

Orbital Tracking Corp.  
Form 10-Q  
May 15, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-25097

**ORBITAL TRACKING CORP.**

(Exact name of small business issuer as specified in its charter)

**Nevada**                      **65-0783722**  
(State or other jurisdiction of    (I.R.S. Employer

incorporation or organization) Identification No.)

**18851 NE 29th Avenue, Suite 700**

**Aventura, FL 33180**

**Telephone: (305)-560-5355**

*(Address, including zip code, and telephone number,*

*including area code, of registrant's principal executive offices)*

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The number of shares of the Registrant's Common Stock outstanding as of May 15, 2018 was 936,519.



**FORM 10-Q**

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**Part I Financial Information**

## Item 1. Financial Statements

The Company's unaudited financial statements for the three months ended March 31, 2018 and for comparable periods in the prior year are included below. The financial statements should be read in conjunction with the notes to financial statements that follow.

**ORBITAL TRACKING CORP AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS AS OF**

	March 31, 2018 (unaudited)	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash	\$216,532	\$233,326
Accounts receivable, net	211,596	294,495
Inventory	395,301	332,895
Unbilled revenue	79,785	89,515
Prepaid expenses	50,445	82,454
Other current assets	49,161	48,213
Total current assets	1,002,820	1,080,898
Property and equipment, net	1,696,323	1,757,200
Intangible assets, net	218,750	225,000
Total assets	\$2,917,893	\$3,063,098
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$997,834	\$855,687
Deferred revenue	54,211	215,989
Related party payable	21,333	6,998
Provision for income taxes	12,934	12,461
Liabilities from discontinued operations	112,397	112,397
Total current liabilities	1,198,709	1,203,532

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Total Liabilities	1,198,709	1,203,532
Stockholders' Equity:		
Preferred Stock, \$0.0001 par value; 50,000,000 shares authorized		
Series A (\$0.0001 par value; 20,000 shares authorized, and no shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	-	-
Series B (\$0.0001 par value; 30,000 shares authorized, 3,333 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	1	1
Series C (\$0.0001 par value; 4,000,000 shares authorized, 1,913,676 shares issued and outstanding as of March 31, 2018 and December 31, 2018, respectively)	191	191
Series D (\$0.0001 par value; 5,000,000 shares authorized, 2,892,109 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	289	289
Series E (\$0.0001 par value; 8,746,000 shares authorized, 5,174,200 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	517	517
Series F (\$0.0001 par value; 1,100,000 shares authorized, 349,999 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	35	35
Series G (\$0.0001 par value; 10,090,000 shares authorized, 5,202,602 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	520	520
Series H (\$0.0001 par value; 200,000 shares authorized, 13,741 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	1	1
Series I (\$0.0001 par value; 114,944 shares authorized, 49,110 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	5	5
Series J (\$0.0001 par value; 125,000 shares authorized, 44,698 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	4	4
Series K (\$0.0001 par value; 1,250,000 shares authorized, 1,156,866 issued and outstanding as of March 31, 2018 and December 31, 2017, respectively)	116	116
Common Shares, \$0.0001 par value; 750,000,000 shares authorized, 936,519 outstanding as of March 31, 2018 and December 31, 2017, respectively	94	94
Additional paid-in capital	10,398,984	10,398,908
Accumulated (deficit)	(8,686,173 )	(8,540,715 )
Accumulated other comprehensive (income) loss	4,600	(400 )
Total stockholder equity	1,719,184	1,859,566
Total liabilities and stockholders' equity	\$2,917,893	\$3,063,098

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

**ORBITAL TRACKING CORP AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****AND COMPREHENSIVE LOSS**

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net sales	\$1,667,938	\$1,382,330
Cost of sales	1,288,842	1,067,752
Gross profit	379,096	314,578
Operating expenses:		
Selling, general and administrative	154,992	155,254
Salaries, wages and payroll taxes	180,720	152,951
Professional fees	109,192	148,859
Depreciation and amortization	75,273	75,978
Total operating expenses	520,177	533,042
(Loss) before other expenses and income taxes	(141,081 )	(218,464 )
Change in fair value of derivative instruments, net	-	(1,114 )
Interest expense	76	218
Foreign currency exchange rate variance	4,301	1,694
Total other (income) expense	4,377	798
Net loss	\$(145,458 )	\$(219,262 )
Comprehensive Income:		
Net loss	\$(145,458 )	\$(219,262 )
Foreign currency translation adjustments	5,000	5,592
Comprehensive loss	\$(140,458 )	\$(213,670 )
Weighted average number of common shares outstanding- basic	936,519	416,928
Weighted average number of common shares outstanding- diluted	936,519	416,928
Basic net loss per share	\$(0.15 )	\$(0.51 )
Diluted net loss per share	\$(0.15 )	\$(0.51 )

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





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

	March 31, 2018	March 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(145,458)	\$(219,262)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Change in fair value of derivative liabilities	-	(1,114 )
Depreciation expense	69,023	69,728
Amortization of intangible asset	6,250	6,250
Imputed interest	76	218
Change in operating assets and liabilities:		
Accounts receivable	82,899	(53,119 )
Inventory	(62,406 )	(33,922 )
Unbilled revenue	9,730	(2,209 )
Prepaid expense	32,010	50,068
Other current assets	(949 )	(29,798 )
Accounts payable and accrued liabilities	142,147	301,484
Deferred revenue	(161,778)	(1,200 )
Net cash (used in) provided by operating activities	(28,456 )	87,124
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(5,558 )	(8,934 )
Net cash used in investing activities	(5,558 )	(8,934 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds of note payable, related party, net	14,335	15,975
Net cash provided by financing activities	14,335	15,975
Effect of exchange rate on cash	2,885	5,592
Net increase (decrease) in cash	(16,794 )	99,757
Cash beginning of period	233,326	114,733
Cash end of period	\$216,532	\$214,490
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid during the period for		
Interest	\$-	\$-
Income tax	\$-	\$-

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



## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the financial statements not misleading. The consolidated financial statements as of December 31, 2017 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, 2017, which are contained in Form 10-K as filed with the Securities and Exchange Commission on April 2, 2018. The consolidated balance sheet as of December 31, 2017 was derived from those financial statements.

