STONEPATH GROUP INC
Form 10-K/A
August 28, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2002
OR
[ ] 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: 001-16105

STONEPATH GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	65-0867684
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1600 Market Street, Suite 1515, Philadelphia, PA	19103
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (215) 979-8370

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, par value $.001 per share	American Stock Exchange

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

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. YES [X] 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. [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act)
YES [ ] NO [X]

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant as of June 28, 2002 was $21,606,526 based upon

the closing sale price of the Registrant's common stock on the American Stock Exchange of $1.10 on such date. See Footnote (1) below.

The number of shares outstanding of the Registrant's common stock as of March 17, 2003 was 27,945,914.

Documents Incorporated by Reference: None

Index to Exhibits appears at page 43 of this Report

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(1) The information provided shall in no way be construed as an admission that any person whose holdings are excluded from the figure is an affiliate or that any person whose holdings are included is not an affiliate and any such admission is hereby disclaimed. The information provided is solely for record keeping purposes of the Securities and Exchange Commission.

STONEPATH GROUP, INC.
ANNUAL REPORT ON FORM 10-K/A
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2002

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Explanatory Note

This Form 10-K/A is being filed to restate our consolidated financial statements as of and for the years ended December 31, 2002 and 2001 and to revise certain disclosures in connection with a review of our Form 10-K for the year ended December 31, 2002 by the Staff of the Division of Corporation Finance of the Securities and Exchange Commission. The restatement of our consolidated financial statements relates to (i) allocating more value to the customer relationship intangible assets for some of our acquisitions and (ii) revising the amortization method and life used for such assets. The Financial Outlook section previously included in Item 7 of Part II of our Form 10-K has been omitted as it has been superceded by subsequent guidance provided by us. Except as otherwise specifically noted, all information contained herein is as of December 31, 2002 and does not reflect any events or changes in information that may have occurred subsequent to that date.

PART I

This Annual Report on Form 10-K/A includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and our subsidiaries, that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue," or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed elsewhere in this Annual Report, including the section entitled "Risks Particular to Our Business" and the risks discussed in our other Securities and Exchange Commission filings. The following discussion should be read in conjunction with our audited Consolidated Financial Statements and related Notes thereto included elsewhere in this report.

Item 1. Business

Overview

We are a non-asset based third-party logistics services company providing

supply chain solutions on a global basis. We offer a full range of time-definite transportation and distribution solutions through our Domestic Services platform where we manage and arrange the movement of raw materials, supplies, components and finished goods for our customers. These services are offered through our domestic air and ground freight forwarding business. We offer a full range of international logistics services including international air and ocean transportation as well as customs house brokerage services through our International Services platform. In addition to these core service offerings, we also provide a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management solutions. We service a customer base of manufacturers, distributors and national retail chains through a network of offices in 18 major metropolitan areas in North America, plus two international locations, and an extensive network of over 200 independent carriers and over 150 service partners strategically located around the world.

Our strategic objective is to build a leading global logistics services organization that integrates established logistics companies with innovative technologies. To that end, we are extending our network through a combination of synergistic acquisitions and the organic expansion of our existing base of logistics operations.

Our acquisition strategy focuses on acquiring and integrating logistics businesses that will enhance operations within our current market areas as well as extend our network to targeted locations in Asia, South America and Europe. We select acquisition targets based upon their ability to demonstrate: (1) historic levels of profitability; (2) a proven record of delivering superior time-definite distribution and other value added services; (3) an established customer base of large and mid-sized companies; and (4) opportunities for significant growth within strategic segments of our business.

As we integrate these companies, we intend to create additional stockholder value by: (1) improving productivity through the adoption of enhanced technologies and business processes; (2) improving transportation margins by leveraging our growing purchasing power; and (3) enhancing the opportunity for organic growth by cross-selling and offering expanded services.

Our strategy is designed to take advantage of shifting market dynamics. The third-party logistics industry continues to grow as an increasing number of businesses outsource their logistics functions to more cost effectively manage and extract value from their supply chains. Also, the industry is positioned for further consolidation since it remains highly fragmented, and since customers are demanding the types of sophisticated and broad reaching service offerings that can more effectively be handled by larger and more diverse organizations.

There are a variety of risks associated with our ability to achieve our strategic objectives, including our ability to acquire and profitably manage additional businesses, our current reliance on a small number of key customers, the risks inherent in international operations, and the intense competition in our industry for customers and for the acquisition of additional businesses. For a more detailed discussion of these risks, see the section of this Item 1 entitled "Risks Particular to our Business."

Through December 31, 2002, we have completed the following four acquisitions:

o On October 5, 2001, we acquired M.G.R., Inc., d/b/a "Air Plus Limited" and its operating affiliates, a group of Minneapolis-based privately

held companies that provide a full range of logistics and transportation services (collectively, "Air Plus"). Air Plus provides the platform for our Domestic Services organization.

- On April 4, 2002, we acquired Global Transportation Services, Inc. ("Global"), a Seattle-based privately held company that provides a full range of international air and ocean logistics services. Global provides the platform for our International Services organization.

- On May 30, 2002, we acquired United American Freight Services, Inc. ("United American"), a Detroit-based organization as an "add-on" acquisition to our Domestic Services organization to expand our service offering to include a time definite logistics service for the automotive industry.

- On October 1, 2002, we acquired Transport Specialists, Inc. ("TSI"), a Virginia-based organization as an "add-on" acquisition to our Domestic Services organization to broaden our customer base to include various U.S. government agency and contractor relationships.

We are also in the process of closing a transaction that will significantly increase our presence in Asia. On March 12, 2003, we announced an agreement to acquire a 70% interest in Singapore-based G-Link Group, a "platform acquisition" that will provide the foundation for our service offering in Southeast Asia. We expect to close the transaction by no later than June 30, 2003, subject to customary closing conditions, including securing third-party and regulatory approvals and the completion of an audit for the year ended December 31, 2002.

Beyond these immediate acquisition opportunities, we have also identified a number of additional companies that may be suitable acquisition candidates and we are in preliminary discussions with a select number of them.

Industry Overview

As business requirements for efficient and cost-effective distribution services have increased, so has the importance and complexity of effectively managing freight transportation. Businesses are increasingly striving to minimize inventory levels, reduce order and cash-to-cash cycle lengths, perform manufacturing and assembly operations in lowest cost locations and distribute their products throughout global markets, often requiring expedited or time-definite shipment services. Furthermore, customers are increasingly citing an efficient supply chain as a critical element in achieving financial performance. To remain competitive, successful companies need to not only achieve success in their core businesses, they must execute quickly and accurately.

To accomplish their goals, many businesses turn to organizations providing a broad array of supply chain services. These service providers consist of freight forwarders, customs brokers, warehouse operators and other value added logistics service providers. We believe that these service providers must possess state-of-the-art technology and the ability to provide global supply chain management services to be responsive to the marketplace. Many logistics providers are now providing their customers with customized solutions for the planning and management of complex supply chains. The demand for these solutions has risen as companies continue to outsource non-core competencies, globally source goods and materials and focus on managing the overall cost of their supply chain. These trends are further facilitated by the rapid growth of technology including the growth of Web-based track and trace technology, and the ability to create electronic interfaces between the systems of service providers and their customers.

The Company believes it can differentiate itself by focusing on time-definite supply chain solutions with capabilities across virtually every mode of transportation, as well as combining these services with other value-added logistics services, including pick-and-pack services, merge-in-transit, inventory management, Web-based order management, warehousing, reverse logistics, dedicated trucking and regional and local distribution. The Company also believes that it has a competitive advantage resulting from its extensive knowledge of logistics markets, information systems, the experience of its logistics managers and the market information it possesses from its diverse customer base.

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Market penetration of third-party logistics providers ("3PLs") is still relatively low. According to industry sources, total revenue for the third-party logistics services in the U.S. was approximately $61 billion in 2001, representing about 8% of the total logistics market that could be outsourced to 3PLs. The market for third-party logistics services in the United States is expected to grow at an average rate of about 15% over the next several years, or to well over $100 billion by 2006. The total logistics market available to 3PLs in the United States is expected to grow at an average rate of about 4% over the next several years, to approximately $875 billion in 2006, from $720 billion in 2001.

Barring the risk of international crisis and armed conflicts, we believe that the third-party logistics industry in general, and that time-definite distribution in particular, is poised for continued growth. The growth in the use of third-party logistics services is being driven by a number of factors, including:

- Outsourcing of non-core activities. Companies are increasingly outsourcing freight forwarding, warehousing and other supply chain activities to allow them to focus on their respective core competencies. From managing purchase orders to the timely delivery of products, companies turn to 3PLs to manage these functions at a lower cost and more efficiently.

- Globalization of trade. As barriers to international trade are reduced or eliminated, companies are increasingly sourcing their parts, supplies and raw materials from the most cost competitive suppliers throughout the world. This places a greater emphasis on international freight management and just-in-time delivery. Outsourcing of manufacturing functions to, or locating company-owned manufacturing facilities in, low cost areas of the world also results in increased volumes of world trade.

- Increased need for time-definite delivery. The need for just-in-time and other time-definite delivery has increased as a result of the globalization of manufacturing, greater implementation of demand-driven supply chains, the shortening of product cycles and the increasing value of individual shipments. Many businesses recognize that increased spending on time-definite supply chain management services can decrease overall manufacturing and distribution costs, reduce capital requirements and allow them to manage their working capital more efficiently by reducing inventory levels and inventory loss.

- Consolidation of logistics function. As companies try to develop "partnering" relationships with fewer suppliers, they are consolidating the number of freight forwarders and supply chain management providers they use. This trend places greater pressure on

regional or local freight forwarders and supply chain management providers to grow or become aligned with a global network. Larger freight forwarders and supply chain management providers benefit from economies of scale which enable them to negotiate reduced transportation rates with the carriers actually providing the transportation services and to allocate their overhead over a larger volume of transactions. Globally-integrated freight forwarders and supply chain management providers are better situated to provide a full complement of services, including pick-up and delivery, shipment via air, sea and/or ground transport, warehousing and distribution, and customs brokerage.

