GTX CORP
Form 10-Q
November 19, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2018

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 **000-53046**

GTX Corp

(Exact name of registrant as specified in its charter)

Nevada	**98-0493446**
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

117 W. 9th Street, Suite 1214, Los Angeles, CA, 90015

(Address of principal executive offices) (Zip Code)

(213) 489-3019

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report.)

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

Yes [X] . No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] . No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]
	Emerging growth company [ ]

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ]. No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 17,738,261 common shares issued and outstanding as of November 19, 2018.

GTX CORP AND SUBSIDIARIES

For the quarter ended September 30, 2018

FORM 10-Q

PART I

ITEM 1. FINANCIAL STATEMENTS

GTX CORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	**December 31, 2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$15,310	$1,454
Accounts receivable, net	182,049	93,130
Inventory	49,208	57,835
Other current assets	14,697	60,153
Total current assets	261,264	212,572
Property and equipment, net	91,397	116,234
Investment in equity securities	897	3,230
Intangible assets	18,010	17,520
Total assets	$371,568	$349,556
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$372,023	$297,779
Accrued expenses	499,323	289,343
Deferred revenues	41,000	57,934
Convertible promissory note, net of discount	1,219,547	981,758
Convertible promissory note – related parties	884,546	-
Term loans	200,000	200,000
Derivative liabilities	120,033	261,172
Total current liabilities	3,336,472	1,887,986
Long-term convertible debt – related parties	-	670,047
Total liabilities	3,336,472	2,558,033
Commitments and contingencies		
Stockholders' deficit:		
	100	-

Preferred stock, $0.001 par value; 10,000,000 shares authorized; 1,000,000 shares issued and outstanding		
Common stock, $0.0001 par value; 2,071,000,000 shares authorized; 15,098,261 and 9,389,982 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1,510	939
Additional paid-in capital	19,351,648	18,855,596
Accumulated other comprehensive loss	-	(59,249)
Accumulated deficit	(22,318,162)	(21,005,763)
Total stockholders' deficit	(2,964,904)	(2,208,477)
Total liabilities and stockholders' deficit	$371,568	$349,556

See accompanying notes to condensed consolidated financial statements.

3

GTX CORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Product sales	$132,517	$92,368	$409,677	$237,148
Service income	50,497	59,268	146,647	122,551
Royalty and consulting income	12,500	22,913	37,500	95,201
Total revenues	195,514	174,549	593,824	454,900
Cost of products sold	30,420	58,739	124,028	144,656
Costs of other revenue	15,510	8,264	37,380	50,828
Total cost of goods sold	45,930	67,003	161,408	195,484
Gross margin	149,584	107,546	432,416	259,416
Operating expenses:				
Wages and benefits	174,047	179,167	559,523	482,827
Sales and marketing	12,008	7,616	35,435	38,973
Professional fees	108,411	73,480	236,835	252,320
Research and development expense	2,795	-	4,691	-
General and administrative	79,545	44,077	223,565	219,760
Total operating expenses	376,806	304,340	1,060,049	993,880
Loss from operations	(227,222)	(196,795)	(627,633)	(734,464)
Other income/(expenses):				
Other	(51,851)	(1,275)	(53,697)	(27,200)
Amortization of debt discount	(133,524)	(155,601)	(389,379)	(255,370)
Derivative income (expense), net	196,953	(27,000)	188,389	172,368
Additional cost on related party notes	-	-	(247,147)	-
Interest expense	(38,174)	(23,510)	(123,683)	(88,387)
Total other income/(expenses)	(26,596)	(207,386)	(625,517)	(198,589)
Net loss	$(253,818)	$(404,180)	$(1,253,150)	$(933,053)
Weighted average number of common shares outstanding - basic and diluted	13,669,504	8,436,181	11,503,097	7,908,053
Net income (loss) per common share - basic and diluted	$(0.02)	$(0.05)	$(0.11)	$(0.12)

See accompanying notes to condensed consolidated financial statements.