#### ***Basis of Presentation and Principles of Consolidation***

The condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and the rules and regulations of the U.S Securities and Exchange Commission for Interim Financial Information. The condensed consolidated financial statements of the Company include the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company’s financial position as of March 31, 2018, and the results of operations and cash flows for the three months ended March 31, 2018 have been included. The results of operations for the three months ended March 31, 2018 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.

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

On the effective date of the Merger:

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

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

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

## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

For accounting purposes, this transaction was accounted for as a reverse acquisition and has been treated as a recapitalization of the Company with GTCL considered the accounting acquirer, and the financial statements of the accounting acquirer became the financial statements of the registrant. The completion of the Share Exchange resulted in a change of control. The Share Exchange was accounted for as a reverse acquisition and re-capitalization. The GTCL shareholders obtained approximately 39% of voting control on the date of Share Exchange. GTCL was the acquirer for financial reporting purposes and the Company was the acquired company. The consolidated financial statements after the acquisition include the balance sheets of both companies at historical cost, the historical results of GTCL and the results of the Company from the acquisition date. All share and per share information in the accompanying consolidated financial statements and footnotes has been retroactively restated to reflect the recapitalization. See Note 8 - Stockholders Equity.

On March 8, 2018, our then-outstanding 140,224,577 shares of common stock outstanding were reduced by a reversed split for a ratio of 1 for 150. As of March 30, 2018, we have 936,519 shares of common stock issued and outstanding post-split. The number of authorized shares of our common stock will not be reduced by the reverse stock split. Accordingly, the reverse Stock split will have the effect of creating additional unissued and unreserved shares of our common stock. All share and per share, information in the accompanying consolidated financial statements and footnotes has been retroactively restated to reflect the reverse split. See Note 8 - Stockholders Equity.

*Use of Estimates*

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

*Cash and Cash Equivalents*

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

*Accounts receivable and allowance for doubtful accounts*

The Company has a policy of reserving for questionable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the bad debt expense after all means of collection have been exhausted and the potential for recovery is considered remote. As of March 31, 2018, and December 31, 2017, there is an allowance for doubtful accounts of \$448 and \$431.

## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### ***Inventories***

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

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

#### ***Foreign Currency Translation***

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

The relevant translation rates are as follows: for the three months ended March 31, 2018 closing rate at 1.4015 US\$: GBP, average rate at 1.39059 US\$: GBP, for the three months ended March 31, 2017 closing rate at 1.2555 US\$: GBP, average rate at 1.23801 US\$: GBP, for the year ended 2017 closing rate at 1.350291 US\$: GBP, average rate at

1.28819 US\$ GBP.

***Revenue Recognition and Unearned Revenue***

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

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

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

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

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

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

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



## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

We recognize revenue in accordance with Accounting Standards Codification (“ASC”) 606, “Revenue Recognition,” when there is persuasive evidence that an arrangement exists, title and risk of loss have passed, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon delivery, as we have insurance for lost shipments. In limited circumstances where either title or risk of loss pass upon destination or acceptance or when collection is not reasonably assured, we defer revenue recognition until such events occur. We derive revenues from two primary sources: products and services. Product revenue includes the shipment of product according to the agreement with our customers. Services include mobile telecommunication services, such as airtime usage, messaging, mapping services and customer support (technical support), installations and consulting. A contract may include both product and services. Rarely, contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices are typically estimated based on observable transactions when these services are sold on a standalone basis.

The Company provides product warranties with varying lengths of time and terms. The product warranties are considered to be assurance-type in nature and do not cover anything beyond ensuring that the product is functioning as intended. Based on the guidance in ASC 606, assurance-type warranties do not represent separate performance obligations. The Company also sells separately-priced maintenance service contracts which qualify as service-type warranties and represent separate performance obligations. The Company has historically experienced a low rate of product returns under the warranty program.

A variety of technical services can be contracted by our customers for a designated period of time. The service contracts allow customers to call the Company for technical support, replace defective parts and to have onsite service provided by the Company’s third-party contract service provider. The Company records revenues for contract services at the amount of the service contract, but such amount is deferred at the beginning of the service term and amortized ratably over the life of the contract.

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.

Deferred revenue is shown separately in the condensed consolidated balance sheets as current liabilities. At March 31, 2018, we had deferred revenue of approximately \$54,211. At December 31, 2017, we had deferred revenue of approximately \$215,989.

***Cost of Product Sales and Services***

Cost of sales consists primarily of materials, airtime and overhead costs incurred internally and amounts incurred to contract manufacturers to produce our products, airtime and other implementation costs incurred to install our products and train customer personnel, and customer service and third party original equipment manufacturer costs to provide continuing support to our customers. There are certain costs which are deferred and recorded as prepaids, until such revenue is recognized. Refer to revenue recognition above as to what constitutes deferred revenue.

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

## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### *Intangible assets*

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

#### *Goodwill and other intangible assets*

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

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

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. The Company did not consider it necessary to record any impairment charges during the three months ended March 31, 2018 and the year ended December 31, 2017, respectively.

***Property and Equipment***

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

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

	Years
Office furniture and fixtures	4
Computer equipment	4
Rental equipment	4
Appliques	10
Website development	2

***Impairment of long-lived assets***

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not consider it necessary to record any impairment charges during the periods ended March 31, 2018 and December 31, 2017, respectively.

## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### *Fair value of financial instruments*

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

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

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

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

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

The Company did not identify any other assets or liabilities that are required to be presented on the condensed 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.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

**ORBITAL TRACKING CORP AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

	March 31, 2018	March 31, 2017
Convertible preferred stock	2,006,399	1,366,609
Stock options	285,667	85,667
Stock warrants	-	33
Total	2,292,066	1,452,309

***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.

### *Reclassifications*

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



## ORBITAL TRACKING CORP AND SUBSIDIARIES

### NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### *Recent Accounting Pronouncements*

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedient*, which is to (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, in an effort to reduce the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard was effective for the Company on January 1, 2018. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. This new standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This amendment was effective for the Company on December 15, 2017. There was no impact as a result of adopting this ASU on the

financial statements and related disclosures.

