

Orbital Tracking Corp.  
Form 10-Q  
November 14, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2017

OR

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

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

Commission File Number 000-25097

**ORBITAL TRACKING CORP.**

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

**Nevada**

**65-0783722**

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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

**Aventura, FL 33180**

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

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

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

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

Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 November 14, 2017 was 74,977,104.



**FORM 10-Q**

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**Part I Financial Information**

## Item 1. Financial Statements

The Company's unaudited condensed consolidated financial statements for the nine months ended September 30, 2017 and for comparable periods in the prior year are included below. The condensed consolidated financial statements should be read in conjunction with the notes to condensed consolidated financial statements that follow.

## ORBITAL TRACKING CORP AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS AS OF

	September 30, 2017	December 31, 2016
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash	\$268,216	\$114,733
Accounts receivable, net	508,256	96,758
Inventory	397,988	335,267
Unbilled revenue	65,690	54,344
Prepaid expenses	151,102	171,164
Other current assets	59,668	29,841
Total current assets	1,450,920	802,107
Property and equipment, net	1,796,517	1,978,338
Intangible assets, net	231,250	250,000
Total assets	\$3,478,687	\$3,030,445
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$982,128	\$536,906
Deferred revenue	126,735	2,624
Related party payable	67,891	67,453
Derivative liabilities – current portion	-	1,237
Liabilities from discontinued operations	112,397	112,397
Total current liabilities	1,289,151	720,617

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Total Liabilities	-	720,617
Stockholders' Equity:		
Preferred Stock, \$0.0001 par value; 50,000,000 shares authorized		
Series A (\$0.0001 par value; 20,000 shares authorized, and no shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	-	-
Series B (\$0.0001 par value; 30,000 shares authorized, 6,666 and 6,666 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	1	1
Series C (\$0.0001 par value; 4,000,000 shares authorized, 3,540,365 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	354	354
Series D (\$0.0001 par value; 5,000,000 shares authorized, 3,008,984 and 3,428,984 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	301	343
Series E (\$0.0001 par value; 8,746,000 shares authorized, 7,002,877 and 7,929,651 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	700	793
Series F (\$0.0001 par value; 1,100,000 shares authorized, 1,099,998 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	110	110
Series G (\$0.0001 par value; 10,090,000 shares authorized, 10,083,351 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	1,008	1,008
Series H (\$0.0001 par value; 200,000 shares authorized, 87,500 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	9	9
Series I (\$0.0001 par value; 114,944 shares authorized, 92,944 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	9	9
Series J (\$0.0001 par value; 125,000 shares authorized, 54,669 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	5	
Series K (\$0.0001 par value; 1,250,000 shares authorized, 1,166,652 issued and outstanding as of September 30, 2017 and December 31, 2016, respectively)	117	
Common Shares, \$0.0001 par value; 750,000,000 shares authorized, 74,977,104 and 57,309,364 outstanding as of September 30, 2017 and December 31, 2016, respectively	7,498	5,731
Additional paid-in capital	10,390,184	6,935,817
Accumulated (deficit)	(8,210,745 )	(4,601,406)
Accumulated other comprehensive loss	(15 )	(32,941 )
Total stockholder equity	2,189,536	2,309,828
Total liabilities and stockholders' equity	\$3,478,687	\$3,030,445

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

## ORBITAL TRACKING CORP AND SUBSIDIARIES

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

## AND COMPREHENSIVE LOSS

## FOR THE THREE AND NINE MONTHS ENDED

(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine months Ended September 30, 2017	Nine months Ended September 30, 2016
Net sales	\$1,588,466	\$1,299,373	\$4,547,491	\$3,783,230
Cost of sales	1,240,654	1,035,278	3,589,537	2,935,631
Gross profit	347,812	264,095	957,954	847,599
Operating expenses:				
Selling and general administrative	158,312	150,024	456,935	456,881
Salaries, wages and payroll taxes	178,762	158,720	513,349	503,556
Stock based compensation	-	-	600,000	-
Professional fees	163,754	192,834	432,320	881,318
Depreciation and amortization	74,143	70,219	224,319	216,375
Total operating expenses	574,971	571,797	2,226,923	2,058,130
(Loss) before other expenses and income taxes	(227,159 )	(307,702 )	(1,268,969 )	(1,210,531 )
Other (income) expense				
Change in fair value of derivative instruments, net	-	(944 )	(1,237 )	(425,790 )
Interest expense	10	441	446	603,427
Other expense – Subscription Holders Preferred	-	-	2,308,981	-
Foreign currency exchange rate variance	38,530	31,473	32,180	64,295
Total other expense	38,540	30,970	2,340,370	241,932
Net loss	\$(265,699 )	\$(338,672 )	\$(3,609,339 )	\$(1,452,463 )
Comprehensive Loss:				
Net loss	(265,699 )	(338,672 )	(3,609,339 )	(1,452,463 )
Foreign currency translation adjustments	18,485	19,888	32,926	17,513
Comprehensive loss	(247,214 )	(318,784 )	(3,576,413 )	(1,434,950 )

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NET INCOME LOSS ATTRIBUTABLE TO COMMON  
STOCKHOLDERS

Weighted number of common shares outstanding - basic	72,669,412	39,545,787	44,087,590	29,272,457
Weighted number of common shares outstanding - diluted	72,669,412	39,545,787	44,087,590	29,272,457
Basic net (loss) per share	\$(0.00	) \$(0.01	) \$(0.08	) \$(0.05
Diluted net (loss) per share	\$(0.00	) \$(0.01	) \$(0.08	) \$(0.05

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 NINE MONTHS ENDED

(Unaudited)

	September 30, 2017	September 30, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(3,609,339)	\$(1,452,463)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Change in fair value of derivative liabilities	(1,237 )	(425,790 )
Depreciation expense	205,569	197,625
Amortization of intangible asset	18,750	18,750
Preferred stock-based price protection expense	2,308,981	-
Amortization of notes payable discount	-	602,515
Stock based compensation	600,000	-
Amortization of prepaid expense in connection with the issuance of common stock issued for prepaid services	121,096	164,608
Imputed interest	446	912
Change in operating assets and liabilities:		
Accounts receivable	(411,498 )	(28,139 )
Inventory	(62,721 )	(99,202 )
Unbilled revenue	(11,346 )	17,415
Prepaid expense	(101,034 )	115,359
Other current assets	(29,827 )	(1,909 )
Accounts payable and accrued liabilities	491,916	131,321
Deferred revenue	124,111	(13,937 )
Net (used in) operating activities	(356,133 )	(772,935 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(20,676 )	(34,967 )
Net (cash used) in investing activities	(20,676 )	(34,967 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments of convertible notes payable		(100,834 )
Proceeds from sale of preferred stock	500,000	-
Proceeds (repayments) of note payable, related party, net	438	57,807
Net cash provided by (used in) financing activities	500,438	(43,027 )

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Effect of exchange rate on cash	29,854	5,849
Net increase (decrease) in cash	153,482	(845,081 )
Cash beginning of period	114,733	963,329
Cash end of period	\$268,216	\$118,248

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for

Interest	\$-	\$-
Income tax	\$-	\$3,898

NON CASH FINANCE AND INVESTING ACTIVITY

Common stock issued for prepaid services	\$-	\$100,000
Preferred stock issued for accounts payable	\$46,694	\$22,500
Preferred stock issued for conversion of debt	\$-	\$650,670

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

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. The information furnished reflects all adjustments, consisting only of normal recurring items which are, in the opinion of management, necessary in order to make the financial statements not misleading. The consolidated financial statements as of December 31, 2016 have been audited by an independent registered public accounting firm. The accounting policies and procedures employed in the preparation of these condensed consolidated financial statements have been derived from the audited financial statements of the Company for the year ended December 31, 2016, which are contained in Form 10-K as filed with the Securities and Exchange Commission on April 7, 2017. The consolidated balance sheet as of December 31, 2016 was derived from those financial statements.

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

The condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and the rules and regulations of the U.S Securities and Exchange Commission for Interim Financial Information. The condensed consolidated financial statements of the Company include the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. All adjustments (consisting of normal recurring items) necessary to present fairly the Company’s financial position as of September 30, 2017, and the results of operations and cash flows for the nine and three months ended September 30, 2017 have been included. The results of operations for the nine and three months ended September 30, 2017 are not necessarily indicative of the results to be expected for the full year.

### *Description of Business*

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

### *Use of Estimates*

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

#### *Cash and Cash Equivalents*

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

#### *Accounts receivable and allowance for doubtful accounts*

The Company has a policy of reserving for questionable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company periodically reviews its accounts receivable to determine whether an allowance is necessary based on an analysis of past due accounts and other factors that may indicate that the realization of an account may be in doubt. Account balances deemed to be uncollectible are charged to the bad debt expense after all means of collection have been exhausted and the potential for recovery is considered remote. As of September 30, 2017, and December 31, 2016, there is an allowance for doubtful accounts of \$427 and \$6,720.

#### *Inventories*

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

#### *Foreign Currency Translation*

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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 is included in the statements of operations.

The relevant translation rates are as follows: for the three and nine months ended September 30, 2017 closing rate at 1.3399 US\$: GBP, average rate at 1.30842 US\$: GBP and 1.27500 US\$: GBP. For the three and nine months ended September 30, 2016 closing rate at 1.29820 US\$: GBP, average rate at 1.31320 US\$: GBP and 1.39353 US\$: GBP and for the year ended 2016 closing rate at 1.2345 US\$: GBP, average rate at 1.35585 US\$ GBP.

Global Telesat Communications LTD, (GTCL) represents 67.4% of total company sales for the nine months ended September 30, 2017 and as such, currency rate variances have an impact on results. For the nine months ended September 30, 2017 the net effect on revenues were impacted by the differences in exchange rate from yearly average exchange of 1.39353 to 1.27500. Had the yearly average rate remained, sales for the nine months would have been higher by \$287,576. GTCL comparable sales in GBP, its home currency, increased 21% or £425,714, from £2,000,471 to £2,426,185, for the nine months ended September 30, 2017 as compared to September 30, 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.

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

#### *Intangible assets*

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

#### *Goodwill and other intangible assets*

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

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

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

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

### *Property and Equipment*

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

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

	Years
Office furniture and fixtures	4
Computer equipment	4
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 September 30, 2017 and December 31, 2016, 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 following table presents a reconciliation of the derivative liability measured at fair value on a recurring basis using significant unobservable input (Level 3) from January 1, 2017 to September 30, 2017:

	Conversion Feature Derivative Liability	Warrant Liability	Total
Balance at January 1, 2017	\$ -	\$ 1,237	\$ 1,237
Change in fair value included in earnings	-	(1,237 )	(1,237)
Balance September 30, 2017	\$ -	\$ -	\$ -

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.

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. For the three months and nine months ended September 30, 2017 and September 30, 2016, respectively, the Company had net loss, therefore all dilutive securities are excluded.

