world while lowering operating costs by utilizing cellular when available and satellite in remote areas, optimizing roaming charges and delivering significant cost savings.

We anticipate that we will be able to complete development and certification of the new dual-mode tracker for approximately \$50,000 to \$75,000 and believe there is strong customer demand based on existing customer requests.

We also intend to develop additional personal and asset tracking products suitable for government and recreational users. Users of these devices will be able to see the location and movements of their devices through our OrbitalTrack or GTCTrack portals. Anticipated costs for completion are approximately \$75,000 to \$100,000. These products will operate on the Iridium, Inmarsat, Globalstar and Thuraya satellite networks.

Industry and Market

We compete in the mobile satellite products and services sector of the global communications industry. The products and airtime that we sell are intended to meet users' needs for connectivity in all locations where existing terrestrial wireline and wireless communications networks do not exist, do not provide sufficient coverage, or are impaired. Government organizations, including military and intelligence agencies and disaster response agencies, non-governmental organizations and industrial operations and support teams depend on mobile voice and data satellite communications products and services on a regular basis. Businesses with global operations require reliable communications services when operating in remote locations around the world. Mobile satellite services users span many sectors, including emergency services, maritime, aviation, government, utilities, oil and gas, mining, recreation, forestry, heavy equipment, construction, and transportation, among others. Many of our customers view satellite communications products and services as critical to their daily operations.

There is an existing, and we believe significantly growing, multi-billion dollar global market for a small and cost effective solution for receiving and processing mobile voice and data communications from remote locations used in applications such as tracking vehicles or asset shipments, monitoring unattended remote assets or mobile security. Over the past two decades, the global mobile satellite services market has experienced significant growth. Increasingly, better-tailored, improved-technology products and services are creating new channels of demand for mobile satellite services. Growth in demand for mobile satellite voice services is driven by the declining cost of these services, the diminishing size and lower costs of the devices, as well as heightened demand by governments, businesses and individuals for ubiquitous global voice and data coverage. We believe our solutions are ideally suited for industries such as maritime, aviation, government/military, emergency/humanitarian services, mining, forestry, oil and gas, heavy equipment, transportation and utilities, as well as recreational users. We do not tailor our products and services to different types of customers as in our experience military, non-profit, government and recreational users tend to purchase the same types of products and services.

Competition

The competitors for our satellite telecommunications services and products are other leading satellite networks such as Iridium, Inmarsat, Thuraya and Globalstar, and their various resellers such as Network Innovations, Applied Satellite Technology (AST) and Satcom Global, some of which are also our suppliers. We expect the competition for our satellite telecommunications services and our satellite tracking and monitoring services to increase significantly as the market demand accelerates. We believe that we will be well positioned to compete for the satellite telecommunications services business largely on a cost basis and due to our global presence with various websites and Amazon storefronts. We believe that we will be able to compete in the MSS market due to our competitive pricing, varied products and easy to use website and Amazon storefront.

Intellectual Property

Our success and ability to compete depends in part on our ability to maintain our trade secrets. All of our employees and consultants are subject to non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights. In connection with the purchase of the contracts from GTC and related agreements, GTC and its parent World Surveillance Group, Inc. agreed to keep confidential certain information. In February 2015, we purchased certain software, including source code and executable code, and electronic files required for the development of dual mode trackers. On October 13, 2015, we purchased appliques, which are demodulator and RF interfaces located at various ground stations for gateways.

Research and Development

On February 19, 2015, the Company issued 1,000,000 shares of common stock, at \$0.05 per share, or \$50,000, to a consultant as compensation for the design and delivery of dual mode GSM/Globalstar Simplex tracking devices and related hardware and intellectual property. We spent \$0 and \$50,000, respectively, in the fiscal years ending December 31, 2016 and December 31, 2015 on research and development.

Regulatory Matters

Government contract laws and regulations affect how we will do business with our customers, and in some instances, will impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties, the termination of any then existing contracts or the inability to bid on future contracts. We intend our Orbital Sub to become qualified as a government contractor.

International sales of our products may also be subject to U.S. and foreign laws, regulations and policies like the United States Department of State restrictions on the transfer of technology, International Traffic in Arms Regulation ("ITAR") and other export laws and regulations and may be subject to first obtaining licenses, clearances or authorizations from various regulatory entities. This may limit our ability to sell our products abroad and the failure to comply with any of these regulations could adversely affect our ability to conduct our business and generate revenues as well as increasing our operating costs. Our products may also be subject to regulation by the National Telecommunications and Information Administration and the Federal Communications Commission that regulate wireless communications.

Sources and Availability of Components

Certain materials and equipment for our products are custom made for those products and are dependent upon either a single or limited number of suppliers. Failure of a supplier could cause delays in delivery of the products if another supplier cannot promptly be found or if the quality of such replacement supplier's components are inferior or unacceptable.

Employees

We currently have 8 full time and 1 part time employee, not including David Phipps, our Chief Executive Officer and President, and Theresa Carlise, our Chief Financial Officer. Mr. Phipps and Ms. Carlise work for us full time.

Item 1A. Risk Factors

Risks Related to Our Business

Product development is a long, expensive and uncertain process.

The development of our own branded range of satellite tracking devices is a costly, complex and time-consuming process, and the investment in product development often involves a long wait until a return, if any, is achieved on such investment. We continue to make significant investments in research and development relating to our satellite ground stations and tracking devices and our other businesses. Investments in new technology and processes are inherently speculative. We have experienced numerous setbacks and delays in our research and development efforts and may encounter further obstacles in the course of the development of additional technologies and products. We may not be able to overcome these obstacles or may have to expend significant additional funds and time. Technical obstacles and challenges we encounter in our research and development process may result in delays in or abandonment of product commercialization, may substantially increase the costs of development, and may negatively affect our results of operations.

Successful technical development of our products does not guarantee successful commercialization.

We may successfully complete the technical development for one or all of our product development programs, but still fail to develop a commercially successful product for a number of reasons, including among others the following:

- failure to obtain the required regulatory approvals for their use;
- prohibitive production costs;
- competing products;
- lack of innovation of the product;
- ineffective distribution and marketing;
- lack of sufficient cooperation from our partners; and
- demonstrations of the products not aligning with or meeting customer needs.

Our success in the market for the products we develop will depend largely on our ability to prove our products' capabilities. Upon demonstration, our satellite ground stations and tracking devices may not have the capabilities they were designed to have or that we believed they would have. Furthermore, even if we do successfully demonstrate our products' capabilities, potential customers may be more comfortable doing business with a larger, more established, more proven company than us. Moreover, competing products may prevent us from gaining wide market acceptance of our products. Significant revenue from new product investments may not be achieved for a number of years, if at all.

If we fail to protect our intellectual property rights, we could lose our ability to compete in the marketplace.

Our intellectual property and proprietary rights are important to our ability to remain competitive and for the success of our products and our business. We rely on a combination of trademark and trade secret laws as well as confidentiality agreements and procedures, non-compete agreements and other contractual provisions to protect our intellectual property, other proprietary rights and our brand. We have confidentiality agreements in place with our consultants, Globalstar, customers and certain business suppliers and plan to require future employees to enter into confidentiality and non-compete agreements. We are also in the process of trademarking "Orbital Satcom". We have little protection when we must rely on trade secrets and nondisclosure agreements. Our intellectual property rights may be challenged, invalidated or circumvented by third parties. We may not be able to prevent the unauthorized disclosure or use of our technical knowledge or other trade secrets by employees or competitors. Furthermore, our competitors may independently develop technologies and products that are substantially equivalent or superior to our technologies and/or products, which could result in decreased revenues. Moreover, the laws of foreign countries may not protect our intellectual property rights to the same extent as the laws of the U.S. Litigation may be necessary to enforce our intellectual property rights which could result in substantial costs to us and substantial diversion of management attention. If we do not adequately protect our intellectual property, our competitors could use it to enhance their products. Our inability to adequately protect our intellectual property rights could adversely affect our business and financial condition, and the value of our brand and other intangible assets.

Other companies may claim that we infringe their intellectual property, which could materially increase our costs and harm our ability to generate future revenue and profit.

We do not believe that we infringe the proprietary rights of any third party, but claims of infringement are becoming increasingly common and third parties may assert infringement claims against us. It may be difficult or impossible to identify, prior to receipt of notice from a third party, the trade secrets, patent position or other intellectual property rights of a third party, either in the United States or in foreign jurisdictions. Any such assertion may result in litigation or may require us to obtain a license for the intellectual property rights of third parties. If we are required to obtain licenses to use any third party technology, we would have to pay royalties, which may significantly reduce any profit on our products. In addition, any such litigation could be expensive and disruptive to our ability to generate revenue or enter into new market opportunities. If any of our products were found to infringe other parties' proprietary rights and we are unable to come to terms regarding a license with such parties, we may be forced to modify our products to make them non-infringing or to cease production of such products altogether.

The nature of our business involves significant risks and uncertainties that may not be covered by insurance or indemnity.

We develop and sell products where insurance or indemnification may not be available, including:

designing and developing products using advanced and unproven technologies in intelligence and homeland security applications that are intended to operate in high demand, high risk situations; and
designing and developing products to collect, distribute and analyze various types of information.

Failure of certain of our products could result in loss of life or property damage. Certain products may raise questions with respect to issues of privacy rights, civil liberties, intellectual property, trespass, conversion and similar concepts, which may raise new legal issues. Indemnification to cover potential claims or liabilities resulting from a failure of technologies developed or deployed may be available in certain circumstances but not in others. We are not able to maintain insurance to protect against all operational risks and uncertainties. Substantial claims resulting from an accident, failure of our product, or liability arising from our products in excess of any indemnity or insurance coverage (or for which indemnity or insurance is not available or was not obtained) could harm our financial condition, cash flows, and operating results. Any accident, even if fully covered or insured, could negatively affect our reputation among our customers and the public, and make it more difficult for us to compete effectively.

We are heavily reliant on David Phipps, our Chairman and Chief Executive Officer, and the departure or loss of David Phipps could disrupt our business.

The Company depends heavily on the continued efforts of David Phipps, Chairman, Chief Executive Officer and a director. Mr. Phipps is the founder of GTCL and is essential to the Company's strategic vision and day-to-day operations and would be difficult to replace. While we have entered into a two-year employment contract with Mr. Phipps, we cannot be certain that he will desire to continue with us for the duration of the employment term. The departure or loss of Mr. Phipps, or the inability to hire and retain a qualified replacement, could negatively impact the Company's ability to manage its business.

If we are unable to recruit and retain key management, technical and sales personnel, our business would be negatively affected.

For our business to be successful, we need to attract and retain highly qualified technical, management and sales personnel. The failure to recruit additional key personnel when needed with specific qualifications and on acceptable terms or to retain good relationships with our partners might impede our ability to continue to develop, commercialize and sell our products. To the extent, the demand for skilled personnel exceeds supply, we could experience higher labor, recruiting and training costs in order to attract and retain such employees. We face competition for qualified personnel from other companies with significantly more resources available to them and thus may not be able to attract the level of personnel needed for our business to succeed.

The control deficiencies in our internal control over financial reporting may until remedied cause errors in our financial statements or cause our filings with the SEC to not be timely.

We believe there exist control deficiencies in our internal control over financial reporting as of December 31, 2016, including those related to (i) our internal audit functions and (ii) a lack of segregation of duties within accounting functions. Those deficiencies, and others, were exacerbated by our entrance into the mobile satellite communications business in December 2015 and consummation of the Share Exchange in February 2015. If our internal control over financial reporting or disclosure controls and procedures are not effective, there may be errors in our financial statements that could require a restatement or our filings may not be timely made with the SEC. We intend to implement additional corporate governance and control measures to strengthen our control environment as we are able, but we may not achieve our desired objectives. Moreover, no control environment, no matter how well designed and operated, can prevent or detect all errors or fraud. We may identify material weaknesses and control deficiencies in our internal control over financial reporting in the future that may require remediation and could lead investors losing confidence in our reported financial information, which could lead to a decline in our stock price.

Risks Related to Our Organization and Our Common Stock

Certain shareholders will be able to exert significant influence over us to the detriment of minority stockholders.

Our ten largest shareholders beneficially own approximately 38.7% of our outstanding common stock as of April 4, 2017, as calculated according to voting power. This percentage would increase to 47.2%, should Mr. Phipps exercise his fully-vested options for 10,000,000 into common stock . These stockholders, if they act together, will be able to exert significant influence on our management and affairs and all matters requiring stockholder approval, including significant corporate transactions. This concentration of ownership may have the effect of delaying or preventing our change in control and might affect the market price of our common stock.

You may experience dilution of your ownership interests because of the future issuance of additional shares of our common or preferred stock or other securities that are convertible into or exercisable for our common or preferred stock.

On March 5, 2016, the Company's shareholders approved to increase the authorized common and preferred shares. On March 9, 2016, the Company filed with the Secretary of the State of Nevada, its amended articles of incorporation, reflecting the shareholders' approval. We are authorized to issue an aggregate of 750,000,000 shares of common stock and 50,000,000 shares of "blank check" preferred stock. In the future, we may issue our authorized but previously unissued equity securities, resulting in the dilution of the ownership interests of our present stockholders. We may issue additional shares of our common stock or other securities that are convertible into or exercisable for our common stock in connection with hiring or retaining employees, future acquisitions, future sales of our securities for capital raising purposes, or for other business purposes. The future issuance of any such additional shares of our common stock may create downward pressure on the trading price of the common stock. We will need to raise additional capital in the near future to meet our working capital needs, and there can be no assurance that we will not be required to issue additional shares, warrants or other convertible securities in the future in conjunction with these capital raising efforts, including at a price (or exercise or conversion prices) below the price an investor paid for stock. Further, in the event that we issue common stock or securities convertible into common stock at a price that is lower than \$0.05 per share of common stock, subject to certain exceptions, holders of an aggregate of 78,097,653 shares of our common stock and common stock underlying certain preferred shares will be entitled to receive additional securities. We will be required to issue to these holders additional securities such that they will hold that number of shares of common stock or securities convertible into common stock as if they had originally purchased their securities at the lower price.

Conversion of our outstanding preferred stock may dilute the ownership interest of existing stockholders or may otherwise depress the price of our common stock.

The conversion of some or all of our outstanding Series B Convertible Preferred Stock (the "Series B Preferred Stock"), Series C Preferred Stock, Series D Preferred Stock and Series E Preferred Stock, will dilute the ownership interests of existing stockholders. We have authorized 20,000 shares of Series A Convertible Preferred Stock (the "Series A Preferred Stock") and currently have no Series A Preferred Stock outstanding. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the preferred stock may encourage short selling by market participants because the conversion of the preferred stock could be used to satisfy short positions, or anticipated conversion of the preferred stock into shares of our common stock could depress the price of our common stock.

The total number of shares of preferred stock authorized, preferred stock issued and outstanding as of April 4, 2017 and common stock that may be issued upon conversion of each class of preferred stock as of April 4, 2017 is set forth below.

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

Class of Preferred Stock	Authorized Shares of Preferred Stock	Issued and Outstanding April 4, 2017	Underlying Shares of Common Stock Issuable April 4, 2017 (1)	Beneficial Ownership Limitation	
Series A Preferred Stock	20,000	-	-	9.99	%
Series B Preferred Stock	30,000	6,666	6,666	9.99	%
Series C Preferred Stock	4,000,000	3,540,365	35,403,650	4.99	%
Series D Preferred Stock	5,000,000	3,158,984	63,179,680	4.99	%
Series E Preferred Stock	8,746,000	7,717,356	77,173,560	4.99	%
Series F Preferred Stock	1,100,000	1,099,998	1,099,998	4.99	%
Series G Preferred Stock	10,090,000	10,083,351	10,083,351	4.99	%
Series H Preferred Stock	200,000	87,500	8,750,000	4.99	%
Series I Preferred Stock	114,944	92,944	9,294,400	4.99	%

(1)Not accounting for any applicable limitations on beneficial ownership.

Even though the holders of the convertible preferred stock may not convert these securities if they would own more than 9.99% or 4.99%, as applicable, of the then-outstanding common stock, this restriction does not prevent these holders from selling some of their holdings and then converting additional shares. In this way, the holders could sell more than these limits while never holding more than those limits.

We do not anticipate paying dividends on our common stock, and investors may lose the entire amount of their investment.

Cash dividends have never been declared or paid on our common stock, and we do not anticipate such a declaration or payment for the foreseeable future. We expect to use future earnings, if any, to fund business growth. Therefore, stockholders will not receive any funds absent a sale of their shares of common stock. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if our stock price appreciates. We cannot assure stockholders of a positive return on their investment when they sell their shares, nor can we assure that stockholders will not lose the entire amount of their investment.

Being a public company is expensive and administratively burdensome.

As a public reporting company, we are subject to the information and reporting requirements of the Securities Act of 1933, as amended (the “Securities Act”), the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and other federal securities laws, rules and regulations related thereto, including compliance with the Sarbanes-Oxley Act. Complying with these laws and regulations requires the time and attention of our Board of Directors and management, and increases our expenses. We estimate the Company will incur approximately \$200,000 to \$300,000 annually in connection with being a public company.

Among other things, we are required to:

maintain and evaluate a system of internal controls over financial reporting in compliance with the requirements of Section 404 of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
prepare and distribute periodic reports in compliance with our obligations under federal securities laws;
institute a more comprehensive compliance function, including with respect to corporate governance; and
involve, to a greater degree, our outside legal counsel and accountants in the above activities.

The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the SEC and furnishing audited reports to stockholders are expensive and much greater than that of a privately-held company, and compliance with these rules and regulations may require us to hire additional financial reporting, internal controls and other finance personnel, and will involve a material increase in regulatory, legal and accounting expenses and the attention of management. There can be no assurance that we will be able to comply with the applicable regulations in a timely manner, if at all. In addition, being a public company makes it more expensive for us to obtain director and officer liability insurance. In the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain this coverage.