- Increased significance of technology. Advances in technology are placing a premium on decreased transaction times and increased business-to-business activity. Companies have recognized the benefits of being able to transact business electronically. Accordingly, businesses increasingly are seeking the assistance of supply chain service providers with sophisticated information technology systems which facilitate real-time transaction processing and Web-based shipment monitoring.

According to a survey led by Dr. C. John Langley, Georgia Institute of Technology, third-party logistics use among North American companies increased to 78% in 2002, from 68% to 73% usage rates reported in the previous six years.

We expect the strategic role of information technology and the demand for real-time information such as inventory visibility and order status updates to have a positive impact on our business. According to Dr. Langley's survey, of the top five information technologies which 3PLs provided to companies in 2002, 64% of the respondents utilized Web-enabled communications, a 33% increase over 2001, and 77% utilized warehouse/distribution center management technologies, a 7% increase from the previous year.

The growing emphasis on just-in-time inventory control processes has added to the complexity and need for time-definite and other value added supply-chain services. We believe that we can continue to differentiate ourselves by combining our time-definite transportation solutions with other complementary supply chain solutions. We expect to benefit from the intense corporate focus on lower-cost services, which will positively impact those providers who have the ability to leverage relationships with numerous carriers and shippers. We also believe that we are well positioned to take advantage of the growing trend toward international freight services and time-definite domestic ground services, which have both increased in demand during the most recent economic cycle.

Our Strategic Objectives

Our Business Strategy

Our objective is to provide customers with comprehensive value-added logistics solutions on a global scale. We plan to achieve this goal through a combination of growth through acquisition and accelerated organic growth. We intend to carry out the following strategies:

- Enter New and Expand Existing Markets through Acquisitions. We are pursuing an aggressive acquisition strategy to enhance our position in our current markets and to acquire operations in new markets. We anticipate expanding into new and existing markets by acquiring well-established logistics organizations that are leaders in their

regional markets. In particular, we intend to focus our acquisition strategy on candidates that have historic levels of profitability, a proven record of delivering superior time-definite distribution and other value added services, an established customer base of large and mid-sized companies and the potential to benefit from the synergies offered by our acquisition strategy.

- Accelerate Organic Growth. A key component of our strategy is to accelerate the organic growth of our existing business as well as the business of the companies we acquire. We expect that internal growth can be accelerated by cross-selling our domestic and international capabilities to our existing customer base and deploying supply chain technologies that will drive new customer acquisition.

- Development of Identity. We are also developing the "Stonepath Logistics" brand and intend to leverage our broader set of capabilities with the goal of capturing business opportunities which would not normally be available to a regionally-oriented logistics company.

Our Acquisition Strategy

We believe there are many attractive acquisition candidates in our industry because of the highly fragmented composition of the marketplace, the industry participants' need for capital and their owners' desire for liquidity.

We will continue to expand our Domestic and International service platforms in the United States through a number of "add-on" acquisitions of other companies with complementary geographical and logistics service offerings. These "add-on" acquisitions are generally expected to have pre-tax operating earnings of $1.0 to $3.0 million. Companies in this range of earnings may be receptive to our acquisition program since they are often too small to be identified as acquisition targets by larger public companies or to independently attempt their own public offerings. In addition, we will continue to pursue "platform" acquisitions to expand in targeted markets in Asia, South America and Europe which will further enable our global supply-chain execution capabilities and improve our overall profitability. We believe that our combined domestic and international capabilities provide a significant competitive advantage in the marketplace.

A "platform" acquisition is defined by us as one that creates a significant new capability for the Company, or entry into a new global geography. When completing a platform acquisition, we would expect to retain the management as well as the operating, sales and technical personnel of the acquired company to maintain continuity of operations and customer service. The objective would be to increase an acquired company's revenues and improve its profitability by implementing our operating strategies for internal growth.

An "add-on" acquisition, on the other hand, will more likely be regional in nature, will be smaller than a platform acquisition and will enable us to offer additional services or expand into new regional markets, or serve new industries. When justified by the size and service offerings of an add-on acquisition, we expect to retain the management, along with the operating, sales and technical personnel of the acquired company, while seeking to improve that company's profitability by implementing our operating strategies. In most instances where there is overlap of geographic coverage, operations acquired by add-on acquisitions can be integrated into our existing operations in that market, resulting in the elimination of duplicative overhead and operating costs.

We believe we can successfully implement our acquisition strategy due to: (i) the highly fragmented composition of the market; (ii) our strategy for

creating an organization with global reach, which should enhance an acquired company's ability to compete in its local and regional market through an expansion of offered services and lower operating costs; (iii) the potential for increased profitability as a result of our centralization of certain administrative functions, greater purchasing power, and economies of scale; (iv) our standing as a public corporation; (v) a decentralized management strategy, which should, in most cases, enable the acquired company's management to remain involved in the operation of the Company; and (vi) the ability to utilize our experienced management in identifying acquisition opportunities.

Our Operating Strategy

- Foster a Decentralized Entrepreneurial Environment. A key element of our operating strategy is to foster a decentralized, entrepreneurial environment for our employees. We intend to foster this environment by continuing to build on the names, reputations and customer relationships of acquired companies and by sharing their operating policies, procedures and expertise across the organization to develop new ideas to best serve the prospects of the Company. An entrepreneurial business atmosphere is likely to allow our regional offices to quickly and creatively respond to local market demands and enhance our ability to motivate, attract and retain managers to maximize growth and profitability.

- Develop and Maintain Strong Customer Relationships. We seek to develop and maintain strong, interactive customer relationships by anticipating and focusing on our customers' needs. We emphasize a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach used by many of our competitors. To develop close customer relationships, we regularly meet with both existing and prospective customers to help design solutions for, and identify the resources needed to execute, their supply chain strategies. We believe that this relationship-oriented approach results in greater customer satisfaction and reduced business development expense.

- Centralize Administrative Functions. We seek to maximize our operational efficiencies by integrating general and administrative functions at the corporate level, and reducing or eliminating redundant functions and facilities at acquired companies. This enables us to quickly realize potential savings and synergies, efficiently control and monitor our operations and allows acquired companies to focus on growing their sales and operations.

Operations

Our primary business operations involve obtaining shipment or material orders from customers, creating and delivering a wide range of logistics solutions to meet customers' specific requirements for transportation and related services, and arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. These logistics solutions include domestic and international freight forwarding, customs brokerage and door-to-door delivery services using a wide range of transportation modes, including air, ocean and truck as well as customs brokerage, warehousing and other value-added services, such as inventory management, assembly, distribution and installation for manufacturers and retailers of commercial and consumer products.

As a non-asset-based logistics provider, we arrange for and subcontract

services on a non-committed basis to airlines, motor carriers, express companies, steamship lines and warehousing and distribution operators. By concentrating on network-based solutions, we avoid competition with logistics providers that offer dedicated outsourcing solutions for single elements of the supply chain. Such dedicated logistics companies typically provide expensive, customized infrastructure and systems for a customer's specific application and, as a result, dedicated solutions that are generally asset-intensive, inflexible and invariably localized to address only one or two steps in the supply chain. Our network-based services leverage common infrastructure and technology systems so that solutions are scalable, replicable and require a minimum amount of customization (typically only at the interface with the customer). This non-asset ownership approach maximizes our flexibility in creating and delivering a wide range of end-to-end logistics solutions on a global basis while simultaneously allowing us to exercise significant control over the quality and cost of the transportation services provided.

Within the logistics industry, we target specific markets in which we believe we can achieve a competitive advantage. For example, in the freight forwarding market, we arrange for the transportation of cargo that is generally larger and more complex than shipments handled by integrated carriers such as United Parcel Service and Federal Express Corporation. In addition, we provide specialized combinations of services that traditional freight forwarders cannot cost-effectively provide, including time-definite delivery requirements, direct-to-store distribution and merge-in-transit movement of products from various vendors in a single coordinated delivery to, and/or installation at, the end-user.

Our services can be broadly classified into the following categories:

- Freight Forwarding Services. We offer domestic and international air, ocean and ground freight forwarding for shipments that are generally larger than shipments handled by integrated carriers of primarily small parcels such as Federal Express Corporation and United Parcel Service. Our basic freight forwarding business is complemented by customized and information technology-based options to meet customers' specific needs. Our Domestic Services organization offers same day, one, two and three to five day service along with expedited ground service within North America and Puerto Rico through our network of asset based carriers. On a limited basis, we also provide motor carrier services through one of our own affiliates.

- Customs Brokerage Services. Our International Services organization provides customs brokerage services in the United States and will provide similar services in other countries in which we choose to operate. Within each country, the rules and regulations vary along with the level of expertise that is required to perform the customs brokerage services. Our customs brokers and support staff have substantial knowledge of the complex tariff laws and customs regulations governing the payment of duty, as well as valuation and import restrictions in their respective countries.

- Warehousing and Other Value Added Services. Our warehousing services primarily relate to storing goods and materials to meet our customers' production or distribution schedules. Other value added services include receiving, deconsolidation and decontainerization, sorting, put away, consolidation, assembly, inspection services, cargo loading and unloading, assembly of freight, customer inventory management and protective packing and storage. We receive storage charges for use of our warehouses and fees for our other services.

Other value added services provided by the Company include:

- Direct to store logistics for retail customers involving coordination of product received directly from manufacturers and dividing large shipments from manufacturers into numerous smaller shipments for delivery directly to retail outlets or distribution centers to meet time-definite product launch dates.

- Merge-in-transit logistics involving movement of products from various vendors at multiple locations to a Company facility and the subsequent merger of the various deliveries into a single coordinated delivery to the final destination. For example, such services are useful to retailers where deliveries from diverse sources are organized and distributed to maximize efficiency of the customer's sales and marketing programs.

- Web-based fulfillment solutions in which we provide order management as well as the subsequent pick, pack and shipment for our customers.

- Value-added, high-speed, time-definite, total-destination programs that include packaging, transportation, unpacking and placement of new products and equipment.

- Packaging, transportation, unpacking and stand installation for domestic trade shows and major expositions.