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

	September 30, 2017	September 30, 2016
Convertible preferred stock	366,207,379	209,416,215
Stock options	42,850,000	2,850,000
Stock warrants	-	5,000
Total	409,057,379	212,271,215

#### *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.

#### *Recent Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The amendments to this update supersede nearly all existing revenue recognition guidance under GAAP, including the revenue recognition requirements in ASC Topic 605, "Revenue Recognition." - The standard was originally set to become effective in annual periods beginning after December 15, 2016 and for interim and annual reporting periods thereafter. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers; Deferral of the

*Effective Date,*” which defers the effective date of ASU 2014-09 for all entities by one year, thereby delaying the effective date of the standard to January 1, 2018, with an option that would permit companies to adopt the standard as early as the original effective date. Early adoption prior to the original effective date is not permitted. The core principle of this Topic is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The Company is currently assessing the impact of ASU 2014-09 on our consolidated financial statements to be completed by the end of 2017.

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

## **NOTE 2 - GOING CONCERN CONSIDERATIONS**

The accompanying unaudited condensed consolidated financial statements are prepared assuming the Company will continue as a going concern. At September 30, 2017, the Company had an accumulated deficit of approximately \$8,210,745, working capital of approximately \$161,768 and net loss of approximately \$3,609,339 during the nine months ended September 30, 2017. 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 unaudited 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 – ORBITAL TRACKING CORP AND GLOBAL TELESAT COMMUNICATIONS LIMITED SHARE EXCHANGE, REVERSE ACQUISITION AND RECAPITALIZATION**

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

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

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

**NOTE 4 - STOCKHOLDERS' EQUITY (DEFICIT)**

***Preferred Stock***

As of September 30, 2017, there were 50,000,000 shares of Preferred Stock authorized.

As of September 30, 2017, there were 20,000 shares of Series A Convertible Preferred Stock authorized and 0 shares issued and outstanding, due to the conversion of 20,000 shares of Series A into 20,000 shares of common stock.

As of September 30, 2017, there were 30,000 shares of Series B Convertible Preferred Stock authorized and 6,666 shares issued and outstanding.

As of September 30, 2017, there were 4,000,000 shares of Series C Convertible Preferred Stock authorized and 3,540,365 shares issued and outstanding.

As of September 30, 2017, there were 5,000,000 shares of Series D Convertible Preferred Stock authorized and 3,008,984 shares issued and outstanding.

As of September 30, 2017, there were 8,746,000 shares of Series E Convertible Preferred Stock authorized and 7,002,877 shares issued and outstanding.

As of September 30, 2017, there were 1,100,000 shares of Series F shares authorized and 1,099,998 shares issued and outstanding.

As of September 30, 2017, there were 10,090,000 shares of Series G shares authorized and 10,083,351 shares issued and outstanding.

As of September 30, 2017, there were 200,000 shares of Series H shares authorized and 87,500 shares issued and outstanding.

As of September 30, 2017, there were 114,944 shares of Series I shares authorized and 92,944 shares issued and outstanding.

As of September 30, 2017, there were 125,000 shares of Series J shares authorized and 54,669 issued and outstanding.

As of September 30, 2017, there were 1,250,000 shares of Series K shares authorized and 1,166,652 issued and outstanding.

### ***Common Stock***

As of September 30, 2017, there were 750,000,000 shares of Common Stock authorized and 74,977,104 shares issued and outstanding.

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

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



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

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

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

On March 2, 2017, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 50,000 shares of Series D Preferred Stock.

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

On April 21, 2017, the Company issued an aggregate of 1,000,000 shares of common stock upon the conversion of 100,000 shares of Series E Convertible Preferred Stock.

On May 31, 2017, the Company entered separate subscription agreements with accredited investors relating to the issuance and sale of 50,000 of shares of Series J Preferred Stock at a purchase price of \$10.00 per share, as well as, the issuance of 4,669 shares of Series J Preferred Stock for accounts payable of \$46,694. The initial conversion price is \$0.01 per share, subject to adjustment as set forth in the Series J certificate of designation. The Company is prohibited from effecting a conversion of the Series J Preferred Stock to the extent that, because of such conversion, the investor would beneficially own more than 4.99% of the number of shares of the Company's common stock outstanding immediately after giving effect to the issuance of shares of common stock upon conversion of the Series J Preferred Stock. Each share of Series J Preferred Stock entitles the holder to cast one vote per share of Series J Preferred Stock owned as of the record date for the determination of shareholders entitled to vote, subject to the 4.99% beneficial ownership limitation. The Company received the necessary consents as required from prior subscription agreements, Series F Preferred Stock, Series G Preferred Stock and Preferred Series H Preferred Stock, as well as antidilution rights. The Company was required to issue 1,089,389 shares of Series K Preferred Stock, which is convertible into 108,938,900 shares of the Company's common stock, to the certain holders for the consent and anti-dilution rights. In addition, the Company issued to a vendor as settlement of Preferred Series C Stock issued for services, 76,763 shares of Series K Preferred Stock, convertible into 7,676,300 shares of common stock, in lieu of Series C Preferred Stock. The additional issuances for the consent, anti-dilution rights and settlement, resulted in the recording of other expense and additional paid in capital of \$2,308,981.

On July 18, 2017, the Company issued an aggregate of 2,000,000 shares of common stock upon the conversion of 200,000 shares of Series E Convertible Preferred Stock.

On September 27, 2017, the Company issued an aggregate of 2,000,000 shares of common stock upon the conversion of 200,000 shares of Series E Convertible Preferred Stock.

*Stock Options*

*2014 Equity Incentive Plan*

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

On December 28, 2015, the Company issued Ms. Carlise, Chief Financial Officer, a ten-year option to purchase 500,000 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$0.05 per share, were fully vested on the date of grant and shall expire in December 2025. The 500,000 options were valued on the grant date at approximately \$1.30 per option or a total of \$650,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$1.30 per share (based on the closing price of the Company’s common stock of the date of issuance), volatility of 992%, expected term of 10 years, and a risk free interest rate of 1.05%. In connection with the stock option grant, the Company recorded stock based compensation for the three months ended September 30, 2017 and for the year ended December 31, 2016 of \$0 and \$0, respectively.

Also on December 28, 2015, the Company issued Mr. Delgado, its Director, a ten-year option to purchase 200,000 shares of common stock as compensation for services provided to the Company. The options have an exercise price of \$0.05 per share, were fully vested on the date of grant and shall expire in December 2025. The 200,000 options were valued on the grant date at approximately \$1.30 per option or a total of \$260,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$1.30 per share (based on the closing price of the Company's common stock of the date of issuance), volatility of 992%, expected term of 10 years, and a risk free interest rate of 1.05%. In connection with the stock option grant, the Company recorded stock based compensation for the three months ended September 30, 2017 and for the year ended December 31, 2016 of \$0 and \$0, respectively.

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

On May 26, 2017, the Company issued 5,000,000 options to Mr. Phipps, 3,750,000 options to Theresa Carlise, 1,250,000 options to Hector Delgado, its Director and 20,000,000 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 \$0.01 per share, vest immediately, and have a term of ten years. The 30,000,000 options were valued on the grant date at approximately \$0.02 per option or a total of \$600,000 using a Black-Scholes option pricing model with the following assumptions: stock price of \$0.02 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 nine months ended September 30, 2017 of \$600,000, respectively.

A summary of the status of the Company's outstanding stock options and changes during the nine months ended September 30, 2017 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at January 1, 2017	12,850,000	\$ 0.02	9.10
Granted	30,000,000	0.01	9.65

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Exercised	—	—	—
Forfeited	—	—	—
Cancelled	—	—	—
Balance outstanding and exercisable at September 30, 2017	42,850,000	\$ 0.01	9.26

*Stock Warrants*

A summary of the status of the Company's outstanding stock warrants and changes during the nine months ended September 30, 2017 is as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance at January 1, 2017	5,000	\$ 4.50	0.35
Granted	—	—	—
Exercised	—	—	—
Forfeited ( <i>expired May 19, 2017</i> )	5,000	4.50	—
Cancelled	—	—	—
Balance outstanding at September 30, 2017	—	\$ —	—

**NOTE 5 – PREPAID STOCK BASED COMPENSATION**

Prepaid expenses amounted to \$151,102 at September 30, 2017 and \$171,164 at December 31, 2016. Prepaid expenses include prepayments in cash for professional fees and prepayments made with equity instruments which are being amortized over the terms of their respective agreements. Amortization of the prepaid expense is included in professional fees. For the nine months ended September 30, 2017 and 2016, amortization expense was \$121,096 and \$173,009, respectively. The current portion consists primarily of costs paid for future services which will occur within a year.

**NOTE 6 – INTANGIBLE ASSETS**

On February 19, 2015, the Company purchased an intangible asset valued at \$250,000 for 1,000,000 shares of common stock. Amortization of customer contracts will be included in general and administrative expenses. The Company began amortizing the customer contracts in January 2015. Amortization expense for the three and nine months ended September 30, 2017 and 2016 was \$6,250 and \$6,250, respectively, and \$18,750 and \$18,750, respectively. Future amortization of intangible assets is as follows:

2017	6,250
2018	25,000
2019	25,000
2020	25,000
2021 and thereafter	100,000
Total	\$ 181,250

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

**NOTE 7 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following:

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	September 30, 2017	December 31, 2016
Office furniture and fixtures	\$98,115	\$90,729
Computer equipment	42,180	29,066
Appliques	2,160,096	2,160,096
Website development	114,985	100,436
Less accumulated depreciation	(618,859 )	(401,989 )
Total	\$1,796,517	\$1,978,338

Depreciation expense was \$67,893 and \$205,569 for the three and nine months ended September 30, 2017, respectively. For the three and nine months ended September 30, 2016 depreciation expense was \$63,969 and \$197,625, respectively.

**NOTE 8 - INVENTORIES**

At September 30, 2017 and December 31, 2016, inventories consisted of the following:

	September 30, 2017	December 31, 2016
Finished goods	\$397,988	\$335,267
Less reserve for obsolete inventory	-	-
Total	\$397,988	\$335,267

For the nine months ended September 30, 2017 and the year ended December 31, 2016, the Company did not make any change for reserve for obsolete inventory.

## **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 note with David Phipps where the stockholder loans bear no interest and are due February 19, 2016. On February 19, 2016, the note was extended an additional year to February 19, 2017 and on January 9, 2017 the note was extended another additional year to February 19, 2018. The balance of the related party note payable was \$15,004 as of September 30, 2017. The accounts payable due to related party includes advances for inventory due to David Phipps of \$52,887. Total payments due to David Phipps as of September 30, 2017 and December 31, 2016 are \$67,891 and \$67,453, respectively.