4

GTX CORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Loss**	**Deficit**	**Total**
Balance, January 31, 2018	-	-	9,389,982	$939	$18,855,596	$ (59,249)	$(21,005,763)	$(2,208,477)
Cumulative effect of implementing ASU 2016-01	-	-	-	-	-	59,249	(59,249)	-
Issuance of common stock for services	-	-	734,303	73	71,697	-	-	71,770
Issuance of preferred stock for services	1,000,000	100	-	-	46,263	-	-	46,363
Issuance of common stock for conversion of debt	-	-	3,207,651	321	162,019	-	-	162,340
Exercise of warrants	-	-	1,766,325	177	(177)	-	-	-
Fair value of beneficial conversion feature on convertible notes	-	-	-	-	216,250	-	-	216,250
Net loss	-	-	-	-	-	-	(1,253,150)	(1,253,150)
Balance, September 30, 2018	1,000,000	$100	15,098,261	$1,510	$19,351,648	$-	$(22,318,162)	$(2,964,904)

See accompanying notes to condensed consolidated financial statements.

5

GTX CORP AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net loss	$(1,253,150)	$(905,853)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	55,847	46,967
Bad debt expense	-	1,591
Stock-based compensation	71,770	114,250
Noncash financing cost on related party notes	214,499	-
Unrealized loss on marketable securities	2,333	-
Change in fair value of derivative liability	(188,389)	(172,368)
Amortization of debt discount	389,379	255,370
Fair value of preferred shares issued to management	46,363	-
Interest on notes	207,075	(20,826)
Changes in operating assets and liabilities:		
Accounts receivable	(88,919)	(81,781)
Inventory	8,627	61,947
Other current and non-current assets	45,456	(67,531)
Accounts payable and accrued expenses	122,818	129,511
Accrued expenses - related parties	(45,668)	137,530
Accrued liability	47,250	-
Deferred revenues	(16,934)	4,446
Net cash used in operating activities	(381,643)	(496,747)
Cash flows from investing activities:		
Purchase of property and equipment	(31,500)	(20,645)
Net cash used in investing activities	(31,500)	(14,700)
Cash flows from financing activities:		
Proceeds from convertible promissory notes	485,000	434,500
Payments on convertible promissory notes	(58,000)	(10,000)
Net cash provided by financing activities	427,000	424,500
Net change in cash and cash equivalents	13,856	(92,892)
Cash and cash equivalents, beginning of period	1,454	95,431
Cash and cash equivalents, end of period	$15,310	$2,539

Supplemental disclosure of cash flow information:		
Income taxes paid	$-	$-
Interest paid	$5,655	$4,000
Supplementary disclosure of noncash financing activities:		
Unrealized loss on available for sale investments	$-	$27,200
Issuance of common stock for conversion of debt	$162,340	$355,098
Debt discount on convertible notes payable	$216,250	$-
Debt discount recorded as derivative liabilities	$47,250	$354,613

See accompanying notes to condensed consolidated financial statements.

GTX CORP AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(Unaudited)

1. ORGANIZATION AND BASIS OF PRESENTATION

During the periods covered by these financial statements, GTX Corp and subsidiaries (collectively, the "Company," "GTX," "we" or "our") were engaged in businesses that design, develop manufacture and sell various interrelated and complementary products and services in the Personal Location Wearable Technology marketplace. GTX Corp owns 100% of the issued and outstanding capital stock of Global Trek Xploration and LOCiMOBILE, Inc.

Global Trek Xploration designs, develops, manufactures and sells hardware, software, connectivity services of Global Positioning System ("GPS") cellular, RF and Bluetooth Low Energy ("BLE") monitoring and tracking solutions that provide real-time tracking of the whereabouts of people and high valued assets. Utilizing a miniature quad band GPRS transceiver, antenna, circuitry, battery and inductive charging circuitry, our product(s) can be customized and integrated into numerous products and form factors whose location and movement can be monitored in real time through our 24x7 tracking portal or web enabled mobile devices Our core products and services are supported by an extensive IP portfolio of patents, patents pending, registered trademarks, copyrights, URLs and a library of software source code.