- Reverse logistics involving the return of products from end users to manufacturers, retailers, resellers or remanufacturers, including verification of working order, defect analysis, serial number tracking, and inventory management.

Information Services

The regular enhancement of our information systems and ultimate migration of the information systems of our acquired companies to a common set of back-office and customer facing applications is a key component of our growth strategy. We believe that the ability to provide accurate real-time information on the status of shipments will become increasingly important and that our efforts in this area will result in competitive service advantages in winning new customers and growing business in existing accounts. In addition, through the process of centralizing our back-office operations and using our transportation management system to automate the rating, routing, tender and financial settlement processes for transportation movements, we believe we will drive significant productivity improvement across our Stonepath network.

To execute this strategy, we have and will continue to assess technologies obtained through our acquisition strategy in combination with commercially available supply chain technologies to launch our own "best-of-breed" solution set using a combination of owned and licensed technologies. We refer to this technology set as Tech-LogisTM (or Technology in Logistics). We intend to use Tech-LogisTM to provide: (1) a customer-facing portal that unifies the look and feel of how customers, employees and suppliers work with and connect to us; (2) a robust supply chain operating system including order, inventory, transportation, warehouse, and supply chain event management for use across the organization; and (3) a common data repository for analysis and reporting to provide advanced metrics to management and our customers.

This strategy will result in the investment of significant management and financial resources to deliver these enabling technologies and deliver financial and competitive advantage in the years ahead.

Sales and Marketing

We market services on a global basis supported by the sales efforts of senior management, sales executives, regional managers, terminal managers and our national service centers located strategically across the United States and in select international locations.

We seek to create long-term relationships with our customers and when achievable, to increase the quantity of business transacted with each customer over time. Additionally, we have increased our emphasis on obtaining high-revenue national accounts with multiple shipping locations. These accounts typically impose numerous requirements on those competing for their freight business, including electronic data interchange and proof of delivery capabilities, the ability to generate customized shipping reports and a nationwide network of terminals. These requirements often limit the competition for these accounts to a very small number of logistics providers, enabling us to more effectively compete for and obtain these accounts.

Our customers include large manufacturers and distributors of computers and other electronic and high-technology equipment, printed and publishing materials, automotive and aerospace components, trade show exhibit materials, telecommunications equipment, machinery and machine parts, apparel, entertainment products, and household goods. For the year ended December 31, 2002, our largest customer, Best Buy Co., Inc., accounted for approximately 29% of our revenues. Approximately 21% of our 2002 revenue was derived from our next five largest customers, none of which accounted for 10% or more of our 2002 revenue. As our current companies continue to diversify, and as we continue our acquisition strategy, our exposure to customer and industry concentrations should be significantly reduced.

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We have begun to place an increased emphasis on the development of a global brand platform. Over the course of 2003, we will begin to operate all of our businesses under the single global brand "Stonepath Logistics," which we believe will help us reach our organic expansion goals.

Competition and Business Conditions

Our business is directly impacted by the volume of domestic and international trade. The volume of such trade is influenced by many factors, including economic and political conditions in the United States and abroad, major work stoppages, exchange controls, currency fluctuations, acts of war, terrorism and other armed conflicts, and United States and international laws relating to tariffs, trade restrictions, foreign investments and taxation.

The global logistics services and transportation industries are intensively competitive and are expected to remain so for the foreseeable future. We compete against other integrated logistics companies, as well as transportation services companies, consultants, information technology vendors and shippers' transportation departments. This competition is based primarily on rates, quality of service (such as damage-free shipments, on-time delivery and consistent transit times), reliable pickup and delivery and scope of operations.

As a provider of third-party logistics services, we encounter competition from a large number of firms, much of it coming from local or regional firms which have only one or a small number of offices and do not offer the breadth of services and integrated approach as we offer. However, some of this competition comes from major United States and foreign-owned firms which have networks of offices and offer a wide variety of services. We believe that quality of service, including information systems capability, global network capacity,

reliability, responsiveness, expertise and convenience, scope of operations, customized program design and implementation and price are important competitive factors in our industry.

Competition within the domestic freight forwarding industry is also intense. Although the industry is highly fragmented with a large number of participants, we compete most often with a relatively small number of freight forwarders with nationwide networks and the capability to provide the breadth of services offered by us. We also encounter competition from passenger and cargo air carriers, trucking companies and others. As we expand our international operations, we expect to encounter increased competition from those freight forwarders that have a predominantly international focus, including Danzas AEI Intercontinental, Expeditors International of Washington, Inc., UPS Supply Chain Solutions (a unit of United Parcel Service) and Eagle Logistics, Inc. Many of our competitors have substantially greater financial resources than we do.

We also encounter competition from regional and local air freight forwarders, cargo sales agents and brokers, surface freight forwarders and carriers and associations of shippers organized for the purpose of consolidating their members' shipments to obtain lower freight rates from carriers. As an ocean freight forwarder, we will encounter strong competition in every country in which we choose to operate. This includes competition from steamship companies and both large forwarders with multiple offices and local and regional forwarders with one or a small number of offices. Quality of service, including reliability, responsiveness, expertise and convenience, scope of operations, information technology and price are the most important competitive factors in our industry.

Regulation

We do not believe that transportation related regulatory compliance has had a material adverse impact on operations to date. However, failure to comply with the applicable regulations or to maintain required permits or licenses could result in substantial fines or revocation of our operating permits or authorities. We cannot give assurance as to the degree or cost of future regulations on our business. Some of the regulations affecting our operations are described below.

Our air freight forwarding business is subject to regulation, as an indirect air cargo carrier, under the U.S. Department of Transportation's Transportation Security Administration. The airfreight forwarding industry is subject to regulatory and legislative changes that can affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to customers.

Our surface freight forwarding operations are subject to various federal statutes and are regulated by the Surface Transportation Board. This federal agency has broad investigatory and regulatory powers, including the power to issue a certificate of authority or license to engage in the business, to approve specified mergers, consolidations and acquisitions, and to regulate the delivery of some types of domestic shipments and operations within particular geographic areas. The Surface Transportation Board and U.S. Department of Transportation also have the authority to regulate interstate motor carrier operations, including the regulation of certain rates, charges and accounting systems, to require periodic financial reporting, and to regulate insurance, driver qualifications, operation of motor vehicles, parts and accessories for motor vehicle equipment, hours of service of drivers, inspection, repair, maintenance standards and other safety related matters. The federal laws governing interstate motor carriers have both direct and indirect application to the Company. The breadth and scope of the federal regulations may affect the operations of the Company and the motor carriers which we use to provide

transportation services. In certain locations, state or local permits or registrations may also be required to provide or obtain intrastate motor carrier services for the Company. Our property brokerage operations similarly subject us to various federal statutes and regulation as a property broker by the Surface Transportation Board, and we have obtained a property broker license and posted a surety bond as required by federal law. Our international operations are subject to regulation by the Federal Maritime Commission, or FMC, as it regulates and licenses ocean forwarding operations. Indirect ocean carriers (non-vessel operating common carriers) are subject to FMC regulation, under the FMC tariff filing and surety bond requirements, and under the Shipping Act of 1984, particularly those terms proscribing rebating practices.

Our customs brokerage operations are subject to the licensing requirements of the U.S. Treasury and are regulated by the U.S. Customs Service. Foreign customs brokerage operations are also licensed in and subject to the regulations of their respective countries.

In the United States, we are also subject to federal, state and local provisions relating to the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many foreign jurisdictions in which we operate or may operate in the future. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and we cannot predict what impact future environmental regulations may have on our business. We do not anticipate making any material capital expenditures for environmental control purposes during the remainder of the current or succeeding years.

Personnel

At December 31, 2002, we had approximately 510 total employees. Approximately 410 employees were engaged principally in operations, 30 in sales and marketing, and 70 in finance, administration and management functions.

None of our employees are covered by a collective bargaining agreement, and we believe that we have a good relationship with our employees.

Discontinued Operations

Prior to the first quarter of 2001, our principal business was developing early-stage technology businesses with significant Internet features and applications. Largely as a result of the significant correction in the global stock markets which began during 2000, and the corresponding decrease in the valuation of technology businesses and contraction in the availability of venture financing, we changed our business strategy to focus on the acquisition of operating businesses within a particular industry segment.

After having evaluated a number of different industries, during the second quarter of 2001 we focused our acquisition efforts specifically within the transportation and logistics industry as it:

- demonstrates significant growth characteristics as an increasing number of businesses outsource their supply-chain management in order to achieve cost-effective logistics solutions;
- is positioned for further consolidation as many sectors of the industry remain fragmented; and
- is capable of achieving enhanced efficiencies through the adoption of e-commerce and other technologies.

This decision occurred in conjunction with our June 21, 2001 appointment of Dennis L. Pelino as our Chairman and Chief Executive Officer. Mr. Pelino brings to us over 25 years of logistics experience, including as President and Chief Operating Officer of Fritz Companies, Inc., where he was employed from 1987 to 1999.

To reflect the change in business model, our financial statements have been presented in a manner in which the assets, liabilities, results of operations and cash flows related to our former business have been segregated from those of our continuing operations and are presented as discontinued operations.

Corporate Information

Stonepath Group, Inc. was incorporated in Delaware in 1998. Our principal executive offices are located at 1600 Market Street, Suite 1515, Philadelphia, Pennsylvania. Our telephone number is (215) 979-8370 and our Internet website address is www.stonepath.com. We make available free of charge on our web site all materials that we file with the Securities and Exchange Commission, including our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports as soon as reasonably practicable after such materials have been filed with, or furnished to, the Securities and Exchange Commission.

Segment Information

For additional information about our business segments, see the business segment information presented in Note 16 to our Consolidated Financial Statements.

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Risks Particular to our Business

o If we are unable to profitably manage and integrate the companies we acquire or are unable to acquire additional companies, we will not achieve our growth and profit objectives.

Our goal is to build a global logistics services organization. Realizing this goal will require the acquisition of a number of diverse companies in the logistics industry covering a variety of geographic regions and specialized service offerings. There can be no assurance that we will be able to identify, acquire or profitably manage additional businesses or successfully integrate any acquired businesses without substantial costs, delays or other operational or financial problems. Further, acquisitions involve a number of risks, including possible adverse effects on our operating results, diversion of management resources, failure to retain key personnel, and risks associated with unanticipated liabilities, some or all of which could have a material adverse effect on our business, financial condition and results of operations.

o Additional financing will be required to implement our business strategy.