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

The Company employs two individuals who are related to Mr. Phipps, of which earned gross wages totaled \$50,406 for the nine months ended September 30, 2017. For the nine months ended September 30, 2016, the Company employed two individuals who were related to Mr. Phipps of which earned gross wages of \$45,164.

## **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

### *Employment Agreements*

On February 19, 2015, Orbital Satcom entered into an employment agreement with Mr. Phipps, whereby Mr. Phipps agreed to serve as the President of Orbital Satcom for a period of two years, subject to renewal, in consideration for an annual salary of \$180,000. Additionally, under the terms of the employment agreement, Mr. Phipps shall be eligible for an annual bonus if the Company meets certain criteria, as established by the Board of Directors. Mr. Phipps remains the sole director of GTCL following the closing of the Share Exchange. Mr. Phipps and the Company entered into an Indemnification Agreement at the closing.

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



and shall be eligible for grants of awards under stock option or other equity incentive plans of the Company.

On December 28, 2015, the Company amended her employment agreement. Effective December 1, 2015, the term of Ms. Carlise's employment was extended to December 1, 2016 from June 9, 2016, her annual salary was increased to \$140,000 from \$72,000 and she agreed to devote her full business time to the Company. The term of the Original Agreement, as amended by the Amendment, shall automatically extend for additional terms of one year each, unless either party gives prior written notice of non-renewal to the other party no later than 60 days prior to the expiration of the initial term or the then current renewal term, as applicable.

On March 3, 2016, the Company entered into a two-year Executive Employment Agreement with Mr. Phipps, effective January 1, 2016. Under the Employment Agreement, Mr. Phipps will serve as the Company's Chief Executive Officer and President, and receive an annual base salary equal to the sum of \$144,000 and £48,000, or \$61,200 at the yearly conversion rate of 1.27500. Mr. Phipps is also eligible for bonus compensation in an amount equal to up to fifty (50%) percent of his then-current base salary if the Company meets or exceeds criteria adopted by the Compensation Committee, if any, or Board and equity awards as may be approved in the discretion of the Compensation Committee or Board. Also on March 3, 2016 and effective January 1, 2016, the Company's wholly owned subsidiary Orbital Satcom Corp. and Mr. Phipps, terminated an employment agreement between them dated February 19, 2015 pursuant to which Mr. Phipps was employed as President of Orbital Satcom for an annual base salary of \$180,000. The other terms of this agreement with the Company are identical to the terms of Mr. Phipps' employment agreement with Orbital Satcom described above.

### *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– DERIVATIVE LIABILITY**

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

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

In connection with the issuance of its 6% convertible debentures and related warrants, the Company has determined that the terms of the convertible warrants include down-round provisions under which the exercise price could be affected by future equity offerings. Accordingly, the warrants are accounted for as liabilities at the date of issuance and adjusted to fair value through earnings at each reporting date. On May 17, 2016, the Company entered into exchange agreements with holders of the Company’s outstanding convertible notes in the amount of \$504,168 originally issued on December 28, 2015 (the “Notes”) pursuant to which the Notes were cancelled and the exchanging holders were issued an aggregate of 10,083,351 shares of newly designated Series G Convertible Preferred Stock. Upon the conversion of the Series G Convertible Preferred Stock, additional paid in capital increased by \$649,662 from the decrease in the Notes payable of \$504,168, decrease in derivative liabilities of \$146,502 and increase in Series G Convertible Preferred Stock of \$1,008.

The Notes were accounted for as liabilities at the date of issuance and adjusted to fair value through earnings at each reporting date. The Company recorded amortization for the discount to the Notes of \$0 and \$602,515 at September 30, 2017 and December 31, 2016. As of September 30, 2017, and December 31, 2016, the Company has an unamortized discount balance of \$0. The Company has recognized derivative liabilities of \$0 at September 30, 2017 and December 31, 2016, respectively. The gain (loss) resulting from the decrease (increase) in fair value of this convertible instrument was \$422,974 for the year ended December 31, 2016. The Company has recognized derivative liabilities for related warrants of \$0 and \$1,237 at September 30, 2017 and December 31, 2016, respectively. The gain resulting from the decrease in fair value of this convertible instrument was \$1,237 and \$3,119 for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. On May 19, 2017, the related warrant expired.

Conversion feature	Warrant liability	Total
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	derivative liability		
Balance at January 1, 2016	\$ 614,035	\$ 4,356	\$ 618,391
Change in fair value included in earnings	(422,974 )	(3,119 )	(426,093)
Net effect on additional paid in capital	(191,061 )	-	(191,061)
Balance at December 31, 2016	\$ -	\$ 1,237	\$ 1,237
Change in fair value included in earnings	-	(1,237 )	(1,237 )
Balance at September 30, 2017	\$ -	\$ -	\$ -

**NOTE 12 - CONCENTRATIONS****Customers:**

No customer accounted for 10% or more of the Company's revenues during the three months ended September 30, 2017 and 2016.

**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 September 30, 2017 and 2016.

	September 30, 2017		September 30, 2016	
Cygnus Telecom	\$ 357,846	9.7 %	\$ 383,922	13.6%
Delorme	\$ 204,253	5.5 %	\$ 299,113	10.6%
Globalstar Europe	\$ 489,026	13.3 %	\$ 412,621	14.6%
Network Innovations	\$ 1,468,253	39.8 %	\$ 1,139,080	40.4%

**NOTE 13 - SUBSEQUENT EVENTS**

On November 3, 2017, we held a special meeting of our shareholders in Miami, Florida. At the special meeting, our shareholders voted to approve a reverse split of our common stock at a ratio of not less than 1 for 300 and not more than 1 for 800, within the discretion of the Board of Directors, at any time prior to December 31, 2017. 61,517,335 votes, or 61.78% of the shareholder voting power, voted to approve the proposal. 16,123,364 votes were cast against the proposal, with 482,540 votes abstaining.

The date of the reverse split, as well as the specific split ratio, will be announced when determined and approved by our Board of Directors.

## **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 or Plan of Operation," and elsewhere in this 10-Q that do not consist of historical facts, are "forward-looking statements." Statements accompanied or qualified by, or containing words such as "may," "will," "should," "believes," "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, 2016, filed on April 7, 2017.

### **Corporate Information**

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

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

business.

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

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

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

The Company is a 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 Global Telesat Communications Limited (“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 presence in the UK and Miami, as well as our online storefront presence in more than 10 countries, and have in excess of 20,000 customers located in almost 80 countries across every continent in the world. Our customers include businesses, U.S. and foreign governments, non-governmental and charitable organizations, military users and private individuals located all over the world.

## **Recent Transactions**

### *Acquisition of Global Telesat and Related Transactions*

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

Convertible Preferred Stock entitles the holder to cast ten (10) votes per share of Series E Convertible Preferred Stock owned at the time of such vote, subject to the 4.99% beneficial ownership limitation.

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

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

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

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



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

### GlobalStar License Acquisition

On October 13, 2015, the Company through its wholly owned subsidiary, Orbital Satcom Corp, purchased from World Surveillance Group, Inc., and its wholly owned subsidiary, Global Telesat Corp the "Globalstar" license and equipment, which it had previously leased. On December 10, 2014, the Company, entered into a License Agreement with World Surveillance Group, Inc., and its wholly owned subsidiary, Global Telesat Corp, by which the Company had an irrevocable non-exclusive license to use certain equipment, consisting of Appliques for a term of ten years. Appliques are demodulator and RF interfaces located at various ground stations for gateways. The Company issued 2,222,222 common shares, valued at \$1 per share based on the quoted trading price on date of issuance, or \$2,222,222. The company reflected the license as an asset on its balance sheet with a ten-year amortization, the term of the license. On October 13, 2015, the Company acquired the license for additional consideration of \$125,000 in cash. The Company valued the asset at \$2,160,016, which is the unamortized balance of the Appliques License, \$2,043,010 plus the consideration of \$125,000.

### December 2015 Financings

On December 21, 2015, the Company entered into a Placement Agent Agreement with Chardan Capital Markets LLC, as Agent, pursuant to which the Placement Agent agreed to serve as the non-exclusive placement agent for the Company in connection with any private placement from December 21, 2015 through January 15, 2017. The Company agreed to pay the Placement Agent a cash fee of \$50,000 and issue the Placement agent 250,000 shares of common stock following the issuance of at least \$900,000 of securities prior to the expiration of the term of the Placement Agent Agreement. On December 28, 2015, upon closing of the note purchase and Series F subscription agreements, the Company paid the respective fees and issued the common shares.

On December 28, 2015, the Company filed with the Secretary of State of the State of Nevada a Certificate of Designation for the Series F Convertible Preferred Stock, setting forth the rights, powers, and preferences of the Series F Convertible Preferred Stock. Pursuant to the Series F Certificate of Designation, the Company designated 1,100,000

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shares of its blank check preferred stock as Series F Convertible Preferred Stock. Each share of Series F Convertible Preferred Stock has a stated value equal to its par value of \$0.0001 per share. In the event of a liquidation, dissolution or winding up of the Company, the holder of the Series F Convertible Preferred Stock would have preferential payment and distribution rights over any other class or series of capital stock that provide for Series F Convertible Preferred Stock's preferential payment and over our common stock. The Series F Convertible Preferred is convertible into one (1) share of the Company's common stock. The Company is prohibited from effecting the conversion of the Series F Convertible Preferred Stock to the extent that, as a result of such conversion, the holder beneficially owns more than 4.99%, in the aggregate, of the issued and outstanding

Nominees: (1) Michael M. Earley; (2) Debra A. Finnel; (3) Karl M. Sachs; (4) Martin W. Harrison; (5) Barry T. Zeman; and (6) Eric Haskell.

INSTRUCTION: To withhold authority to vote for any individual nominee, write the nominee's name in the space provided below:

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PROPOSAL NO. 2

(2)	To ratify the appointment of Kaufman & Rossin P.A. as independent auditors of the Company for the fiscal year ended December 31, 2005	FOR	AGAINST	ABSTAIN
		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

PROPOSAL NO. 3

(3)	To approve the adoption of Metropolitan's Supplemental Stock Option Plan	FOR	AGAINST	ABSTAIN
		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

PROPOSAL NO. 4

(4)	To approve the adoption of Metropolitan's Omnibus Equity Compensation Plan	FOR	AGAINST	ABSTAIN
		<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

PLEASE MARK, SIGN AND RETURN THIS PROXY CARD AND PROMPTLY USING THE ENCLOSED ENVELOPE.

Signature \_\_\_\_\_ Dated: \_\_\_\_\_, 2005 Signature \_\_\_\_\_ Dated: \_\_\_\_\_, 2005  
(if held jointly)

IMPORTANT: Please mark, date and sign your name exactly as it appears on this proxy and return this proxy in the enclosed envelope. When signing as attorney, executor, administrator, trustee, guardian or officer of a corporation, please give your full title as such. For joint accounts, each joint owner should sign.

METROPOLITAN HEALTH NETWORKS INC.