LOCiMOBILE, Inc. develops Smartphone application ("App") for both consumer and enterprise deployment. With a suite of mobile applications that turn the iPhone, iPad, Android and other GPS enabled handsets into a tracking device which can be tracked from handset to handset or through our tracking portal or on any connected device with internet access. LOCiMOBILE has launched numerous Apps across multiple mobile device operating systems and continues to launch consumer and enterprise apps. LOCiMOBILE apps have over 2 million downloads across 50 plus countries and have been ranked in the iTunes top 10 downloads and highest grossing App category.

Basis of Presentation

The accompanying unaudited consolidated financial statements of GTX have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and applicable regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of financial position and results of operations have been included. Our operating results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2017, which are included in our Annual Report on Form 10-K.

The accompanying consolidated financial statements reflect the accounts of GTX Corp and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

On June 22, 2018, as previously disclosed, the Company effected a 1-for-75 reverse stock split of its common stock. All references to shares of common stock outstanding, average number of shares outstanding and per share amounts in these consolidated financial statements and notes to consolidated financial statements have been restated to reflect the reverse stock split on a retroactive basis.

Going Concern

The consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred a net loss of $1,253,150 and used cash in operations of $381,643 for the nine months ended September 30, 2018 and as of September 30, 2018 has a stockholders’ deficit of $2,964,904. The Company anticipates further losses in the development of its business.

The Company's independent registered public accounting firm has also included explanatory language in their opinion accompanying the Company's audited financial statements for the year ended December 31, 2017. The Company's financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. The Company's ability to raise additional capital through the future issuances of debt or equity is unknown. The obtainment of additional financing, the successful development of the Company's contemplated plan of operations, or its attainment of profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements of the Company do not include any adjustments that may result from the outcome of these aforementioned uncertainties.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the accompanying unaudited consolidated financial statements requires the use of estimates that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. These estimates include, but are not limited to, estimates related to revenue recognition, allowance for doubtful accounts, inventory valuation, tangible and intangible long-term asset valuation, warranty and other obligations and commitments. Estimates are updated on an ongoing basis and are evaluated based on historical experience and current circumstances. Changes in facts and circumstances in the future may give rise to changes in these estimates which may cause actual results to differ from current estimates.

Fair Value Estimates

Pursuant to the Accounting Standards Codification ("ASC") No. 820, "*Disclosures About Fair Value of Financial Instruments*", the Company records its financial assets and liabilities at fair value. ASC No. 820 provides a framework for measuring fair value, clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. ASC No. 820 establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2—Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset/liability's anticipated life.

Level 3—Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

The carrying values for cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued liabilities approximate their fair value due to their short maturities. The Company uses Level 2 inputs for its valuation methodology for the derivative liabilities.

Derivative Instruments

Our debt or equity instruments may contain embedded derivative instruments, such as conversion options, which in certain circumstances may be required to be bifurcated from the associated host instrument and accounted for separately as a derivative instrument liability.

Our derivative instrument liabilities are re-valued at the end of each reporting period, with changes in the fair value of the derivative liability recorded as charges or credits to income, in the period in which the changes occur. For bifurcated conversion options that are accounted for as derivative instrument liabilities, we determine the fair value of these instruments using the Black-Scholes option pricing model. This model requires assumptions related to the remaining term of the instrument and risk-free rates of return, our current Common Stock price and expected dividend yield, and the expected volatility of our Common Stock price over the life of the option.

Comprehensive Loss

FASB ASC 220 establishes rules for reporting and displaying comprehensive loss and its components. Comprehensive loss is the sum of net loss as reported in the consolidated statements of operations and comprehensive loss transactions as reported in the consolidated statement of stockholders' deficit. Comprehensive loss transactions that applied to the Company through December 31, 2017 resulted from unrealized losses on available for sale investments. On January 1, 2018 the Company adopted ASC 2016-01, and such gains and losses are now reported as part of earnings.