Through cash resources and our existing credit facility, we believe we have sufficient capital to implement our acquisition strategy in the short term. However, we will need additional financing to pursue our acquisition strategy in the longer term. We intend to obtain the additional financing through a combination of additional commercial debt financing or the placement of debt and equity securities. We may finance some portion of our future acquisitions by using shares of our common stock for all or a substantial portion of the purchase price. In the event that our common stock does not attain or maintain a

sufficient market value, or potential acquisition candidates are otherwise unwilling to accept common stock as part of the consideration for the sale of their businesses, we may be required to use more cash to maintain our acquisition program. If we do not have sufficient cash resources, our growth could be limited unless we are able to obtain additional capital through debt or equity financings.

o Earn-out payments due in connection with our acquisitions could require us to incur additional indebtedness or issue additional equity securities.

We are required to make significant cash payments in the future when the earn-out installments for our acquisitions become due. While we believe that a material portion of the required cash will be generated by each of the acquired subsidiaries, we most likely will have to secure additional sources of capital to fund some portion of the earn-out payments as they become due. This may require us to incur additional indebtedness or issue additional equity securities. We cannot be certain that we will be able to borrow any funds for this purpose on terms acceptable to us, if at all, or that once we incur such indebtedness, that we will be able to operate profitably. Additional indebtedness could negatively impact our cash flow and ability to make further acquisitions. Issuing additional shares of common stock or common stock equivalents to generate the required financing would increase the number of shares outstanding and further dilute the interests of our existing stockholders.

o Our credit facility places certain limits on the type and number of acquisitions we may make.

We have obtained a $15.0 million credit facility from LaSalle Business Credit, Inc. to provide additional funding for acquisitions and for our on-going working capital requirements. Under the terms of the credit facility, we are permitted to make additional acquisitions without the lender's consent only if certain conditions are satisfied. The conditions imposed by the credit facility include the following: (1) the absence of an event of default under the credit facility; (2) the company to be acquired must be in the transportation and logistics industry; (3) the purchase price to be paid must be consistent with our historical business and acquisition model; (4) the undrawn availability under the credit facility must average $5.0 million for the 60 days preceding the acquisition and must be at least $5.0 million on the date of the acquisition; (5) the lender must be reasonably satisfied with projected financial statements we provide covering a 12 month period following the acquisition; (6) the acquisition documents must be provided to the lender and must be consistent with the description of the transaction provided to the lender; (7) the aggregate cash consideration paid at the closing for foreign acquisitions must not exceed $5.0 million; and (8) the number of such permitted acquisitions is limited to four per year (excluding any acquisitions for which the purchase price is payable solely in stock). In the event that we were not able to satisfy the conditions of the credit facility in connection with a proposed acquisition, we would have to forego the acquisition unless we either obtained the lender's consent or retired the credit facility. This may limit or slow our ability to achieve the critical mass we may need to achieve our strategic objectives.

o Since we are not obligated to follow any particular criteria or standards for acquisition candidates, stockholders must rely solely on our ability to identify, evaluate and complete acquisitions.

Even though we have developed general acquisition guidelines, we are not obligated to follow any particular operating, financial, geographic or other criteria in evaluating candidates for potential acquisitions or business combinations. We target companies which we believe will provide the best potential long-term financial return for our stockholders and we determine the

purchase price and other terms and conditions of acquisitions. Our stockholders will not have the opportunity to evaluate the relevant economic, financial and other information that we will use and consider in deciding whether or not to enter into a particular transaction.

o The scarcity of and competition for acquisition opportunities makes it more difficult to complete acquisitions.

There are a limited number of operating companies available for acquisition which we consider desirable. In addition, there is a high level of competition among companies seeking to acquire these operating companies. A large number of established and well-financed entities are active in acquiring the type of companies we believe are desirable. Many of these entities have significantly greater financial resources than we have. Consequently, we are at a competitive disadvantage in negotiating and executing possible acquisitions of these businesses. Even if we are able to successfully compete with these entities, this competition may affect the terms of completed transactions and, as a result, we may pay more than we expected for potential acquisitions. We may find it difficult to identify operating companies that complement our strategy, and even if we identify a company that complements our strategy, we may be unable to complete an acquisition of such a company for many reasons, including:

- a failure to agree on the terms necessary for a transaction, such as purchase price;
- incompatibility of operating strategies and management philosophies;
- competition from other acquirers of operating companies;
- insufficient capital to acquire a profitable logistics company; and
- the unwillingness of a potential acquiree to work with our management or our affiliated companies.

If we are unable to successfully compete with other entities in acquiring the companies we target, we will not be able to successfully implement our business plan.

o The issuance of additional securities may cause additional dilution to the interests of our existing stockholders.

The additional financing required to fund our acquisition strategy may require us to issue additional shares of common stock or common stock equivalents to generate the required financing. For example, we recently issued 4,470,000 shares of our common stock in a private placement transaction that closed on March 6, 2003. This issuance, plus any subsequent issuances of securities, will further increase the number of shares outstanding and further dilute the interests of our existing stockholders. We may issue more shares of common stock for this purpose without prior notice to our stockholders.

We may also issue securities to, among other things, facilitate a business combination, acquire assets or stock of another business, compensate employees or consultants or for other valid business reasons in the discretion of our Board of Directors, which could further dilute the interests of our existing stockholders.

o The exercise or conversion of our outstanding options, warrants or other convertible securities or any derivative securities we issue in the future will result in the dilution of the ownership interests of our existing stockholders and may create downward pressure on the trading price of our common stock.

We are currently authorized to issue 100,000,000 shares of common stock.

As of March 17, 2003, we have 27,945,914 outstanding shares. We may in the future issue up to 16,828,043 additional shares of our common stock upon exercise or conversion of the following existing outstanding convertible securities:

	Number of Shares
Upon conversion of our Series D Preferred Stock	3,607,450
Options granted under our Stock Option Plan	8,145,600
Non-plan options	2,282,900
Warrants	2,792,093
Total	16,828,043

Even though the aggregate exercise of these securities could generate material proceeds for us, the issuance of these additional shares would result in the dilution of the ownership interests of our existing common stockholders and the market price of our common stock could be adversely affected.

o We rely on a small number of key customers, the loss of any of which would have a negative effect on our results of operations.

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Even though our customer base will likely diversify as we grow through acquisitions, our customer base has been highly concentrated. For the year ended December 31, 2002 our largest customer, Best Buy Co., Inc., accounted for approximately 29% of our total revenues. Our next five largest customers accounted for approximately 21% of our total revenues, with none of these customers accounting for 10% or more of our total revenues. We believe the risk posed by this concentration is mitigated by our long standing and continuing relationships with these customers and we are confident that these relationships will remain ongoing for the foreseeable future. We intend to continue to provide superior service to all of our customers and have no expectation that revenues from any of these customers will be reduced as a result of any factors within our control. However, adverse conditions in the industries of our customers could cause us to lose a significant customer or experience a decrease in shipment volume. Either of these events could negatively impact us. Our immediate plans, however, are to reduce our dependence on any particular customer or customers by increasing our sales and customer base by, among other things, diversifying our service offerings and continuing with our growth strategy.

o The risks associated with international operations could adversely affect our operations and ability to grow outside of the United States.

A significant portion of our revenues is derived from our international operations, and the growth of those operations is an important part of our business strategy. Our current international operations are focused on the shipment of goods into and out of the United States and are dependent on the volume of international trade with the United States. Our strategic plan contemplates the growth of those operations, as well as the expansion into the transportation of goods wholly outside of the United States. The following factors could adversely affect our current international operations, as well as the growth of those operations:

- o the political and economic systems in certain international markets are less stable than in the United States;
- o wars, civil unrest, acts of terrorism and other conflicts exist in certain international markets;
- o export restrictions, tariffs, licenses and other trade barriers can adversely affect the international trade serviced by our international operations;
- o managing distant operations with different local market conditions and practices is more difficult than managing domestic operations;
- o differing technology standards in other countries present difficulties and expense in integrating our services across international markets;
- o complex foreign laws and treaties can adversely affect our ability to compete; and
- o our ability to repatriate funds may be limited by foreign exchange controls.

o Terrorist attacks and other acts of violence or war may affect any market on which our shares trade, the markets in which we operate, our operations and our profitability.

Terrorist acts or acts of war or armed conflict could negatively affect our operations in a number of ways. Primarily, any of these acts could result in increased volatility in or damage to the U.S. and worldwide financial markets and economy. They could also result in a continuation of the current economic uncertainty in the United States and abroad. Acts of terrorism or armed conflict, and the uncertainty caused by such conflicts, could cause an overall reduction in worldwide sales of goods and corresponding shipments of goods. This would have a corresponding negative effect on our operations. Also, terrorist activities similar to the type experienced on September 11, 2001 could result in another halt of trading of securities on the American Stock Exchange which could also have an adverse effect on the trading price of our shares and overall market capitalization.

o We depend on the continued service of certain executive officers. We can not assure you that we will be able to retain these persons.

For the foreseeable future, our success will depend largely on the continued services of our Chief Executive Officer, Dennis L. Pelino, as well as the heads of our domestic and international service organizations, Gary Koch and Jason Totah, because of their collective industry knowledge, marketing skills and relationships with major vendors and customers. We have employment agreements with each of these individuals which contain a non-competition covenant which survives their actual term of employment. Nevertheless, should any of these individuals leave the Company, it could have a material adverse effect on our future results of operations.

o We face intense competition in our industry.

The freight forwarding, logistics and supply chain management industry is intensely competitive and is expected to remain so for the foreseeable future. We face competition from a number of companies, including many that have significantly greater financial, technical and marketing resources. There are a large number of companies competing in one or more segments of the industry, although the number of firms with a global network that offer a full complement of freight forwarding and supply chain management services is more limited. Depending on the location of the customer and the scope of services requested, we must compete against both the niche players and larger entities. In addition, customers increasingly are turning to competitive bidding situations involving bids from a number of competitors, including competitors that are larger than we

are.

o Our stock price may be volatile due to factors under, as well as beyond, our control.