SUPPLEMENTAL STOCK OPTION PLAN

Section 1. Purpose. The purpose of the Metropolitan Health Networks Inc. Supplemental Stock Option Plan (the “**Plan**”) is to promote the interests of Metropolitan Health Networks Inc., a Florida corporation (the “**Company**”), and any Subsidiary thereof and the interests of the Company’s shareholders by providing an opportunity to selected employees, officers, directors and consultants of the Company or any Subsidiary thereof to purchase Common Stock of the Company. By encouraging such stock ownership, the Company seeks to attract, retain and motivate such persons and to encourage such persons to devote their best efforts to the business and financial success of the Company. It is intended that this purpose will be effected by the granting of “non-qualified stock options” to acquire the Common Stock of the Company.

Section 2. Definitions. For purposes of the Plan, the following terms used herein shall have the following meanings, unless a different meaning is clearly required by the context.

2.1. “**Board of Directors**” shall mean the Board of Directors of the Company.

2.2. “**Code**” shall mean the Internal Revenue Code of 1986, as amended.

2.3. “**Committee**” shall mean the Compensation Committee of the Board of Directors referred to in Section 5 hereof.

2.4. “**Common Stock**” shall mean the Common Stock, \$0.001 par value, of the Company.

2.5. “**Eligible Participant**” shall mean any employee, officer, director or consultant of the Company, employed by, or performing services for, the Company or any Subsidiary of the Company.

2.6. “**Non-Qualified Option**” shall mean the Options granted to the Eligible Participant pursuant to the Plan that are intended to be, and qualify as, “non—qualified stock options” as described in Treasury Regulation Section 1.83—7 or any successor regulation thereto.

2.7. “**Option**” shall mean any Non—Qualified Option granted to an Eligible Participant pursuant to the Plan.

2.8. “**Subsidiary of the Company**” shall have the meaning set forth in Section 424(f) of the Code.

Section 3. Eligibility. Options may be granted to any Eligible Participant. The Committee shall have the sole authority to select the Eligible Participant to whom Options are to be granted hereunder. No person shall have any right to participate in the Plan. Any person selected by the Committee for participation during any one period will not by virtue of such participation have the right to be selected as a Participant for any other period.

Section 4. Common Stock Subject to the Plan.

4.1. Number of Shares. The maximum number of shares of Common Stock for which Options may be granted under the Plan shall be 8,253,242 shares, subject to adjustment as provided by Section 7 hereof, and provided such shares of Common Stock may be validly issued upon exercise pursuant to applicable laws.

4.2. Reissuance. The shares of Common Stock that may be subject to Options granted under the Plan may be either authorized and unissued shares or shares reacquired at any time and now or hereafter held as treasury stock as the Board of Directors may determine.

Section 5. Administration of the Plan.

5.1. Administration. The Plan shall be administered by the Compensation Committee of the Board of Directors (the “Committee”).

5.2. Grant of Options.

(a) The Committee shall have the sole authority and discretion under the Plan (i) to select the Eligible Participants who are to be granted Options hereunder so long as such Eligible Participants meet the requirements set forth in the definition of Eligible Participants set forth in this Plan; (ii) to establish the number of shares of Common Stock that may be issued under each Option; (iii) to determine the time and the conditions subject to which Options may be exercised in whole or in part; (iv) to determine the form of the consideration that may be used to purchase shares of Common Stock upon exercise of any Option (including the circumstances under which the Employee may pay all or part of the exercise price by entering into a promissory note with the Company, or circumstances under which the Company’s issued and outstanding shares of Common Stock may be used by a Participant to exercise an Option); (v) to impose restrictions and/or conditions with respect to shares of Common Stock acquired upon exercise of an Option; (vi) to determine the circumstances under which shares of Common Stock acquired upon exercise of any Option may be subject to repurchase by the Company; (vii) to establish a vesting provision for any Option relating to the time when (or the circumstances under which) the Option may be exercised by a Participant, including, without limitation, vesting provisions that may be contingent upon (A) the Company meeting specified financial goals, (B) a change of control of the Company or (C) the occurrence of other specified events; (viii) to accelerate the time when outstanding Options may be exercised; and (ix) to establish any other terms, restrictions and/or conditions applicable to any Option not inconsistent with the provisions of the Plan. Notwithstanding anything herein to the contrary, the Committee shall not and shall not have the power to determine that the form of consideration that may be used to purchase shares of Common Stock upon exercise of any Option is a loan that violates the provisions of any applicable securities laws.

5.3. Interpretation. The Committee shall be authorized to interpret the Plan and may, from time to time, adopt such rules and regulations, not inconsistent with the provisions of the Plan, as it may deem advisable to carry out the purposes of the Plan.

5.4. Finality. The interpretation and construction by the Committee of any provision of the Plan, any Option granted hereunder or any agreement evidencing any such Option shall be final and conclusive upon all parties.

5.5. Voting. Members of the Committee may vote on any matter affecting the administration of the Plan or the granting of Options under the Plan.

5.6. Expenses, Etc. All expenses and liabilities incurred by the Committee in the administration of the Plan shall be borne by the Company. The Committee may employ attorneys, consultants, accountants or other persons in connection with the administration of the Plan. The Company, and its officers and directors, shall be entitled to rely upon the advice, opinions or valuations of any such persons.

5.7. Indemnification. Neither the members of the Board of Directors nor any member of the Committee shall be liable for any act, omission, or determination taken or made in good faith with respect to the Plan or any Options granted under it, and members of the Board of Directors and the Committee shall be entitled to indemnification and reimbursement by the Company in respect of any claim, loss, damage, or expense (including attorneys' fees, the costs of settling any suit, provided such settlement is approved by independent legal counsel selected by the Company, and amounts paid in satisfaction of a judgment, except a judgment based on a finding of bad faith) arising therefrom to the full extent permitted by law.

#### Section 6. Terms and Conditions of Options.

6.1. Non-Qualified Options. Unless otherwise provided by the Compensation Committee, the terms and conditions of each Option granted under the Plan, which shall be a Non-Qualified Option, shall be as follows:

(a) Each Non-Qualified Option issued hereunder shall not constitute nor be treated as an "incentive stock option" as defined in Section 422(b) of the Code but will be a "non-qualified stock option" for Federal, state and local income tax purposes. The terms and conditions of any Option granted hereunder need not be identical to those of any other Non-Qualified Option granted hereunder.

(b) The option (exercise) price shall be fixed by the Committee and may be equal to, more than or less than 100% of the fair market value of the shares of Common Stock subject to the Non-Qualified Option on the date such Non-Qualified Option is granted, provided, however, that the option (exercise) price shall not be less than the par value of such shares of Common Stock.

(c) Each Option shall expire and terminate five (5) years after the subject Option grant date;

(d) Each Option shall be exercisable in such amount or amounts, under such conditions (including provisions governing the rights to exercise such Option), and at such times or intervals or in such installments as shall be determined by the Committee in its sole discretion.

(e) Options shall not be transferable otherwise than by will or the laws of descent and distribution, or a domestic relations order, and during an Eligible Participant's lifetime an Option shall be exercisable only by the Eligible Participant or an alternate payee under a domestic relations order.

(f) To the extent that the Company is required to withhold any Federal, state or local taxes in respect of any compensation income realized by any Eligible Participant in respect of an Option granted hereunder or in respect of any shares of Common Stock acquired upon exercise of an Option, the Company shall deduct from any payments of any kind otherwise due to such Eligible Participant the aggregate amount of such Federal, state or local taxes required to be so withheld or, if such payments are insufficient to satisfy such Federal, state or local taxes, or if no such payments are due or to become due to such Eligible Participant, then, such Eligible Participant will be required to pay to the Company, or make other arrangements satisfactory to the Company (including, with prior Committee approval, use of a promissory note in favor of the Company) regarding payment to the Company of, the aggregate amount of any such taxes. All matters with respect to the total amount of taxes to be withheld in respect of any such compensation income shall be determined by the Committee in its sole discretion.

(g) In the event the Eligible Participant leaves the employ of the Company or ceases performing services for the Company or any Subsidiary of the Company for any reason including, without limitation, termination, resignation, death, disability or otherwise, the unvested portion of any Option shall immediately expire.

(h) Notwithstanding anything herein to the contrary, the Committee shall not and shall not have the power to determine that the form of consideration that may be used to purchase shares of Common Stock upon exercise of any Option is a loan that violates the provisions of any applicable securities laws.

Section 7. Adjustments. In the event that, after the adoption of the Plan, the outstanding shares of the Company's Common Stock shall be increased or decreased or changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation through reorganization, merger or consolidation, recapitalization, reclassification, stock split, split-up, combination or exchange of shares or declaration of any dividends payable in Common Stock, the Board of Directors shall appropriately adjust the number of shares of Common Stock (and the option price per share) subject to the unexercised portion of any outstanding Option (to the nearest possible full share).

Section 8. Effect of the Plan on Employment Relationship. Neither the Plan nor any Option granted hereunder to an Eligible Participant shall be construed as conferring upon such Eligible Participant any right to continue in the employ of (or otherwise provide services to) the Company or any Subsidiary or Parent thereof, or limit in any respect the right of the Company or any Subsidiary or Parent thereof to terminate such Eligible Participant's employment or other relationship with the Company or any Subsidiary or Parent, as the case may be, at any time.

Section 9. Amendment of the Plan. The Committee or Board of Directors may amend or suspend the Plan or any portion thereof at any time, provided such amendment is made with shareholder approval if such approval is necessary to comply with any tax or regulatory requirement. The Committee in its sole discretion may amend the Plan so as to conform with local rules and regulations subject to any provisions to the contrary specified herein.

Section 10. Amendment of an Option. In its sole and complete discretion, the Committee may at any time amend any Option for the following reasons: (i) additions and/or changes to the Code, any federal or state securities law, or other law or regulations applicable to the Option, are made, and such additions and/or changes have some effect on the Option, or (ii) any other event not described in clause (i) occurs and the Eligible Participant gives his or her consent to such amendment.

Section 11. Exemption from Computation of Compensation for Other Purposes. By acceptance of an applicable Option, subject to the conditions of such Option, each Eligible Participant shall be considered in agreement that all shares sold or awarded and all Options granted under this Plan shall be considered special incentive compensation and will be exempt from inclusion as “wages” or “salary” in pension, retirement, life insurance, and other employee benefits arrangements of the Company, except as determined otherwise by the Company. In addition, each beneficiary of a deceased Eligible Participant shall be in agreement that all such Options will be exempt from inclusion in “wages” or “salary” for purposes of calculating benefits of any life insurance coverage sponsored by the Company.