Reclassifications

For comparability, certain prior period amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2017. These reclassifications have no impact on net loss.

Revenue

Effective January 1, 2018 the Company adopted Accounting Standards Update ("ASU") no. 2014-09, *Revenue from Contracts with Customers (ASC 606)*. Under the update, revenue is recognized based on a five-step model. The core principle of the model is that revenue will be recognized when the transfer of promised goods or services to customers is made in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard did not result in any changes to previously reported amounts.

We account for revenue in accordance with ASC 606. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the unit of account in ASC 606. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. The contract transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. We do not have any significant payment terms, as payment is received shortly after goods are delivered or services are provided.

We derive our revenues primarily from hardware sales, subscription services fees, IP licensing and professional services fees. Hardware includes our SmartSole, Military and other Stand-Alone Devices. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions and subscription or license fees for our platform. Professional services and other revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. IP licensing is related to our agreement with Inventergy whereby we have partnered in order to monetize our IP portfolio (see, Note 3, below).

Product sales

At the inception of each contract, we assess the goods and services promised in our contracts and identify each distinct performance obligation. The Company recognizes revenue upon the transfer of control of promised products or services to the customer in an amount that depicts the consideration the Company expects to be entitled to for the related products or services. For the large majority of the Company’s sales, transfer of control occurs once product has shipped and title and risk of loss have transferred to the customer.

Some of our contracts have multiple performance obligations, including contracts that combine hardware with post-implementation customer support. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. The primary method used to estimate standalone selling price is the expected cost plus a margin approach, under which we estimate our expected costs of satisfying a performance obligation and add an appropriate margin for that distinct good or service. We also use the adjusted market approach whereby we estimate the price that customers in the market would be willing to pay. In assessing whether to allocate variable consideration to a specific part of the contract, we consider the nature of the variable payment and whether it relates specifically to its efforts to satisfy a specific part of the contract. Certain of our software implementation performance obligations are satisfied at a point in time, typically when customer acceptance is obtained.

Services Income

The Company's software solutions are available for use as hosted application arrangements under subscription fee agreements without licensing perpetual rights to the software. Subscription fees from these applications are recognized over time on a ratable basis over the customer agreement term beginning on the date the Company's solution is made available to the customer. Our subscription contracts are generally one to three months in length. Amounts that have been invoiced are recorded in accounts receivable and deferred revenues or revenues, depending on whether the revenue recognition criteria have been met.

The majority of our professional services arrangements are recognized on a time and materials basis. Professional services revenues recognized on a time and materials basis are measured monthly based on time incurred and contractually agreed upon rates. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized based on the proportional performance method. In some cases, the terms of our time and materials and fixed fee arrangements may require that we defer the recognition of revenue until contractual conditions are met. Data services and training revenues are generally recognized as the services are performed.

Royalty Revenue

Royalty revenue recorded by the Company relates exclusively to the Company's License and Partnership agreement with Inventergy which provides for ongoing royalties based on monetization of IP licenses. The Company recognizes revenue for royalties under ASC 606, which provides revenue recognition constraints by requiring the recognition of revenue at the later of the following: 1) sale or usage of the products or 2) satisfaction of the performance obligations. The Company has satisfied its performance obligations and therefore recognizes royalty revenue when the sales to which the royalties relate are completed.

Accounts receivable, net

The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable are recorded at the invoiced amount, net of any necessary allowance for doubtful accounts. A receivable is recognized in the period the Company provides the underlying services or when the right to consideration is unconditional. The balance of accounts receivable, net of the allowance for doubtful accounts, as of September 30, 2018 and December 31, 2017 is presented in the accompanying condensed consolidated balance sheets. The Company established an allowance for doubtful accounts of $13,926 and $22,312 as of September 30, 2018 and December 31, 2017, respectively.

Deferred revenue

Deferred revenue consists primarily of the transaction price allocated to performance obligations that are recognized over a period of time basis. Billings associated with such items are typically completed upon the transfer of control of promised products or services to the customer and recorded to accounts receivable until payment is received. Deferred costs primarily refer to the recurring fees in excess of a $500 minimum that is prorated over the term of the contract. Deferred revenue also consists of advance payments from customers for uncompleted contracts.