The market price of our common stock could be highly volatile. Some factors that may affect the market price include:

- o actual or anticipated fluctuations in our operating results;
- o announcements of technological innovations or new commercial products or services by us or our competitors;
- o a continued weakening of general market conditions which in turn could have a depressive effect on the volume of goods shipped and shipments that we manage or arrange;
- o acts of global terrorism or armed conflicts; and
- o changes in recommendations or earnings estimates by us or by securities analysts.

Furthermore, the stock market has historically experienced volatility which has particularly affected the market prices of securities of many companies with small market capitalization and which sometimes has been unrelated to the operating performances of such companies.

o Our cash flow may be adversely affected in the future once we fully utilize our consolidated net operating loss carryforward.

Due to losses we incurred in our former business model, we have accumulated a net operating loss carryforward for federal income tax purposes. As of December 31, 2002, we expect that approximately $21.7 million of these losses will be available to offset our future taxable income until the losses are fully utilized. Once these losses have been fully utilized, our cash flows will be affected accordingly.

o If we fail to improve our management information and financial reporting systems, we may experience an adverse effect on our operations and financial condition.

Our management information and financial reporting systems need to be improved at the consolidated level. We may experience delays, disruptions and unanticipated expenses in implementing, integrating and operating our consolidated management information and financial reporting systems. Failure to enhance these systems could delay our receipt of management and financial information at the consolidated level which could disrupt our operations or impair our ability to monitor our operations and have a negative effect on our financial condition.

o Because we are a holding company, we depend on receiving distributions from our subsidiaries and we could be harmed if such distributions could not be made in the future.

We are a holding company and all of our operations are conducted through subsidiaries. Consequently, we rely on dividends or advances from our subsidiaries. The ability of such subsidiaries to pay dividends and our ability to receive distributions on our investments in other entities is subject to applicable local law and other restrictions including, but not limited to, applicable tax laws. Such laws and restrictions could limit the payment of dividends and distributions to us which would restrict our ability to continue operations.

o We believe our industry is consolidating and if we cannot gain sufficient market presence, we may not be able to compete successfully against larger global companies.

We believe the marked trend within our industry is towards consolidation of the niche players into larger companies which are attempting to increase global operations through the acquisition of regional and local freight forwarders. If we cannot gain sufficient market presence or otherwise establish a successful strategy in our industry, we may not be able to compete successfully against larger companies in our industry with global operations.

o We may be required to incur material expenses in defending or resolving outstanding lawsuits which would adversely affect our results of operations.

We are a defendant in a number of legal proceedings. Although we believe that the claims asserted in these proceedings are without merit, and we intend to vigorously defend these matters, we could incur material expenses in the defense and resolution of these matters. Since we have not established any reserves in connection with these claims, any such liability would be recorded as an expense in the period incurred or estimated. This amount, even if not material to our overall financial condition, could adversely affect our results of operations in the period recorded. See Item 3, Legal Proceedings.

o We have a very limited operating history upon which you can evaluate our prospects.

During 2001, we discontinued our former business model of developing early-stage technology businesses, and adopted a new model of delivering non-asset based third-party logistics services. The first acquisition under our new business model occurred on October 5, 2001. Subsequent acquisitions were completed on April 4, 2002, May 30, 2002 and October 1, 2002. As a result, we have a very limited operating history under our current business model. Even though we are managed by senior executives with significant experience in the industry, our limited operating history makes it difficult to predict the longer-term success of our business model.

o Provisions of our charter and applicable Delaware law may make it more difficult to complete a contested takeover of our Company.

Certain provisions of our certificate of incorporation and the General Corporation Law of the State of Delaware (the "GCL") could deter a change in our management or render more difficult an attempt to obtain control of us, even if such a proposal is favored by a majority of our stockholders. For example, we are subject to the provisions of the GCL that prohibit a public Delaware corporation from engaging in a broad range of business combinations with a person who, together with affiliates and associates, owns 15% or more of the corporation's outstanding voting shares (an "interested shareholder") for three years after the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Finally, our certificate of incorporation includes undesignated preferred stock, which may enable our Board of Directors to discourage an attempt to obtain control of us by means of a tender offer, proxy contest, merger or otherwise.

Item 2. Properties

The Company does not own any real estate and currently leases all of its facilities.

Our corporate headquarters is located at 1600 Market Street, Suite 1515,

Philadelphia, Pennsylvania where we lease approximately 4,000 square feet of office space.

In addition, we lease and maintain logistics facilities in 18 locations throughout the United States plus two international locations. The majority of these locations are operating terminals that contain office space and warehouse or cross-dock facilities and range in size from approximately 1,200 square feet to 160,000 square feet. A few of these facilities are limited to a small sales and administrative office.

Lease terms for our principal properties are generally five years and terminate at various times through 2010, while a few of the smaller facilities are leased on a month-to-month basis. The Company believes that current leases can be extended and that suitable alternative facilities are available in the vicinity of existing facilities should extensions be unavailable or undesirable at the end of the current lease arrangements.

Our facilities are situated in the following locations:

Philadelphia, Corporate Headquarters
Minneapolis
Seattle
Chicago
Detroit
Dallas/Fort Worth
St. Louis
Atlanta
Indianapolis
Phoenix
Salt Lake City
Washington, D.C.
Norfolk
New York, NY
Boston
Portland
Los Angeles
San Francisco
Miami
St. Just, Puerto Rico
Hong Kong

Item 3. Legal Proceedings

On October 12, 2000, Emergent Capital Investment Management, LLC ("Emergent") filed suit against the Company and two of its officers contending that it was misled by statements made by the defendants in connection with the offering of the Company's Series C Preferred Stock which closed in March 2000. Specifically, Emergent alleges that it is entitled to rescind the transaction because it was allegedly represented that the size of the offering would be $20.0 million and the Company actually raised $50.0 million. Emergent seeks a return of its $2.0 million purchase price of Series C shares. In June of 2001, the Company moved for summary judgment in this case.

After the summary judgment motion was filed, Emergent filed a second action against the Company and two of its officers alleging different allegations of fraud in connection with the Series C offering. In the new complaint, Emergent alleges that oral statements and written promotional materials distributed by the Company at a meeting in connection with the Series C offering were materially inaccurate with respect to the Company's investment

in Net Value, Inc., a wholly owned subsidiary of the Company. Emergent also contends that the defendants failed to disclose certain allegedly material transactions in which an officer was involved prior to his affiliation with the Company. The Company filed a motion to dismiss this new action for failure to state a claim upon which relief can be granted.

On October 2, 2001, the Court entered an order granting summary judgment to the defendants in the first case filed by Emergent and dismissing Emergent's second complaint for failure to state a claim upon which relief can be granted. The Court allowed Emergent 20 days to file a second amended complaint as to the second action only. On October 21, 2001, Emergent did file a second amended complaint in the second action. The second amended complaint does not raise any new factual allegations regarding Emergent's participation in the offering.

The Company filed a motion to dismiss Emergent's second amended complaint. On April 15, 2002, the United States District Court for the Southern District of New York entered an order granting the motion to dismiss Emergent's second amended complaint against the Company and its former officers. The Court refused to grant Emergent an additional opportunity to re-plead its claims against the defendants and a final order dismissing the matter has been entered. Emergent thereafter filed a notice of appeal to the United States Court of Appeals for the Second Circuit, which is currently pending. The Company believes that it has substantial defenses to the plaintiff's claims and intends to vigorously defend this action.

On August 22, 2000, Austost Anstalt Schaan, Balmore Funds, S.A. and Amro International, S.A., purchasers of the Company's convertible promissory notes, filed suit against the Company in the United States District Court for the District of Delaware. The plaintiffs allege that, contrary to the Company's covenant in the subscription agreement they executed, which required Stonepath to "use reasonable commercial efforts to register" the shares of its common stock underlying the convertible promissory notes "at some future date," the Company verbally agreed to register such shares in the first registration statement it filed with the Securities and Exchange Commission subsequent to the transaction. The plaintiffs assert claims for breach of contract and the duty of good faith and fair dealing, fraud, violation of federal securities laws, estoppel, and reformation and seek damages in excess of $20.0 million, plus attorneys' fees and costs. In response to a motion to dismiss that was filed by the Company, the Court dismissed the federal securities law and estoppel claims and denied the motion as to all other claims. Discovery in this case has concluded, and the Company recently filed a motion for summary judgment as to all counts of the complaint. This motion has been briefed and is pending. The Company believes it has substantial defenses to the remaining claims and intends to defend the matter vigorously.

The Company is also involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. No accruals have been established for any pending legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Our common stock is traded on The American Stock Exchange under the symbol "STG." The table below sets forth the high and low prices for our common stock for the quarters included within 2002 and 2001.

	High	Low
Year ended December 31, 2001		
First quarter	$1.13	$0.38
Second quarter	1.33	0.57
Third quarter	1.88	0.97
Fourth quarter	2.10	0.90
Year ended December 31, 2002		
First quarter	2.15	1.20
Second quarter	2.95	1.10
Third quarter	1.70	0.95
Fourth quarter	1.74	1.01

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Share Information

As of March 17, 2003, there were 27,945,914 shares of our common stock outstanding, owned by 276 registered holders of record. Management estimates there are approximately 3,700 additional stockholders holding their stock in nominee name. We have not paid cash dividends on our common stock and do not anticipate or contemplate paying cash dividends in the foreseeable future. We plan to retain any earnings for use in the operations of our business and to fund our acquisition strategy. Furthermore, we are limited in our ability to pay dividends pursuant to the terms of our outstanding credit facility.

Equity Compensation Plan Information

The following table sets forth information, as of December 31, 2002, with respect to the Company's Stock Option Plan under which common stock is authorized for issuance, as well as other compensatory options granted outside of the Company's Stock Option Plan.