Section 12. Listing, Registration and Other Legal Compliance. No Options or shares of the Common Stock shall be required to be issued or granted under the Plan unless legal counsel to the Company shall be satisfied that such issuance or grant will be in compliance with all applicable federal and state securities laws and regulations and any other applicable laws or regulations. The Committee may require, as a condition of any payment or share issuance, that certain agreements, undertakings, representations, certificates, and/or information, as the Committee may deem necessary or advisable, be executed or provided to the Company to assure compliance with all such applicable laws or regulations. Any certificates for shares of Common Stock delivered under the Plan may be subject to such stock-transfer orders and such other restrictions as the Committee may deem advisable under the rules, regulations, or other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable federal or state securities law. In addition, if, at any time specified herein (or in any Agreement or otherwise) for (a) the making of any Option, or the making of any determination, (b) the issuance or other distribution of Common Stock, or (c) the payment of amounts to or through an Eligible Participant with respect to any Option, any law, rule, regulation, or other requirement of any governmental authority or agency shall require the Company, any affiliate, or any Eligible Participant (or any estate, designated beneficiary, or other legal representative thereof) to take any action in connection with any such determination, any such shares to be issued or distributed, any such payment, or the making of any such determination, as the case may be, shall be deferred until such required action is taken.

Section 13. Rights as Shareholder. No Eligible Participant or beneficiary shall be deemed a shareholder of the Company nor have any rights as such with respect to any shares to be provided under the Plan until he or she has become the holder of such shares.

Section 14. Construction of the Plan. The Plan, and its rules, rights, agreements and regulations, shall be governed, construed, interpreted and administered solely in accordance with the laws of the state of Washington. In the event any provision of the Plan shall be held invalid, illegal or unenforceable, in whole or in part, for any reason, such determination shall not affect the validity, legality or enforceability of any remaining provision, portion of provision or the Plan overall, which shall remain in full force and effect as if the Plan had been absent the invalid, illegal or unenforceable provision or portion thereof

Section 15. Termination of the Plan. The Committee may terminate the Plan at any time. Unless the Committee shall theretofore have terminated the Plan, the Plan shall terminate on December 31, 2010 . No Option may be granted hereunder after termination of the Plan. The termination or amendment of the Plan shall not alter or impair any rights or obligations under any Option theretofore granted under the Plan.

Section 16. Effective Date of the Plan. The Plan shall be effective as of May 1, 1999.

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**METROPOLITAN HEALTH NETWORKS, INC.  
OMNIBUS EQUITY COMPENSATION PLAN**

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**ARTICLE I**

**GENERAL PROVISIONS**

1.1 The Plan is designed for the benefit of the directors, executives and key employees of the Company (i) to attract and retain for the Company personnel of exceptional ability; (ii) to motivate such personnel through added incentives to make a maximum contribution to greater profitability; (iii) to develop and maintain a highly competent management team; and (iv) to be competitive with other companies with respect to executive compensation.

1.2 Awards under the Plan may be made to Participants in the form of (i) Incentive Stock Options; (ii) Nonqualified Stock Options; (iii) Stock Appreciation Rights; (iv) Restricted Stock; (v) Deferred Stock; (vi) Stock Awards; (vii) Performance Shares; (viii) Other Stock-Based Awards; and (ix) other forms of equity-based compensation as may be provided and are permissible under this Plan and the law.

1.3 The Plan shall be effective November 5, 2004 (the "Effective Date"), subject to the approval of the Plan by a majority of the votes cast by the holders of the Company's Common Stock, which may be voted at the next annual or special shareholder's meeting. Any Awards granted under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant) but shall be conditioned on, and subject to, the approval of the Plan by the Company's shareholders.

**ARTICLE II**

**DEFINITIONS**

Except where the context otherwise indicates, the following definitions apply:

2.1 "Acceleration Event" means the occurrence of an event defined in Article XIII of the Plan.

2.2 "Act" means the Securities Exchange Act of 1934, as amended.

2.3 "Agreement" means the written agreement evidencing each Award granted to a Participant under the Plan.

2.4 "Award" means an award granted to a Participant in accordance with the provisions of the Plan, including, but not limited to, a Stock Option, Stock Right, Restricted or Deferred Stock, Stock Award, Performance Share, Other Stock-Based Award, or any combination of the foregoing.

2.5 "Board" means the Board of Directors of the Company.

2.6 "Change in Control" shall have the meaning set forth in Section 13.2 of the Plan.

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- 2.7 "Change in Control Price" shall have the meaning set forth in Section 13.7 of the Plan.
- 2.8 "Code" means the Internal Revenue Code of 1986, as amended.
- 2.9 "Committee" means the Compensation Committee of the Board.
- 2.10 "Company" means Metropolitan Health Networks, Inc., a Florida corporation.
- 2.11 "Deferral Period" means the period commencing on the date an Award of Deferred Stock is granted and ending on such date as the Committee shall determine.
- 2.12 "Deferred Stock" means the stock awarded under Article IX of the Plan.
- 2.13 "Disability" means disability as determined under procedures established by the Committee or in any Award.
- 2.14 "Discount Stock Options" means the Nonqualified Stock Options, which provide for an exercise price of less than the Fair Market Value of the Stock at the date of the Award.
- 2.15 "Early Retirement" means retirement from active employment with the Company, with the express consent of the Committee, pursuant to the early retirement provisions established by the Committee or in any Award.
- 2.16 "Effective Date" shall have the meaning set forth in Section 1.3 of the Plan.
- 2.17 "Elective Deferral Period" shall have the meaning set forth in Section 9.3 of the Plan.
- 2.18 "Eligible Participant" means any director, executive or key employee of the Company, as shall be determined by the Committee, as well as any other person whose participation the Committee determines is in the best interest of the Company, subject to limitations as may be provided by the Code, the Act or the Committee. For purposes of Article IV and Incentive Stock Options that may be granted hereunder, the term "Eligible Participant" shall be limited to an executive or other key employee meeting the qualifications for receipt of an Incentive Stock Option under the provisions of Section 422 of the Code.
- 2.19 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- 2.20 "Fair Market Value" means, with respect to any given day, (a) if the Company's Common Stock is traded on the American Stock Exchange or another national exchange or is quoted on the National or SmallCap Market of The Nasdaq Stock Market, Inc. ("Nasdaq"), then the closing or last sale price, respectively, reported on such day, or if the Stock was not traded on such day, the closing or last sale price on the next day on which the Stock was traded, all as reported by such source as the Committee may select; or (b) if the Company's Common Stock is not traded on the American Stock Exchange or another national exchange or on the Nasdaq but is traded on the NASD OTC Bulletin Board (the "Bulletin Board"), then the last sale price, or, if a last sale price is not quoted, the mean between the closing bid and asked prices for the Common Stock on such day, or, if no bid or ask price information is available on such day then the last sale price or the closing bid and asked prices on the next day on which such information becomes available, all as reported by such source as the Committee may select. The Committee may establish an alternative method of determining Fair Market Value.
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2.21 "Incentive Stock Option" means a Stock Option granted under Article IV of the Plan, and as defined in Section 422 of the Code.

2.22 "Limited Stock Appreciation Rights" means a Stock Right which is exercisable only in the event of a Change in Control, as described in Section 6.8 of this Plan, which provides for an amount payable solely in cash, equal to the excess of the Stock Appreciation Right Fair Market Value of a share of Stock on the day the Stock Right is surrendered over the price at which a Participant could exercise a related Stock Option to purchase the share of Stock.

2.23 "Nonqualified Stock Option" means a Stock Option granted under Article V of the Plan.

2.24 "Normal Retirement" means retirement from active employment with the Company or any Subsidiary on or after age 65, or pursuant to such other requirements as may be established by the Committee or in any Award.

2.25 "Option Grant Date" means, as to any Stock Option, the latest of:

(a) the date on which the Committee grants the Stock Option to the Participant;

(b) the date the Participant receiving the Stock Option becomes an employee of the Company or its Subsidiaries, to the extent employment status is a condition of the grant or a requirement of the Code or the Act; or

(c) such other date (other than the dates described in (i) and (ii) above) as the Committee may designate.

2.26 "Other Stock-Based Award" means an Award under Article XII of the Plan that is valued in whole or in part by reference to, or is otherwise based on, Stock.

2.27 "Participant" means an Eligible Participant to whom an Award of equity-based compensation has been granted and who has entered into an Agreement evidencing the Award.

2.28 "Performance Share" means an Award under Article XI of the Plan of a unit valued by reference to a designated number of shares of Stock, which value may be paid to the Participant by delivery of such property as the Committee shall determine, including, without limitation, cash, Stock, or any combination thereof, upon achievement of such Performance Objectives during the Performance Period as the Committee shall establish at the time of such Award or thereafter.

2.29 "Performance Objectives" shall have the meaning set forth in Article XI of the Plan.

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2.30 "Performance Period" shall have the meaning set forth in Article XI of the Plan.

2.31 "Plan" means the Metropolitan Health Networks, Inc. Omnibus Equity Compensation Plan, as amended from time to time.

2.32 "Related Stock Appreciation Right" shall have the meaning set forth in Section 6.1 of the Plan.

2.33 "Restricted Stock" means an Award of Stock under Article VIII of the Plan, which Stock is issued with the restriction that the holder may not sell, transfer, pledge, or assign such Stock and with such other restrictions as the Committee, in its sole discretion, may impose (including, without limitation, any restriction on the right to vote such Stock, and the right to receive any cash dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

2.34 "Restriction Period" means the period commencing on the date an Award of Restricted Stock is granted and ending on such date as the Committee shall determine.

2.35 "Retirement" means Normal or Early Retirement.

2.36 "Stock" means shares of common stock par value \$0.001 per share of the Company, as may be adjusted pursuant to the provisions of Section 3.11.

2.37 "Stock Appreciation Right" means a Stock Right, as described in Article VI of this Plan, which provides for an amount payable in Stock and/or cash, as determined by the Committee, equal to the excess of the Fair Market Value of a share of Stock on the day the Stock Right is exercised over the price at which the Participant could exercise a related Stock Option to purchase the share of Stock.

2.38 "Stock Appreciation Right Fair Market Value" means a value established by the Committee for the exercise of a Stock Appreciation Right or a Limited Stock Appreciation Right.

2.39 "Stock Award" means an Award of Stock granted in payment of compensation, as provided in Article X of the Plan.

2.40 "Stock Option" means an Award under Article IV or V of the Plan of an option to purchase Stock. A Stock Option may be either an Incentive Stock Option or a Nonqualified Stock Option.

2.41 "Stock Right" means an Award under Article VI of the Plan. A Stock Right may be either a Stock Appreciation Right or a Limited Stock Appreciation Right.

2.42 "Termination of Employment" means the discontinuance of employment of a Participant with the Company. The determination of whether a Participant has discontinued employment shall be made by the Committee in its discretion. In determining whether a Termination of Employment has occurred, the Committee may provide that service as a consultant or service with a business enterprise in which the Company has a significant ownership interest shall be treated as employment with the Company. The Committee shall have the discretion, exercisable either at the time the Award is granted or at the time the Participant terminates employment, to establish as a provision applicable to the exercise of one or more Awards that during the limited period of exercisability following Termination of Employment, the Award may be exercised not only with respect to the number of shares of Stock for which it is exercisable at the time of the Termination of Employment but also with respect to one or more subsequent installments for which the Award would have become exercisable had the Termination of Employment not occurred.