Loss per Common Share

Basic earnings (loss) per share is computed by dividing the net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing the net income applicable to common stockholders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued, using the treasury stock method. Potential common shares are excluded from the computation when their effect is antidilutive.

For the periods ended September 30, 2018 and 2017, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have had an anti-dilutive effect. The potentially dilutive securities consisted of the following:

	September 30, 2018	September 30, 2017
Convertible promissory notes	4,444,289	9,203,193
Convertible promissory notes related parties	1,179,394	611,959
Warrants	11,321,667	3,852,000
Total	16,945,350	13,667,152

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases (Topic 842). ASU 2016-02 requires a lessee to record a right-of-use asset and a corresponding lease liability, initially measured at the present value of the lease payments, on the balance sheet for all leases with terms longer than 12 months, as well as the disclosure of key information about leasing arrangements. ASU 2016-02 requires recognition in the statement of operations of a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. ASU 2016-02 requires classification of all cash payments within operating activities in the statement of cash flows. Disclosures are required to provide the amount, timing and uncertainty of cash flows arising from leases. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company has not yet evaluated the impact of the adoption of ASU 2016-02 on the Company’s financial statement presentation or disclosures.

In June 2018, the FASB issued Accounting Standards Update 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting (“ASU 2018-07”). ASU 2018-07 expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company will adopt the provisions of ASU 2018-07 in the quarter beginning January 1, 2019. The adoption of ASU 2018-07 is not expected to have any impact on the Company’s financial statement presentation or disclosures.

Other recent accounting pronouncements issued by the FASB, its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

3. JOINT VENTURE AND INVESTMENT IN EQUITY SECURITIES

Joint Venture Agreement

On June 16, 2016, the Company entered into a Definitive Agreement with Inventergy Innovations, LLC (“Inventergy”), a subsidiary of Inventergy Global, Inc. (NASDAQ: INVT). The Company partnered with Inventergy to monetize three (3) GTX Patents. Upon signing the Agreement, the Patents were assigned to an Inventergy subsidiary, and Inventergy assigned a 45% interest in the entity to GTX. Inventergy is also obligated to make a sequence of quarterly payments to GTX beginning in January 2017, which payments represent non-refundable advances against future royalty and other payments. Pursuant to a non-exclusive license back to GTX, GTX will still retain all use rights of the 3 patents. During the period ended September 30, 2018, the Company has received $12,500 as a non-refundable advance from Inventergy.

The Company uses the equity method to account for its 45% investment in the Inventergy subsidiary. Under the equity method, the Company recognizes its share of the earnings and losses of the subsidiary as they accrue instead of when they are realized. As of September 30, 2018 and December 31, 2017, the Company's investment in the subsidiary was $0.

Investment in Equity Securities

As of September 30, 2018, we own 42,500 shares of common stock of INVT at a closing price of $0.0211, for a value of $897. The Company previously accounted for this as an investment in available for sale securities, and as such unrealized gains and losses were recorded as adjustment to accumulated other comprehensive income.

In January 2018, the Company adopted ASU 2016-01, Financial Instruments (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01 using the modified retrospective transition method. Upon adoption, we reclassified $59,249 related to available-for-sale investment securities from accumulated other comprehensive loss to accumulated deficit as a cumulative-effect adjustment. Under the new guidance, these securities will continue to be measured at fair value; however, the changes in unrealized net holding gains and losses will be reported in earnings. Comparative information continues to be reported under the accounting standards in effect for the period. The effect of the change for the nine months ended September 30, 2018 was an increase to net loss of approximately $2,333, which is included in Other income (expense) on the Condensed Consolidated Statements of Operations.

4. <u>RELATED PARTY TRANSACTIONS</u>

In order to preserve cash for other working capital needs, various officers and members of management have agreed to accrue, and defer payment of, portions of their salaries since fiscal 2011. As of September 30, 2018 and December 31, 2017, the Company owed $139,600 and $0, respectively for such accrued wages which are included in accounts payable on the balance sheet.