If we fail to establish and maintain an effective system of internal control, we may not be able to report our financial results accurately or to prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any current internal control deficiencies may adversely affect our financial condition, results of operation and access to capital. We have not performed an in-depth analysis to determine if historical un-discovered failures of internal controls exist, and may in the future discover areas of our internal control that need

improvement.

Public company compliance may make it more difficult to attract and retain officers and directors.

The Sarbanes-Oxley Act and new rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, we expect these new rules and regulations to increase our compliance costs in 2017 and beyond and to make certain activities more time consuming and costly. As a public company, we also expect that these new rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance in the future and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers.

You could lose all of your investment.

An investment in our securities is speculative and involves a high degree of risk. Potential investors should be aware that the value of an investment in the Company may go down as well as up. In addition, there can be no certainty that the market value of an investment in the Company will fully reflect its underlying value. You could lose your entire investment.

The ability of our Board of Directors to issue additional stock may prevent or make more difficult certain transactions, including a sale or merger of the Company.

Our Board of Directors is authorized to issue up to 50,000,000 shares of preferred stock with powers, rights and preferences designated by it. See “Preferred Stock” in the section of this Current Report titled “Description of Securities.” Shares of voting or convertible preferred stock could be issued, or rights to purchase such shares could be issued, to create voting impediments or to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. The ability of the Board of Directors to issue such additional shares of preferred stock, with rights and preferences it deems advisable, could discourage an attempt by a party to acquire control of the Company by tender offer or other means. Such issuances could therefore deprive stockholders of benefits that could result from such an attempt, such as the realization of a premium over the market price for their shares in a tender offer or the temporary increase in market price that such an attempt could cause. Moreover, the issuance of such additional shares of preferred stock to persons friendly to the Board of Directors could make it more difficult to remove incumbent officers and directors from office even if such change were to be favorable to stockholders generally.

Our stock may be traded infrequently and in low volumes, so you may be unable to sell your shares at or near the quoted bid prices if you need to sell your shares.

Until our common stock is listed on a national securities exchange such as the New York Stock Exchange or the Nasdaq Stock Market, we expect our common stock to remain eligible for quotation on the OTC Markets, or on another over-the-counter quotation system, or in the “pink sheets.” In those venues, however, the shares of our common stock may trade infrequently and in low volumes, meaning that the number of persons interested in purchasing our common shares at or near bid prices at any given time may be relatively small or non-existent. An investor may find it difficult to obtain accurate quotations as to the market value of our common stock or to sell his or her shares at or near bid prices or at all. In addition, if we fail to meet the criteria set forth in SEC regulations, various requirements would be imposed by law on broker-dealers who sell our securities to persons other than established customers and accredited investors. Consequently, such regulations may deter broker-dealers from recommending or selling our common stock, which may further affect the liquidity of our common stock. This would also make it more difficult for us to raise capital.

There currently is no active public market for our common stock and there can be no assurance that an active public market will ever develop. Failure to develop or maintain a trading market could negatively affect the value of our common stock and make it difficult or impossible for you to sell your shares.

There is currently no active public market for shares of our common stock and one may never develop. Our common stock is quoted on the OTC Markets. The OTC Markets is a thinly traded market and lacks the liquidity of certain other public markets with which some investors may have more experience. We may not ever be able to satisfy the listing requirements for our common stock to be listed on a national securities exchange, which is often a more widely-traded and liquid market. Some, but not all, of the factors which may delay or prevent the listing of our common stock on a more widely-traded and liquid market include the following: our stockholders’ equity may be insufficient; the market value of our outstanding securities may be too low; our net income from operations may be too low; our common stock may not be sufficiently widely held; we may not be able to secure market makers for our common stock; and we may fail to meet the rules and requirements mandated by the several exchanges and markets to have our common stock listed. Should we fail to satisfy the initial listing standards of the national exchanges, or our common stock is otherwise rejected for listing, and remains listed on the OTC Markets or is suspended from the OTC Markets, the trading price of our common stock could suffer and the trading market for our common stock may be less liquid and our common stock price may be subject to increased volatility, making it difficult or impossible to sell shares of our common stock.

Our common stock is subject to the “penny stock” rules of the SEC and the trading market in the securities is limited, which makes transactions in the stock cumbersome and may reduce the value of an investment in the stock.

Rule 15g-9 under the Exchange Act establishes the definition of a “penny stock,” for the purposes relevant to us, as any equity security that has a market price of less than \$5.00 per share or with an exercise price of less than \$5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require: (a) that a broker or dealer approve a person’s account for transactions in penny stocks; and (b) the broker or dealer receive from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person’s account for transactions in penny stocks, the broker or dealer must: (a) obtain financial information and investment experience objectives of the person and (b) make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which, in highlight form: (a) sets forth the basis on which the broker or dealer made the suitability determination; and (b) confirms that the broker or dealer received a signed, written agreement from the investor prior to the transaction. Generally, brokers may be less willing to execute transactions in securities subject to the “penny stock” rules. This may make it more difficult for investors to dispose of our common stock and cause a decline in the market value of our common stock.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and about the commissions payable to both the broker or dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Our stock price may be volatile.

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- changes in our industry;
- competitive pricing pressures;
- our ability to obtain working capital financing;
- additions or departures of key personnel;
- sales of our common stock;
- our ability to execute our business plan;
- operating results that fall below expectations;
- loss of any strategic relationship;
- regulatory developments; and
- economic and other external factors.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our stockholders sell substantial amounts of our common stock in the public market, including upon the expiration of any statutory holding period under Rule 144, or issued upon the conversion of preferred stock or exercise of warrants, it could create a circumstance commonly referred to as an “overhang” and in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Investor relations activities, nominal “float” and supply and demand factors may affect the price of our stock.

The Company expects to utilize various techniques such as non-deal road shows and investor relations campaigns in order to create investor awareness for the Company. These campaigns may include personal, video and telephone conferences with investors and prospective investors in which our business practices are described. The Company

may provide compensation to investor relations firms and pay for newsletters, websites, mailings and email campaigns that are produced by third-parties based upon publicly-available information concerning the Company. The Company does not intend to review or approve the content of such analysts' reports or other materials based upon analysts' own research or methods. Investor relations firms should generally disclose when they are compensated for their efforts, but whether such disclosure is made or complete is not under our control. In addition, investors in the Company may, from time to time, also take steps to encourage investor awareness through similar activities that may be undertaken at the expense of the investors. Investor awareness activities may also be suspended or discontinued which may impact the trading market our common stock.

The SEC and FINRA enforce various statutes and regulations intended to prevent manipulative or deceptive devices in connection with the purchase or sale of any security and carefully scrutinize trading patterns and company news and other communications for false or misleading information, particularly in cases where the hallmarks of "pump and dump" activities may exist, such as rapid share price increases or decreases. We, and our shareholders may be subjected to enhanced regulatory scrutiny due to the small number of holders who initially will own the registered shares of our common stock publicly available for resale, and the limited trading markets in which such shares may be offered or sold which have often been associated with improper activities concerning penny-stocks, such as the OTCQB Marketplace or the OTCPink Marketplace (Pink OTC) or pink sheets. Until such time as our restricted shares are registered or available for resale under Rule 144, there will continue to be a small percentage of shares held by a small number of investors, many of whom acquired such shares in privately negotiated purchase and sale transactions, which will constitute the entire available trading market. The Supreme Court has stated that manipulative action is a term of art connoting intentional or willful conduct designed to deceive or defraud investors by controlling or artificially affecting the price of securities. Often times, manipulation is associated by regulators with forces that upset the supply and demand factors that would normally determine trading prices. Since a small percentage of the outstanding common stock of the Company will initially be available for trading, held by a small number of individuals or entities, the supply of our common stock for sale will be extremely limited for an indeterminate amount of time, which could result in higher bids, asks or sales prices than would otherwise exist. Securities regulators have often cited factors such as thinly-traded markets, small numbers of holders, and awareness campaigns as hallmarks of claims of price manipulation and other violations of law when combined with manipulative trading, such as wash sales, matched orders or other manipulative trading timed to coincide with false or touting press releases. There can be no assurance that the Company's or third-parties' activities, or the small number of potential sellers or small percentage of stock in the "float," or determinations by purchasers or holders as to when or under what circumstances or at what prices they may be willing to buy or sell stock will not artificially impact (or would be claimed by regulators to have affected) the normal supply and demand factors that determine the price of the stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Description of Property.

We rent our office space at 18851 N.E. 29th Ave, Suite 700, Aventura, Florida 33180 for \$175 per month and our facilities in Poole, England for £1,833 per month, or \$2,486 per month at the yearly average conversion rate of 1.35585.

Item 3. Legal Proceedings.

From time to time, we may become involved in litigation relating to claims arising out of our operations in the normal course of business. We are 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 we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business, financial condition and operating results.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Market Information

Our common stock is currently eligible for quotation and trades on the OTC Markets under the symbol “TRKK.” The quotation of our common stock under this symbol began on February 20, 2015. Prior to such date our common stock was eligible for quotation and traded under the symbol “GWST” from May 16, 2014. Prior to such date our common stock was eligible for quotation and traded under the symbol “SILV” from May 2011.

The following table sets forth the high and low closing bid prices for our common stock for the fiscal quarter indicated as reported on OTC Markets, as adjusted for our 150:1 reverse split approved by FINRA April 21, 2014 (the “Reverse Split”). The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. Our common stock is very thinly traded and, thus, pricing of our common stock on OTC Markets does not necessarily represent its fair market value. The last reported sales price of our common stock on the OTC Markets on April 4, 2017 was \$0.02 per share.

	High	Low
Year ended December 31, 2015		
First Quarter	\$2.37	\$0.90
Second Quarter	1.65	0.79
Third Quarter	1.10	0.79
Fourth Quarter	1.75	0.81
Year ended December 31, 2016		
First Quarter	\$1.05	\$0.18
Second Quarter	0.24	0.05
Third Quarter	0.11	0.02
Fourth Quarter	0.06	0.02

Equity Compensation Plan Information

As of December 31, 2016, we had issued and outstanding options to purchase 12,850,000 shares of common stock and warrants to purchase 5,000 shares of common stock. The weighted average exercise price of the options and warrants were \$0.02 and \$4.50, respectively. The foregoing securities were not issued under any equity compensation plan.

The following table provides information about our equity compensation plans as of December 31, 2016:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	-	-	226,667
Equity compensation plans not approved by security holders	-	-	-
Total	-	-	226,667

Holders

As of April 4, 2017, we had 64,312,814 shares of our common stock issued and outstanding held by approximately 426 stockholders of record.

Dividend Policy

We have never paid any cash dividends on our capital stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain future earnings to fund ongoing operations and future capital requirements. Any future determination to pay cash dividends will be at the discretion of our Board of Directors and will be dependent upon financial condition, results of operations, capital requirements and such other factors as the Board of Directors deems relevant.

Item 6. Selected Financial Data.

We qualify as a smaller reporting company, as defined by Rule 229.10(f) (1), and are not required to provide the information required by this Item.

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

Cautionary Notice Regarding Forward Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including those relating to our liquidity, our belief that we will not have sufficient cash and borrowing capacity to meet our working capital needs for the next 12 months without further financing, our expectations regarding acquisitions and new lines of business, gross profit, gross margins and capital expenditures. Additionally, words such as “expects,” “anticipates,” “intends,” “believes,” “will” and similar words are used to identify forward-looking statements.

Some or all of the results anticipated by these forward-looking statements may not occur. Important factors, uncertainties and risks that may cause actual results to differ materially from these forward-looking statements include, but are not limited to, the Risk Factors which appear in our filings and reports made with the Securities and Exchange Commission, our lack of working capital, the value of our securities, the impact of competition, the continuation or worsening of current economic conditions, technology and technological changes, a potential decrease in consumer spending and the condition of the domestic and global credit and capital markets. Additionally, these forward-looking statements are presented as of the date this Form 10-K is filed with the Securities and Exchange Commission. We do not intend to update any of these forward-looking statements.

This discussion should be read in conjunction with the other sections of this Report, including “Risk Factors,” “Description of Business” and the Financial Statements attached hereto pursuant and the related exhibits. The various sections of this discussion contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this Report.

The following discussion provides information which management believes is relevant to an assessment and understanding of our results of operations and financial condition. The discussion should be read along with our financial statements and notes thereto contained elsewhere in this annual report. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward-looking statements.

Overview

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.

We are 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 Global Telesat Communications Limited in February 2015 expanded our global satellite based infrastructure and business, which was first launched in December 2014 through the purchase of certain contracts.

Recent Events

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 January 23, 2015, the Company settled in full \$156,000 owed to certain vendors. On such date, the Company paid the vendors \$35,000 and issued them an aggregate of 1,650,000 shares of its common stock. The Company further

agreed that upon the close of its next financing, it would pay the vendors an additional \$10,000 cash, issue 850,000 shares of common stock or common stock equivalents and convert an aggregate of \$56,221 into securities on the same terms offered to investors in the financing. On February 19, 2015, the Company issued an aggregate of 197,443 shares of Series C Convertible Preferred Stock to certain of these vendors in connection with its settlement agreements.

On February 11, 2015, the Company entered into exchange agreements with two holders of its common stock. Pursuant to the exchange agreements, the holders exchanged an aggregate of 10,000,000 shares of common stock for 1,000,000 shares of Series C Convertible Preferred Stock.

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.

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, a former Chief Financial Officer and director of the Company and former Chief Executive Officer 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 consisted 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, (ii) one 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, (iii) 250,000 shares of common stock, subject to a one year lock up, issued to the Company's controller and (iv) 175,000 shares of common stock issued to MJI Resources Corp. ("MJR"), in full satisfaction of outstanding debts. MJR agreed to sell only up to 5,000 shares per day and the Company has a six-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.

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.

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 share. \$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 IRTTH Communications LLC., ("IRTTH") for a term of 12 months to provide investor relations, public relations, internet development, communication and consulting services. As consideration for its services, IRTTH 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 IRTTH as described herein, Company agrees to pay IRTTH 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 IRT Communications LLC for services, as disclosed above.

On March 3, 2016, the Company entered into a two-year 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.

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 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 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.

We had net cash used in operations of approximately \$1,044,039 during the year ended December 31, 2016. At December 31, 2016, we had a working capital of approximately \$81,490. Additionally, at December 31, 2016, we had an accumulated deficit of approximately \$4,601,406 and stockholder's equity of \$2,309,828. These matters and our expected needs for capital investments required to support operational growth raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to reflect the possible effects on recoverability and classification of assets or the amounts and classification of liabilities that may result from our inability to continue as a going concern.

Critical Accounting Policies and Estimates

Our consolidated financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by management's applications of accounting policies. Critical accounting policies for our company include accounting for derivative liabilities and stock based compensation.

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.

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.

Effect of Exchange Rate on Results

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 reported as a separate component of stockholders' equity, captioned as accumulated other comprehensive (loss) gain. Transaction gains and losses arising from exchange rate fluctuations 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 year ended December 31, 2016 closing rate at 1.2345 US\$: GBP, average rate at 1.35585 US\$: GBP and for the year ended 2015 closing rate at 1.47373 US\$: GBP, average rate at 1.52855 US\$: GBP.

Global Telesat Communications LTD, (GTCL) represents 70.8% of total company sales and as such, currency rate variances have an impact on results. For the year ended December 31, 2016 the net effect on revenues were impacted by the differences in exchange rate from yearly average exchange of 1.52855 to 1.35585. Had the yearly average rate remained, sales would have been higher by \$434,000. GTCL comparable sales in GBP, its home currency, increased 38.9% or £705,683, from £1,811,909 to £2,517,592 for the year ended December 31, 2016 as compared to December 31, 2015.

Results of Operations

Net Revenue. For the years ended December 31, 2016 and 2015, revenues generated were approximately \$4,698,638 and \$3,950,601, an increase of \$748,037 or 18.9%. Revenues were derived primarily from the sales of satellite phones, accessories and the airtime plans. Comparable sales for Orbital Satcom Corp increased 7.6% or \$132,782, from \$1,181,008 to \$1,270,393. Comparable sales for Global Telesat Communications LTD increased 21.6% or \$1,189,946, from \$2,769,594 to \$3,326,855. The sales increase is attributable to additional product lines being introduced by the company and resources associated from equity funding, which occurred in December of 2015, and enabled the Company to add additional marketplaces for its online presence, offset by exchange rate variances as described above.

Cost of Sales. During the years ended December 31, 2016, cost of revenues increased to \$3,623,516 compared to \$2,966,121 for the year ended December 31, 2015, an increase of \$657,395 or 22.2%. We expect our cost of revenues to continue to increase during fiscal 2017 and beyond, as we expand our operations and begin generating additional revenues under our current business. However, we are unable at this time to estimate the amount of the expected increases. Gross profit margins during the year ended December 31, 2016 and 2015 were 22.9% and 24.9%, respectively. The decline in margin was attributable to an increase in sales to resellers which have a lower profit margin.

Operating Expenses. Total operating expenses for the year ended December 31, 2016 were \$2,705,646, a decrease of \$270,159, or 9.1%, from total operating expenses for the year ended December 31, 2015, of \$2,975,805.

Selling, general and administrative expenses were \$566,186 and \$517,269 for the years ended December 31, 2016 and 2015, respectively, an increase of \$48,917 or 9.5%. The increase is attributable to increases variable costs, which increase with revenue, such as credit card processing fees, online service fees, bank charges, advertising and marketing.

Salaries, wages and payroll taxes were \$664,705 and \$582,226 for the year ended December 31, 2016 and 2015, respectively, an increase of \$82,479, or 14.2%. The increase was attributable to costs associated with personnel; to support the requirements for public companies, to support revenue goals and build the Company's infrastructure for future growth and opportunities.