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**ARTICLE III**

**ADMINISTRATION**

3.1 This Plan shall be administered by the Committee. Members of the Committee may vote on any matters affecting the administration of the Plan or the grant of Awards pursuant to the Plan, except that no such member shall act upon the granting of an Award to himself or herself, but any such member may be counted in determining the existence of a quorum at any meeting of the Committee or Board during which action is taken with respect to the granting of an Award to such member. The Committee, in its discretion, may delegate to one or more of its members such of its powers, as it deems appropriate. The Committee also may limit the power of any member to the extent necessary to comply with Rule 16b-3 under the Act or any other law. The Board, in its discretion, may require that all or any final actions or determinations by the Committee be made by or be subject to approval or ratification by the Board before becoming effective. To the extent all or any decisions, actions, or determinations relating to the administration of the Plan are made by the Board, the Board shall have all power and authority granted to the Committee in this Article and otherwise in this Plan, and for these purposes, all references to the "Committee" herein shall be deemed to include the Board.

3.2 The Committee shall meet at such times and places as it determines. A majority of its members shall constitute a quorum, and the decision of a majority of those present at any meeting at which a quorum is present shall constitute the decision of the Committee. A unanimous consent signed by all of the members of the Committee shall constitute the decision of the Committee without necessity, in such event, for holding an actual meeting.

3.3 The Committee shall have the exclusive right to interpret, construe and administer the Plan, to select the persons who are eligible to receive an Award, and to act in all matters pertaining to the granting of an Award and the contents of the Agreement evidencing the Award, including, without limitation, the determination of the number of Stock Options, Stock Rights, shares of Stock or Performance Shares subject to an Award and the form, terms, conditions and duration of each Award, and any amendment thereof consistent with the provisions of the Plan. All acts, determinations and decisions of the Committee made or taken pursuant to grants of authority under the Plan or with respect to any questions arising in connection with the administration and interpretation of the Plan, including the severability of any and all of the provisions thereof, shall be conclusive, final and binding upon all Participants, Eligible Participants and their beneficiaries.

3.4 The Committee may adopt such rules, regulations and procedures of general application for the administration of this Plan, as it deems appropriate.

3.5 Without limiting the foregoing Sections 3.1, 3.2, 3.3 and 3.4, and notwithstanding any other provisions of the Plan, the Committee is authorized to take such action as it determines to be necessary or advisable, and fair and equitable to Participants, with respect to an Award in the event of an Acceleration Event as defined in Article XIII. Such action may include, but shall not be limited to, establishing, amending or waiving the forms, terms, conditions and duration of an Award and the Award Agreement, so as to provide for earlier, later, extended or additional times for exercise or payments, differing methods for calculating payments, alternate forms and amounts of payment, an accelerated release of restrictions or other modifications. The Committee may take such actions pursuant to this Section 3.5 by adopting rules and regulations of general applicability to all Participants or to certain categories of Participants, by including, amending or waiving terms and conditions in an Award and the Award Agreement, or by taking action with respect to individual Participants.

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3.6 The aggregate number of shares of Stock, which are reserved for issuance under the Plan, shall be 6,000,000. The aggregate number of shares of stock reserved for issuance under the plan shall be adjusted in accordance with Section 3.11.

(a) If, for any reason, any shares of Stock or Performance Shares awarded or subject to purchase under the Plan are not delivered or purchased, or are reacquired by the Company, for reasons including, but not limited to, a forfeiture of Restricted Stock or termination, expiration or cancellation of a Stock Option, Stock Right or Performance Share, or any other termination of an Award without payment being made in the form of Stock (whether or not Restricted Stock), such shares of Stock or Performance Shares shall not be charged against the aggregate number of shares of Stock available for Award under the Plan, and shall again be available for Award under the Plan.

(b) For all purposes under the Plan, each Performance Share awarded shall be counted as one share of Stock subject to an Award.

(c) To the extent a Stock Right granted in connection with a Stock Option is exercised without payment being made in the form of Stock (whether or not Restricted Stock), the shares of Stock which otherwise would have been issued upon the exercise of such related Stock Option shall not be charged against the aggregate number of shares of Stock subject to an Award under the Plan, and shall again be available for Award under the Plan.

3.7 Each Award granted under the Plan shall be evidenced by a written Award Agreement. Each Award Agreement shall be subject to and incorporate (by reference or otherwise) the applicable terms and conditions of the Plan, and any other terms and conditions (not inconsistent with the Plan) required by the Committee.

3.8 The Company shall not be required to issue or deliver any certificates for shares of Stock prior to:

(a) the listing of such shares on any stock exchange on which the Stock may then be listed; and

(b) the completion of any registration or qualification of such shares of Stock under any federal or state law, or any ruling or regulation of any government body which the Company shall, in its discretion, determine to be necessary or advisable.

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3.9 All certificates for shares of Stock delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed and any applicable federal or state laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. In making such determination, the Committee may rely upon an opinion of counsel for the Company.

3.10 Subject to the restrictions on Restricted Stock, as provided in Article VIII of the Plan and in the Restricted Stock Award Agreement, each Participant who receives an Award of Restricted Stock shall have all of the rights of a shareholder with respect to such shares of Stock, including the right to vote the shares to the extent, if any, such shares possess voting rights and receive dividends and other distributions. Except as provided otherwise in the Plan or in an Award Agreement, no Participant awarded a Stock Option, Stock Right, Deferred Stock, Stock Award or Performance Share shall have any right as a shareholder with respect to any shares of Stock covered by his or her Stock Option, Stock Right, Deferred Stock, Stock Award or Performance Share prior to the date of issuance to him or her of a certificate or certificates for such shares of Stock.

3.11 If any reorganization, recapitalization, reclassification, stock split-up, stock dividend, or consolidation of shares of Stock, merger or consolidation of the Company or its Subsidiaries or sale or other disposition by the Company or its Subsidiaries of all or a portion of its assets, any other change in the Company's or its Subsidiaries' corporate structure, or any distribution to shareholders other than a cash dividend results in the outstanding shares of Stock, or any securities exchanged therefor or received in their place, being exchanged for a different number or class of shares of Stock or other securities of the Company, or for shares of Stock or other securities of any other Company; or new, different or additional shares or other securities of the Company or of any other Company being received by the holders of outstanding shares of Stock, then equitable adjustments shall be made by the Committee in:

(a) the limitation of the aggregate number of shares of Stock that may be awarded as set forth in Sections 3.6, 3.16, and 4.1(e) (to the extent permitted under Section 422 of the Code) of the Plan;

(b) the number of shares and class of Stock that may be subject to an Award, and which have not been issued or transferred under an outstanding Award;

(c) the purchase price to be paid per share of Stock under outstanding Stock Options and the number of shares of Stock to be transferred in settlement of outstanding Stock Rights; and

(d) the terms, conditions or restrictions of any Award and Award Agreement, including the price payable for the acquisition of Stock; provided, however, that all adjustments made as the result of the foregoing in respect of each Incentive Stock Option shall be made so that such Stock Option shall continue to be an Incentive Stock Option, as defined in Section 422 of the Code.

3.12 In addition to such other rights of indemnification as they may have as directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against reasonable expenses, including attorney's fees, actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Award granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment or settlement in any such action, suit or proceeding, except as to matters as to which the Committee member has been negligent or engaged in misconduct in the performance of his duties; provided, that within sixty (60) days after institution of any such action, suit or proceeding, a Committee member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

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3.13 The Committee may require each person purchasing shares of Stock pursuant to a Stock Option or other Award under the Plan to represent to and agree with the Company in writing that he is acquiring the shares of Stock without a view to distribution thereof. The certificates for such shares of Stock may include any legend, which the Committee deems appropriate to reflect any restrictions on transfer.

3.14 The Committee shall be authorized to make adjustments in performance based criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award Agreement in the manner and to the extent it shall deem desirable to carry it into effect. In the event the Company (or any Subsidiary, if applicable) shall assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of another Company or business entity, the Committee may, in its discretion, make such adjustments in the terms of Awards under the Plan as it shall deem appropriate.

3.15 The Committee shall have full power and authority to determine whether, to what extent and under what circumstances, any Award shall be canceled or suspended. In particular, but without limitation, all outstanding Awards to any Participant shall be canceled if (a) the Participant, without the consent of the Committee, while employed by the Company or after termination of such employment, becomes associated with, employed by, renders services to, or owns any interest in (other than any nonsubstantial interest, as determined by the Committee), any business that is in competition with the Company or with any business in which the Company has a substantial interest as determined by the Committee; or (b) is terminated for cause as determined by the Committee.

3.16 Subject to the limitations of Section 3.6, the maximum number of shares of Stock with respect to which an Award or Awards of Stock Options and/or Stock Rights under the Plan may be granted during any calendar year to any participant shall be five hundred thousand (500,000) shares.

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**ARTICLE IV**

**INCENTIVE STOCK OPTIONS**

4.1 Each provision of this Article IV and of each Incentive Stock Option granted hereunder shall be construed in accordance with the provisions of Section 422 of the Code, and any provision hereof that cannot be so construed shall be disregarded. Incentive Stock Options shall be granted only to Eligible Participants, each of whom may be granted one or more such Incentive Stock Options at such time or times determined by the Committee following the Effective Date until November 5, 2014, subject to the following conditions:

(a) The Incentive Stock Option price per share of Stock shall be set in the Award Agreement, but shall not be less than one hundred percent (100%) of the Fair Market Value of the Stock at the time of the Option Grant Date.

(b) The Incentive Stock Option and its related Stock Right, if any, may be exercised in full or in part from time to time within ten (10) years from the Option Grant Date, or such shorter period as may be specified by the Committee in the Award; provided, that in any event, the Incentive Stock Option and related Stock Right shall lapse and cease to be exercisable upon, or within such period following, a Termination of Employment as shall have been determined by the Committee and as specified in the Incentive Stock Option Award Agreement or its related Stock Right Award Agreement; provided, however, that such period following a Termination of Employment shall not exceed three (3) months unless employment shall have terminated:

(i) as a result of death or Disability, in which event, such period shall not exceed one year after the date of death or Disability; and

(ii) as a result of death, if death shall have occurred following a Termination of Employment and while the Incentive Stock Option or Stock Right was still exercisable, in which event, such period shall not exceed one year after the date of death;

provided, further, that such period following a Termination of Employment shall in no event extend the original exercise period of the Incentive Stock Option or any related Stock Right.