5. <u>DEBT</u>

Convertible Notes

As of September 30, 2018 and December 31, 2017, the Company had a total of $1,245,785 and $923,875, respectively, of convertible notes payable, which consisted of the following:

	September 30, 2018	December 31, 2017
a) Convertible Notes – with fixed conversion	$979,000	$517,500
b) Convertible Notes – with variable conversion	266,785	406,375
Total	1,245,785	923,875
Less: Debt discount	(26,238)	(142,117)
Total convertible notes, net of debt discount	$1,219,547	$781,758

a) Convertible notes payable with principal balance of $517,500 as of December 31, 2017 consist of loans provided to the Company from various investors. These notes carry simple interest at a rate ranging from 0% to 12% per annum and with terms ranging from 1 to 2 years. In lieu of the repayment of the principal and accrued interest, the outstanding amounts are convertible, at the option of the note holder, generally at any time on or prior to maturity and automatically under certain conditions, into the Company's common shares at $0.015 to $0.002 per share. These notes became due in 2017 and prior, and are currently past due. During the nine months ended September 30, 2018, we issued 1,400,000 shares of common stock to convert $31,500 of these outstanding convertible notes and paid down in cash the principal balance on two notes by $2,000.

During the period ended September 30, 2018, the Company entered into Convertible Promissory Agreements with accredited investors for an aggregate principal balance of $460,000. The Purchasers may convert their notes after six months into common shares in the Company at a price equal to $0.15. The notes bear interest of 12% mature at various dates ranging from four to six months. The notes were issued pursuant to Section 4(a)(2) of the Securities Act of 1933. On the dates of the agreement, the closing price of the common stock range from $0.0018 to $0.23 per share. As the conversion price embedded in the note agreements was below the trading price of the common stock on the dates of issuance, a beneficial conversion feature (BCF) was recognized at the date of issuance. The Company recognized a debt discount at the date of issuance in the aggregate amount of $216,250 related to the intrinsic value of beneficial conversion feature.

Also, during the same period, the Company entered into a Convertible Promissory Agreement with an accredited investor with a principle balance of $25,000. The Purchaser may convert their note after November 30, 2018 into common shares in the Company at a price equal to a 40% discount to market. The note bears interest of 1%. As part of the note agreement, the Company issued warrants to acquire 500,000 shares of common stock at an exercise price of $.04 per share.

The balance of the valuation discount of notes with a fixed conversion as of December 31, 2017 was $63,012. During the period ended September 30, 2018 the Company amortized $264,250 of debt discount leaving an unamortized balance of $15,012 at September 30, 2018. See subsequent events for Amendment to the Notes.

b) Convertible notes payable with principal balance of $406,375 were outstanding as of December 31, 2017 consist of loans provided to the Company from various investors. These notes are non-interest bearing and with terms ranging from 1 to 2 years. In lieu of the repayment of the principal and accrued interest, the outstanding amounts are convertible, at the option of the note holder, generally at any time on or prior to maturity and automatically under certain conditions, into the Company's common shares at 60% of the lowest trading price in the prior 30 days.

During the nine-month period ended September 30, 2018, we issued 1,807,651 shares of common stock to convert $130,840 of outstanding convertible notes. In addition, we paid down $56,000 under the note agreements.

During the period ended September 30, 2018, the Company had issued a Convertible Promissory Note as payment for services incurred under an Advisory Agreement with a third party for a principal balance of $47,250 under the same terms as the notes above.

The Company determined that since the conversion floor of these notes had no limit to the conversion price, the Company could no longer determine if it had enough authorized shares to fulfil its conversion obligation. As such, pursuant to current accounting guidelines, the Company determined that the conversion feature of these notes created a derivative with a fair value totaling $49,206 at the date of issuances. The Company recorded $47,250 of this amount as a valuation discount to be amortized over the life of the note and the remaining $1,956 as a financing cost.