Stock based compensation were non-cash expenses, for fully vested options to purchase 10,000,000 shares of Company's stock at an exercise price of \$0.01 per share, to the Company's CEO. For the year ended December 31, 2016, stock based compensation was \$190,000. For the year ended December 31, 2015, there was stock based compensation of \$1,072,500, for awards of 1,100,000 shares of Company's stock and 2,850,000 fully vested options to

purchase common stock at an exercise price of \$0.05 per share, to employees and a director.

Professional fees were \$992,952 and \$505,762 for the years ended December 31, 2016 and 2015, respectively, an increase of \$487,190 or 96.3%. Non-recurring, non-cash expenses of \$262,500, represented 46.0 % of the increase, which were related to stock based fees for investor relations. Additionally, another \$415,416 of non-recurring costs represented amounts for investor relations and certain other transaction fees. The increase during the year ended December 31, 2016 as compared to the prior year in 2015, was attributable to the Company's non-recurring costs, as described above, which were derived as part of the reserve, from the Company's proceeds from convertible notes and preferred stock subscriptions totaling \$1.1 million on December 28, 2015.

Depreciation and amortization expenses were \$291,803 and \$298,047 for the years ended December 31, 2016 and 2015, respectively, a decrease of \$6,244, or 2.1%. The decrease was attributable to exchange rate variances.

We expect our expenses in each of these areas to continue to increase during fiscal 2017 and beyond as we expand our operations and begin generating additional revenues under our current business. However, we are unable at this time to estimate the amount of the expected increases.

Total Other (Income) Expense. Our total other expenses were \$959,399 compared to \$72,886 during the years ended December 31, 2016 and 2015 respectively, an increase of \$886,513 or 1,216.3%. The increase is primarily attributed to the decrease recognized due to; changes in the fair value of derivative instruments of \$426,093, interest expense related to the amortized portion of the convertible note payable discount, net of \$602,027 and expense related to Series H Preferred stock issuance for price protection to certain Subscribers of Preferred Series C, Preferred Series F and Preferred series G in the amount of \$679,778, and imputed interest related to related party note payable of \$1,133, totaling \$856,845, which is a net offset as an increase to additional paid in capital, and exchange rate variances of \$102,554.

Net Income (Loss)

We recorded net loss before income tax of \$2,589,923 for the year ended December 31, 2016 as compared to a net loss of \$2,064,211, for the year ended December 31, 2015. The increase is a result of the factors as described above.

Comprehensive (Loss) Income

We recorded a loss for foreign currency translation adjustments for the year ended December 31, 2016 and 2015, of \$20,678 and \$11,414, respectively. The fluctuations of the increase/decrease is primarily attributed to the increase recognized due to exchange rate variances. Comprehensive loss was \$2,610,601 as compared to loss of \$2,075,625 for the year ended December 31, 2016 and 2015, 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 December 31, 2016, we had a cash balance of \$114,733. Our working capital is approximately \$81,490 at December 31, 2016.

Our current assets at December 31, 2016 decreased to \$802,107 from \$1,632,349, or 50.9% from December 31, 2015 and included cash, inventory, accounts receivable, unbilled revenue, prepaid expenses and other current assets. Cash represented proceeds from the sale of convertible notes payable and Preferred Series F stock subscriptions. Prepaid expenses primarily represent services to consultants, which are amortized over the length of the contract.

Our current liabilities at December 31, 2016 decreased to \$720,617 from \$1,127,200 or a decrease of \$406,583, or 36.1% from December 31, 2015 and included our accounts payable, accrued expenses, due to related party, associated derivative liability and liabilities of discontinued operations. On December 28, 2015, the Company received proceeds from its convertible notes payable of \$550,000 and recorded the associated derivative liabilities. As of December 31, 2016, and 2015, the Company had a derivative liability balance from its convertible notes payable of \$1,237 and \$311,373, respectively.

Operating Activities

Net cash flows used in operating activities for the year ended December 31, 2016 amounted to \$1,044,036 and were primarily attributable to our net loss of \$2,589,923 offset by; stock based compensation of \$190,000, depreciation and amortization expense of \$291,803, amortization of notes payable discount of \$602,515, amortization of prepaid expense for stock based compensation for services of \$262,500, change in fair value of derivative liabilities, net \$426,093, preferred stock-based price protection expense of \$679,778 and imputed interest of \$1,133 . Changes in operating assets and liabilities were reflected by decreases in; accounts receivable of \$19,960, unbilled revenue of \$11,419 and prepaid and other current assets of \$61,485, deferred revenue of \$14,037, and accounts payable and accrued expenses of \$50,827; and increases in inventory of \$83,749.

Net cash flows used in operating activities for the year ended December 31, 2015 amounted to \$620,944 and were primarily attributable to our net loss of \$2,064,211 offset by; stock based compensation of \$1,072,500, depreciation expense of \$94,412, amortization expense of \$332,956, change in fair value of derivative liabilities, net \$63,454 and imputed interest of \$5,581. Changes in operating assets and liabilities were reflected by decreases in accounts receivable of \$853 and deferred revenue of \$12,230, and increases in; inventory of \$27,577, unbilled revenue of \$40,150, other current assets of \$6,358, accounts payable and accrued expenses of \$16,359.

Investing Activities

Net cash flows used in investing activities were \$26,448 and \$559,913 for the years ended December 31, 2016 and 2015, respectively. For the year ended December 31, 2016, we purchased property and equipment of \$26,448. For the year ended December 31, 2015, we used cash to pay \$375,000 in connection with the Share Exchange Agreement, purchase of property and equipment of \$215,847, which was offset by \$30,934 of cash acquired from acquisition.

Financing Activities

Net cash flows provided by financing activities were \$242,568 and \$2,089,708 for the years ended December 31, 2016 and 2015, respectively. During the year ended December 31, 2016, we had repayments of convertible notes payable of \$100,834 and payments due to related party for \$6,598 and proceeds from the sale of our common stock of \$350,000. During the year ended December 31, 2015, we received proceeds from convertible notes payable of \$550,000 and from the sale of our common and preferred stock for \$1,647,501, which was used for working capital purposes, offset by payments of related party payable of \$107,793.

Off-balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as stockholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

We qualify as a smaller reporting company, as defined by Rule 229.10(f)(1), and are not required to provide the information required by this Item.

Item 8. Financial Statements and Supplementary Data.

See pages F-1 through F-32.

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

Not applicable.

Item 9A. Controls and Procedures.

Management's Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of December 31, 2016, the end of the year covered by this report, our management concluded its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Our management does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

With respect to the fiscal year ending December 31, 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, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934. Based upon our evaluation regarding the fiscal year ending December 31, 2016, our management, including our principal executive officer and principal financial officer, has concluded that our disclosure controls and procedures were ineffective due to our limited internal audit functions and lack of ability to have multiple levels of transaction review. The Company has been actively addressing the evaluation and is pursuing upgrading its accounting software.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. During our assessment of the effectiveness of internal control over financial reporting as of December 31, 2016, management identified significant deficiencies related to (i) our internal audit functions and (ii) a lack of segregation of duties within accounting functions. Therefore, our internal controls over financial reporting were not effective as of December 31, 2016.

Management has determined that our internal audit function is significantly deficient due to insufficient qualified resources to perform internal audit functions.

Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. 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. Due to the nature of this significant deficiency in our internal control over financial reporting, there is more than a remote likelihood that misstatements which could be material to our annual or interim financial statements could occur that would not be prevented or detected.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may

deteriorate.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting during the fourth quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information.

None.

PART III.

Item 10. Directors, Executive Officers and Corporate Governance.

The following table presents information with respect to our officers, directors and significant employees as of the date of this report:

Name and Address	Age	Date First Elected or Appointed	Position(s)
David Phipps	51	February 19, 2015	Chief Executive Officer, President and Chairman
Hector Delgado	48	May 27, 2015	Director
Theresa Carlise	58	June 9, 2015	Chief Financial Officer, Treasurer and Secretary

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. The Board of Directors shall not appoint any new members or vote to increase its size in the absence of the written consent of Mr. Phipps. The Board of Directors elects officers and their terms of office are at the discretion of the Board of Directors.

Background of officers and directors

The following is a brief account of the education and business experience during at least the past five years of our officers and directors, indicating each person's principal occupation during that period, and the name and principal business of the organization in which such occupation and employment were carried out.

David Phipps, Chief Executive Officer and Chairman, 50, has served as the Managing Director of GTCL since 2008 and as the President of GTC, a competitor of the Company, from 2003 through 2014. He has served as the President of Orbital Satcom since February 19, 2015, as Chairman of the Board of Directors of the Company since February 24, 2015 and Chief Executive Officer since February 25, 2015. Mr. Phipps was chosen as a director of the Company based on his knowledge of and relationships in the global satellite communications business.

Hector Delgado, Director, 47, was appointed to the Board of Directors on May 27, 2015. Mr. Delgado is currently the Executive Officer of the Naval Reserve Special Operations Command South (SOCSOUTH) Detachment 108. He has also served as a Special Agent in the United States Department of Homeland Security since 1995 and as the Managing Member of ISR Strategies, LLC, a full service security consulting company, since 2010. He is a United States Navy SEAL with active and reserve service for over twenty-eight years. In 2006, he was mobilized and served a combat tour in Ramadi, Iraq with SEAL Team THREE receiving a Navy Commendation Medal with Combat "V". He has served with SEAL Teams TWO, THREE, FOUR, EIGHTEEN and Special Operations Command Central and South. Mr. Delgado has participated in tours of duty in the Middle East, Europe, Africa and South America. He has also served as an adjunct instructor at the United States Merchant Marine Academy teaching maritime security and conducting International Ship Security Code (ISPS) training and assessments. His managerial expertise has been refined not only in a military environment, but also extensively in the governmental sector, where he has been responsible for the budgets, training, and logistics of thousands of people. Mr. Delgado was chosen as a director of the Company based on his leadership and entrepreneurial experience and particular familiarity with the military and governmental agencies.

Theresa Carlise, Chief Financial Officer, Treasurer and Secretary, 58, was appointed Chief Financial Officer, Treasurer and Secretary on June 9, 2015. She joined the Company from FTE Networks (OTCQX FTNW), a leading provider of infrastructure services for the telecommunications and wireless sector, where she served as a financial advisor from May 2014 through March 2015. Chief Financial Officer and director from September 2011 through May 2014. Prior to FTE Networks, she served as the Chief Executive Officer, Chief Financial Officer and a director of Control System & Instrumentation (CSI) Consultants, which provided information technology consulting and system

design to the industrial and manufacturing sectors, from July 2010 to September 2011 and as Chief Financial Officer and a director of Las Vegas Railway Express, Inc. (OTCBB LVRE), a developer of passenger rail transportation and related ancillary services, from December 2009 through July 2010. Ms. Carlise also served as the Chief Financial Officer of Shearson Financial Network, Inc. (OTCBB SFNN), and as Chief Financial Officer, senior vice president and a director of National Record Mart, Inc., (NASDAQ NRMI). From October 2006 to November 2007 Ms. Carlise served as Chief Financial Officer of Shearson Financial Network, Inc., a direct to consumer mortgage banking company. Declining market conditions in the mortgage banking industry in 2007, contributed to the Company filing a voluntary petition under Chapter 11 of the United States Bankruptcy Code in June of 2008. Ms. Carlise holds a Bachelor of Science in Finance from Indiana University of Pennsylvania.

Family Relationships

There are no family relationships between any of our directors, executive officers or directors except as set forth herein.

Involvement in Certain Legal Proceedings

During the past ten years, none of our officers, directors, promoters or control persons have been involved in any legal proceedings as described in Item 401(f) of Regulation S-K except as set forth herein.

Term of Office

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. The Board of Directors shall not appoint any new members or vote to increase its size in the absence of the written consent of Mr. Phipps.

Director Independence

Mr. Phipps is not an “independent” director based on the definition of independence in the listing standards of the NASDAQ Stock Market (“NASDAQ”). Mr. Delgado is an “independent” director based on the definition of independence in the listing standards of NASDAQ.

Committees of the Board of Directors

Audit Committee. We intend to establish an audit committee of the Board of Directors once we have satisfied the other initial listing standards for listing our common stock on NASDAQ or another national exchange. The audit committee will consist of independent directors, of which at least one director will qualify as a qualified financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. The audit committee’s duties will be to recommend to our Board of Directors the engagement of independent auditors to audit our financial statements and to review our accounting and auditing principles. The audit committee will review the scope, timing and fees for the annual audit and the results of audit examinations performed by the internal auditors and independent public accountants, including their recommendations to improve the system of accounting and internal controls. The audit committee will at all times be composed exclusively of directors who are, in the opinion of our Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member and who possess an understanding of financial statements and generally accepted accounting principles.

Compensation Committee. We intend to establish a compensation committee of the Board of Directors once we have satisfied the other initial listing standards for listing our common stock on NASDAQ or another national exchange. The compensation committee will review and approve our salary and benefits policies, including compensation of executive officers. The compensation committee will also administer our stock option plans and recommend and approve grants of stock options under such plans.

Nominating Committee. We intend to establish a nominating committee of the Board of Directors once we have satisfied the other initial listing standards for listing our common stock on NASDAQ or another national exchange. The nominating committee will consider and make recommendations on matters related to the practices, policies and procedures of the Board and take a leadership role in shaping our corporate governance. As part of its duties, the nominating committee would assess the size, structure and composition of the Board and its committees, and coordinate the evaluation of Board performance. The nominating committee would also act as a screening and nominating committee for candidates considered for election to the Board.

Board Leadership Structure and Role in Risk Oversight

Our Board of Directors is primarily responsible for overseeing our risk management processes on behalf of the Company. The Board of Directors receives and reviews periodic reports from management, auditors, legal counsel, and others, as considered appropriate regarding our Company's assessment of risks. The Board of Directors focuses on the most significant risks facing our Company and our Company's general risk management strategy, and also ensures that risks undertaken by our Company are consistent with the Board's appetite for risk. While the Board oversees our Company's risk management, management is responsible for day-to-day risk management processes. We believe this division of responsibilities is the most effective approach for addressing the risks facing our Company and that our Board leadership structure supports this approach.

Item 11. Executive Compensation.

The following table summarizes the overall compensation earned over each of the past two fiscal years ended December 31, 2016, by each person who served as a named executive officer during the fiscal year ended December 31, 2016.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$ (1)	All Other Compensation (\$)	Total (\$)
David Phipps Chief Executive Officer, President and Chairman (2)	2016	\$203,657	\$190,000	\$ 36,000	\$429,657
	2015	\$165,000	-	\$ 58,000	\$223,000
Theresa Carlise Chief Financial Officer, Secretary and Treasurer (3)	2016	\$140,000	\$-	\$ -	\$140,000
	2015	\$47,507	\$650,000	\$ -	\$697,507

Reflects the grant date fair values of stock awards calculated in accordance with FASB Accounting Standards (1) Codification Topic 718. All stock awards have been adjusted for our 1:150 reverse stock split effective March 28, 2014.

Mr. Phipps was appointed as our Chief Executive Officer, President, Chief Financial Officer and Treasurer on February 19, 2015. He resigned on June 9, 2015, from his positions as Chief Financial Officer and Treasurer. On (2) December 16, 2016, Mr. Phipps was granted ten year option to purchase shares of common stock. The option is immediately exercisable into 10,000,000 shares of common stock at a purchase price of \$0.01 per share.

Ms. Carlise was appointed as our Chief Financial Officer, Secretary and Treasurer on June 9, 2015. On December (3) 28, 2015, Ms. Carlise was granted ten year option to purchase shares of common stock. The option is immediately exercisable into 500,000 shares of common stock at a purchase price of \$0.05 per share.

Agreements

On February 19, 2015, Mr. Rector was issued 850,000 shares of common stock and a seven-year option to purchase shares of common stock. The option is immediately exercisable into 2,150,000 shares of common stock at a purchase price of \$0.05 per share. The Company has paid an affiliated company of which Mr. Rector is the President \$0 and \$24,000, for the years ended December 31, 2016 and 2015, respectively.

Upon the closing of the share exchange with GTCL 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. The Company pays Mr. Phipps an additional monthly fee of \$3,000 for his services as a director of the company.

The Company entered into an employment agreement with Ms. Carlise on June 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 its employment agreement with Ms. Carlise, its Chief Financial Officer, 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 substantially all of her business time exclusively to the Company.

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 (the "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 March 3, 2016, the Company entered into a two-year Executive Employment Agreement with Mr. Phipps, effective January 1, 2016 (the "Employment Agreement"). 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, or \$65,078 at the yearly conversion rate of 1.3558. 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 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 this agreement with the Company are identical to the terms of Mr. Phipps' employment agreement with Orbital Satcom described above.

On December 16, 2016, the Company issued options to Mr. Phipps, to purchase up to 10,000,000 shares of common stock. The options were issued outside of the Plan and are not governed by the Plan. The options have an exercise price of \$0.01 per share, vest immediately, and have a term of ten years.

Directors' Compensation

Jenna Foster, a former GTCL Shareholder and the Secretary of GTCL, was appointed director of the Company on February 19, 2015. She received 400,000 shares of common stock and 320,000 shares of Series E Preferred Stock in the share exchange. Ms. Foster resigned as a director on February 24, 2015.

On December 28, 2015, the Board of Directors awarded Mr. Delgado fully vested options to purchase up to 200,000 shares of common stock at an exercise price of \$0.05 with a ten-year term. On December 29, 2016, the Board of Directors approved increasing its quarterly payments from \$3,500 to \$5,000, to its independent director, Hector Delgado.

Mr. Phipps and Mr. Delgado receive no compensation from the Company except as described above.