	(a)	(b)	
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	fu c
Equity compensation plans approved by security holders	7,164,000	$1.09	
Equity compensation plans not approved by security holders	2,283,300	$2.62	
Total	9,447,300	$1.46	

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(1) Does not include exercised options to purchase 409,583 shares of our common stock under the Company's Stock Option Plan.

Recent Sales of Unregistered Securities

1. In May 2000, we issued 113,214 shares of our common stock to Webmodal, Inc. in conjunction with a cash investment, pursuant to which we purchased

563,000 shares of Series A Preferred Stock of Webmodal, Inc. We issued these shares of common stock in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

2. During 2001, we issued 77,916 shares of our common stock, cumulatively, to a group of 16 former employees as severance and in exchange for the cancellation of their options to purchase 1,309,917 shares of our common stock. We issued these shares of common stock in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

3. During 2001, we issued options to purchase 245,000 shares of our common stock in consideration for services provided. 50,000 options were issued on March 7, 2001 at an exercise price of $0.70 per share, and 20,000 options were issued on June 21, 2001 at an exercise price of $1.00 per share, to various outside attorneys for services rendered. 75,000 options were issued in March 2001 to PMG Capital at an exercise price of $0.70 per share in consideration for investment banking services. 100,000 options were issued on June 30, 2001 to Brown Simpson Partners I, Ltd. at an exercise price of $0.82 per share in consideration for advisory services. All of these options were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

4. On or about July 19, 2002, we completed a private exchange transaction resulting in the restructuring of our outstanding shares of Series C Preferred Stock. In the restructuring, all of the Company's shares of Series C Preferred Stock, representing approximately $44.6 million in liquidation preferences, were surrendered and retired in exchange for a combination of securities consisting of: (i) 1,911,071 shares of our common stock upon conversion of the Series C Preferred Stock; (ii) warrants to purchase 1,543,413 shares of common stock at an exercise price of $1.00 through July 18, 2005 (including an amendment to the 158,348 Series C warrants that were originally granted in March 2000 for the purpose of reducing the exercise price thereof from $26.58 to $1.00 per share and extending the exercise period from March 2003 to July 18, 2005); and (iii) 360,745 shares of a newly designated class of Series D Convertible Preferred Stock which in the future are convertible into 3,607,450 shares of our common stock.

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Each holder of our Series D Convertible Preferred Stock has the right to convert at any time all or a portion of his Series D Convertible Preferred Stock into ten (10) shares of common stock for each share of Series D Convertible Preferred Stock converted, subject to certain anti-dilution adjustments. Any shares of Series D Convertible Preferred Stock that are outstanding after December 31, 2004 will automatically be converted into common stock. Automatic conversion will also occur: (i) once the average closing price of our common stock is over $7.50 for thirty (30) consecutive trading days; (ii) upon a merger or sale transaction after December 31, 2003, unless the transaction otherwise provides for the exchange of the outstanding shares of Series D Convertible Preferred Stock for a like-kind preferred stock of the acquirer/surviving corporation; or (iii) upon the affirmative vote of holders of eighty (80%) percent of the Series D Convertible Preferred Stock.

The warrants and shares of the Series D Convertible Preferred Stock were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) and Rule 506 thereunder. The shares of our common stock issued upon conversion of our Series C Preferred Stock were issued in a transaction exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 3(a)(9) thereunder.

5. On October 16, 2002, we issued warrants to purchase 150,000 shares of our common stock to affiliates of Stonegate Securities, Inc. at an exercise price of $1.23 per share. The warrants were issued in connection with services to be rendered by Stonegate Securities, Inc. under a Placement Agency Agreement with the Company dated October 16, 2002. The warrants were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, pursuant to Section 4(2) thereunder.

6. On March 6, 2003, we issued 4,470,000 shares of our common stock consisting of the sale of 4,270,000 shares at $1.35 per share and 200,000 shares at $1.54 per share, to the accredited investors identified below in a private placement transaction exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) and Rule 506 thereunder as an issuer transaction not involving a public offering. In connection with this transaction, we realized gross proceeds of approximately $6.1 million and paid a brokerage fee consisting of cash commissions of approximately $364,000 and placement agent warrants to purchase 297,000 shares of our common stock to Stonegate Securities, Inc. at an exercise price of $1.49 per share. The placement agent warrants were also issued in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933.

Name	Shares of Common Stock
George B. Clairmont 5-8-51 Trust	60,000
George B. Clairmont	60,000
Ponte Vedra Partners Ltd.	100,000
Ingleside Company	200,000
Oberweis Micro-Cap Portfolio	100,000
BFS US Special Opportunities Trust PLC	400,000
Renaissance US Growth Investment Trust PLC	200,000
Renaissance Capital Growth & Income Fund III, Inc.	200,000
Sherleigh Associates Inc. Profit Sharing Plan	400,000
SBL Fund Series V	520,000
Security Equity Fund - Mid Cap Value Series	480,000
MidSouth Investor Fund LP	100,000
Atlas Capital (Q.P.), L.P.	59,025
Atlas Capital Master Fund, Ltd.	190,975
A. Spector Capital, LLC	500,000
Crestview Capital Fund I, L.P.	185,000
Crestview Capital Fund II, L.P.	235,000
Crestview Capital Offshore Fund, Inc.	30,000
Gryphon Master Fund, LP	200,000
London Family Trust	50,000
London Family Trust	25,000
Scott R. Griffith SEP IRA	31,800
Stonegate Securities, Inc.	43,200
Dennis L. Pelino	100,000

7. Thirty-one employees of one of the Company's subsidiaries directed the plan administrator of its 401(k) plan to make open market purchases of, in the aggregate, 263,439 shares of the Company's common stock for allocation to their individual participant accounts from September 2001 through November 2002. The Company did not receive any of the proceeds from such transactions and it believes such sales are exempt from registration by Section 4(2) of the Securities Act of 1933, as amended.

Item 6. Selected Financial Data

The following selected financial data as of and for the dates indicated has been derived from our consolidated financial statements and the combined financial statements of our predecessor, Air Plus, and are not complete. You should read the following selected financial data together with the consolidated financial statements and related footnotes of the Company, the combined financial statements and related footnotes of Air Plus and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The selected consolidated statement of operations data of the Company for each of the years in the three-year period ended December 31, 2002 and the balance sheet data of the Company as of December 31, 2002 and 2001 are derived from the Company's consolidated financial statements, revised to reflect the restatement thereof as more fully discussed in Note 2 to the consolidated financial statements, that have been audited by KPMG LLP and are included in this Annual Report on Form 10-K/A. The selected consolidated statement of operations data of the Company for each of the years in the two-year period ended December 31, 1999 and the balance sheet data of the Company as of December 31, 2000, 1999 and 1998 are derived from the Company's audited consolidated financial statements (after reclassification for discontinued operations, as discussed below) which are not included in this Annual Report on Form 10-K/A.

The selected combined statement of operations data of Air Plus for the year ended December 31, 2000 is derived from Air Plus' combined financial statements that have been audited by KPMG LLP and are included in this Annual Report on Form 10-K/A. The selected combined statement of operations data of Air Plus for the six months ended June 30, 2001 is derived from Air Plus' combined financial statements which are unaudited and are included in this Annual Report on Form 10-K/A.

From inception through the first quarter of 2001, our principal business strategy focused on the development of early-stage technology businesses with significant Internet features and applications. In June 2001, we adopted a new business strategy to build a global integrated logistics services organization by identifying, acquiring and managing controlling interests in profitable logistics businesses. On December 28, 2001, the Board of Directors approved a plan to dispose of all of the assets related to the former business, since the investments were incompatible with our new business strategy. Accordingly, for financial reporting purposes, the results of operations of our former line of business have been accounted for as a discontinued operation and have been reclassified and reported as a separate line item in the statements of operations.

Consolidated Statement of Operations Data:
(in thousands, except per share amounts)

	Stonepath Group, Inc.				
	Year ended December 31,				
	Restated 2002	Restated 2001	2000	1999	1998
	$139,649	$ 15,598	$ -	$ -	$ -

Revenues					
Cost of transportation	101,339	9,741	-	-	-
Net revenues	38,310	5,857	-	-	-
Operating expenses	35,956	10,409	7,420	2,761	-
Income (loss) from operations	2,354	(4,552)	(7,420)	(2,761)	-
Other income (expense)	128	1,295	2,065	(2,812)	-
Income (loss) from continuing operations before income taxes	2,482	(3,257)	(5,355)	(5,573)	-
Income taxes	102	-	-	-	-
Income (loss) from continuing operations	2,380	(3,257)	(5,355)	(5,573)	-
Loss from discontinued operations	-	(13,863)	(30,816)	(18,258)	(12,737)
Net income (loss)	2,380	(17,120)	(36,171)	(23,831)	(12,737)
Preferred stock dividends	15,020	(4,151)	(45,751)	(6,605)	(15,251)
Net income (loss) attributable to common stockholders	$ 17,400	$(21,271)	$(81,922)	$(30,436)	$(27,988)
Basic earnings (loss) per common share:					
Continuing operations	$ 0.79	$ (0.36)	$ (2.89)	$ (1.15)	$ -
Discontinued operations	-	(0.68)	(1.75)	(1.73)	(5.94)
	$ 0.79	$ (1.04)	$ (4.64)	$ (2.88)	$ (5.94)
Diluted earnings (loss) per common share:(1)					
Continuing operations	$ 0.08	$ (0.36)	$ (2.89)	$ (1.15)	$ -
Discontinued operations	-	(0.68)	(1.75)	(1.73)	(5.94)
	$ 0.08	$ (1.04)	$ (4.64)	$ (2.88)	$ (5.94)
Weighted average common shares:					
Basic	22,155	20,510	17,658	10,558	4,711
Diluted	29,233	20,510	17,658	10,558	4,711

Consolidated Balance Sheet Data:
(in thousands)

	Stonepath Group, Inc. December 31,				
	Restated 2002	Restated 2001	2000	1999	1998
Cash and cash equivalents	$ 2,266	$ 15,228	$ 29,100	$ 3,127	$ 1
Working capital (deficit)	5,634	15,259	27,713	(4,213)	(8,750)
Total assets	55,166	40,803	44,911	13,989	372
Long-term debt and redeemable preferred stock	-	-	-	4,516	-
Stockholders' equity (deficit)	35,431	32,432	43,326	1,701	(8,750)

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(1) Diluted earnings per common share for 2002 excludes the impact of the July 18, 2002 exchange transaction with the holders of the Company's Series C Preferred Stock.