(c) The aggregate Fair Market Value, determined as of the Option Grant Date, of the shares of Stock with respect to which Incentive Stock Options are exercisable for the first time during any calendar year by any Eligible Participant shall not exceed one hundred thousand dollars (\$100,000); provided, however, to the extent permitted under Section 422 of the Code:

(i) if a Participant's employment is terminated by reason of death, Disability or Retirement and the portion of any Incentive Stock Option that is otherwise exercisable during the post-termination period applied without regard to the one hundred thousand dollar (\$100,000) limitation contained in Section 422 of the Code is greater than the portion of such option that is immediately exercisable as an Incentive Stock Option during such post-termination period under Section 422, such excess shall be treated as a Nonqualified Stock Option; and

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(ii) if the exercise of an Incentive Stock Option is accelerated by reason of an Acceleration Event, any portion of such Award that is not exercisable as an Incentive Stock Option by reason of the one hundred thousand dollar (\$100,000) limitation contained in Section 422 of the Code shall be treated as a Nonqualified Stock Option.

(d) Incentive Stock Options shall be granted only to an Eligible Participant who, at the time of the Option Grant Date, does not own Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company; provided, however, the foregoing restriction shall not apply if at the time of the Option Grant Date the option price is at least one hundred ten percent (110%) of the Fair Market Value of the Stock subject to the Incentive Stock Option and such Incentive Stock Option by its terms is not exercisable after the expiration of five (5) years from the Option Grant Date.

(e) The Committee may adopt any other terms and conditions which it determines should be imposed for the Incentive Stock Option to qualify under Section 422 of the Code, as well as any other terms and conditions not inconsistent with this Article IV as determined by the Committee.

4.2 The Committee may at any time offer to buy out for a payment in cash, Stock, Deferred Stock or Restricted Stock an Incentive Stock Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Participant at the time that such offer is made.

4.3 If the Incentive Stock Option Award Agreement so provides, the Committee may require that all or part of the shares of Stock to be issued upon the exercise of an Incentive Stock Option shall take the form of Deferred or Restricted Stock, which shall be valued on the date of exercise, as determined by the Committee, on the basis of the Fair Market Value of such Deferred Stock or Restricted Stock determined without regard to the deferral limitations and/or forfeiture restrictions involved.

## ARTICLE V

### NONQUALIFIED STOCK OPTIONS

5.1 One or more Stock Options may be granted as Nonqualified Stock Options to Eligible Participants to purchase shares of Stock at such time or times determined by the Committee, following the Effective Date, subject to the terms and conditions set forth in this Article V.

5.2 The Nonqualified Stock Option price per share of Stock shall be established in the Award Agreement and may be less than one hundred percent (100%) of the Fair Market Value at the time of the grant, or at such later date as the Committee shall determine.

5.3 The Nonqualified Stock Option and its related Stock Right, if any, may be exercised in full or in part from time to time within such period as may be specified by the Committee or in the Award Agreement; provided, that, in any event, the Nonqualified Stock Option and the related Stock Right shall lapse and cease to be exercisable upon, or within such period following, Termination of Employment as shall have been determined by the Committee and as specified in the Nonqualified Stock Option Award Agreement or Stock Right Award Agreement; provided, however, that such period following Termination of Employment shall not exceed three (3) months unless employment shall have terminated:

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(a) as a result of Retirement or Disability, in which event, such period shall not exceed one year after the date of Retirement or Disability, or within such longer period as the Committee may specify; and

(b) as a result of death, or if death shall have occurred following a Termination of Employment and while the Nonqualified Stock Option or Stock Right was still exercisable, in which event, such period may exceed one year after the date of death, as provided by the Committee or in the Award Agreement.

5.4 The Nonqualified Stock Option Award Agreement may include any other terms and conditions not inconsistent with this Article V or with Article VII, as determined by the Committee.

## ARTICLE VI

### STOCK APPRECIATION RIGHTS

6.1 A Stock Appreciation Right may be granted to an Eligible Participant in connection with an Incentive Stock Option or a Nonqualified Stock Option granted under Article IV or Article V of this Plan (a "Related Stock Appreciation Right"), or may be granted independent of any related Incentive or Nonqualified Stock Option.

6.2 A Related Stock Appreciation Right shall entitle a holder of a Stock Option, within the period specified for the exercise of the Stock Option, to surrender the unexercised Stock Option (or a portion thereof) and to receive in exchange therefor a payment in cash or shares of Stock having an aggregate value equal to the amount by which the Fair Market Value of each share of Stock exceeds the Stock Option price per share of Stock, times the number of shares of Stock under the Stock Option, or portion thereof, which is surrendered.

6.3 Each Related Stock Appreciation Right granted hereunder shall be subject to the same terms and conditions as the related Stock Option, including limitations on transferability, if any, and shall be exercisable only to the extent such Stock Option is exercisable and shall terminate or lapse and cease to be exercisable when the related Stock Option terminates or lapses. The grant of a Related Stock Appreciation Right related to an Incentive Stock Option must be concurrent with the grant of the Incentive Stock Option. With respect to Nonqualified Stock Options, the grant of a Related Stock Appreciation Right either may be concurrent with the grant of the Nonqualified Stock Option, or subsequent to the grant of the Nonqualified Stock Option, in connection with a Nonqualified Stock Option previously granted under Article V, which is unexercised and has not terminated or lapsed.

6.4 The Committee shall have the sole discretion to determine, in each case whether the payment with respect to the exercise of a Stock Appreciation Right shall be made in the form of all cash, all Stock, or any combination thereof. If payment is to be made in Stock, the number of shares of Stock shall be determined based on the Fair Market Value of the Stock on the date of exercise of the Stock Appreciation Right. If the Committee elects to make full payment in Stock, no fractional shares of Stock shall be issued and cash payments shall be made in lieu of fractional shares.

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6.5 The Committee shall have sole discretion as to the timing of any payment made in cash, Stock, or a combination thereof upon exercise of a Stock Appreciation Right. Payment may be made in a lump sum, in annual installments or may be otherwise deferred and the Committee shall have sole discretion to determine whether any deferred payments may bear amounts equivalent to interest or cash dividends.

6.6 Upon the exercise of a Related Stock Appreciation Right, the number of shares of Stock subject to exercise under any related Stock Option shall automatically be reduced by the number of shares of Stock represented by the Stock Option or portion thereof which is surrendered.

6.7 The Committee, in its sole discretion, may also provide that, in the event of a Change in Control, the amount to be paid upon the exercise of a Stock Appreciation Right or Limited Stock Appreciation Right shall be based on the Change in Control Price, subject to such terms and conditions as the Committee may specify at grant.

6.8 In its sole discretion, the Committee may grant Limited Stock Appreciation Rights under this Article VI. Limited Stock Appreciation Rights shall become exercisable only in the event of a Change in Control, subject to such terms and conditions as the Committee, in its sole discretion, may specify at grant. Such Limited Stock Appreciation Rights shall be settled solely in cash. A Limited Stock Appreciation Right shall entitle the holder of the related Stock Option to surrender such Stock Option, or any portion thereof, to the extent unexercised, in respect of the number of shares of Stock as to which such Limited Stock Appreciation Right is exercised, and to receive a cash payment equal to the difference between (a) the Stock Appreciation Right Fair Market Value (at the date of surrender) of a share of Stock for which the surrendered Stock Option or portion thereof is then exercisable, and (b) the price at which a Participant could exercise a related Stock Option to purchase the share of Stock. Such Stock Option shall, to the extent so surrendered, thereupon cease to be exercisable. A Limited Stock Appreciation Right shall be subject to such further terms and conditions as the Committee shall, in its sole discretion, deem appropriate.

## **ARTICLE VII**

### **INCIDENTS OF STOCK OPTIONS AND STOCK RIGHTS**

7.1 Each Stock Option and Stock Right shall be granted subject to such terms and conditions, if any, not inconsistent with this Plan, as shall be determined by the Committee, including any provisions as to continued employment as consideration for the grant or exercise of such Stock Option or Stock Right and any provisions which may be advisable to comply with applicable laws, regulations or rulings of any governmental authority.

7.2 An Incentive Stock Option and its related Stock Right, if any, shall not be transferable by the Participant other than by will or by the laws of descent and distribution, and shall be exercisable during the lifetime of the Participant only by him or by his guardian or legal representative. A Nonqualified Stock Option and its related Stock Right, if any, shall be subject to the transferability and exercisability restrictions of the immediately preceding sentence unless otherwise determined by the Committee, in its sole discretion, and set forth in the applicable Award Agreement.

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7.3 Shares of Stock purchased upon exercise of a Stock Option shall be paid for in such amounts, at such times and upon such terms as shall be determined by the Committee, subject to limitations set forth in the Stock Option Award Agreement. Without limiting the foregoing, the Committee may establish payment terms for the exercise of Stock Options which permit the Participant to deliver shares of Stock (or other evidence of ownership of Stock satisfactory to the Company) with a Fair Market Value equal to the exercise price of the Stock Option as payment.

7.4 No cash dividends shall be paid on shares of Stock subject to unexercised Stock Options. The Committee may provide, however, that a Participant to whom a Stock Option has been granted which is exercisable in whole or in part at a future time shall be entitled to receive an amount per share equal in value to the cash dividends, if any, paid per share on issued and outstanding Stock, as of the dividend record dates occurring during the period between the date of the grant and the time each such share of Stock is delivered pursuant to exercise of such Stock Option or the related Stock Right. Such amounts (herein called "dividend equivalents") may, in the discretion of the Committee, be:

(a) paid in cash or Stock either from time to time prior to, or at the time of the delivery of, such Stock, or upon expiration of the Stock Option if it shall not have been fully exercised; or

(b) converted into contingently credited shares of Stock (with respect to which dividend equivalents may accrue) in such manner, at such value, and deliverable at such time or times, as may be determined by the Committee. Such Stock (whether delivered or contingently credited) shall be charged against the limitations set forth in Section 3.6.

7.5 The Committee, in its sole discretion, may authorize payment of interest equivalents on dividend equivalents which are payable in cash at a future time.

7.6 In the event of death or Disability, the Committee, with the consent of the Participant or his legal representative, may authorize payment, in cash or in Stock, or partly in cash and partly in Stock, as the Committee may direct, of an amount equal to the difference at the time between the Fair Market Value of the Stock subject to a Stock Option and the exercise price of the Option in consideration of the surrender of the Stock Option.

7.7 If a Participant is required to pay to the Company an amount with respect to income and employment tax withholding obligations in connection with exercise of a Nonqualified Stock Option and/or with respect to certain dispositions of Stock acquired upon the exercise of an Incentive Stock Option, the Committee, in its discretion and subject to such rules as it may adopt, may permit the Participant to satisfy the obligation, in whole or in part, by making an irrevocable election that a portion of the total Fair Market Value of the shares of Stock subject to the Nonqualified Stock Option and/or with respect to certain dispositions of Stock acquired upon the exercise of an Incentive Stock Option, be paid in the form of cash in lieu of the issuance of Stock and that such cash payment be applied to the satisfaction of the withholding obligations. The amount to be withheld shall not exceed the statutory minimum Federal and State income and employment tax liability arising from the Stock Option exercise transaction.