Grants of Plan Based Awards and Outstanding Equity Awards at Fiscal Year-End

226,667 shares (post-split), of our common stock are reserved for issuance under the 2014 Equity Incentive Plan as awards to employees, directors, consultants, advisors and other service providers. There are no outstanding equity awards as of December 31, 2016 as reserved under the 2014 Equity Incentive Plan.

Compensation Committee Interlocks and Insider Participation

None of our executive officers serves as a member of the Board of Directors or compensation committee of any other entity that has one or more of its executive officers serving as a member of our Board of Directors.

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

The following tables sets forth, as of April 4, 2017, the number of and percent of the Company's common stock beneficially owned by: (1) all directors and nominees, naming them; (2) our executive officers; (3) our directors and executive officers as a group, without naming them; and (4) persons or groups known by us to own beneficially 5% or more of our voting securities.

A person is deemed to be the beneficial owner of securities that can be acquired by him within 60 days from April 4, 2017 upon the exercise of options, warrants or convertible securities. Each beneficial owner's percentage ownership is determined by assuming that options, warrants or convertible securities that are held by him, but not those held by any other person, and which are exercisable within 60 days of April 4, 2017 have been exercised and converted. Each beneficial owner's percentage ownership is determined based upon 64,832,314 shares of common stock issued and outstanding as of April 4, 2017.

Amount and Nature of Beneficial Ownership

Total Voting Power (1)		Common Stock (2)		Series B Preferred Stock (3)		Series C Preferred S	
Number of Shares	Percent	Number of Shares	Percent	Shares Beneficially Held	Percent	Shares Beneficially Held	

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

[illegible]

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

Total Voting Capital and Shares Outstanding	81,160,281	77,687,314	6,666	3,540,365
--	------------	------------	-------	-----------

Amount and Nature of Beneficial Ownership-(Continued)

Name and Address of Beneficial Owner (11) Directors and Executive Officers	Series E Preferred Stock (6) Shares Beneficially Held		Series F Preferred Stock (7) Shares Beneficially Held		Series G Preferred Stock (8) Shares Beneficially Held		Series H Preferred Stock (9) Shares Beneficially Held		Series I Preferred Stock (10) Shares Beneficially Held	
	Percent		Percent		Percent		Percent		Percent	
David Phipps	6,248,016	80.96 %	-	-	-	-	-	-	-	-
Hector Delgado			-	-	-	-	-	-	-	-
Theresa Carlise	-	-	-	-	-	-	-	-	-	-
Directors and Executive Officers as a Group (3 persons)	6,248,016	80.96 %	-	-	-	-	-	-	-	-
Certain Persons ADH Capital Ventures LLC (16)	50,000	0.65 %	-	-	-	-	-	-	-	-
Michael Brauser (18)	-	-	116,666 (18)	10.61 %	1,986,116 (18)	19.70 %	12,500(18)	14.3 %		
DL2 Capital (19)	1,385,500(20)	17.95 %								
Frost Gamma Investments Trust (21)		-					62,500(22)	71.4 %		
Barry Honig GRQ 401K (23)	-	-	116,666 (24)	10.61 %	1,986,116 (24)	19.70 %	12,500(24)	14.3 %		
	-	-			-					

Barry Honig
 ()
 Intracoastal
 Coastal
 Capital LLC -
 (25)
 Sandor
 Capital
 Master Fund -
 LP (27)
 The David
 Stephen
 Group LLC -
 (29)

 Total Voting
 Capital and
 Shares
 Outstanding

-

-

-

7,717,356

-

-

-

666,666 (26) 60.61 %

200,000 (28) 18.18 %

-

1,099,998

6,111,119 (26) 60.61 %

-

-

10,083,351

-

-

-

87,500

-

-

-

92,944

-

-

-

92,944

(1) In determining the voting power held by a person or entity on April 4, 2017, the percentage of total voting power represents voting power with respect to all shares of our common stock and preferred stock, as a single class. The holders of our common stock are entitled to one vote per share, holders of our Series B Preferred Stock are entitled to one vote per share, holders of our Series C Preferred Stock are entitled to 10 votes per share, holders of our Series D Preferred Stock are entitled to 20 votes per share, holders of our Series E Preferred Stock are entitled to 10 votes per share, holders of our Series F Preferred Stock are entitled to one vote per share, holders of our Series G Preferred Stock are entitled to one vote per share, holders of our Series H Preferred Stock are entitled to 100 votes per share, and holders of our Series I Preferred Stock are entitled to 100 votes per share. Shares of common stock which may be acquired within 60 days upon exercise of warrants or options or conversion of promissory notes were not included in calculating the voting power.

(2) In determining the voting power held by a person or entity on April 4, 2017, the percentage of total voting power represents voting power with respect to all shares of our common stock and preferred stock, as a single class. The holders of our common stock are entitled to one vote per share, holders of our Series B Preferred Stock are entitled to one vote per share, holders of our Series C Preferred Stock are entitled to 10 votes per share, holders of our Series D Preferred Stock are entitled to 20 votes per share, holders of our Series E Preferred Stock are entitled to 10 votes per share, holders of our Series F Preferred Stock are entitled to one vote per share, holders of our Series G Preferred Stock are entitled to one vote per share, holders of our Series H Preferred Stock are entitled to 100 votes per share, and holders of our Series I Preferred Stock are entitled to 100 votes per share. Shares of common stock which may be acquired within 60 days upon exercise of warrants or options or conversion of promissory notes were not included in calculating the voting power.

(3) The holders of our Series B Preferred Stock are entitled to one vote for each share of Series B Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record date is established, at the date such vote is taken or any written consent of shareholders is solicited. Each share of Series B Preferred Stock is convertible into five shares of common stock. Pursuant to the terms of the Series B Preferred Stock, a holder cannot convert any of the Series B Preferred Stock if such holder would beneficially own, after any such conversion, more than 9.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series B Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits.

(4) Each share of Series C Preferred Stock is convertible into 10 shares of common stock. Pursuant to the terms of the Series C Preferred Stock, a holder cannot convert any of the Series C Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series C Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to 10 votes for each share of Series C Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record date is established, at the date such vote is taken or any written consent of shareholders is solicited.

(5) Each share of Series D Preferred Stock is convertible into 20 shares of common stock. Pursuant to the terms of the Series D Preferred Stock, a holder cannot convert any of the Series D Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series D Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to 20 votes for each share of Series D Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record date is established, at the date such vote is taken or any written consent of shareholders is solicited.

(6) Each share of Series E Preferred Stock is convertible into 10 shares of common stock. Pursuant to the terms of the Series E Preferred Stock, a holder cannot convert any of the Series E Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series E Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to 10 votes for each share of Series E Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record date is established, at the date such vote is taken or any written consent of shareholders is solicited.

(7) Each share of Series F Preferred Stock is convertible into one share of common stock. Pursuant to the terms of the Series F Preferred Stock, a holder cannot convert any of the Series F Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series F Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to one vote for each share of Series F Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record, date is established, at the date, such vote is taken or any written consent of shareholders is solicited.

(8) Each share of Series G Preferred Stock is convertible into one share of common stock. Pursuant to the terms of the Series G Preferred Stock, a holder cannot convert any of the Series G Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series G Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to one vote for each share of Series G Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record, date is established, at the date, such vote is taken or any written consent of shareholders is solicited.

(9) Each share of Series H Preferred Stock is convertible into 100 shares of common stock. Pursuant to the terms of the Series H Preferred Stock, a holder cannot convert any of the Series H Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series H Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to 100 votes for each share of Series H Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record, date is established, at the date, such vote is taken or any written consent of shareholders is solicited.

(10) Each share of Series I Preferred Stock is convertible into 100 shares of common stock. Pursuant to the terms of the Series I Preferred Stock, a holder cannot convert any of the Series I Preferred Stock if such holder would beneficially own, after any such conversion, more than 4.99% of the outstanding shares of common stock. However, this beneficial ownership limitation does not prevent the holders from selling some of their holdings and then converting additional shares of Series I Preferred Stock into common stock. In this way, the holders could sell more than these limits while never holding more than those limits. Subject to the beneficial ownership limitation, each holder is entitled to 100 votes for each share of Series I Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record, date is established, at the date, such vote is taken or any written consent of shareholders is solicited.

(11) Unless otherwise indicated in the footnotes, the address of the beneficial owners is c/o Orbital Tracking Corp., 18851 N.E. 29th Ave., Suite 700, Aventura, Florida 33180.

(12) Includes (i) 2,339,840 shares of common stock and (ii) 895,292 shares of common stock issuable upon the conversion of 89,529 shares of Series E Preferred. Does not include 61,584,868 votes and 61,584,868 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series E Preferred Stock.

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

(13) Includes (i) 2,339,840 shares of common stock and (ii) 10,000,000 shares of common stock issuable upon exercise of options. Does not include 62,480,160 votes and 62,480,160 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series E Preferred Stock.

(14) Includes 200,000 shares of common stock issuable upon exercise of options.

(15) Includes 500,000 shares of common stock issuable upon exercise of options.

(16) The address of this beneficial owner is 916 Fiddler's Creek Road, Ponte Vedra Beach, Florida 32082

(17) Includes 3,235,132 shares of common stock issuable upon conversion of Series C Preferred Stock. Felicia Hess is the president of ADH Ventures LLC and holds voting and dispositive power over the securities of the company held by ADH Ventures LLC. Does not include 514,868 votes and 514,868 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series C Preferred Stock.

(18) The address of this beneficial owner is 4400 Biscayne Blvd., #850, Miami Florida 33137. Includes (i) one vote per share for 3,052,800 shares of common stock, (ii) one vote per share for 3,333 shares of Series B Preferred Stock and (iii) 178,999 votes, or 20 votes per share of 8,950 shares of Series D Preferred Stock. Does not include (i) 30,272,321 votes, or 20 votes per share of 1,513,616 shares of Series D Preferred stock due to the beneficial ownership limitations on the voting rights of the Series D Preferred Stock and (ii) one vote per share for 116,666 shares of common stock issuable upon conversion of Series F Preferred Stock due to the beneficial ownership limitations on the voting rights of the Series F Preferred Stock and (iii) 1,986,116 shares of common stock issuable upon conversion of Series G Preferred Stock due to the beneficial ownership limitations on the voting rights and conversion of the Series G Preferred Stock, and (iv) 1,250,000 shares of common stock issuable upon conversion of Series H Preferred Stock due to the beneficial ownership limitations on the voting rights and conversion of the Series H Preferred Stock held by Grander Holdings Inc. 401K., Mr. Brauser is the trustee of Grander Holdings Inc., 401K and holds voting and dispositive power over the securities of the Company held by Grander Holdings Inc., 401K and (v) held in the name of Michael Brauser, 1,250,000 shares of common stock issuable upon conversion of Series H Preferred Stock due to the beneficial ownership limitations on the voting rights and conversion of the Series H Preferred Stock and (vi) 5,000 shares of common stock due to the 4.99% beneficial ownership limit on exercise of a warrant.

(19) The address of this beneficial owner is 520 NW 165th Street Road # 102, Miami, FL 33169

(20) Includes 1,000,000 shares of common stock and 2,235,132 shares of common stock issuable upon conversion of Series E Preferred Stock. Does not include 11,619,868 votes and 11,619,868 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series E Preferred Stock.

(21) The address of this beneficial owner is 4400 Biscayne Blvd., 15th Fl. Miami Florida 33137

(22) Includes 706,667 shares of common stock held by Phillip and Patricia Frost Philanthropic Frost Gamma Trust, 620,770 shares of common stock held by Frost Gamma Investments Trust and 20,000 shares of common stock held by Dr. Philip Frost and 1,887,695 shares of common stock issuable upon the conversion of 188,770 shares of Series C Preferred Stock held by Frost Gamma Investments Trust. Dr. Frost is the trustee of Frost Gamma Investments Trust and Phillip and Patricia Frost Philanthropic and holds voting and dispositive power over the securities of the Company held by both. Does not include: (i) 19,391,535 votes and 19,391,535 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series C Preferred Stock held by Frost Gamma Investments Trust and (ii) 6,250,000 votes and 6,250,000 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series H Preferred Stock held by Frost Gamma Investments Trust.

(23) The address of this beneficial owner is 555 South Federal Highway #450, Boca Raton, Florida 33432

(24) Includes (i) one vote per share for 31,098 shares of common stock held by Barry Honig, (ii) one vote per share for 3,333 shares of Series B Preferred Stock held by Barry Honig, (iii) one vote per share for 1,650,000 shares of common stock held by GRQ Consultants, Inc. 401K FBO Barry Honig, (iv) one vote per share for 2,000 shares of common stock held by GRQ Consultants, Inc. and (v) 1,548,701 votes, or 20 votes per share, for 77,435 shares of Series D Preferred Stock held by GRQ Consultants, Inc. 401K FBO Barry Honig. Mr. Honig is the trustee of GRQ Consultants, Inc. 401K FBO Barry Honig and holds voting and dispositive power over the securities of the Company held by GRQ Consultants, Inc. 401K FBO Barry Honig. Mr. Honig is the president of GRQ Consultants, Inc. and holds voting and dispositive power over the securities of the company held by GRQ Consultants, Inc. Does not include (i) 14,048,179 votes underlying 72,409 shares of Series D Preferred Stock held by GRQ Consultants, Inc. 401K FBO Barry Honig, and (ii) 116,666 votes or shares of common stock due to the beneficial ownership limitations on the conversion of the Series F Preferred Stock held by GRQ Consultants, Inc. 401K FBO Barry Honig, and (iii) 1,986,116 votes or shares of common stock due to the beneficial ownership limitations on the conversion of the Series G Preferred Stock held by GRQ Consultants, Inc. 401K FBO Barry Honig., and (iv) 1,250,000 Votes, or 100 votes per share, underlying 12,500 shares of Series H Preferred Stock due to the beneficial ownership limitations on the conversion of the Series H Preferred Stock held by GRQ Consultants, Inc. 401K FBO Barry Honig.

(25) The address of this beneficial owner is 2211A Lakeside Dr.,Bannockburn, IL 60015.

(26) Includes (i) 888,250 shares of common stock (ii) 2,346,882 shares of common stock issuable upon conversion of Series D Preferred Stock. Does not include (i) 1,153,118 shares of common stock issuable upon conversion of 57,656 shares Series D Preferred stock due to the beneficial ownership limitations on the voting rights and conversion of the Series D Preferred Stock, (ii) 666,666 shares of common stock issuable upon conversion of Series F Preferred Stock, and (iii) 6,111,119 shares of common stock issuable upon conversion of Series G Preferred Stock, and (iv) 6,994,400 votes, or 100 votes per share, underlying 69,944 shares of Series I Preferred Stock due to the beneficial ownership limitations on the conversion of the Series I Preferred Stock held by Intracoastal. Mitchell P. Kopin and Daniel B. Asher, each of whom are managers of Intracoastal Capital LLC have shared voting control and investment discretion over the securities reported herein that are held by Intracoastal Capital LLC.

(27) The address of this beneficial owner is 2828 Routh Street, Suite 500, Dallas, Texas 75201.

(28) Includes (i) 1,735,968 shares of common stock and (ii) 1,499,164 shares of common stock issuable upon conversion of Series C Preferred Stock. John Lemak is the manager of Sandor Capital Master Fund LP and holds voting and dispositive power over the securities of the Company held by Sandor Capital Master Fund LP. Does not include: (i) 1,250,000 shares of common stock issuable upon conversion of Series C Preferred Stock, held by JSL Kids Partners, of which Mr. Lemak is the control person (i) 6,500,836 votes and 6,500,836 shares due to the beneficial ownership limitations on the voting rights and conversion of the Series C Preferred Stock held by Sandor Capital Master Fund LP, (ii) 13,100,000 votes and 13,100,000 shares of common stock due to the beneficial ownership limitations on the voting rights and conversion of the Series D Preferred Stock held by Sandor Capital Master Fund LP and (iv) 200,000 votes and shares due to the beneficial ownership limitations on the voting rights and conversion of the Series F Preferred Stock held by Sandor Capital Master Fund LP., and (v) 2,300,000 votes, or 100 votes per share, underlying 23,000 shares of Series I Preferred Stock due to the beneficial ownership limitations on the conversion of the Series I Preferred Stock held by Sandor Capital Master Fund LP., Mr. Lemak is the trustee of JSL Kids Partners LLC and holds voting and dispositive power over the securities of the Company held by JSL Kids Partners LLC.

(29) The address of this beneficial owner is 1640 Terrace Way, Walnut Creek, CA 94597-3902

(30) Includes 2,150,000 shares of common stock issuable upon exercise of options. David Rector is the president of The David Stephen Group LLC and holds voting and dispositive power over the securities of the Company held by The David Stephen Group LLC

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

The Company

SEC rules require us to disclose any transaction or currently proposed transaction in which the Company is a participant and in which any related person has or will have a direct or indirect material interest involving the lesser of \$120,000 or one percent (1%) of the average of the Company's total assets as of the end of last two completed fiscal years. A related person is any executive officer, director, nominee for director, or holder of 5% or more of the Company's common stock, or an immediate family member of any of those persons.

For the years ended December 31, 2016 and 2015, Orbital Satcom purchased an aggregate of approximately \$499,245 and \$681,433 of inventory from GTCL. For the years ended December 31, 2016 and 2015, GTCL purchased an aggregate of approximately \$38,578 and \$0 of inventory from Orbital Satcom.

On February 11, 2015, we entered into exchange agreements with each of Sandor Capital Master Fund LP and Point Capital, Inc., a holder of 5% or more of our securities at that time. Pursuant to the exchange agreements, Sandor Capital Master Fund LP exchanged 8 million shares of common stock for 800,000 shares of the Company's Series C Preferred Stock and Point Capital, Inc. exchanged 2 million shares of common stock for 200,000 shares of Series C Preferred Stock.