On December 22, 2017 the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the TCJA). SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but for which they are able to determine a reasonable estimate, it must record a provisional amount in the financial statements. Provisional treatment is proper in light of anticipated additional guidance from various taxing authorities, the SEC, the FASB, and even the Joint Committee on Taxation. If a company cannot determine a provisional amount to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA. The Company has applied this guidance to its financial statement

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments of this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

**ORBITAL TRACKING CORP AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 2 - GOING CONCERN CONSIDERATIONS**

The accompanying condensed consolidated financial statements are prepared assuming the Company will continue as a going concern. At March 31, 2018, the Company had an accumulated deficit of approximately \$8,686,173, negative working capital of approximately \$195,889 and net loss of approximately \$145,458 during the three months ended March 31, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the financial statements. The ability of the Company to continue as a going concern is dependent upon obtaining additional capital and financing. Management intends to attempt to raise additional funds by way of a public or private offering. While the Company believes in the viability of its strategy to raise additional funds, there can be no assurances to that effect. The condensed consolidated financial statements do not include any adjustments relating to classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

**NOTE 3 - INVENTORIES**

At March 31, 2018 and December 31, 2017, inventories consisted of the following:

	March 31, 2018	December 31, 2017
Finished goods	\$395,301	\$332,895
Less reserve for obsolete inventory	-	-
Total	\$395,301	\$332,895

For the three months ended March 31, 2018 and the year ended December 31, 2017, the Company did not make any change for reserve for obsolete inventory.

**NOTE 4 – PREPAID EXPENSES**

Prepaid expenses amounted to \$50,445 at March 31, 2018 and \$82,454 at December 31, 2017, respectively. Prepaid expenses include prepayments in cash for accounting fees, prepayments in equity instruments, which are being amortized over the terms of their respective agreements, as well as costs associated with certain deferred revenue. For the three months ended March 31, 2018 and 2017, amortization expense as related to stock-based compensation was \$0 and \$40,068, respectively. The amortization for prepayment of equity instruments are included in professional fees, as reflected in the accompanying consolidated statements of operations. As of March 31, 2018, and December 31, 2017, all stock-based payments have been fully amortized. Prepaid expenses consist primarily of costs paid for future services which will occur within a year. The amortization of prepayments for deferred revenue are included in cost of sales as incurred.

## NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	March 31, 2018	December 31, 2017
Office furniture and fixtures	\$84,557	\$81,467
Computer equipment	30,910	29,894
Rental equipment	47,384	40,298
Appliques	2,160,096	2,160,096
Website development	24,259	23,776
Less accumulated depreciation	(650,883 )	(578,331 )
Total	\$1,696,323	\$1,757,200

Depreciation expense was \$69,023 and \$69,728 for the three months ended March 31, 2018 and 2017, respectively. For the year ended December 31, 2017 depreciation expense was \$259,386.

**ORBITAL TRACKING CORP AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – INTANGIBLE ASSETS**

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

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

Amortization of customer contracts are included in depreciation and amortization. For the three months ended March 31, 2018 and 2017, the Company amortized \$6,250, respectively. Future amortization of intangible assets is as follows:

2018	18,750
2019	25,000
2020	25,000
2021	25,000
2022 and thereafter	75,000
Total	\$ 168,750

On February 19, 2015, the Company issued 6,667 of its common stock, par value \$0.0001, at \$7.50 per share, or \$50,000, to a consultant as compensation for the design and delivery of dual mode gsm/Globalstar Simplex tracking devices and related hardware and intellectual property.

**NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED OTHER LIABILITIES**

Accounts payable and accrued other liabilities consisted of the following:

	March 31, 2018	December 31, 2017
Accounts payable	\$799,671	\$659,285
Rental deposits	30,419	22,303
Customer deposits payable	26,750	27,792
Accrued wages	11,604	10,302
Payroll liabilities	2,260	5,600
Sales tax payable	907	2,017
VAT liability	36,457	34,520
Pre-merger accrued other liabilities	65,948	65,948
Accrued other liabilities	23,818	27,920
Total	\$997,834	\$855,687

## NOTE 8 - STOCKHOLDERS' EQUITY

### *Capital Structure*

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

The authorized capital of the Company consists of 750,000,000 shares of common stock, par value \$0.0001 per share and 50,000,000 shares of preferred stock, par value \$0.0001 per share, as of December 31, 2017. On March 5, 2016, the Company shareholders voted in favor of an amendment to its Articles of Incorporation to increase the total number of shares of authorized capital stock to 800,000,000 shares consisting of (i) 750,000,000 shares of common stock and (ii) 50,000,000 shares of preferred stock from 220,000,000 shares consisting of (i) 200,000,000 shares of common stock and (ii) 20,000,000 shares of preferred stock.

**ORBITAL TRACKING CORP AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Effective March 8, 2018, we conducted a reverse split of our common stock at a ratio of 1 for 150. All share and per share, information in the accompanying condensed consolidated financial statements and footnotes has been retroactively restated to reflect the reverse split.

*Preferred Stock*

As of March 31, 2018, there were 50,000,000 shares of Preferred Stock authorized.

On December 5, 2017, pursuant to the approval of our board of directors and a majority of the shareholders in each class, we amended the Certificates of Designation for our Series C, D, E, H, I, J, and K Preferred Stock. The amendments changed the conversion rights of these classes of preferred stock such that the Maximum Conversion as defined in each such Certificate of Designation was increased from 4.99% to 9.99% of our outstanding shares of common stock.

As of March 31, 2018, there were 20,000 shares of Series A Convertible Preferred Stock authorized and no shares issued and outstanding.

As of March 31, 2018, there were 30,000 shares of Series B Convertible Preferred Stock authorized and 3,333 shares issued and outstanding.

As of March 31, 2018, there were 4,000,000 shares of Series C Convertible Preferred Stock authorized and 1,913,676 shares issued and outstanding.