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

As noted above, our consolidated financial statements as of and for the years ended December 31, 2002 and 2001 have been restated in connection with a review of our Form 10-K for the year ended December 31, 2002 by the Staff of the Division of Corporation Finance of the Securities and Exchange Commission. The restatement of our consolidated financial statements relates to (i) allocating more value to the customer relationship intangible assets for some of our acquisitions and (ii) revising the amortization method and life used for such assets. The Financial Outlook section previously included in Item 7 of Part II of our Form 10-K has been omitted as it has been superceded by subsequent guidance provided by us. Except as otherwise specifically noted, all information contained herein is as of December 31, 2002 and does not reflect any events or changes in information that may have occurred subsequent to that date.

This discussion is intended to further the reader's understanding of our financial condition and results of operations and should be read in conjunction with our consolidated financial statements and related notes included elsewhere herein. This discussion also contains statements that are forward-looking. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risks and uncertainties set forth elsewhere in this Annual Report and in our other SEC filings. Readers are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date hereof.

Overview

We are a non-asset based third-party logistics services company providing supply chain solutions on a global basis. We offer a full range of time-definite transportation and distribution solutions through our Domestic Services platform where we manage and arrange the movement of raw materials, supplies, components and finished goods for our customers. These services are offered through our domestic air and ground freight forwarding business. We offer a full range of international logistics services including international air and ocean transportation as well as customs house brokerage services through our International Services platform. In addition to these core service offerings, we also provide a broad range of value added supply chain management services, including warehousing, order fulfillment and inventory management solutions. We service a customer base of manufacturers, distributors and national retail chains through a network of offices in 18 major metropolitan areas in North America, plus two international locations, using an extensive network of over 200 independent carriers and over 150 service partners strategically located around the world.

As a non-asset based provider of third-party logistics services, we seek to limit our investment in equipment, facilities and working capital through contracts and preferred provider arrangements with various transportation providers who generally provide us with favorable rates, minimum service levels, capacity assurances and priority handling status. The volume of our flow of freight enables us to negotiate attractive pricing with our transportation providers.

Our strategic objective is to build a leading global logistics services

organization that integrates established operating businesses and innovative technologies. We plan to achieve this objective by broadening our network through a combination of synergistic acquisitions and the organic expansion of our existing base of operations. We are currently pursuing an aggressive acquisition strategy to enhance our position in our current markets and to acquire operations in new markets. The focus of this strategy is on acquiring businesses that have demonstrated historic levels of profitability, have a proven record of delivering high quality services, have a customer base of large and mid-sized companies and which otherwise may benefit from our long term growth strategy and status as a public company.

Our acquisition strategy relies upon two primary factors: first, our ability to identify and acquire target businesses that fit within our general acquisition criteria and, second, the continued availability of capital and financing resources sufficient to complete these acquisitions. Our growth strategy relies upon a number of factors, including our ability to efficiently integrate the businesses of the companies we acquire, generate the anticipated economies of scale from the integration, and maintain the historic sales growth of the acquired businesses so as to generate continued organic growth. The business risks associated with these factors are discussed at Item 1 of this Report under the heading "Risks Particular to our Business."

Our principal source of income is derived from freight forwarding services. As a freight forwarder, we arrange for the shipment of our customers' freight from point of origin to point of destination. Generally, we quote our customers a turnkey cost for the movement of their freight. Our price quote will often depend upon the customer's time-definite needs (first day through fifth day delivery), special handling needs (heavy equipment, delicate items, environmentally sensitive goods, electronic components, etc.) and the means of transport (truck, air, ocean or rail). In turn, we assume the responsibility for arranging and paying for the underlying means of transportation.

We also provide a range of other services including customs brokerage, warehousing and other services which include customized distribution and inventory management services, fulfillment services and other value added supply chain services.

Gross revenues represent the total dollar value of services we sell to our customers. Our cost of transportation includes direct costs of transportation, including motor carrier, air, ocean and rail services. We act principally as the service provider to add value in the execution and procurement of these services to our customers. Our net transportation revenues (gross transportation revenues less the direct cost of transportation) are the primary indicator of our ability to source, add value and resell services provided by third parties, and are considered by management to be a key performance measure. Management believes that net revenues are also an important measure of economic performance. Net revenues include transportation revenues and our fee-based activities, after giving effect to the cost of purchased transportation. In addition, management believes measuring its operating costs as a function of net revenues provides a useful metric as our ability to control costs as a function of net revenues directly impacts operating earnings. With respect to our services other than freight transportation, net revenues are identical to gross revenues.

Our operating results will be affected as acquisitions occur. Since all acquisitions are made using the purchase method of accounting for business combinations, our financial statements will only include the results of operations and cash flows of acquired companies for periods subsequent to the date of acquisition. Accordingly, our results of operations only reflect the operations of: Air Plus for periods subsequent to October 5, 2001; Global for periods subsequent to April 4, 2002; United American for periods subsequent to May 30, 2002, and TSI for periods subsequent to October 1, 2002.

Our operating results are also subject to seasonal trends when measured on a quarterly basis. Our first and second quarters are likely to be weaker as compared with our other fiscal quarters, which we believe is consistent with the operating results of other supply chain service providers. This trend is dependent on numerous factors, including the markets in which we operate, holiday seasons, consumer demand and economic conditions. Since our revenues are largely derived from customers whose shipments are dependent upon consumer demand and just-in-time production schedules, the timing of our revenues is often beyond our control. Factors such as shifting demand for retail goods and/or manufacturing production delays, could unexpectedly affect the timing of our revenues. As we increase the scale of our operations, seasonal trends in one area may be offset to an extent by opposite trends in another area. We cannot accurately predict the timing of these factors, nor can we accurately estimate the impact of any particular factor, and thus we can give no assurance that historical seasonal patterns will continue in future periods.

Critical Accounting Policies

Accounting policies, methods and estimates are an integral part of the consolidated financial statements prepared by us and are based upon our current judgments. Those judgments are normally based on knowledge and experience with regard to past and current events and assumptions about future events. Certain accounting policies, methods and estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ from our current judgments. While there are a number of accounting policies, methods and estimates that affect our consolidated financial statements as described in Note 3 to the consolidated financial statements, areas that are particularly significant include the assessment of the recoverability of long-lived assets, specifically goodwill and acquired intangibles, the establishment of an allowance for doubtful accounts and the valuation allowance for deferred income tax assets.

In certain instances, accounting principles generally accepted in the United States of America allow for the selection of alternative accounting methods. Two alternative methods for accounting for stock options are available, the intrinsic value method and the fair value method. We use the intrinsic value method of accounting for stock options, and accordingly, no compensation expense has been recognized for options issued at an exercise price equal to or greater than the quoted market price on the date of grant to employees, officers and directors. Under the fair value method, the determination of the pro forma amounts involves several assumptions including option life and volatility. If the fair value method were used, basic earnings per share and diluted earnings per share would have decreased by $0.09 and $0.06, respectively, in 2002.

As discussed in Note 5 to the consolidated financial statements, the goodwill arising from our acquisitions is not amortized, but instead is tested for impairment at least annually in accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. The impairment test requires several estimates including future cash flows, growth rates and the selection of a discount rate. In addition, the acquired intangibles arising from those

transactions are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of assets to be held and used is measured by comparing the carrying amount of the asset to the future net undiscounted cash flows expected to be generated by the asset. We cannot guarantee that our assets will not be impaired in future periods.

We maintain reserves for specific and general allowances against accounts receivable. The specific reserves are established on a case-by-case basis by management. A general reserve is established for all other accounts receivable, based on a specified percentage of the accounts receivable balance. We continually assess the adequacy of the recorded allowance for doubtful accounts, based on our knowledge concerning the customer base. While credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Our discontinued operations, which focused on the development of early-stage technology businesses, generated significant net operating loss carryforwards (NOLs) which could have value in the future. After giving effect for certain annual limitations based on changes in ownership as defined in Section 382 of the Internal Revenue Code, we estimate that as much as $21.7 million in NOLs may be available to offset current and future federal taxable income. Under SFAS No. 109, Accounting for Income Taxes, we are required to provide a valuation allowance to offset any net deferred tax assets if, based upon available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Given our historical losses and our limited track record of profitability to date, we maintained a full valuation allowance against our deferred tax assets as of December 31, 2002 which is consistent with what was done in the prior year. If we continue to operate profitably in 2003, we believe that we may be able to demonstrate that it is more likely than not that we will be able to use some or all of the NOLs in the future. When, and if, we can cross the threshold of "more likely than not", we would reduce our valuation allowance against all or a portion of the deferred tax asset.

Discontinued Operations

Prior to the first quarter of 2001, our principal business was developing early-stage technology businesses with significant Internet features and applications. Largely as a result of the significant correction in the global stock markets which began during 2000, and the corresponding decrease in the valuation of technology businesses and contraction in the availability of venture financing during 2001, we elected to shift our business strategy to focus on the acquisition of operating businesses within a particular industry segment. Following a wind down of the technology business, during the second quarter of 2001 we focused our acquisition efforts specifically within the transportation and logistics industry. This decision occurred in conjunction with our June 21, 2001 appointment of Dennis L. Pelino as our Chairman and Chief Executive Officer. Mr. Pelino brings to us over 25 years of logistics experience, including most recently, as President and Chief Operating Officer of Fritz Companies, Inc., where he was employed from 1987 to 1999.

To reflect the change in business model, our financial statements have been presented in a manner in which the assets, liabilities, results of operations and cash flows related to our former business have been segregated from that of our continuing operations and are presented as discontinued operations.

Results of Operations

Basis of Presentation

Our results of operations are presented in a manner that is intended to provide meaningful data with respect to our transition to and ongoing operations as a third-party logistics company. Since Global and United American were acquired in 2002, our historical results from continuing operations for 2001 reflect only the operations of Air Plus for the three months ended December 31, 2001. Accordingly, in addition to providing comparative analysis on a historical basis, we have also provided supplemental unaudited pro forma information that we believe is useful to an understanding of how our results of operations have performed on a year on year basis.