On February 19, 2015, the Company entered into a share exchange agreement with GTCL and 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 Preferred Stock of the Company 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. The note has an original principal amount of \$122,536, which is equal to the total cost of certain inventory owned by GTCL immediately prior to the share exchange, and shall be repaid from the sale of the inventory following closing. Mr. Phipps was a GTCL Shareholder and the sole director of GTCL. He received in exchange for his shares of GTCL 400,000 shares of the Company's common stock and 6,692,000 shares of Series E Preferred Stock, and was paid the full cash payment and the full amount of the note. The Company also paid Mr. Phipps an additional \$25,000 at closing as compensation for transition services previously provided by him to the Company in anticipation of the share exchange.

On February 19, 2015, Mr. Rector was issued 850,000 shares of common stock and a seven-year option to purchase shares of common stock. The option is immediately exercisable into 2,150,000 shares of common stock at a purchase price of \$0.05 per share. The Company has paid an affiliated company of which Mr. Rector is the President, \$24,000

and \$15,000, for the years ended December 31, 2016 and 2015, respectively.

Upon the closing of the share exchange with GTCL on February 19, 2015, Orbital Satcom entered into an employment agreement with Mr. Phipps (the “Phipps Employment Agreement”), 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 Phipps 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. The Company pays Mr. Phipps an additional monthly fee of \$3,000 for his services as a director of the company.

Jenna Foster, a former GTCL Shareholder and the Secretary of GTCL, was appointed director of the Company at the closing of the share exchange. She received 400,000 shares of common stock and 320,000 shares of Series E Preferred Stock in the share exchange. Ms. Foster resigned as a director on February 24, 2015.

On February 19, 2015, the Company sold to Frost Gamma Investments Trust, a holder of 5% or more of its securities, an aggregate of 450,000 units of its securities, with 15,000 units consisting of 40 shares of common stock per unit and 435,000 units consisting of 4 shares of shares of its Series C Convertible Preferred Stock per unit at a purchase price of \$2.00 per Unit for gross proceeds to the Company of \$900,000.

On February 19, 2015, the Company issued 175,000 shares of common stock to MJI Resources Corp., an entity controlled by former officer and director Daniel Bleak, in full satisfaction of all outstanding debts pursuant to a settlement agreement. Up to 5,000 of the shares may be sold per day and the Company has a six month option to repurchase these shares at a purchase price of \$0.75 per share.

On December 28, 2015, the Company entered into agreements with Michael Brauser, Sandor Capital Master Fund LP, Intracoastal Capital LLC and an affiliate of Barry Honig, each holders of 5% of our voting securities. An agreement for the purchase of preferred stock related to the issuance and sale of \$550,000 of shares of Series F Preferred Stock at a purchase price of \$0.50 per share. Also on December 28, 2015, the Company entered into separate note purchase agreements with Michael Brauser, Intracoastal Capital LLC and the Honig affiliate relating to the issuance and sale of an aggregate of \$605,000 in principal amount of original issue discount convertible notes (the “Notes”) for an aggregate purchase price of \$550,000. The terms of the shares of Series F Preferred Stock (the “Preferred F Shares”) are set forth in the Certificate of Designation of Series F Convertible Preferred Stock (the “Series F COD”) filed with the Secretary of State of the State of Nevada. 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. The Company is prohibited from effecting a conversion of the Preferred F 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 F Shares. Each Preferred F 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 F Share entitles the holder to cast one vote per share of Series F 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 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.

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. \$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.

The breakdown of the investments is below:

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

Investor	Shares of Series F Preferred Stock	Purchase Price Paid for Series F Preferred Stock	Purchase Price Paid for the Notes	Principal Amount of Notes
GRQ Consultants, Inc. 401K	116,666	\$ 58,333	\$ 108,334	\$ 119,167
Intracoastal	666,666	\$ 333,333	\$ 333,333	\$ 366,666
Michael Brauser	116,666	\$ 58,333	\$ 108,334	\$ 119,167
Sandor	200,000	\$ 100,000	\$ -	\$ -
Total	1,099,998	\$ 549,999	\$ 550,001	\$ 605,001

2016 Transactions

On March 3, 2016, the Company entered into a two-year Executive Employment Agreement with Mr. Phipps, effective January 1, 2016 (The “Employment Agreement”). 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, or \$65,078 at the yearly conversion rate of 1.3558. 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 this agreement with the Company are identical to the terms of Mr. Phipps’ employment agreement with Orbital Satcom described above.

On May 17, 2016, the Company entered into exchange agreements with holders of the Company's outstanding \$504,168 of Notes 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 Preferred Stock. The terms of the shares of Series G Preferred Stock (the "Preferred G Shares") are set forth in the Certificate of Designation of Series G Preferred Stock (the "Series G COD") 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.

On October 28, 2016, the Company entered into separate subscription agreements with Barry Honig, Michael Brauser and Frost Gamma Investments Trust relating to the issuance and sale of \$350,000, out of a maximum of \$800,000, of shares of Series H Preferred Stock at a purchase price of \$4.00 per share (the "Series H Offering"). The terms of the Series H Preferred Stock are set forth in the Certificate of Designation of Series H Preferred Stock (the "Series H COD") filed with the Secretary of State of the State of Nevada. The Series H Preferred Stock are convertible into shares of common stock based on a conversion calculation equal to the stated value of such Series H Preferred Stock divided by the conversion price. The stated value of each Series H Preferred Stock is \$4.00 and 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, as a result 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. In order to conduct the Series H Offering, the Company has solicited the consent of certain shareholders, as required under the agreements entered into by the Company during prior offerings, whereby such shareholders were granted certain notification, consent and anti-dilution rights ("Prior Offerings"). 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. However, the Company is required to issue to certain prior investors an aggregate of 550,000 shares of Series C Preferred Stock, which is convertible into an aggregate of 5,500,000 shares of the Company's common stock. These investors are: Frost Gamma Investments Trust, ADH Capital Ventures LLC and JSL Kids Partners LLC, an affiliate of Sandor Capital Master Fund LP. Further, in order to proceed with the Series H Offering, the Company had agreed to issue additional shares of Series F Preferred Stock and Series G Preferred Stock to Intracoastal Capital LLC and Sandor Capital Master Fund LP. However, in lieu of issuing such additional shares of Series F Preferred Stock and Series G Preferred Stock, the Company agreed, pursuant to that certain Series I Issuance Agreement, to create a new series of preferred stock, to be designated as "Series I Preferred Stock" and will issue to

such holders of Series F Preferred Stock and Series G Preferred Stock an aggregate of 114,944 shares of Series I Preferred Stock, each of which shall be convertible into one hundred (100) shares of the Company's common stock. Intracoastal Capital LLC was issued 91,944 shares of Series I and Sandor Master Capital Fund LP was issued 23,000 shares of Series I Preferred Stock. The terms of the Series I Preferred Stock are set forth in the Certificate of Designation of Series I Preferred Stock filed with the Secretary of State of the State of Nevada.

On December 16, 2016, the Company issued options to Mr. Phipps, to purchase up to 10,000,000 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 \$0.01 per share, vest immediately, and have a term of ten years.

Item 14. Principal Accounting Fees and Services

During the fiscal years ending December 31, 2016 and 2015, RBSM LLP was the Company's independent registered public accounting firm.

The following table sets forth fees billed to us by our independent registered public accounting firms during the fiscal years ended December 31, 2016 and 2015.

RBSM LLP	2016	2015
Audit Fees (1)	\$82,500	\$98,500
Tax Fees	-	-
All Other Fees	-	-
Total Fees	\$82,500	\$98,500
	2016	2015
Tax Fees (2)	\$16,820	\$-
	-	-
Total Fees	\$16,820	\$-

(1) Audit fees consisted primarily of fees for the audit of our annual financial statements and reviews of the financial statements included in our quarterly reports and current reports.

(2) Tax fees were paid to the Company's third party tax accounting firm.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as part of this report.

Financial Statements. See Index to Consolidated Financial Statements, which appears on page F-1 hereof. The (1) financial statements listed in the accompanying Index to Consolidated Financial Statements are filed herewith in response to this Item.

(2) Financial Statements Schedules. None.

(3) Exhibits

Exhibit No. Description

2.1	Agreement and Plan of Merger dated March 28, 2014 (Incorporated by reference to Exhibit 2.1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
2.2	Asset Purchase Agreement dated December 10, 2014 (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014) (1)
2.3	Articles of Merger (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 28, 2015)
2.4	Share Exchange Agreement by and among Orbital Tracking Corp., Global Telesat Communications Ltd. and the Shareholders of Global Telesat Communications Ltd. dated February 19, 2015 (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 25, 2015) (2)
3.1	Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
3.2	Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
3.3	Certificate of Amendment to Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.3 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
3.4	Certificate of Amendment to Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 8, 2016)

- 3.5 Bylaws (Incorporated by reference to Exhibit 3.4 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
- 3.6 Certificate of Designation of Preferences, Rights and Limitations of Series A Convertible Preferred Stock (Incorporated by reference to Exhibit 3.5 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
- 3.7 Certificate of Designation of Preferences, Rights and Limitations of Series B Convertible Preferred Stock (Incorporated by reference to Exhibit 3.6 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 31, 2014)
- 3.8 Certificate of Designation of Preferences, Rights and Limitations of Series C Convertible Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2014)
- 3.9 Certificate of Designation of Preferences, Rights and Limitations of Series D Convertible Preferred Stock (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2014)

Exhibit No	Description
3.10	Certificate of Designation of Preferences, Rights and Limitations of Series E Convertible Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 25, 2015)
3.11	Certificate of Designation of Preferences, Rights and Limitations of Series F Convertible Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 28, 2015)
3.12	Certificate of Designation of Preferences, Rights and Limitations of Series G Convertible Preferred Stock (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 18, 2016)
3.13	Certificate of Designation of Preferences, Rights and Limitations of Series H Convertible Preferred Stock (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2016)
3.14	Certificate of Designation of Preferences, Rights and Limitations of Series I Convertible Preferred Stock (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2016)
3.15	Certificate of Correction to Designation of Preferences, Rights and Limitations of Series H Convertible Preferred Stock (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 13, 2017)
10.1	Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 30, 2014)
10.2	2014 Equity Incentive Plan (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 21, 2014)+
10.3	Securities Purchase Agreement by and between the Company and Auracana LLC dated January 21, 2014 (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 21, 2014)
10.4	Form of Subscription Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2014)
10.5	Form of Registration Rights Agreement (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2014)
10.6	Form of Exchange Agreement (Note) (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2014)
10.7	Form of Exchange Agreement (Unconverted Interest) (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on October 17, 2014)

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

- 10.8 License Agreement dated December 10, 2014 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
- 10.9 Consulting Agreement dated December 16, 2014 (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
- 10.10 Price & Delivery Quote for the acceleration of Remote Telemetry capability and Simplex Data Services dated June 30, 2003 and Globalstar Response to GTCL's Letter of Acceptance dated August 07, 2003 (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
- 10.11 Agreement by and between Globalstar LLC and Globalnet Corporation dated May 04, 2005 (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)

Exhibit No.	Description
10.12	Assignment and Assumption Agreement by and between Globalstar LLC, Globalnet Corporation and Global Telesat Corp. dated July 28, 2005 (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
10.13	Amendment to the Agreement by and between Globalstar LLC and Globalnet Corporation dated May 04, 2005, dated August 16, 2006 (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
10.14	Contract No. GINC-C-11-0520 by and between Global Telesat Corp. and Globalstar, Inc., dated February 10, 2011 (Incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
10.15	Form of Strategic Consulting Agreement (Incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)
10.16	\$122,536 Note issued February 19, 2015 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 25, 2015) (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.17	Executive Employment Agreement by and between David Phipps and Orbital Satcom, dated February 19, 2015 (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)+
10.18	Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.19	Form of Subscription Agreement (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.20	Form of Registration Rights Agreement (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.21	Consulting Agreement by and between SpaceTao LLC and the Company, dated February 19, 2015 (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.22	Purchase and Transfer Agreement by and between Concentric Engineering LLC and the Company, dated February 19, 2015 (Incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.23	Mutual Release Agreement by and between MJI Resources Corp. and the Company, dated February 19, 2015 (Incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015)
10.24	

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

Form of Strategic Consulting Agreement (Incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2014)

- 10.25 Employment Agreement by and between Theresa Carlise and the Company, dated June 9, 2015 (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 15, 2015) +
- 10.26 Form of Subscription Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2015)
- 10.27 Form of Note Purchase Agreement (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2015)
- 10.28 Form of Note (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2015)

Exhibit No.	Description
10.29	Placement Agent Agreement by and between the Company and Chardan Capital Markets LLC (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2015)
10.30	Form of Lockup Agreement (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2015)
10.31	Amendment No. 1 to Employment Agreement by and between the Company and Theresa Carlise dated December 28, 2015 (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 11, 2015) +
10.32	Form of Option Agreement (Incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on December 30, 2015) +
10.33	Executive Employment Agreement by and between Orbital Tracking Corp. and David Phipps (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on March 4, 2016) +
10.34	Form of Exchange Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 18, 2016)
10.35	Form of Series I Issuance Agreement (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 1, 2016)
10.36	Form of Option Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2017) +
10.37	Form of Subscription Agreement (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K/A filed with the Securities and Exchange Commission on January 13, 2017)
16.1	Letter from D. Brooks and Associates CPA's, P.A. (Incorporated by reference to Exhibit 16.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2015)
21.1	List of Subsidiaries (Incorporated by reference to Exhibit 21.1 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 26, 2015)
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
(1)	Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule will be furnished supplementally to the Securities and Exchange Commission upon request;

provided, however that the Company may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act for any schedule or exhibit so furnished.

* Filed herewith.

** A redacted version of this exhibit was previously filed. An un-redacted version of this Exhibit has been separately filed with the Commission pursuant to an application for confidential treatment. The confidential portions of the Exhibit have been omitted and are marked by an asterisk.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

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

Dated: April 7,
2017

ORBITAL TRACKING CORP.

By: */s/ David Phipps*

David Phipps

Title: Chief Executive Officer and Chairman

(Principal Executive Officer)

By: */s/ Theresa Carlise*

Theresa Carlise

Title: Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)

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

Signature	Title	Date
<i>/s/ David Phipps</i> David Phipps	Chief Executive Officer and Chairman (Principal Executive Officer)	April 7, 2017
<i>/s/ Theresa Carlise</i> Theresa Carlise	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	April 7, 2017
<i>/s/ Hector Delgado</i> Hector Delgado	Director	April 7, 2017

ORBITAL TRACKING CORP. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

<u>Reports of Independent Registered Public Accounting Firms</u>	F-1
Consolidated Financial Statements	
<u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u>	F-2
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended December 31, 2016 and 2015</u>	F-3
<u>Consolidated Statements of Changes in Stockholders' Equity for the two years ended December 31, 2016</u>	F-4
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2016 and 2015</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-7

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

Orbital Tracking Corp

We have audited the accompanying consolidated balance sheets of Orbital Tracking Corp and subsidiaries (formerly known as Great West Resources, Inc.) (“the Company”) as of December 31, 2016 and 2015, and the related statements of operations, changes in stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2016. Orbital Tracking Corp’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orbital Tracking Corp and subsidiaries as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2 of the financial statements. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ *RBSM LLP*

Henderson, Nevada

April 7, 2017

F-1

Orbital Tracking Corp. and Subsidiaries**Consolidated Balance Sheets**

(Audited)

	December 31,	
	2016	2015
ASSETS		
Current Assets		
Cash	\$ 114,733	\$ 963,329
Accounts receivable	96,758	116,718
Inventory	335,267	251,518
Unbilled revenue	54,344	65,762
Prepaid expenses - current portion	171,164	191,677
Other current assets	29,841	43,345
Total Current Assets	802,107	1,632,349
Property and equipment, net	1,978,338	2,218,693
Intangible assets, net	250,000	275,000
Prepaid expenses - long term portion	-	189,968
Total Assets	\$ 3,030,445	\$ 4,316,010
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 536,906	\$ 610,232
Deferred revenue	2,624	16,661
Due to related party	67,453	74,051
Derivative liability - current portion	1,237	311,373
Convertible note payable – current portion, net of unamortized discount of \$0 and \$602,514, respectively	—	2,486
Liabilities of discontinued operations	112,397	112,397
Total Current Liabilities	720,617	1,127,200
Derivative liability - long term portion	-	307,018
Total Liabilities	720,617	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, no shares issued and none outstanding as of December 31, 2016, and 2015)	-	-
Series B (\$0.0001 par value; 30,000 shares authorized, 6,666 shares issued and outstanding as of December 31, 2016, and 2015)	1	1

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

Series C (\$0.0001 par value; 4,000,000 shares authorized, 3,540,365 and 3,337,442 issued and outstanding as of December 31, 2016, and 2015, respectively)	354	334
Series D (\$0.0001 par value; 5,000,000 shares authorized, 3,428,984 and 4,673,010 shares issued and outstanding as of December 31, 2016, and 2015, respectively)	343	467
Series E (\$0.0001 par value; 8,746,000 shares authorized, 7,929,651 and 8,621,589 shares issued and outstanding as of December 31, 2016, and 2015, respectively)	793	862
Series F (\$0.0001 par value; 1,100,000 shares authorized, and 1,099,998 shares issued and outstanding as of December 31, 2016, and 2015, respectively)	110	110
Series G (\$0.0001 par value; 10,090,000 shares authorized, 10,083,351 and none shares issued and outstanding as of December 31, 2016, and December 31, 2015, respectively)	1,008	-
Series H (\$0.0001 par value; 200,000 shares authorized, 87,500 and none shares issued and outstanding as of December 31, 2016, and December 31, 2015, respectively)	9	-
Series I (\$0.0001 par value; 114,944 shares authorized, 92,944 and none shares issued and outstanding as of December 31, 2016, and December 31, 2015, respectively)	9	-
Common stock, (\$0.0001 par value; 750,000,000 shares authorized, 57,309,364 and 19,252,082 shares issued and outstanding as of December 31, 2016, and 2015, respectively)	5,731	1,925
Additional paid-in capital	6,935,817	4,901,839
Accumulated deficit	(4,601,406	(2,011,483)
Accumulated other comprehensive loss	(32,941)	(12,263)
Total Stockholders' Equity	2,309,828	54,371
Total Liabilities and Stockholders' Equity	\$3,030,445	\$4,316,010

See accompanying notes to consolidated financial statements.