As of March 31, 2018, there were 5,000,000 shares of Series D Convertible Preferred Stock authorized and 2,892,109 shares issued and outstanding.

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As of March 31, 2018, there were 8,746,000 shares of Series E Convertible Preferred Stock authorized and 5,174,200 shares issued and outstanding.

As of March 31, 2018, there were 1,100,000 shares of Series F shares authorized and 349,999 shares issued and outstanding.

As of March 31, 2018, there were 10,090,000 shares of Series G shares authorized and 5,202,602 shares issued and outstanding.

As of March 31, 2018, there were 200,000 shares of Series H shares authorized and 13,741 shares issued and outstanding.

As of March 31, 2018, there were 114,944 shares of Series I shares authorized and 49,110 shares issued and outstanding.

As of March 31, 2018, there were 125,000 shares of Series J shares authorized and 44,698 shares issued and outstanding.

As of March 31, 2018, there were 1,250,000 shares of Series K shares authorized and 1,156,866 shares issued and outstanding.

***Common Stock***

As of March 31, 2018, there were 750,000,000 shares of Common Stock authorized and 936,519 shares issued and outstanding.



## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### *Stock Options*

##### *2014 Equity Incentive Plan*

On January 21, 2014, the Board approved the adoption of a 2014 Equity Incentive Plan (the “2014 Plan”). The purpose of the 2014 Plan is to promote the success of the Company and to increase stockholder value by providing an additional means through the grant of awards to attract, motivate, retain and reward selected employees and other eligible persons. The 2014 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock, restricted stock units, stock appreciation rights and other types of stock-based awards to the Company’s employees, officers, directors and consultants. Pursuant to the terms of the 2014 Plan, either the Board or a board committee is authorized to administer the plan, including by determining which eligible participants will receive awards, the number of shares of common stock subject to the awards and the terms and conditions of such awards. Unless earlier terminated by the Board, the Plan shall terminate at the close of business on January 21, 2024. Up to 1,511 shares of the Company’s common stock are reserved for issuance under the 2014 Plan as awards to employees, directors, consultants, advisors and other service providers.

On February 19, 2015, the Company issued to Mr. Rector, the former Chief Executive Officer, Chief Financial Officer and director of the Company, a seven-year option to purchase 14,333 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$7.50 per share, were fully vested on the date of grant and shall expire in February 2022. The 14,333 options were valued on the grant date at approximately \$7.50 per option or a total of \$107,500 using a Black-Scholes option pricing model with the following assumptions: stock price of \$7.50 per share (based on the sale of common stock in a private placement), volatility of 380%, expected term of 7 years, and a risk-free interest rate of 1.58%. In connection with the stock option grant, the Company recorded stock-based compensation for the year ended December 31, 2017 of \$107,500, respectively.

On December 28, 2015, the Company issued Ms. Carlise, Chief Financial Officer, a ten-year option to purchase 3,333 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$7.50 per share, were fully vested on the date of grant and shall expire in December 2025. The 3,333 options were valued on the grant date at approximately \$195.02 per option or a total of \$650,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$195.00 per share (based on the closing price of the Company’s common stock of the date of issuance), volatility of 992%, expected term of 10 years, and a risk-free interest rate of 1.05%. In connection with the stock option grant, the Company recorded stock-based compensation for the year ended December 31, 2017 of \$650,000, respectively.

Also, on December 28, 2015, the Company issued Mr. Delgado, its Director, a ten-year option to purchase 1,333 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$7.50 per share, were fully vested on the date of grant and shall expire in December 2025. The 1,333 options were valued on the grant date at approximately \$195.02 per option or a total of \$260,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$195.02 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 992%, expected term of 10 years, and a risk-free interest rate of 1.05%. In connection with the stock option grant, the Company recorded stock-based compensation for the year ended December 31, 2017 of \$260,000, respectively.

On December 16, 2016, the Company issued options to Mr. Phipps, to purchase up to 66,667 shares of common stock. The options were issued outside of the Company's 2014 Equity Incentive Plan and are not governed by the 2014 Plan. The options have an exercise price of \$1.50 per share, vest immediately, and have a term of ten years. The 66,667 options were valued on the grant date at approximately \$2.85 per option or a total of \$190,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$2.85 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 872%, expected term of 10 years, and a risk-free interest rate of 1.0500%. In connection with the stock option grant, the Company recorded stock-based compensation for the year ended December 31, 2016 of \$190,000, respectively

On May 26, 2017, the Company issued 33,333 options to Mr. Phipps, 25,000 options to Theresa Carlise, 8,333 options to Hector Delgado, its Director and 133,333 options to certain employees of the Company. The employees are the adult children of our Chief Executive Officer. The options were issued outside of the Company's 2014 Equity Incentive Plan and are not governed by the 2014 Plan. The options have an exercise price of \$1.50 per share, vest immediately, and have a term of ten years. The 200,000 options were valued on the grant date at approximately \$3.00 per option or a total of \$600,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$3.00 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 736%, expected term of 10 years, and a risk-free interest rate of 1.30%. In connection with the stock option grant, the Company recorded stock-based compensation for the year ended December 31, 2017 of \$600,000, respectively.

**ORBITAL TRACKING CORP AND SUBSIDIARIES****NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Stock options outstanding at March 31, 2018 as disclosed in the below table have approximately \$285,667 of intrinsic value at the end of the period.

A summary of the status of the Company's outstanding stock options and changes during the three months ended March 31, 2018 is as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>
Balance at January 1, 2018	285,667	\$ 1.90	9.01
Granted	-	-	-
Exercised	-	-	-
Forfeited	-	-	-
Cancelled	-	-	-
Balance outstanding and exercisable at March 31, 2018	285,667	\$ 1.90	8.77
Weighted average fair value of options granted during the period	-	\$ -	-

**NOTE 9 - 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 one-year term note with David Phipps where the stockholder loans bear no interest. The note has been extended annually, with the most recent extension dated January 29, 2018, for an additional year to February 19, 2019. The balance of the related party note payable was \$5,768, as of March 31, 2018. The accounts payable due to related party includes advances for inventory due to David Phipps of \$564 and wages of \$15,000. Total payments due to David Phipps as of March 31, 2018 and December 31, 2017 are \$21,333 and \$6,998, respectively.