The unamortized valuation discount relating to these notes was $79,105 as of December 31, 2017. During the period ended September 30, 2018, the Company recorded amortization of debt discount of $114,739 as interest expense. Unamortized debt discount as of September 30, 2018 was $11,616 related to these notes.

Convertible Notes Due to Related Parties

On September 30, 2016, management elected to convert accrued salaries into long-term convertible promissory notes. The balance of such note at December 31, 2016 was $438,997. On December 31, 2017, management elected to transfer additional accrued salaries into long-term convertible promissory notes, due on March 31, 2019, totaling $231,050 and are due 18 months after issuance. The notes bear a 10% annual interest rate. Management shall have the right, but not the obligation to convert up to 50% of the amount advanced and accrued interest into shares, warrants or options of common or preferred stock of the Company at $0.75 per share. As of December 31, 2017, outstanding balance on the convertible note was $670,047.

During the period ended June 30, 2018, the Company recognized additional notes with an aggregate amount of $214,499 which represent 50% of the related party notes that matured on March 31, 2018. The notes are due on March 31, 2019. Such amount was recorded as noncash financing cost during the nine months ended September 30, 2018. As of September 30, 2018, the outstanding balance on the convertible promissory notes was $884,546.

On September 30, 2018 interest of $141,602 is accrued on the above notes and included in accrued expenses.

Term loans

In 2015, the Company entered into an unsecured term loan agreement with a third party for an aggregate principal balance of $200,000 at an interest rate of 14% per annum. The term loan became due on April 14, 2017. The principal balance outstanding on the note as of September 30, 2018 and December 31, 2017 was $200,000 and is past due.

6. DERIVATIVE LIABILITY

Under authoritative guidance used by the FASB on determining whether an instrument (or embedded feature) is indexed to an entity's own stock, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company has issued certain convertible notes whose conversion price is based on a future market price. However, since the number of shares to be issued is not explicitly limited, the Company is unable to conclude that enough authorized and unissued shares are available to share settle the conversion option.

As a result, the conversion option is classified as a liability and bifurcated from the debt host and accounted for as a derivative liability in accordance with ASC 815 and will be re-measured at the end of every reporting period with the change in value reported in the statement of operations.

At December 31, 2017, the balance of the derivative liabilities was $261,172. During the period ended September 30, 2018, the Company recorded an additional derivative liability with a fair value of $49,206, recorded an extinguishment of debt of $12,840 related to notes that were converted and a change in fair value of $177,505. At September 30, 2018, the balance of the derivative liabilities was $120,033.

At September 30, 2018 and December 31, 2017, the derivative liabilities were valued using a probability weighted Black-Scholes-Merton pricing model with the following assumptions:

	September 30, 2018		December 31, 2017	
Conversion feature:				
Risk-free interest rate	2.36	%	1.53	%
Expected volatility	205.56	%	165.68	%
Expected life (in years)	.1 to .5 years		.1 to .5 years	
Expected dividend yield	-		-	
Fair Value:				

Conversion feature	$120,033	$261,172

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company uses the historical volatility of its common stock to estimate the future volatility for its common stock. The expected life of the conversion feature of the notes was based on the remaining contractual term of the notes. The expected dividend yield was based on the fact that the Company has not paid dividends to its common stockholders in the past and does not expect to pay dividends to its common stockholders in the future.

7. EQUITY

Preferred Stock

During the nine months ended September 30, 2018, the Company authorized its preferred shares to have voting rights equal to two-thirds of all the issued and outstanding shares of common stock, shall be entitled to vote on all matters of the corporation, and shall have the majority vote of the board of directors. The subject preferred stock lacks any dividend rights, does not have liquidation preference, and is not convertible into common stock. During the nine months ended September 30, 2018, the Company issued one million shares to certain officers and board members. The Company retained a third-party valuation firm whose input was utilized in determining the related per share valuation of the preferred shares. Based on Management’s assessment and the valuation report, the fair value of the preferred shares was determined to be $0.0463 per share or an aggregate of $46,363.