Orbital Tracking Corp. and Subsidiaries

Consolidated Statements of Operations and Comprehensive Loss

(Audited)

	For the Years Ended December 31,	
	2016	2015
Net sales	\$4,698,638	\$3,950,601
Cost of sales	3,623,516	2,966,121
Gross profit	1,075,122	984,480
Operating Expenses		
Selling, general and administrative	566,186	517,269
Salaries, wages and payroll taxes	664,705	582,226
Stock-based compensation	190,000	1,072,500
Professional fees	992,952	505,762
Depreciation and amortization	291,803	298,047
Total Operating Expenses	2,705,646	2,975,805
Loss from Operations	(1,630,524)	(1,991,325)
Other Expense		
Interest expense	603,160	6,069
Foreign currency exchange rate variance	102,554	3,363
Change in fair value of derivative instruments, net	(426,093)	63,456
Other expense	679,778	-
Total Other Expense	959,399	72,886
Loss before provision for income taxes	(2,589,923)	(2,064,211)
Provision for income taxes	-	-
Net loss	(2,589,923)	(2,064,211)
Comprehensive Loss:		
Net loss	(2,589,923)	(2,064,211)
Foreign currency translation adjustments	(20,678)	(11,414)
Net loss available to common stockholders	\$(2,610,601)	\$(2,075,625)
Net loss Per Share - Basic	\$(0.08)	\$(0.26)
Net loss Per Share - Diluted	\$(0.08)	\$(0.26)
Weighted average common shares outstanding		

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

Basic	34,277,686	7,994,119
Diluted	34,277,686	7,994,119

See accompanying notes to consolidated financial statements.

F-3

Orbital Tracking Corp. and Subsidiaries**Consolidated Statements of Changes in Stockholders' Equity****For the Two Years Ended December 31, 2016****(Audited)**

	Preferred Stock - Series A		Preferred Stock - Series B		Preferred Stock - Series C		Preferred Stock - Series D		Preferred Stock - Series E	
	\$0.0001 Par Value		\$0.0001 Par Value		\$0.0001 Par Value		\$0.0001 Par Value		\$0.0001 Par Value	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, January 1, 2015	-	\$ -	-	\$ -	-	\$ -	-	\$ -	8,746,000	\$ 875
Recapitalization of the Company	20,000	2	6,666	1	1,197,442	120	5,000,000	500	-	-
Sale of common stock and preferred stock	-	-	-	-	2,140,000	214	-	-	-	-
Common stock issued for prepaid services	-	-	-	-	-	-	-	-	-	-
Common stock issued for intellectual property	-	-	-	-	-	-	-	-	-	-
Common stock issued for settlement of debt	-	-	-	-	-	-	-	-	-	-
Stock-based compensation in connection with options granted and common stock	-	-	-	-	-	-	-	-	-	-
Imputed interest expense related to related party note payable issued for recapitalization	-	-	-	-	-	-	-	-	-	-
	(20,000)	(2)					(326,990)	(33)	(124,411)	(12)

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

Preferred stock conversions to common										
Comprehensive loss	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2015	-	-	6,666	1.00	3,337,442	334	4,673,010	467	8,621,589	863
Common stock issued for prepaid services	-	-	-	-	-	-	-	-	-	-
Preferred stock conversions to common	-	-	-	-	(347,077)	(35)	(1,244,026)	(124)	(691,938)	(69)
Preferred stock issued upon the conversion of convertible notes	-	-	-	-	-	-	-	-	-	-
Stock-based compensation in connection with options granted	-	-	-	-	-	-	-	-	-	-
Common stock issued for accounts payable	-	-	-	-	-	-	-	-	-	-
Sale of Preferred stock Series H	-	-	-	-	-	-	-	-	-	-
Preferred stock issued due to antidilution clauses of the Preferred Series C, F and G	-	-	-	-	550,000	55	-	-	-	-
Subscribers										
Imputed interest expense related to related party note payable issued for recapitalization	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative	-	-	-	-	-	-	-	-	-	-
Comprehensive loss	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-
Balance, December 31,	-	\$ -	6,666	\$ 1	3,540,365	\$ 354	3,428,984	\$ 343	7,929,651	\$ 793

2016

F-4

Orbital Tracking Corp. and Subsidiaries**Consolidated Statements of Changes in Stockholders' Equity****For the Two Years Ended December 31, 2016-(Continued)****(Audited)**

	Preferred Stock - Series F		Preferred Stock - Series G		Preferred Stock - Series H		Preferred Stock - Series I		Common Stock		Additional Paid-in
	\$0.0001 Par Value		\$0.0001 Par Value		\$0.0001 Par Value		\$0.0001 Par Value		\$0.0001 Par Value		Capital
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
Balance, January 1, 2015	-	\$-	-	\$-	-	\$-	-	\$-	2,540,000	\$254	\$1,363
Recapitalization of the Company	-	-	-	-	-	-	-	-	5,383,172	538	1,495,304
Sale of common stock and preferred stock	1,099,998	110	-	-	-	-	-	-	600,000	60	1,647,117
Common stock issued for prepaid services	-	-	-	-	-	-	-	-	650,000	65	455,935
Common stock issued for intellectual property	-	-	-	-	-	-	-	-	1,000,000	100	49,900
Common stock issued for settlement of debt	-	-	-	-	-	-	-	-	175,000	18	174,982
Stock-based compensation in connection with options granted and common stock	-	-	-	-	-	-	-	-	1,100,000	110	1,072,390
Imputed interest expense related to related party	-	-	-	-	-	-	-	-	-	-	5,581

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

note payable issued for recapitalization												
Preferred stock conversions to common	-	-	-	-	-	-	-	-	7,803,910	780	(734	)
Comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	
Net loss	-	-	-	-	-	-	-	-	-	-	-	
			-	-	-	-	-	-				
Balance, December 31, 2015	1,099,998	110	-	-	-	-	-	-	19,252,082	1,925	4,901,838	
Common stock issued for prepaid services	-	-	-	-	-	-	-	-	136,612	14	99,986	
Preferred stock conversions to common							(22,000	) (2	) 37,470,670	3,747	(3,517	)
Preferred stock issued upon the conversion of	-	-	10,083,351	1,008	-	-	-	-	-	-	649,662	
convertible notes												
Stock-based compensation in connection with options granted	-	-	-	-	-	-	-	-	-	-	190,000	
Common stock issued for accounts payable	-	-	-	-	-	-	-	-	450,000	45	22,455	
Sale of Preferred stock	-	-	-	-	87,500	9	-	-	-	-	349,991	
Series H Preferred stock issued due to antidilution clauses of the	-	-	-	-	-	-	114,944	11	-	-	679,711	
Preferred Series C, F and G Subscribers												
Imputed interest expense related to related party	-	-	-	-	-	-	-	-	-	-	1,133	
note payable issued for recapitalization												

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

Change in fair value of derivative	-	-	-	-	-	-	-	-	-	-	44,558
Comprehensive loss	-	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2016	1,099,998	\$ 110	10,083,351	\$ 1,008	87,500	\$ 9	92,944	\$ 9	57,309,364	\$ 5,731	\$ 6,935,818

F-5

Orbital Tracking Corp. and Subsidiaries**Consolidated Statements of Cash Flows**

(Audited)

For the Years Ended**December 31,**

2016 2015

Cash Flows From Operating Activities:

Net loss	\$ (2,589,923)	\$ (2,064,211)
Adjustments to reconcile net loss to net cash used in operations		
Imputed interest	1,133	5,581
Amortization of prepaid license fee	-	174,582
Amortization of intangible asset	25,000	25,000
Amortization of convertible notes payable discount, net	602,515	-
Amortization of transaction fees	-	2,718
Amortization of prepaid expense in connection with the issuance of common stock issued for prepaid services	262,500	130,656
Preferred stock-based price protection expense	679,778	-
Change in fair value of derivative liabilities	(426,093)	63,454
Depreciation expense	266,803	94,412
Stock-based compensation	190,000	1,072,500
Changes in operating assets and liabilities:		
Accounts receivable	19,960	853)
Inventory	(83,749)	(27,577)
Prepaid expenses	47,981	(56,534)
Unbilled revenue	11,419	(40,150)
Other current assets	13,504	(6,358)
Accounts payable and accrued expenses	(50,827)	16,359
Deferred revenue	(14,037)	(12,230)
Net Cash Used In Operating Activities	(1,044,036)	(620,944)

Cash Flows From Investing Activities:

Cash acquired from acquisition	-	30,934
Purchase of property and equipment	(26,448)	(90,847)
Purchase of Appliques	-	(125,000)
Cash paid per Share Exchange Agreement	-	(375,000)
Net Cash Used In Investing Activities	(26,448)	(559,913)

Cash Flows From Financing Activities:

Proceeds from issuance of common and preferred stock	350,000	1,647,501
Repayments of convertible debt	(100,834)	-
Repayments (to) from related party, net	(6,598)	(107,793)
Net proceeds from convertible notes payable	-	550,000
Net Cash Provided by Financing Activities	242,568	2,089,708

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

Effect of exchange rate on cash	(20,678)	(11,414)
Net decrease in Cash	(848,596)	(897,437)
Cash at Beginning of Year	963,329	65,892
Cash at End of Year	\$114,733	\$963,329
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$-	\$-
Cash paid for taxes	\$3,898	\$-
Non Cash Financing and Investing Activity		
Notes payable issued per Share Exchange Agreement	\$-	\$122,536
Issuance of common stock for intellectual property	\$-	\$50,000
Issuance of common stock for prepaid services	\$100,000	\$456,000
Issuance of common stock for settlement of debt	\$-	\$175,000
Issuance of common stock for accounts payable	\$22,500	\$-
Issuance of preferred stock for conversion of debt	\$650,670	\$-

See accompanying notes to consolidated financial statements.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Organization and Description of Business

Orbital Tracking Corp. (the “Company”) was formerly Great West Resources, Inc., a Nevada corporation. The Company 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.

The Company was originally incorporated in 1997 in Florida. On April 21, 2010, the Company merged with and into a 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 wholly-owned subsidiary.

A wholly-owned subsidiary, Orbital Satcom Corp. (“Orbital Satcom”), a Nevada corporation was formed on November 14, 2014.

On March 28, 2014, the Company merged with and into a wholly-owned subsidiary of the Company (“Great West”) solely for the purpose of changing its state of incorporation to Nevada from Delaware (the “Reincorporation”), 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 mining and exploration business. All references in the audited consolidated financial statements and notes thereto have been retroactively restated to reflect the reverse stock split of 1:150.

On the effective date of the Merger:

(a) Each share of the Company’s Common Stock issued and outstanding immediately prior to the effective date changed and converted into 1/150th fully paid and non-assessable shares of Great West Common Stock;

(b) Each share of the Company's Series A Preferred Stock issued and outstanding immediately prior to the effective date changed and converted into 1/150th fully paid and non-assessable shares of the Great West Series A Preferred Stock;

(c) Each share of the Company's Series D Preferred Stock issued and outstanding immediately prior to the effective date changed and converted into 1/150th fully paid and non-assessable shares of the Great West Series B Preferred Stock;

(d) All options to purchase shares of the Company's Common Stock issued and outstanding immediately prior to the effective date changed and converted into equivalent options to purchase 1/150th of a share of Great West Common Stock at an exercise price of \$0.0001 per share;

(e) All warrants to purchase shares of the Company's Common Stock issued and outstanding immediately prior to the effective date changed and converted into equivalent warrants to purchase 1/150th of a share of Great West Common Stock at 150 times the exercise price of such converted warrants; and

(f) Each share of Great West Common Stock issued and outstanding immediately prior to the Effective Date were canceled and returned to the status of authorized but unissued Great West Common Stock.

Discontinued Operations

The Company's former operations were developing and manufacturing products and services, which reduce fuel costs, save power and energy and protect the environment. The products and services were made available for sale into markets in the public and private sectors. In December 2009, the Company discontinued these operations and disposed of certain of its subsidiaries, and prior periods have been restated in the Company's consolidated financial statements and related footnotes to conform to this presentation.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The remaining liabilities for discontinued operations are presented in the consolidated balance sheets under the caption “Liabilities of discontinued operation” and relates to the discontinued operations of developing and manufacturing of energy saving and fuel efficient products and services. The carrying amounts of the major classes of these liabilities as of December 31, 2016 and 2015 are summarized as follows:

	December 31, 2016	December 31, 2015
Assets of discontinued operations	\$-	\$-
<i>Liabilities</i>		
Accounts payables and accrued expenses	\$(112,397)	\$(112,397)
Liabilities of discontinued operations	\$(112,397)	\$(112,397)

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). The consolidated financial statements of the Company include the Company and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

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 institutions. 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 December 31, 2016 and 2015, there is an allowance for doubtful accounts of \$7,258 and \$0, respectively.

Foreign Currency Translation

The Company's reporting currency is U.S. 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 reported as a separate component of stockholders' equity, captioned as accumulated other comprehensive (loss) gain. Transaction gains and losses arising from exchange rate fluctuations 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 year ended December 31, 2016 closing rate at 1.2345 US\$: GBP, average rate at 1.35585 US\$: GBP and for the year ended 2015 closing rate at 1.47373 US\$: GBP, average rate at 1.52855 US\$: GBP.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

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.

Cost of Product Sales and Services

Cost of sales consists primarily of materials, airtime and overhead costs incurred internally and amounts incurred to contract manufacturers to produce our products, airtime and other implementation costs incurred to install our products and train customer personnel, and customer service and third party original equipment manufacturer costs to provide continuing support to our customers.

Shipping and handling costs are included as a component of costs of product sales in the Company's consolidated statements of operations because the Company includes in revenue the related costs that the Company bills its customers.

Inventories

Inventories are valued at the lower of cost or market, using the first-in first-out cost method. The Company assesses the valuation of its inventories and reduces the carrying value of those inventories that are obsolete or in excess of the Company's forecasted usage to their estimated net realizable value. The Company estimates the net realizable value of such inventories based on analysis and assumptions including, but not limited to, historical usage, expected future demand and market requirements. A change to the carrying value of inventories is recorded to cost of goods sold.

Prepaid expenses

Prepaid expenses amounted to \$171,164 and \$381,645 at December 31, 2016 and 2015, respectively. Prepaid expenses include prepayments in cash for accounting fees, prepayments in equity instruments and license fees which are being amortized over the terms of their respective agreements. 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 \$171,164 and \$0, as of December 31, 2016. Prepaid expense current portion and long-term portion were \$191,677 and \$189,968, as of December 31, 2015.

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.

F-9

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Significant underperformance relative to expected historical or projected future operating results;
Significant changes in the manner of use of the acquired assets or the strategy for the overall business; and
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. The Company did not consider it necessary to record any impairment charges during the years ended December 31, 2016 and 2015 respectively.

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

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.

ORBITAL TRACKING CORP. AND SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 December 31, 2016:

	Conversion feature derivative liability	Warrant liability	Total
Balance at January 1, 2016	\$614,035	\$4,356	\$618,391
Change in fair value included in earnings	(422,974)	(3,119)	(426,093)
Net effect on additional paid in capital	(191,061)	-	(191,062)
Balance at December 31, 2016	\$-	\$1,237	\$1,237

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 accounts for income taxes pursuant to the provision of ASC 740-10, “Accounting for Income Taxes” (“ASC 740-10”) which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company believes its tax positions are all more likely than not to be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has adopted ASC 740-10-25, “Definition of Settlement”, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they are filed.

Research and Development

The Company accounts for research and development costs in accordance with the Accounting Standards Codification subtopic 730-10, Research and Development (“ASC 730-10”). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred. On February 19, 2015, the Company issued 1,000,000 of its common stock, par value \$0.0001, at \$0.05 per share, or \$50,000, to a consultant as compensation for the design and delivery of dual mode gsm/Globalstar Simplex tracking devices and related hardware and intellectual property. We spent \$0 and \$50,000, respectively, in the fiscal years ending December 31, 2016 and December 31, 2015 on research and development.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income is comprised of net income (loss) and all changes to the statements of stockholders’ equity. For the Company, comprehensive loss for the years ended December 31, 2016 and 2015 included net loss and unrealized losses from foreign currency translation adjustments.

Earnings per Common Share

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

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. In periods where the Company has a net loss, all dilutive securities are excluded.

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

	December 31, 2016	December 31, 2015
Convertible preferred stock	212,514,255	214,157,174
Stock Options	12,850,000	2,850,000
Stock Warrants	5,000	5,000
Total	225,369,255	217,012,174

Reclassifications

Certain reclassifications have been made to the prior year’s financial statements to conform to the current year’s presentation. These reclassifications had no effect on previously reported results of operations. The Company reclassified certain expense accounts to conform to the current year’s treatment.

Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements—Going Concern.” The provisions of ASU No. 2014-15 require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The Company is currently assessing the impact of ASU No. 2014-15 on the Company’s consolidated financial statements once adopted.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory within the scope of this Update be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Therefore the amendments in ASU 2015-11 will become effective for us as of the beginning of our 2018 fiscal year. The adoption of this guidance is not expected to have a material impact upon our financial condition or results of operations.

Other accounting standards that have been issued or proposed by FASB that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption. The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows or disclosures.