Year ended December 31, 2002 (historical) compared to year ended December 31, 2001 (historical)

The following table summarizes our historical total revenues, net transportation revenues and other revenues (in thousands):

			Change	
	2002	2001	Amount	Pe
Total revenues	$139,649	$15,598	$124,051	79
Transportation revenues	130,371	15,174	115,197	7
Cost of transportation	101,339	9,741	91,598	9
Net transportation revenues	29,032	5,433	23,599	4
Net transportation margins	22.3%	35.8%		
Customs brokerage	6,290	-	6,290	
Warehousing and other value added services	2,988	424	2,564	6
Total net revenues	$ 38,310	$ 5,857	$ 32,453	5

Total revenues were $139.6 million for the year ended December 31, 2002, an increase of $124.1 million or 795.3% over total revenues of $15.6 million for the comparable period in 2001. $73.5 million or 59.3% of the increase in total revenues was attributable to the operations of the businesses we acquired in 2002; $5.3 million or 4.3% was due to an increase in Air Plus' revenues for the fourth quarter of 2002 over the comparable period in 2001 ("organic growth"); and the remaining $45.2 million or 36.4% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

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Net transportation revenues were $29.0 million for the year ended December 31, 2002, an increase of $23.6 million or 434.5% over net transportation revenues of $5.4 million for the comparable period in 2001. $8.5 million or 36.0% of the increase in net transportation revenues was attributable to acquisitions; $1.0 million or 4.2% was due to organic growth; and the remaining $14.1 million or 59.8% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Net revenues were $38.3 million for the year ended December 31, 2002, an increase of $32.5 million or 554.1% over net revenues of $5.9 million for the comparable period in 2001. $15.5 million or 47.8% of the increase in net revenues was attributable to the operations of the businesses we acquired in 2002; $1.0 million or 3.1% was due to organic growth; and the remaining $15.9 million or 49.1% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

Net transportation margins decreased to 22.3% for the year ended December 31, 2002 from 35.8% for the comparable period in 2001. This decrease in net transportation margins is primarily the result of the addition of our international services, which traditionally have lower margins, in the second quarter of 2002.

The following table summarizes certain historical consolidated statement of operations data as a percentage of our net revenues (in thousands):

	Restated 2002		Restated 2001		
	Amount	Percent	Amount	Percent	A
Net revenues	$38,310	100.0%	$ 5,857	100.0%	$3
Personnel costs	19,089	49.8	5,997	102.4	1
Other selling, general and administrative costs	14,680	38.3	3,917	66.9	1
Depreciation and amortization	2,187	5.7	495	8.4	
Total operating costs	35,956	93.8	10,409	177.7	2
Income (loss) from operations	2,354	6.2	(4,552)	(77.7)	
Other income (expense)	128	0.3	1,295	22.1	(
Income (loss) from operations before income taxes	2,482	6.5	(3,257)	(55.6)	
Income taxes	102	0.3	--	--	
Income (loss) from continuing operations	2,380	6.2	(3,257)	(55.6)	
Loss from discontinued operations	--	--	(13,863)	(236.7)	1
Net income (loss)	2,380	6.2	(17,120)	(292.3)	1
Preferred stock dividends	15,020	39.2	(4,151)	(70.9)	1
Net income (loss) attributable to common stockholders	$17,400	45.4%	$(21,271)	(363.2)%	$3

Personnel costs were $19.1 million for the year ended December 31, 2002, an increase of $13.1 million or 218.3% over personnel costs of $6.0 million for the comparable period in 2001. $5.7 million or 43.5% of the increase in personnel costs was attributable to the operations of the businesses we acquired in 2002; $0.7 million or 5.4% was due to organic growth; and the remaining $6.7 million or 51.1% of the increase was attributable to an incremental three quarters of Air Plus' operations in 2002 over 2001.

The number of employees increased to 510 at December 31, 2002 from 219 at December 31, 2001, an increase of 291 employees or 132.9%. Of this increase, 240

or 82.5% of the employees are engaged in operations; 16 or 5.5% of the employees
are engaged in sales and yle="DISPLAY: inline; FONT-FAMILY: times new roman; FONT-SIZE: 10pt">

Cost of sales

697,862

401,980

2,130,271

1,339,554

Gross profit

284,913

201,571

825,182

543,990

Operating expenses:

Selling, general and administrative

(27,638
)

172,610

429,991

366,871

Salaries, wages and payroll taxes

338,533

(3,764
)

629,250

107,389

Professional fees

151,603

939

409,605

2,989

Depreciation and amortization

118,931

17,532

293,226

27,965

Total operating expenses

581,428

187,317

1,762,072

505,214

(Loss) income before other expenses and income taxes

(296,515
)

14,255

(936,890
)

38,777

Other (income) expense

Change in fair value of derivative instruments, net

(180
)

-

(342
)

-

Interest expense

1,075

-

3,396

-

Foreign currency exchange rate variance

3,174

2,646

15,241

1,506

Total other expense

4,069

2,646

18,295

1,506

Net (loss) income

$
(300,584
)

$
11,609

$
(955,185
)

$
37,271

Comprehensive Income:

Net (loss) income

$
(300,584
)

$
11,609

$
(955,185
)

$
37,271

Foreign currency translation adjustments

2,530

(4,390
)

8,172

2,964

Comprehensive (loss) income

$
(298,054
)

$
7,219

$
(947,013
)

$
40,235

NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS

Weighted average number of common shares outstanding- basic

11,456,612

2,540,000

9,711,044

2,540,000

Weighted average number of common shares outstanding- diluted

11,456,612

90,000,000

9,711,044

90,000,000

Basic net (loss) income per share

$
(0.03
)

$
0.00

$
(0.10
)

$
0.02

Diluted net (loss) income per share	$ (0.03)	$ 0.00	$ (0.10)	$ 0.00

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

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

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

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

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

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

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

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

Basis of Presentation and Principles of Consolidation

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

Description of Business

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

Use of Estimates

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

Cash and Cash Equivalents

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

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

Accounts receivable and allowance for doubtful accounts

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

Foreign Currency Translation

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

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

Revenue Recognition and Unearned Revenue

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

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

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

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

Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery.

The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.

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

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

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Goodwill and other intangible assets

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

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

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

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

Property and Equipment

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

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

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

Impairment of long-lived assets

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

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

Fair value of financial instruments

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

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

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

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

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

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

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

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

Stock Based Compensation

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

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

Income Taxes

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

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

Earnings per Common Share

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

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

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

Related Party Transactions

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

Recent Accounting Pronouncements

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

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

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

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

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

NOTE 3 - STOCKHOLDERS' EQUITY (DEFICIT)

Preferred Stock

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

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

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

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

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

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

Common Stock

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On October 2, 2015, the Company issued an aggregate of 1,200 shares of common stock, upon the conversion of 120 shares of Series E preferred Stock.
On October 5, 2015, the Company issued and aggregate of 400,000 shares of common stock upon the conversion of 20,000 shares of Series D Preferred Stock.

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

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

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

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

Stock Options

2014 Equity Incentive Plan

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

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

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

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

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

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

Stock Warrants

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

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

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

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

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

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NOTE 4 – PREPAID LICENSE FEES

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

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

NOTE 5 – INTANGIBLE ASSETS

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

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

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

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

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

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NOTE 7 - INVENTORIES

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

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

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

NOTE 8 - RELATED PARTY TRANSACTIONS

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

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

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

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Consulting Agreement

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

Employment Agreements

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

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

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

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

Litigation

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

NOTE 10– DERIVATIVE INSTRUMENTS

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

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

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

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

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

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

NOTE 11 - CONCENTRATIONS

Customers:

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

Suppliers:

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

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

NOTE 12 - SUBSEQUENT EVENTS

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

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

On October 2, 2015, the Company issued an aggregate of 1,200 shares of common stock, upon the conversion of 120 shares of Series E preferred Stock.
On October 5, 2015, the Company issued and aggregate of 400,000 shares of common stock upon the conversion of 20,000 shares of Series D Preferred Stock.

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

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

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

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

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

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

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

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

Corporate Information

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

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

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

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

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

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

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

Recent Transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Net Income (Loss)

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

Comprehensive (Loss) Income

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

Liquidity and Capital Resources

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

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

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

Operating Activities

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

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

Investing Activities

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

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

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Financing Activities

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

Off-Balance Sheet Arrangements

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

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

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

Plan of Operation

Critical Accounting Policies and Estimates

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

Use of Estimates

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

Basis of Presentation and Principles of Consolidation

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

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Accounts Receivable

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

Accounting for Derivative Instruments

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

Research and Development

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

Foreign Currency Translation

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

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

Revenue Recognition and Unearned Revenue

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

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

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

- Persuasive evidence of an arrangement exists. Contracts and customer purchase orders are generally used to determine the existence of an arrangement.
- Delivery has occurred. Shipping documents and customer acceptance, when applicable, are used to verify delivery.
- The fee is fixed or determinable. We assess whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment.
- Collectability is reasonably assured. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and analysis, as well as the customer's payment history.

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

Property and Equipment

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

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

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

Impairment of long-lived assets

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

Fair value of financial instruments

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

measurements.

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

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

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

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

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

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

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

Share-Based Payments

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

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITIATIVE DISCLOSURES ABOUT MARKET RISK

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

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ITEM 4. CONTROLS AND PROCEDURES.

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

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

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

Changes in Internal Controls

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

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PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

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

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

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

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

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

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

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	

	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.ins	XBRL Instance Document
101.sch	XBRL Taxonomy Schema Document
101.cal	XBRL Taxonomy Calculation Document
101.def	XBRL Taxonomy Linkbase Document
101.lab	XBRL Taxonomy Label Linkbase Document
101.pre	XBRL Taxonomy Presentation Linkbase Document

* Filed herein

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SIGNATURES

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

Dated: November 12, 2015

ORBITAL TRACKING CORP.

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

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