The Company employs two individuals who are related to Mr. Phipps, of which earned gross wages totaled \$19,121 for the three months ended March 31, 2018. For the three months ended March 31, 2017, the Company employed three individuals who were related to Mr. Phipps of which earned gross wages of \$15,006.

## NOTE 10 - COMMITMENTS AND CONTINGENCIES

### *Employment Agreements*

The Company has a one-year agreement for Ms. Carlise, as its Chief Financial Officer, Treasurer and Secretary. The agreement provides for an annual compensation of \$140,000 as well as medical benefits. The agreement is effective December 1, 2016 and has an automatic renewal clause whereby the agreement renews itself for another year, if not cancelled by the Company previously. The agreement has been automatically extended for an additional term of one year on December 1, 2017. In addition to the base salary of \$140,000 annually, Ms. Carlise shall be eligible to receive an annual cash bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board of Directors and shall be eligible for grants of awards under stock option or other equity incentive plans of the Company.

On March 3, 2016, the Company entered into a two-year Executive Employment Agreement with Mr. Phipps, effective January 1, 2016. Under the Employment Agreement, Mr. Phipps will serve as the Company's Chief Executive Officer and President and will receive an annual base salary equal to the sum of \$144,000 and £48,000, or \$61,833 at the yearly conversion rate of 1.288190. Mr. Phipps is also eligible for bonus compensation in an amount equal to up to fifty (50%) percent of his then-current base salary if the Company meets or exceeds criteria adopted by the Compensation Committee, if any, or Board and equity awards as may be approved in the discretion of the Compensation Committee or Board. On January 1, 2018, the agreement automatically renewed for another year. Also, on March 3, 2016 and effective January 1, 2016, the Company's wholly owned subsidiary Orbital Satcom Corp. and Mr. Phipps, terminated an employment agreement between them dated February 19, 2015 pursuant to which Mr. Phipps was employed as President of Orbital Satcom for an annual base salary of \$180,000. The other terms of this agreement with the Company are identical to the terms of Mr. Phipps' employment agreement with Orbital Satcom described above.

## **ORBITAL TRACKING CORP AND SUBSIDIARIES**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

#### *Consulting Agreement*

On July 7, 2017, the Company entered into an agreement for two years, with an underwriter, Viewtrade Securities Inc. “Representative”, to assist in effectuating a securities offering of \$5,000,000 to \$7,000,000. Viewtrade will act as the representative of a number of broker-dealers that will act as principal in purchasing the Securities Being Offered from the Company and to offer the Securities Being Offered in a public offering on a “Firm Commitment” basis. The Representative shall receive a gross discount equal to eight percent (8%) of the Public Offering Price on each Securities Being Offered sold in the Offering, with the exception of Securities Being Offered sold in the Offering, which are purchased by current shareholders of the Company, in which case the Representative shall receive a discount equal to three percent (3%) of the Public Offering Price. The Representative shall also have the right to reoffer all or any part of the Securities Being Offered to broker-dealers who are members of FINRA (“Selected Dealers”) and may allow a concession, to be determined by the Representative, to such Selected Dealers in accordance with the Conduct Rules of FINRA. For the purpose of covering over-allotments, the Company shall grant to the Representative an option to purchase a number of Securities Being Offered equal to fifteen percent (15%) of Securities Being Offered at the Public Offering Price, in whole or in part, from time to time, only during a period of forty-five (45) days from the Effective Date. Viewtrade shall be entitled to an expense allowance equal one percent (1%) of the aggregate gross proceeds of the offering (the “Expense Allowance”). Said Expense Allowance is intended to cover the internal expenses of the Representative incurred by it in connection with the offering. At the closing of the proposed offering, the Company shall sell to the Representative and/or its designees (the “Holders”), the Representative Warrants. The Representative’s Warrants shall be for that number of Securities Being Offered equal to eight percent (8%) of the total number of Securities Being Offered sold in the public offering and the Representative Warrants shall have a cashless exercise provision. The warrants to be sold by the Company to the Representative and/or persons related to the Representative for nominal consideration of \$0.0001, each such warrant evidencing the right to purchase one share of the Securities Being Offered at an exercise price equal to 110% of the Public Offering Price and which shall be exercisable for a period of five years. The number of Representative Warrants shall be equal to 8% of the total number of Securities sold in the offering.

#### *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 11 - CONCENTRATIONS****Customers:**

No customer accounted for 10% or more of the Company's revenues during the three months ended March 31, 2018 and 2017.

**Suppliers:**

The following table sets forth information as to each supplier that accounted for 10% or more of the Company's purchases for the three months ended March 31, 2018 and 2017.

	March 31, 2018		March 31, 2017	
Globalstar Europe	\$ 184,603	22.7%	\$ 179,312	17.9%
Garmin	\$ 166,877	20.5%	\$ 69,353	6.9 %
Network Innovations	\$ 463,760	57.1%	\$ 302,616	30.2%
Cygnus Telecom	\$ 120,796	14.9%	\$ 86,567	8.6 %
Satcom Global	\$ 66,913	8.2 %	\$ 182,467	18.2%

**NOTE 12 - SUBSEQUENT EVENTS**

Subsequent to the reporting period, on May 10, 2018, we issued 20,000 shares of our Series J Preferred Stock at their stated value of \$10.00 per share to one investor, for total proceeds of \$200,000. Our Series J Preferred Stock is currently convertible to common stock at a price of \$1.50 per share and votes on an as-converted basis, subject to certain conversion limitations.

Also subsequent to the reporting period, on May 11, 2018, we designated a new series of Preferred Stock entitled "Series L Preferred Stock." Our Series L Preferred Stock consists of 100,000 shares with a stated value of \$10.00 per share. Series L Preferred Stock is convertible to common stock at a price of \$4.00 per share, and votes together with our common stock on an as-converted basis.