NOTE 2 - GOING CONCERN CONSIDERATIONS

The accompanying consolidated financial statements are prepared assuming the Company will continue as a going concern. At December 31, 2016, the Company had an accumulated deficit of approximately \$4,601,406, working capital of approximately \$81,490 and net loss of approximately \$2,589,923 during the year ended December 31, 2016. These factors raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the financial statements. 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 consolidated financial statements do not include any adjustments relating to classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 – ORBITAL TRACKING CORP AND GLOBAL TELESAT COMMUNICATIONS LIMITED SHARE EXCHANGE, REVERSE ACQUISITION AND RECAPITALIZATION

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

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 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 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 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

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – INVENTORIES

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

	December 31, 2016	December 31, 2015
Finished goods	\$335,267	\$251,518
Less reserve for obsolete inventory	-	-
Total	\$335,267	\$251,518

For the years ended December 31, 2016 and 2015, the Company did not make any change for reserve for obsolete inventory.

NOTE 5 – PREPAID EXPENSES

Prepaid expenses amounted to \$171,164 and \$381,645 at December 31, 2016 and 2015, respectively. Prepaid expenses include prepayments in cash for accounting fees, prepayments in equity instruments and license fees which are being amortized over the terms of their respective agreements. 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 \$171,164 and \$0, as of December 31, 2016. Prepaid expense current portion and long-term portion were \$191,677 and \$189,968, as of December 31, 2015.

Prepaid License Fees

On December 10, 2014, the Company, through its wholly owned subsidiary, Orbital Satcom Corp, entered into a License Agreement with World Surveillance Group, Inc., and its wholly owned subsidiary, Global 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 purchased the license and equipment for an additional \$125,000 in cash. The Company values the equipment at the unamortized balance at the time of acquisition, \$2,043,010, plus the consideration of \$125,000 or \$2,160,096. The Company will amortize the life of the asset for ten years from date of acquisition, (see Note 6).

For the years ended December 31, 2016 and 2015, the Company recorded amortization relating to the licenses of \$0 and \$174,582, respectively. The amortization is included in depreciation and amortization expenses as reflected in the accompanying consolidated statements of operations. As of December 31, 2016, the amount of prepaid expense relating to the license fees is \$0.

Prepaid Stock Based Compensation

On February 19, 2015, the Company issued an aggregate of 500,000 shares of its common stock, \$0.001 par value, at \$0.05 per share, as compensation for consulting services in the amount of \$12,500, amortized over the length of service, six months; and 250,000 shares as compensation to an employee, which is amortized over twelve months. The amortization is included in professional fees and stock based compensation, as reflected in the accompanying consolidated statements of operations.

On June 18, 2015, the Company issued an aggregate of 150,000 shares of common stock valued at \$0.79 per share, or \$118,500 to an Investor Relation firm as compensation for services, which is amortized over the period of service, six months. The amortization is included in professional fees: investor relations, as reflected in the accompanying consolidated statements of operations.

On December 28, 2015, the Company issued an aggregate of 250,000 shares of common stock valued at \$1.30 per share, or \$325,000 to a consultant as a placement fee as compensation for services and paid a placement fee and associated transaction costs of \$52,500, relating to the proceeds from convertible debt and private placement, which is amortized over the term of the convertible notes, two years. The amortization is included in depreciation and amortization, as reflected in the accompanying consolidated statements of operations.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 11, 2016, the Company issued an aggregate of 136,612 shares of common stock valued at \$0.73 per share, or \$100,000 to a consultant as compensation for services. The amortization is included in professional fees, as reflected in the accompanying consolidated statements of operations.

The following table represents the amounts included in the accompanying consolidated financial statements, as summarized:

	December 31, 2016	December 31, 2015
Prepaid Expense		
Compensation for services	\$403,212	\$25,000
Placement fees and transaction costs	379,932	381,500
Less accumulated amortization	(621,980)	(24,855)
Total	\$161,164	\$381,645

NOTE 6 – PROPERTY AND EQUIPMENT

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.

Property and equipment consisted of the following:

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

	December 31, 2016	December 31, 2015
Office furniture and fixtures	\$90,728	\$95,434
Computer equipment	29,066	24,766
Appliques	2,160,096	2,160,096
Website development	100,436	92,399
Less accumulated depreciation	(401,989)	(154,002)
Total	\$1,978,338	\$2,218,693

Depreciation expense was \$266,803 and \$154,002 for the years ended December 31, 2016 and 2015, respectively.

NOTE 7 – INTANGIBLE ASSETS

On December 10, 2014, the Company entered the satellite voice and data equipment sales and service business through the purchase of certain contracts from Gobal Telesat Corp., (“GTC”). These contracts permit the Company to utilize the Globalstar, Inc. and Globalstar LLC (collectively, “Globalstar”) mobile satellite voice and data network. The purchase price for the contracts of \$250,000 was paid by the Company under an asset purchase agreement by and among the Company, its wholly-owned subsidiary Orbital Satcom, GTC and World Surveillance Group, Inc.

Included in the purchased assets are: (i) the rights and benefits granted to GTC under each of the Globalstar Contracts, subject to certain exclusions, (ii) account and online access to the Globalstar Cody Simplex activation system, (iii) GTC’s existing customers who are serviced pursuant to the Globalstar Contracts (only as to their business directly and exclusively related to the Globalstar Contracts), and (iv) all of GTC’s rights and benefits directly and exclusively related to the Globalstar Contracts.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amortization of customer contracts are included in depreciation and amortization. For the year ended December 31, 2016, the Company amortized \$25,000. Future amortization of intangible assets is as follows:

2017	\$25,000
2018	25,000
2019	25,000
2020	25,000
Total	\$200,000

On February 19, 2015, the Company issued 1,000,000 of its common stock, par value \$0.0001, at \$0.05 per share, or \$50,000, to a consultant as compensation for the design and delivery of dual mode gsm/Globalstar Simplex tracking devices and related hardware and intellectual property.

NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED OTHER LIABILITIES

Accounts payable and accrued other liabilities consisted of the following:

	December 31, 2016	December 31, 2015
Accounts payable	\$373,288	\$409,995
Rental deposits	12,307	18,937
Accrued wages	-	9,887
Payroll liabilities	4,908	5,439
Sales tax payable	1,769	1,861
VAT liability	27,399	28,063
Pre-merger accrued other liabilities	65,948	77,948
Accrued other liabilities	51,286	58,102
Total	\$536,906	\$610,232

NOTE 9 – CONVERTIBLE NOTES PAYABLE

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 \$550,001.

The Notes mature on December 28, 2017. The Company must repay 1/24th or \$25,208 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 550,000 shares of common stock 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. 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.

Total amortization of debt discounts for the convertible debentures amounted to \$0 and \$2,486 for the years ended December 31, 2016 and 2015, respectively, and was included as amortization.

At December 31, 2016 and 2015, outstanding balance of convertible debentures was \$0 and \$605,000, respectively.

NOTE 10 – DERIVATIVE LIABILITIES

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.

ORBITAL TRACKING CORP. AND SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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 Series G Convertible Preferred Stock of \$1,008.

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 December 31, 2016. As of December 31, 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 December 31, 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 year ended December 31, 2016 and the year ended December 31, 2015, respectively. The Company has recognized derivative liabilities for related warrants of \$1,237 and \$4,356 at December 31, 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 year ended December 31, 2016 and the year ended December 31, 2015, respectively. Weighted average term is 0.35 years.

	Conversion feature derivative liability	Warrant liability	Total
Balance at January 1, 2015	\$ -	\$ -	\$ -
Recapitalization on February 19, 2015	-	4,936	4,936
Convertible notes payable – December 28, 2015	550,001	-	550,001
Change in fair value recorded in earnings	64,035	(581)	63,454
Balance at December 31, 2015	614,035	4,356	618,391

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

Change in fair value included in earnings	(422,974)	(3,119)	(426,093)
Net effect on additional paid in capital	(191,062)	-	(191,062)
Balance at December 31, 2016	\$ -	\$ 1,237	\$ 1,237

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

	December 31, 2016		December 31, 2015	
Expected volatility	263.35	%	318	%
Expected term - years	0.35		1.36	
Risk-free interest rate	1.22	%	1.06	%
Expected dividend yield	-	%	-	%

F-17

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – STOCKHOLDERS' EQUITY

Capital Structure

On March 28, 2014, in connection with the Reincorporation (see Note 1), all share and per share values for all periods presented in the accompanying consolidated financial statements are retroactively restated for the effect of the Reincorporation.

The authorized capital of the Company consists of 750,000,000 shares of common stock, par value \$0.0001 per share and 50,000,000 shares of preferred stock, par value \$0.0001 per share, as of December 31, 2016,. On March 5, 2016, the Company shareholders voted in favor of an amendment to its Articles of Incorporation to increase the total number of shares of authorized capital stock to 800,000,000 shares consisting of (i) 750,000,000 shares of common stock and (ii) 50,000,000 shares of preferred stock from 220,000,000 shares consisting of (i) 200,000,000 shares of common stock and (ii) 20,000,000 shares of preferred stock.

Preferred Stock

As of December 31, 2016, there were 50,000,000 shares of Preferred Stock authorized. On March 6, 2016, the Company's shareholders increased the authorized shares of its preferred stock to 50,000,000 from 20,000,000.

Series A Convertible Preferred Stock

On March 28, 2014, in connection with the merger with and into the Company's former subsidiary Great West Resources, Inc., each issued and outstanding share of the Company's Series A Convertible Preferred Stock, par value \$0.0001 per share, was converted into 1/150th shares of Series A Convertible Preferred Stock, par value \$0.0001 per share, for a total of 20,000 issued and outstanding shares of Series A Convertible Preferred Stock. Pursuant to the Series A Certificate of Designation, the Company designated 20,000 shares of its blank check preferred stock as Series A Convertible Preferred Stock. Each share of Series A Convertible Preferred Stock is convertible into one share

each of our common stock, subject to equitable adjustments after such events as stock dividends, stock splits or fundamental corporate transactions. The holders of our Series A Convertible Preferred Stock are entitled to 250 votes for each share of Series A Convertible Preferred Stock owned at the record date for the determination of shareholders entitled to vote, or, if no record date is established, at the date such vote is taken or any written consent of shareholders is solicited. In the event of a liquidation, dissolution or winding up of our business, the holder of the Series A Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series A Convertible Preferred Stock's preferential payment and over our common stock.

As of December 31, 2016, and 2015, 20,000 shares of Series A Convertible Preferred Stock, \$0.0001 par value were authorized with none issued and outstanding.

Series B Convertible Preferred Stock

On March 28, 2014, in connection with the merger with and into the Company's former subsidiary Great West Resources, Inc., each issued and outstanding share of the Company's Series D Convertible Preferred Stock, par value \$0.0001 per share, was converted into 1/150th shares of Series B Convertible Preferred Stock, par value \$0.0001 per share, for a total of 6,666 issued and outstanding shares of Series B Convertible Preferred Stock. Pursuant to the Series B Certificate of Designation, the Company designated 30,000 shares of its blank check preferred stock as Series B Convertible Preferred. Each share of Series B Convertible Preferred Stock has a stated value of \$0.0001 per share.

In the event of a liquidation, dissolution or winding up of the Company, the holder of the Series B Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series B Convertible Preferred Stock's preferential payment and over our common stock. The Series B Convertible Preferred Stock is convertible into five (5) shares of the Company's common stock. The Company is prohibited from effecting the conversion of the Series B 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 B Convertible Preferred Stock. Each share of Series B 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 B Convertible Preferred Stock entitles the holder to cast one (1) votes per share of Series B Convertible Preferred Stock owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

As of December 31, 2016, and 2015, 30,000 shares of Series B Convertible Preferred Stock, \$0.0001 par value were authorized with 6,666 issued and outstanding, respectively.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Series C Convertible Preferred Stock

On October 10, 2014, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series C Convertible Preferred Stock, setting forth the rights, powers, and preferences of the Series C Convertible Preferred Stock. Pursuant to the Series C Certificate of Designation, as amended on February 19, 2015, the Company designated 4,000,000 shares of its blank check preferred stock as Series C Convertible Preferred Stock. Each share of Series C 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 C Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series C Convertible Preferred Stock's preferential payment and over our common stock. The Series C 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 C 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 C Convertible Preferred. Each share of Series C 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 C Convertible Preferred entitles the holder to cast ten (10) votes per share of Series C Convertible Preferred Stock owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

On February 19, 2015, the Company filed an amendment to the Certificate of Designation of Rights and Preferences of its Series C Convertible Preferred Stock, increasing the authorized shares of Series C Convertible Preferred Stock to 4,000,000 from 3,000,000.

As per the Certificate of Designation, for Convertible Preferred Series C Stock, other than in connection with Excepted Issuances, if at any time during the period beginning on the Closing Date of the Convertible Preferred Series C Stock subscription and ending two (2) years thereafter, the Company shall issue any Common Stock or securities convertible into or exercisable for shares of Common Stock (or modify any of the foregoing which may be outstanding) to any person or entity at a price per share or conversion or exercise price per share which shall be less than \$0.05 per share (the "Lower Price Issuance"), then the Company shall issue such additional Units such that the Subscriber shall hold that number of Units, in total, had such Subscriber purchased the Units with a Purchase Price equal to the Lower Price Issuance. On October 28, 2016, the Company entered into separate subscription with accredited investors relating to the issuance and sale of \$350,000, of shares of Series H convertible preferred stock at a purchase price of \$4.00 per share and the initial conversion price is \$0.04 per share. The Company is required to issue to certain prior investors an aggregate of 550,000 shares of Series C Convertible Preferred Stock, which is convertible into an aggregate of 5,500,000 shares of the Company's common stock.

As of December 31, 2016, and 2015, 4,000,000 shares of Series C Convertible Preferred Stock, \$0.0001 par value were authorized; with 3,540,365 and 3,337,442 issued and outstanding, respectively.

Series D Convertible Preferred Stock

On October 15, 2014, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series D Convertible Preferred Stock, setting forth the rights, powers, and preferences of the Series D Convertible Preferred Stock. Pursuant to the Series D Certificate of Designation, the Company designated 5,000,000 shares of its blank check preferred stock as Series D Convertible Preferred Stock. Each share of Series D 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 D Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series D Convertible Preferred Stock's preferential payment and over our common stock. The Series D Convertible Preferred is convertible into twenty (20) shares of the Company's common stock. The Company is prohibited from effecting the conversion of the Series D 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 D Convertible Preferred Stock.

Each share of Series D 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 D Convertible Preferred Stock entitles the holder to cast twenty (20) votes per share of Series D Convertible Preferred Stock owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

As of December 31, 2016 and 2015, there were 5,000,000 shares of Series D Convertible Preferred Stock authorized; 3,428,984 and 4,673,010 shares issued and outstanding, respectively.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Series E Convertible Preferred Stock

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 Stock 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.

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 Preferred Stock of the Company 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.

As of December 31, 2016, and 2015, there were 8,746,000 shares of Series E Convertible Preferred Stock authorized; 7,929,651 and 8,621,589 shares issued and outstanding, respectively.

Series F Convertible Preferred Stock

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 Series F Convertible Preferred Stock are convertible into shares of common stock based on a conversion calculation equal to the stated value of such Series F Convertible Preferred Stock divided by the conversion price. The stated value of each Series F Convertible Preferred Stock 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. The Company is prohibited from effecting a conversion of the Series F Convertible Preferred Stock 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 Series F Convertible Preferred Stock. Each Series F Convertible Preferred Stock 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 Series F Convertible Preferred Stock Share 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. 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 Series F Convertible Preferred Stock with a conversion price equal to the lower price issuance.

On December 28, 2015, the Company entered into separate subscription agreements with accredited investors relating to the issuance and sale of \$550,000 of 1,099,998 shares of Series F Convertible Preferred Stock at a purchase price of \$0.50 per share.

On October 28, 2016, issued to certain prior investors of Series F Convertible Preferred Stock an aggregate of 91,944 shares of Series I Convertible Preferred stock which is convertible into an aggregate of 9,194,400 shares of the Company's common stock in relation to the subscription of the issuance and sale of \$350,000, of shares of Series H convertible preferred stock at a purchase price of \$4.00 per share and the initial conversion price is \$0.04 per share. The price per share or conversion or exercise price per share which is less than \$0.50 per share then the Company shall issue such additional Units such that the Subscriber shall hold that number of Units, in total, had such Subscriber purchased the Units with a Purchase Price equal to the Lower Price Issuance.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2016, there were 1,100,000 shares of Series F Convertible Preferred Stock authorized and 1,099,998 shares issued and outstanding, respectively. As of December 31, 2015, no shares of Series F Convertible Preferred Stock were authorized or issued.

Series G Preferred Stock

On May 17, 2016, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series G Preferred Stock, setting forth the rights, powers, and preferences of the Series G Preferred Stock. Pursuant to the Series G Certificate of Designation, the Company designated 10,090,000 shares of its blank check preferred stock as Series G Preferred Stock (the “Preferred G Shares”), which 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.

On October 28, 2016, the Company issued to certain prior investors of Series G Preferred Convertible Shares an aggregate of 23,000 shares convertible preferred Series I, which is convertible into an aggregate of 2,300,000 shares of the Company’s common stock in relation to the subscription of the issuance and sale of \$350,000, of shares of Series H Convertible Preferred Stock at a purchase price of \$4.00 per share and the initial conversion price is \$0.04 per share. The price per share or conversion or exercise price per share which is less than \$0.50 per share then the Company shall issue such additional Units such that the Subscriber shall hold that number of Units, in total, had such Subscriber purchased the Units with a Purchase Price equal to the Lower Price Issuance.

As of December 31, 2016, there were 10,083,351 shares of Series G Convertible Preferred Stock issued and outstanding convertible into up to 10,083,351 shares of common stock without regard to the beneficial ownership limitation.

As of December 31, 2015, no shares of Series G Convertible Preferred Stock were authorized or issued.