Common Stock

On June 22, 2018, the Company effected 1-for-75 reverse stock split of its common shares. All share amounts and per share amounts have been retroactively restated to reflect the split as if it had occurred as of the earliest period presented.

During the nine months ended September 30, 2018, we issued 3,207,651 shares of common stock to noteholders upon conversion of $162,340 convertible notes.

During the period ended September 30, 2018, the Company issued 734,303 shares of common stock for services rendered to various members of management, the Board of Directors, employees and consultants. The fair value of the shares was determined to be $71,697 and was recorded Stock-Based Compensation in the accompanying consolidated statement of operations.

Common Stock Warrants

Since inception, the Company has issued warrants to purchase shares of the Company's common stock to shareholders, consultants and employees as compensation for services rendered and/or through private placements.

A summary of the Company's warrant activity and related information is provided below (the exercise price and the number of shares of common stock issuable upon the exercise of outstanding warrants have been adjusted to reflect a 1-for-75 reverse stock split.):

	Exercise Price $	Number of Warrants
Outstanding and exercisable at December 31, 2017	0.15 – 2.25	13,852,000
Warrants exercised	0.0125 – 0.015	(2,865,000)
Warrants granted	0.04	500,000
Warrants expired	1.125 – 1.50	(165,333)
Outstanding and exercisable at September 30, 2018	0.125 - 2.25	11,321,667

Stock Warrants as of September 30, 2018

Exercise Price	Warrants Outstanding	Remaining Life (Years)	Warrants Exercisable
$0.0125	500,000	.055	500,000
$0.015	5,135,000	0.79	5,135,000
$0.020	5,000,000	1.13	5,000,000
$0.040	500,000	1.48	500,000
$1.125	144,667	0.59	144,667
$2.25	42,000	0.76	42,000

15

During the period ended September 30, 2018, 2,865,000 warrants were exercised on a cashless basis that resulted in the issuance of 1,766,325 shares of common stock, in addition warrants 165,333 expired and 500,000 were issued.

8. SUBSEQUENT EVENTS

On October 9, 2018 we issued a $85,000 Convertible Promissory Note to an advisor as part of his compensation package, with no discount to market with a maturity date of 1 year.

On October 19, 2018 we received $10,000 from an accredited investor for a Convertible Promissory Agreement with the following terms: 12% interest with a conversion price of $.30.

On October 22, the Company created a long term employment retention bonus plan and allocated 39,500,000 restricted common shares. The shares have a 3-year vesting period and those eligible, employees, directors and advisors must have been with the Company for at least 2 years in order to participate in the plan.

REGISTERED NAME	**NUMBER OF SHARES**	**DATE**	**RESTRICTED OR FREE TRADING**	**FREE TRADING EXEMPTION** (required if free trading)
Patrick Bertagna	10,000,000	10/16/2018	Restricted	Standard 144 restriction
Andrew Duncan	7,000,000	10/16/2018	Restricted	Standard 144 restriction
Louis Rosenbaum	8,000,000	10/16/2018	Restricted	Standard 144 restriction
Alex McKean	4,000,000	10/16/2018	Restricted	Standard 144 restriction
Chris Walsh	4,000,000	10/16/2018	Restricted	Standard 144 restriction
Li Wang	2,500,000	10/16/2018	Restricted	Standard 144 restriction
Larry Henneman	2,500,000	10/16/2018	Restricted	Standard 144 restriction
Skip Nelson	1,000,000	10/16/2018	Restricted	Standard 144 restriction
Meghan Ravada	500,000	10/16/2018	Restricted	Standard 144 restriction

On October 22, the issued 500,000 common shares to an investor as part of their Convertible Promissory Agreement.

On November 6, 2018 we issued 640,000 shares of common stock to an investor for converting $6,464 in debt from a convertible note that was issued in the second quarter of 2017.

On November 9, 2018, we issued 2,000,000 shares of common stock to an investor for converting $4,000 in debt from a convertible note that was issued in the first quarter of 2018.