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In addition, on May 14, 2018, we issued a total of 30,000 Units to 3 investors at a price of \$10.00 per Unit, for total proceeds of \$300,000. Each Unit consists of one (1) share of Series L Preferred Stock and warrants to purchase two (2) shares of common stock at a price of \$4.00, exercisable for three years.

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

The following information should be read in conjunction with the condensed consolidated financial statements and the notes thereto contained elsewhere in this report. Statements made in this Item 2, "Management's Discussion and Analysis and 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," "expect," "intends," "plans," "projects," "estimates," "predicts," "potential," "outlook," "forecast," "anticipates," "presume," and "assume" are 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, 2017, filed on April 2, 2018.



## Corporate Information

The Company is a distributor, developer and reseller of satellite enabled communications hardware and provides products, airtime and related services to customers located both in the United States and internationally through its subsidiaries, US based Orbital Satcom Corp. (“Orbital Satcom”) and UK based GTCL. We sell equipment and airtime for use on all major satellite networks including Globalstar, Inmarsat, Iridium and Thuraya. We specialize in offering a range of satellite enabled personal and asset tracking products and provide an advanced mapping portal for customers using our range of GSM and satellite-based GPS tracking devices. Additionally, we operate a short-term rental service for customers who require use of our equipment for a limited time without the up-front expense of purchasing hardware. Our acquisition of GTCL in February 2015 expanded our global satellite-based infrastructure and business, which was first launched in December 2014 through the purchase of certain contracts which entitle us to transmit GPS tracking coordinates and other information at preferential rates through one of the world’s largest commercial satellite networks. We now have a physical or storefront presence in more than 10 countries and have in excess of 25,000 customers located in almost 125 countries across every continent in the world. Our customers include businesses, U.S. and foreign governments, non-governmental and charitable organizations, military users, resellers and private individuals located all over the world.

## Recent Events

On July 7, 2017, the Company entered into an agreement for two years, with an underwriter, Viewtrade Securities Inc. “Representative”, to assist in effectuating a securities offering of \$5,000,000 to \$7,000,000. Viewtrade will act as the representative of a number of broker-dealers that will act as principal in purchasing the Securities Being Offered from the Company and to offer the Securities Being Offered in a public offering on a “Firm Commitment” basis. The Representative shall receive a gross discount equal to eight percent (8%) of the Public Offering Price on each Securities Being Offered sold in the Offering, with the exception of Securities Being Offered sold in the Offering, which are purchased by current shareholders of the Company, in which case the Representative shall receive a discount equal to three percent (3%) of the Public Offering Price. The Representative shall also have the right to reoffer all or any part of the Securities Being Offered to broker- dealers who are members of FINRA (“Selected Dealers”) and may allow a concession, to be determined by the Representative, to such Selected Dealers in accordance with the Conduct Rules of FINRA. For the purpose of covering over-allotments, the Company shall grant to the Representative an option to purchase a number of Securities Being Offered equal to fifteen percent (15%) of Securities Being Offered at the Public Offering Price, in whole or in part, from time to time, only during a period of forty-five (45) days from the Effective Date. Viewtrade shall be entitled to an expense allowance equal to one percent (1%) of the aggregate gross proceeds of the offering (the “Expense Allowance”). Said Expense Allowance is intended to cover the internal expenses of the Representative incurred by it in connection with the offering. At the closing of the proposed offering, the Company shall sell to the Representative and/or its designees (the “Holders”), the Representative Warrants. The Representative’s Warrants shall be for that number of Securities Being Offered equal to eight percent (8%) of the total number of Securities Being Offered sold in the public offering and the Representative Warrants shall have a cashless exercise provision. The warrants to be sold by the Company to the Representative and/or persons related to the Representative for nominal consideration of \$0.0001, each such warrant evidencing the right to purchase one share of the Securities Being Offered at an exercise price equal to 110% of the Public Offering Price and which shall be exercisable for a period of five years. The number of Representative Warrants shall be equal to 8% of the total

number of Securities sold in the offering.

On February 28, 2018, a majority of our shareholders gave their written consent approving a reverse split of our common stock at a ratio of 1 for 150. Effective March 8, 2018, we conducted a reverse split of our common stock at a ratio of 1 for 150. Beginning March 8, 2018, our trading symbol was changed to “TRKKD” for a period of twenty business days, after which it will revert to “TRKK.” As a result of the reverse split, our common stock has the following new CUSIP number: 68558X209. See Note 8 Stockholders Equity, in the accompanying condensed consolidated financial statements and footnotes has been retroactively restated to reflect the reverse split.

We had net cash used in operations of approximately \$28,456 during the three months ended March 31, 2018. At March 31, 2018, we had negative working capital of approximately \$195,889. Additionally, at March 31, 2018, we had an accumulated deficit of approximately \$8,686,173 and stockholder’s equity of \$1,719,184. These matters and our expected needs for capital investments required to support operational growth raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments to reflect the possible effects on recoverability and classification of assets or the amounts and classification of liabilities that may result from our inability to continue as a going concern.

### **Results of Operations for the Three Months Ended March 31, 2018 compared to the Three Months Ended March 31, 2017**

**Revenue.** Sales for the three months ended March 31, 2018 consisted primarily of sales of satellite phones, tracking devices, accessories and airtime plans. For the three months ended March 31, 2018, revenues generated were approximately \$1,667,938 compared to approximately \$1,382,332 of revenues for the three months ended March 31, 2017, an increase in total revenues of \$285,606 or 20.7%. Factors relative to the increase in revenue are; an increase in comparable revenue of 20.7% and 20.6% for its wholly owned subsidiaries, Global Telesat Communication Ltd and Orbital Satcom Corp., for the three months ended March 31, 2018. Total sales for Global Telesat Communications Ltd. were \$1,136,716 for the three months ended March 31, 2018 as compared to \$941,681 for the three months ended March 31, 2017, an increase of \$195,035 or 20.7%. Total sales for Orbital Satcom Corp. were \$531,222 for the three months ended March 31, 2018 as compared to \$440,651 for the three months ended March 31, 2017, an increase of \$90,571 or 20.6%. The Company attributes the increases in revenue to; increases in airtime revenue due to an increase in recurring customers, increase in tracking devices offset by a decrease in phone and accessory sales, as well as an increase in the exchange rate.