Series H Preferred Stock

On October 13, 2016, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series H Preferred Stock, setting forth the rights, powers, and preferences of the Series H Preferred Stock. Pursuant to the Series H Certificate of Designation, the Company designated 200,000 shares of its blank check preferred stock as Series H Preferred Stock (the “Preferred H Shares”), which are convertible into shares of common stock based on a conversion calculation equal to the stated value of such Series H Preferred Stock divided by the conversion price. The stated value of each Series H Preferred Stock is \$4.00 and 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 Shares to the extent that, as a result 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 Preferred H Share 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.

As of December 31, 2016, there were 87,500 shares of Series H Preferred Stock issued and outstanding convertible into up to 8,750,000 shares of common stock without regard to the beneficial ownership limitation.

As of December 31, 2015, no shares of Series H Convertible Preferred Stock were authorized or issued.

Series I Preferred Stock

On October 13, 2016, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series I Preferred Stock, setting forth the rights, powers, and preferences of the Series I Preferred Stock. Pursuant to the Series I Certificate of Designation, the Company designated 114,944 shares of its blank check preferred stock as Series I Preferred Stock (the “Preferred I Shares”), each of which is convertible into 100 shares of common stock. The stated value of each Series I Preferred Stock is \$0.25. The Company is prohibited from effecting a conversion of the Series I Preferred Shares to the extent that, as a result 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 I Preferred Stock. Each Preferred I Share entitles the holder to cast one vote per share of Series I Preferred Stock owned as of the record date for the determination of shareholders entitled to vote, subject to the 4.99% beneficial ownership limitation.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2015, no shares of Series H Convertible Preferred Stock were authorized or issued.

As of December 31, 2016, there were 92,944 shares of Series I Preferred Stock issued and outstanding convertible into up to 9,294,400 shares of common stock without regard to the beneficial ownership limitation.

Common Stock

As of December 31, 2016, there were 750,000,000 shares of Common Stock authorized and 57,309,364 shares issued and outstanding. On March 28, 2016, the Company's shareholders increased the authorized shares of its common stock to 750,000,000 from 200,000,000.

On December 10, 2014, the Company entered into a license agreement pursuant to which the Company was granted through its wholly-owned subsidiary, Orbital Satcom, a fully paid and irrevocable non-exclusive license to use certain equipment owned by GTC or its affiliates consisting of "appliques" in connection with the Globalstar Contracts. In consideration of the License Agreement, the Company issued GTC 2,222,222 shares of the Company's common stock. The Company valued these common shares at the fair value of approximately \$1.00 per common share or \$2,222,222 based on the quoted trading price on the execution date of the license agreement. On October 13, 2015, the company purchased the Appliques for an additional consideration of \$125,000, see Note 6.

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

1,197,442 shares of Series C convertible preferred stock, and 5,000,000 shares of Series D convertible preferred stock which represent the outstanding common shares and preferred shares of the Company just prior to the closing of the transaction.

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

On February 19, 2015, the Company issued an aggregate of 1,675,000 shares of common stock to certain current consultants, former consultants and employees. These shares consist of (i) 250,000 shares of common stock issued to a consultant as compensation for services relating to the provision of satellite tracking hardware and related services, sales and lead generation, valued at \$12,500 (ii) 1 million shares of common stock issued to a consultant as compensation for the design and delivery of dual mode gsm/Globalstar Simplex tracking devices and related hardware and intellectual property, valued at \$50,000 (iii) 250,000 shares of common stock, subject to a one year lock up, issued to the Company's controller, valued at \$12,500 and (iv) 175,000 shares of common stock issued to MJJ in full satisfaction of outstanding debts of \$175,000. MJJ 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 February 19, 2015, the Company issued to Mr. Rector, the former Chief Executive Officer, Chief Financial Officer and director of the Company, 850,000 shares of the Company's common stock and a seven-year option to purchase 2,150,000 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$0.05 per share, were fully vested on the date of grant and shall expire in February 2022. The Company valued these common shares at the fair value of \$0.05 per common share based on the sale of common stock in a private placement at \$0.05 per common share. In connection with issuance of these common shares, the Company recorded stock-based compensation of \$42,500. The 2,150,000 options were valued on the grant date at approximately \$0.05 per option or a total of \$107,500 using a Black-Scholes option pricing model with the following assumptions: stock price of \$0.05 per share (based on the sale of common stock in a private placement), volatility of 380%, expected term of 7 years, and a risk free interest rate of 1.58%. In connection with the stock option grant, the Company recorded stock based compensation for year ended December 31, 2016 of \$107,500.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On December 2, 2015, 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 December 17, 2015, the Company issued an aggregate of 180,000 shares of common stock upon the conversion of 9,000 shares of Series D Preferred Stock.

On December 18, 2015, 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 December 22, 2015, the Company issued an aggregate of 450,000 shares of common stock upon the conversion of 22,500 shares of Series D Preferred Stock.

On December 23, 2015, the Company issued an aggregate of 1,875,000 shares of common stock upon the conversion of 87,500 shares of Series D Preferred Stock and 12,500 shares of Series E Preferred Stock.

On December 24, 2015, the Company issued an aggregate of 1,681,120 shares of common stock upon the conversion of 84,056 shares of Series D Preferred Stock.

On December 28, 2015, the Company issued an aggregate of 250,000 shares of common stock valued at \$1.30 per share, or \$325,000 to a consultant as a placement fee as compensation for services, which is amortized over the period of service. The Company issued in a private placement to certain accredited investors an aggregate of 1,099,998 shares of Series F Preferred Stock, par value \$0.0001, at \$0.50 per share for gross proceeds to the Company of \$550,001.

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

On December 29, 2015, the Company issued 678,860 shares of common stock upon the conversion of 33,934 shares of Series D Preferred Stock and issued 462,230 shares of its common stock upon the conversion of 46,223 shares of Series E Preferred Stock, by David Phipps, its Chief Executive Officer.

On December 30, 2015, 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 December 31, 2015, the Company issued an aggregate of 81,880 shares of common stock upon the conversion of 8,188 shares of Series E Preferred Stock, by David Phipps, its Chief Executive Officer.

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.

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.

F-24

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 Series G Preferred Stock 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.

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.

F-25

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 of \$22,500.

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.

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 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 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 share of 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, Series C Preferred Stock, Series G Preferred Stock and Preferred Series H Preferred Stock, 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 Series G Preferred Stock. The Company was required to issue 550,000 shares of its Series C Preferred Stock, which is convertible into 5,500,000 shares of the Company's common stock and 114,944 shares of Series I Preferred Stock, which is convertible into 11,494,400 shares of the Company's common stock. Series I Preferred Stock was issued to certain holders in lieu of Series G Preferred Stock and Series H Preferred Stock, this resulted in the recording of other expense of \$679,778 to account for the issuance of the additional preferred shares to additional paid in capital.

F-26

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 of Series D Preferred for an aggregate of 800,000 shares of common stock.

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.

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

On November 23, 2016, the Company issued an aggregate of 2,000,000 shares of common stock upon the conversion of 100,000 shares of Series D Preferred Stock.

On December 1, 2016, the Company issued an aggregate of 623,010 shares of common stock upon the conversion of 62,301 shares of Series E Preferred Stock.

On December 22, 2016, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 100,000 shares of Series E Preferred Stock.

On December 28, 2016, the Company issued an aggregate of 5,000,000 shares of common stock upon the conversion of 125,000 shares of Series D Preferred Stock and the conversion of 22,000 shares of Series I Preferred Stock.

F-27

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Unless earlier terminated by the Board, the 2014 Plan shall terminate at the close of business on January 21, 2024. Up to 226,667 shares of the Company’s common stock are reserved for issuance under the 2014 Plan as awards to employees, directors, consultants, advisors and other service providers.

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 year ended December 31, 2016 of \$107,500, respectively.

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 year ended December 31, 2016 of \$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 year ended December 31, 2016 of \$260,000, respectively.

On December 16, 2016, the Company issued options to Mr. Phipps, to purchase up to 10,000,000 shares of common stock. The options were issued outside of the Company's 2014 Equity Incentive Plan and are not governed by the 2014 Plan. The options have an exercise price of \$0.01 per share, vest immediately, and have a term of ten years. The 10,000,000 options were valued on the grant date at approximately \$0.019 per option or a total of \$190,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$0.019 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 872%, expected term of 10 years, and a risk-free interest rate of 1.0500%. In connection with the stock option grant, the Company recorded stock based compensation for the year ended December 31, 2016 of \$190,000, respectively

Stock options outstanding at December 31, 2016 as disclosed in the below table have approximately \$550,000 of intrinsic value at the end of the period.

ORBITAL TRACKING CORP. AND SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

A summary of the status of the Company's outstanding stock options and changes during the year ended December 31, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at January 1, 2015	60,000	\$ 0.015	3.06
Recapitalization February 19, 2015	2,150,000	0.05	6.14
Granted	700,000	0.05	9.98
Exercised	-	-	-
Forfeited	(60,000)	0.015	-
Cancelled	-	-	-
Balance outstanding at December 31, 2015	2,850,000	\$ 0.05	7.08
Options exercisable at December 31, 2015	2,850,000	\$ 0.05	
Weighted average fair value of options granted during the period		\$ 0.05	
Balance at January 1, 2016	2,850,000	\$ 0.05	7.08
Granted	10,000,000	0.01	9.96
Exercised	-	-	-
Forfeited	-	-	-
Cancelled	-	-	-
Balance outstanding at December 31, 2016	12,850,000	\$ 0.02	9.10
Options exercisable at December 31, 2016	12,850,000	\$ 0.02	9.10
Weighted average fair value of options granted during the period		\$ 0.02	

A summary of the status of the Company's outstanding stock warrants and changes during the year ended December 31, 2016 is as follows:

Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual
-----------------------------------	--	---

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

			Life (Years)
Balance at January 1, 2015	-	\$ -	-
Recapitalization at February 19, 2015	171,666	3.77	1.36
Granted	-	-	-
Exercised	-	-	-
Forfeited	(166,666)	3.75	-
Cancelled	-	-	-
Balance at December 31, 2015	5,000	\$ 4.50	1.36
Balance at January 1, 2016	5,000	\$ 4.50	1.36
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Cancelled	-	-	-
Balance outstanding at December 31, 2016	5,000	\$ 4.50	0.35

The following table summarizes the Company's stock warrants outstanding at December 31, 2016:

Warrants Outstanding			Warrants Exercisable		
Exercise Price	Number Outstanding at December 31, 2016	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2016	Weighted Average Exercise Price
\$4.50	5,000	0.35 Years	\$ 4.50	5,000	\$ 4.50

ORBITAL TRACKING CORP. AND SUBSIDIARY**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 12 – INCOME TAXES**

The Company accounts for income taxes under ASC Topic 740: Income Taxes which requires the recognition of deferred tax assets and liabilities for both the expected impact of differences between the financial statements and the tax basis of assets and liabilities, and for the expected future tax benefit to be derived from tax losses and tax credit carry forwards. ASC Topic 740 additionally requires the establishment of a valuation allowance to reflect the likelihood of realization of deferred tax assets. The Company has a net operating loss carry forward for tax purposes totaling approximately \$0.8 million at December 31, 2016, expiring through the year 2036.

For U.S. purposes, the Company has not completed its evaluation of NOL utilization limitations under Internal Revenue Code, as amended (the “Code”) Section 382, change of ownership rules. If the Company has had a change in ownership, the NOL’s would be limited as to the amount that could be utilized each year, based on the Code. The Company has also, not completed its review of NOL’s pertaining to years the Company was known as “Silver Horn Mining Ltd.” and “Great West Resources, Inc.”, which may not be available due to IRC Section 382 and because of a change in business line that may eliminate NOL’s associated with “Silver Horn Mining Ltd.” and “Great West Resources, Inc.”

The table below summarizes the differences between the Company’s effective tax rate of 39% and the statutory federal rate as follows for the years ended December 31, 2016 and 2015:

	December 31, 2016	December 31, 2015
Tax expense (benefit) computed at “expected” statutory rate	\$(880,547)	\$(701,382)
State income taxes, net of benefit	-	-
Permanent differences :		
Stock based compensation and consulting	384,974	364,067
Loss (gain) from change in fair value of derivative liability	(144,872)	21,575
Other	550,549	128,408
Valuation allowance	89,895	187,332
Net income tax expense/(benefit)	\$-	\$-

The Company’s wholly owned subsidiary, GTCL, is a United Kingdom (“UK”) Limited Company and files tax returns in the UK. Its estimated tax liability for December 31, 2016 and 2015 is approximately \$0 and \$0, respectively.

Deferred tax assets and liabilities are provided for significant income and expense items recognized in different years for tax and financial reporting purposes. Temporary differences, which give rise to a net deferred tax asset is as follows:

	December 31, 2016	December 31, 2015
Deferred tax assets:		
Net operating loss carryforward	\$277,227	\$187,332
Total deferred tax assets	\$277,227	\$187,332
Deferred tax liabilities:		
Book basis of property and equipment in excess of tax basis	\$-	\$-
Total deferred tax liabilities	\$-	\$-
Net deferred tax asset before valuation allowance	\$277,227	\$187,332
Less: valuation allowance	(277,227)	(187,332)
Net deferred tax asset	\$-	\$-

The net operating losses were increased from \$187,332 at December 31, 2015 to \$277,227 at December 31, 2016. After consideration of all the evidence, both positive and negative, management has recorded a full valuation allowance at December 31, 2016 and 2015, due to the uncertainty of realizing the deferred income tax assets.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

On October 1, 2015, the Company entered into a three-year property lease for its headquarters, located in Poole, UK for £22,000 per annum, or \$2,486 a month at the yearly average conversion rate of 1.35585. The following is a schedule, by year, using the yearly average conversion rate of 1.35585, of future minimum rental payments under office space leases:

	For the
	years
	ended
	December
	31,
2017	\$ 29,829
2018	22,374
2019	-
2020	-
2021	-
	\$ 52,203

Rent expense for year ended December 31, 2016 and 2015 is \$29,829 and \$33,628, respectively.

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 June 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 March 3, 2016, the Company entered into a two-year Executive Employment Agreement with Mr. Phipps, 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, or \$65,078 at the yearly conversion rate of 1.3558. 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 Company'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 this agreement with the Company are identical to the terms of Mr. Phipps' employment agreement with Orbital Satcom described above.

Consulting Agreement

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

On January 15, 2016, the Company engaged IRTTH Communications LLC. ("IRTTH"), for a term of 12 months to provide investor relations, public relations, internet development, communication and consulting services. As consideration for its services, IRTTH will receive from the Company 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 the agreement, receives investment monies (debt, equity or a combination thereof) from investor(s) introduced to the Company by IRTH as described herein, the 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.

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 16, 2016, the company entered into a consulting agreement with David Fisher Media, to provide financial and social media communication services for ninety days for consideration of \$50,000.

On March 31, 2016, the Company entered into a two-month contract with a consultant, Reformation Services LLC for advertising, branding strategy and public awareness marketing for consideration of \$10,000.

On April 25, 2016, the Company entered into an agreement with a marketing and investor relations' consultant, MIDAM Ventures, LLC, for fifteen months, ending on July 25, 2017. As for consideration of services the Company paid a one-time payment of \$72,000.

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 14 – RELATED PARTY TRANSACTIONS

The Company has received financing from the Company's Chief Executive Officer. No formal repayment terms or arrangements existed prior to February 19, 2015, when as part of the Share Exchange Agreement, the Company entered into a note with David Phipps where the stockholder loans bear no interest and are due February 19, 2016. On February 19, 2016, the note was extended an additional year to February 19, 2017 and on January 9, 2017 the note was extended another additional year to February 19, 2018. The balance of the related party note payable was \$16,864 as of December 31, 2016. The accounts payable due to related party includes advances for inventory due to David Phipps of \$46,500 and wages of \$4,089. Total payments due to David Phipps as of December 31, 2016 and December 31, 2015 are \$67,453 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 \$64,058 and three individuals earned \$96,751, for the years ended December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, the Company paid consulting fees of \$0 and \$24,000, respectively, to an affiliated company. The President of the affiliated company is the former CFO of the Company.

NOTE 15 - CONCENTRATIONS

Customers:

No customer accounted for 10% or more of the Company's revenues during the years ended December 31, 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 years ended December 31, 2016 and 2015.

	December 31, 2016		December 31, 2015	
Network Innovations	676,789	27.5 %	553,345	25.7 %
Delorme	322,566	13.1 %	442,022	21.1 %
IEC Telecom Europe	126,973	5.2 %	270,698	12.9 %
Globalstar Europe	260,392	10.6 %	232,014	11.0 %
Satcom Global	265,645	10.8 %	26,235	0.8 %
Cygnus Telecom	421,472	17.1 %	208,087	9.9 %

ORBITAL TRACKING CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 – SUBSEQUENT EVENTS

On January 3, 2017, the Company issued an aggregate of 816,810 shares of common stock upon the conversion of 35,000 shares of Series D Preferred Stock and 11,681 shares of Series E Preferred Stock.

On January 4, 2017, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 100,000 shares of Series E Preferred Stock.

On January 6, 2017, the Company issued an aggregate of 6,140 shares of common stock upon the conversion of 614 shares of Series E Preferred Stock.

On January 9, 2017, the related party note payable due to David Phipps of \$16,864, was extended an additional year, through February 19, 2018.

On January 11, 2017, the Company issued an aggregate of 1,200,000 shares of common stock upon the conversion of 60,000 shares of Series D Preferred Stock.

On January 31, 2017, the Company issued an aggregate of 2,500,000 shares of common stock upon the conversion of 125,000 shares of Series D Preferred Stock.

On March 2, 2017, 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 March 7, 2017, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 100,000 shares of Series E Preferred Stock.

F-33