**Cost of Sales.** During the three months ended March 31, 2018, cost of revenues increased to \$1,288,842 compared to \$1,067,752 for the three months ended March 31, 2017, an increase of \$221,090 or 20.7%. We expect our cost of revenues to continue to increase during fiscal 2018 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 ended March 31, 2018 were 22.7% as compared to 22.8% for the comparable period in the prior year. The company had a decrease in phone sales which is a lower profit margin item offset by increases in higher margin product sales.

**Operating Expenses.** Total operating expenses for the three months ended March 31, 2018 were \$520,177, a decrease of \$12,865 or 2.4%, from total operating expenses for the three months ended March 31, 2017 of \$533,042. Factors contributing to the increase are described below.

**Selling, general and administrative expenses** were \$154,992 and \$155,254 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$262 or 0.2%. The decrease for the three months ended March 31, 2018, was actually much larger as certain SG&A expenses fluctuate with sales volatility. Travel and administrative expenses decreased while being offset by an increase in ecommerce fees, which increase as a percentage of sales.

**Salaries, wages and payroll taxes** were \$180,720 and \$152,951, for the three months ended March 31, 2018 and 2017, respectively, an increase of \$27,769, or 18.2%. Exchange rate increases were the primary reason for the increase.

**Professional fees** were \$109,192 and \$148,859 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$39,667, or 26.7%. The decrease during the three months ended March 31, 2018 as compared to the same period in 2017, was attributable to a decrease in fees related to investor relations from the same period in the prior year.

**Depreciation and amortization** expenses were \$75,273 and \$75,978 for the three months ended March 31, 2018 and 2017, respectively, a decrease of \$705 or 1.0%. The decrease during the 2018 period was primarily attributable to certain fixed assets being fully amortized, offset by an increase in the exchange rate, as compared to the same period in the prior year.

We expect our expenses in each of these areas to continue to increase during fiscal 2018 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 Expense.** Our total other expenses were \$4,377 compared to \$798 during the three months ended March 31, 2018 and 2017 respectively, an increase of \$3,579. The increase is primarily attributed to an increase in foreign currency exchange rates.

**Net Loss.** We recorded net loss before income tax of \$145,458 for the three months ended March 31, 2018 as compared to a net loss of \$219,262, for the three months ended March 31, 2017. The decrease in the loss is a result of the factors as described above.

**Comprehensive (Loss) Income.** We recorded a gain for foreign currency translation adjustments for the three months ended March 31, 2018 and 2017, of \$5,000 and \$5,592, respectively. The fluctuations of the increase/decrease are primarily attributed to the decrease recognized due to exchange rate variances.

## **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 March 31, 2018, we had a cash balance of \$216,532. Our working capital is a negative \$195,889 at March 31, 2018.

Our current assets at March 31, 2018 decreased by approximately 7.2% from December 31, 2017 and included cash, accounts receivable, unbilled revenue, inventory, prepaid and other current assets.

Our current liabilities at March 31, 2018 decreased by 0.4% from December 31, 2017 and included our accounts payable, due to related party and deferred revenue and other liabilities in the ordinary course of our business.

For the year ended December 31, 2017, the auditors' opinion contained a going concern paragraph, which stated that the Company had an accumulated deficit of approximately \$8,540,715, working deficit of approximately \$(122,634) and net loss of approximately \$3,939,309. These factors raise substantial doubt about the Company's ability to continue as a going concern for one year from the issuance of the financial statements. The ability of the Company to continue as a going concern is dependent upon obtaining additional capital and financing. We may need or want to raise additional funds in the future; however, these funds may not be available to us when we need or want them, or at all. If we cannot raise additional funds when we need or want them, our operations and prospects could be negatively affected.

## **Operating Activities**

Net cash flows used in operating activities for the three months ended March 31, 2018 amounted to \$28,456 and were primarily attributable to our net loss of \$145,458, total amortization expense of \$6,250, depreciation of \$69,023, interest of \$76 and net change in assets and liabilities of \$41,653, primarily attributable to a decrease in accounts receivable of \$82,899, an increase in inventory of \$62,406, decrease in unbilled revenue of \$9,730, decrease in prepaid expense of \$32,010, an increase in other current assets of \$949, increase in accounts payable of \$142,147 and a decrease in deferred revenue of \$161,778.

Net cash flows provided by operating activities for the three months ended March 31, 2017 amounted to \$87,124 and were primarily attributable to our net loss of \$219,262, total amortization expense of \$6,250, depreciation of \$69,728, and offset by change in fair value of derivative liabilities of \$1,114 and net change in assets and liabilities of \$231,304, primarily attributable to an increase in accounts receivable of \$53,119, increase in inventory of \$33,922, increase in unbilled revenue of \$2,209, decrease in prepaid expense of \$50,068, increase in other current assets of \$29,978, increase in accounts payable of \$301,484 and an decrease in deferred revenue of \$1,200.

### **Investing Activities**

Net cash flows used in investing activities were \$5,558 and \$8,934 for the three months ended March 31, 2018 and 2017, respectively. We purchased property and equipment of \$5,558 during the three months ended March 31, 2018. During the three months ended March 31, 2017, we purchased property and equipment of \$8,934.

### **Financing Activities**

Net cash flows provided by financing activities were \$14,335 and \$15,975 for the three months ended March 31, 2018 and 2017, respectively. Net cash flows provided by financing activities were \$14,335 for the three months ended March 31, 2018 and were for amounts owed to a related party. During the three months ended March 31, 2017, net cash flows provided by financing activities were \$15,975 and were for amounts owed to a related party.

### **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.

## **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 condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and the rules and regulations of the U.S Securities and Exchange Commission for Interim Financial Information. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company’s financial position as of March 31, 2018, and the results of operations and cash flows for the three months ended March 31, 2018 have been included. The results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for the full year.

## **Accounts Receivable**

The Company extends credit to its customers based upon a written credit policy. Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company’s best estimate for the amount of probable credit losses in the Company’s existing accounts receivable. The Company establishes an allowance of doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not require collateral on accounts receivable. As of March 31, 2018, and December 31, 2017, there is an allowance for doubtful accounts of \$448 and \$431.

## ***Inventories***

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

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory*. ASU 2015-11 requires that inventory within the scope of this Update be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this Update do not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or

average cost. For all entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. This guidance is not expected to have a material impact upon our financial condition or results of operations.

### **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 months ended March 31, 2018 closing rate at 1.4015 US\$: GBP, average rate at 1.39059 US\$: GBP, for the three months ended March 31, 2017 closing rate at 1.2555 US\$: GBP, average rate at 1.23801 US\$: GBP, for the year ended 2017 closing rate at 1.350291 US\$: GBP, average rate at 1.28819 US\$ GBP.

For the three months ended March 31, 2018, Global Telesat Communications LTD, (GTCL) represented 68.2% of total company sales and as such, currency rate variances have an impact on results. For the three months ended March 31, 2018 the net effect on revenues were impacted positively by the differences in exchange rate from quarterly average exchange rate of 1.23801 to 1.39059. Had the yearly average rate remained, sales would have been lower by \$319,282. GTCL comparable sales in GBP, its home currency, increased 7.5% or £56,793, from £760,641 to £817,434 for the three months ended March 31, 2018 as compared to March 31, 2017.

For the three months ended March 31, 2017, Global Telesat Communications LTD, (GTCL) represented 70.7% of total company sales and as such, currency rate variances have an impact on results. For the three months ended March 31, 2017 the net effect on revenues were impacted by the differences in exchange rate from quarterly average exchange of 1.43284 to 1.23801. Had the yearly average rate remained, sales would have been higher by \$124,332. GTCL comparable sales in GBP, its home currency, increased 19.2% or £122,487, from £638,154 to £760,641 for the three months ended March 31, 2017 as compared to March 31, 2016.

## 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.

We recognize revenue in accordance with Accounting Standards Codification (“ASC”) 606, “Revenue Recognition,” when there is persuasive evidence that an arrangement exists, title and risk of loss have passed, delivery has occurred, or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to our customers upon delivery, as we have insurance for lost shipments. In limited circumstances where either title or risk of loss pass upon destination or acceptance or when collection is not reasonably assured, we defer revenue recognition until such events occur. We derive revenues from two primary sources: products and services. Product revenue includes the shipment of product according to the agreement with our customers. Services include mobile telecommunication services, such as airtime usage, messaging, mapping services and customer support (technical support), installations and consulting. A contract may include both product and services. Rarely, contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Standalone selling prices are typically estimated based on observable transactions when these services are sold on a standalone basis.

The Company provides product warranties with varying lengths of time and terms. The product warranties are considered to be assurance-type in nature and do not cover anything beyond ensuring that the product is functioning as intended. Based on the guidance in ASC 606, assurance-type warranties do not represent separate performance obligations. The Company also sells separately-priced maintenance service contracts which qualify as service-type warranties and represent separate performance obligations. The Company has historically experienced a low rate of product returns under the warranty program.

A variety of technical services can be contracted by our customers for a designated period of time. The service contracts allow customers to call the Company for technical support, replace defective parts and to have onsite service provided by the Company’s third-party contract service provider. The Company records revenues for contract services at the amount of the service contract, but such amount is deferred at the beginning of the service term and amortized ratably over the life of the contract.

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.

Deferred revenue is shown separately in the condensed consolidated balance sheets as current liabilities. At March 31, 2018, we had deferred revenue of approximately \$54,211. At December 31, 2017, we had deferred revenue of approximately \$215,989.

## **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
Rental equipment	4
Appliques	10
Website development	2

### **Impairment of long-lived assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value. The Company did not consider it necessary to record any impairment charges during the periods ended March 31, 2018 and December 31, 2017, 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.

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 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 are 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**

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedient*, which is to (1) clarify the objective of the collectability criterion for applying paragraph 606-10-25-7; (2) permit an entity to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price; (3) specify that the measurement date for noncash consideration is contract inception; (4) provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations; (5) clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application, and (6) clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.



In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, in an effort to reduce the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments of this ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. This new standard clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This new standard was effective for the Company on January 1, 2018. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting*. This new standard provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This amendment was effective for the Company on December 15, 2017. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

On December 22, 2017 the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act (the TCJA). SAB 118 provides a measurement period that should not extend beyond one year from the enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but for which they are able to determine a reasonable estimate, it must record a provisional amount in the financial statements. Provisional treatment is proper in light of anticipated additional guidance from various taxing authorities, the SEC, the FASB, and even the Joint Committee on Taxation. If a company cannot determine a provisional amount to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA. The Company has applied this guidance to its financial statement

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, *Revenue from Contracts with Customers*. The amendments of this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. There was no impact as a result of adopting this ASU on the financial statements and related disclosures.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

### **ITEM 4. CONTROLS AND PROCEDURES.**

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

With respect to the fiscal quarter ending March 31, 2018, under the supervision and with the participation of our management, we conducted an evaluation of the effectiveness of the design and operations of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934. Based upon our evaluation regarding the fiscal quarter ended March 31, 2018, our management, including our principal executive officer and principal financial officer, has concluded that our disclosure controls and procedures were ineffective due to our limited internal audit functions and lack of ability to have multiple levels of transaction review. The Company has been actively addressing the evaluation and is pursuing upgrading its accounting software.

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

#### *Changes in Internal Controls*

There have been no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## **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 March 31, 2018 that were not otherwise disclosed by us in a Current Report on Form 8-K.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

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

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*

101.ins XBRL Instance Document

101.sch XBRL Taxonomy Schema Document

101.cal XBRL Taxonomy Calculation Document

101.def XBRL Taxonomy Linkbase Document

101.lab XBRL Taxonomy Label Link base Document

101.pre XBRL Taxonomy Presentation Link base Document

\* Filed herein

## 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: May 15, 2018 **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)