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7.8 The Committee may permit the voluntary surrender of all or a portion of any Stock Option granted under the Plan to be conditioned upon the granting to the Participant of a new Stock Option for the same or a different number of shares of Stock as the Stock Option surrendered, or may require such voluntary surrender as a condition precedent to a grant of a new Stock Option to such Participant. Subject to the provisions of the Plan, such new Stock Option shall be exercisable at the same price, during such period and on such other terms and conditions as are specified by the Committee at the time the new Stock Option is granted. Upon surrender, the Stock Options surrendered shall be canceled and the shares of Stock previously subject to them shall be available for the grant of Awards under the Plan.

## **ARTICLE VIII**

### **RESTRICTED STOCK**

8.1 Restricted Stock Awards may be made to certain Participants as an incentive for the performance of future services that will contribute materially to the successful operation of the Company. Awards of Restricted Stock may be made either alone, in addition to or in conjunction with other Awards granted under the Plan and/or cash payments made outside of the Plan.

8.2 With respect to Awards of Restricted Stock, the Committee shall:

- (a) determine the purchase price, if any, to be paid for such Restricted Stock, which may be equal to or less than par value and may be zero, subject to such minimum consideration as may be required by applicable law;
- (b) determine the length of the Restriction Period;
- (c) determine any restrictions applicable to the Restricted Stock such as service or performance, other than those set forth in this Article VIII;
- (d) determine if the restrictions shall lapse as to all shares of Restricted Stock at the end of the Restriction Period or as to a portion of the shares of Restricted Stock in installments during the Restriction Period; and
- (e) determine if dividends and other distributions on the Restricted Stock are to be paid currently to the Participant or withheld by the Company for the account of the Participant.

8.3 Awards of Restricted Stock must be accepted within a period of sixty (60) days (or such shorter periods as the Committee may specify at grant) after the date of the Award of Restricted Stock, by executing a Restricted Stock Award Agreement and paying whatever price (if any) is required.

The prospective recipient of a Restricted Stock Award shall not have any rights with respect to such Award, unless such recipient has executed a Restricted Stock Award Agreement and has delivered a fully executed copy thereof to the Committee, and has otherwise complied with the applicable terms and conditions of such Award.

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8.4 Except when the Committee determines otherwise, or as otherwise provided in the Restricted Stock Award Agreement, if a Participant terminates employment with the Company for any reason before the expiration of the Restriction Period, all shares of Restricted Stock still subject to restriction shall be forfeited by the Participant and shall be reacquired by the Company.

8.5 Except as otherwise provided in this Article VIII, no shares of Restricted Stock received by a Participant shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

8.6 To the extent not otherwise provided in a Restricted Stock Award Agreement, in cases of death, Disability or Retirement or in cases of special circumstances, the Committee, if it finds that a waiver would be appropriate, may elect to waive any or all remaining restrictions with respect to such Participant's Restricted Stock.

8.7 In the event of hardship or other special circumstances of a Participant whose employment with the Company is involuntarily terminated (other than for cause), the Committee may waive in whole or in part any or all remaining restrictions with respect to any or all of the Participant's Restricted Stock, based on such factors and criteria as the Committee may deem appropriate.

8.8 The certificates representing shares of Restricted Stock may either:

(a) be held in custody by the Company until the Restriction Period expires or until restrictions thereon otherwise lapse, and the Participant shall deliver to the Company a stock power endorsed in blank relating to the Restricted Stock; and/or

(b) be issued to the Participant and registered in the name of the Participant, and shall bear an appropriate restrictive legend and shall be subject to appropriate stop-transfer orders.

8.9 Except as provided in this Article VIII, a Participant receiving a Restricted Stock Award shall have, with respect to the shares of Restricted Stock covered by any Award, all of the rights of a shareholder of the Company, including the right to vote the shares to the extent, if any, such shares possess voting rights, and the right to receive any dividends; provided, however, the Committee may require that any dividends on such shares of Restricted Stock shall be automatically deferred and reinvested in additional Restricted Stock subject to the same restrictions as the underlying Award, or may require that dividends and other distributions on Restricted Stock shall be withheld by the Company for the account of the Participant. The Committee shall determine whether interest shall be paid on amounts withheld, the rate of any such interest, and the other terms applicable to such withheld amounts.

8.10 If and when the Restriction Period expires without a prior forfeiture of the Restricted Stock subject to such Restriction Period, unrestricted certificates for such shares shall be delivered to the Participant.

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8.11 In order to better ensure that Award grants actually reflect the performance of the Company and the service of the Participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other Award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Restricted Stock Award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

## ARTICLE IX

### DEFERRED STOCK

9.1 Shares of Deferred Stock (together with cash dividend equivalents, if so determined by the Committee) may be issued either alone or in addition to other Awards granted under the Plan in the discretion of the Committee. The Committee shall determine the individuals to whom, and the time or times at which, such Awards will be made, the number of shares to be awarded, the price (if any) to be paid by the recipient of a Deferred Stock Award, the time or times within which such Awards may be subject to forfeiture, and all other conditions of the Awards. The Committee may condition Awards of Deferred Stock upon the attainment of specified performance goals or such other factors or criteria as the Committee may determine.

9.2 Deferred Stock Awards shall be subject to the following terms and conditions:

(a) Subject to the provisions of this Plan and the applicable Deferred Stock Award Agreement, Deferred Stock Awards may not be sold, transferred, pledged, assigned or otherwise encumbered during the Deferral Period. At the expiration of the Deferral Period (or the Elective Deferral Period defined in Section 9.3), share certificates shall be delivered to the Participant, or his legal representative, in a number equal to the number of shares of Stock covered by the Deferred Stock Award. Notwithstanding the foregoing, based on service, performance and/or such other factors or criteria as the Committee may determine, the Committee, at or after the date of the grant, may accelerate the vesting of all or any part of any Deferred Stock Award and/or waive the deferral limitations for all or any part of such Deferred Stock Award.

(b) Unless otherwise determined by the Committee, amounts equal to any dividends that would have been payable during the Deferral Period with respect to the number of shares of Stock covered by a Deferred Stock Award if such shares of Stock had been outstanding shall be automatically deferred and deemed to be reinvested in additional Deferred Stock, subject to the same deferral limitations as the underlying Deferred Stock Award.

(c) Except to the extent otherwise provided in this Plan or in the applicable Deferred Stock Award Agreement, upon Termination of Employment during the Deferral Period for a given Award, the Deferred Stock covered by such Award shall be forfeited by the Participant; provided, however, the Committee may provide for accelerated vesting in the event of Termination of Employment due to death, Disability or Retirement, or in the event of hardship or other special circumstances as the Committee deems appropriate.

(d) The Committee may require that a designated percentage of the total Fair Market Value of the shares of Deferred Stock held by one or more Participants be paid in the form of cash in lieu of the issuance of Stock and that such cash payment be applied to the satisfaction of the federal and state income and employment tax withholding obligations that arise at the time the Deferred Stock becomes free of all restrictions. The designated percentage shall be equal to the income and employment tax withholding rate in effect at the time under federal and applicable state laws.

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(e) The Committee may provide one or more Participants subject to the mandatory cash payment with an election to receive an additional percentage of the total value of the Deferred Stock in the form of a cash payment in lieu of the issuance of Deferred Stock. The additional percentage shall not exceed the difference between fifty percent (50%) and the designated percentage cash payment.

(f) The Committee may impose such further terms and conditions on partial cash payments with respect to Deferred Stock as it deems appropriate.

9.3 A Participant may elect to further defer receipt of Deferred Stock for a specified period or until a specified event (the "Elective Deferral Period"), subject in each case to the Committee's approval and to such terms as are determined by the Committee. Subject to any exceptions adopted by the Committee, such election must generally be made at least twelve (12) months prior to completion of the Deferral Period for the Deferred Stock Award in question (or for the applicable installment of such an Award).

9.4 Each Award shall be confirmed by, and subject to the terms of, a Deferred Stock Award Agreement.

9.5 In order to better ensure that the Award actually reflects the performance of the Company and the service of the Participant, the Committee may provide, in its sole discretion, for a tandem performance-based or other Award designed to guarantee a minimum value, payable in cash or Stock to the recipient of a Deferred Stock Award, subject to such performance, future service, deferral and other terms and conditions as may be specified by the Committee.

### ARTICLE X

#### STOCK AWARDS

10.1 A Stock Award shall be granted only in payment of compensation that has been earned or as compensation to be earned, including, without limitation, compensation awarded concurrently with or prior to the grant of the Stock Award.

10.2 For the purposes of this Plan, in determining the value of a Stock Award, all shares of Stock subject to such Stock Award shall be valued at not less than one hundred percent (100%) of the Fair Market Value of such shares of Stock on the date such Stock Award is granted, regardless of whether or when such shares of Stock are issued or transferred to the Participant and whether or not such shares of Stock are subject to restrictions which affect their value.

10.3 Shares of Stock subject to a Stock Award may be issued or transferred to the Participant at the time the Stock Award is granted, or at any time subsequent thereto, or in installments from time to time, as the Committee shall determine. If any such issuance or transfer shall not be made to the Participant at the time the Stock Award is granted, the Committee may provide for payment to such Participant, either in cash or shares of Stock, from time to time or at the time or times such shares of Stock shall be issued or transferred to such Participant, of amounts not exceeding the dividends which would have been payable to such Participant in respect of such shares of Stock (as adjusted under Section 3.11) if such shares of Stock had been issued or transferred to such Participant at the time such Stock Award was granted. Any issuance payable in shares of Stock under the terms of a Stock Award, at the discretion of the Committee, may be paid in cash on each date on which delivery of shares of Stock would otherwise have been made, in an amount equal to the Fair Market Value on such date of the shares of Stock which would otherwise have been delivered.

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10.4 A Stock Award shall be subject to such terms and conditions, including, without limitation, restrictions on the sale or other disposition of the Stock Award or of the shares of Stock issued or transferred pursuant to such Stock Award, as the Committee shall determine; provided, however, that upon the issuance or transfer of shares pursuant to a Stock Award, the Participant, with respect to such shares of Stock, shall be and become a shareholder of the Company fully entitled to receive dividends, to vote to the extent, if any, such shares possess voting rights and to exercise all other rights of a shareholder except to the extent otherwise provided in the Stock Award. Each Stock Award shall be evidenced by a written Award Agreement in such form as the Committee shall determine.

## **ARTICLE XI**

### **PERFORMANCE SHARES**

11.1 Awards of Performance Shares may be made to certain Participants as an incentive for the performance of future services that will contribute materially to the successful operation of the Company. Awards of Performance Shares may be made either alone, in addition to or in tandem with other Awards granted under the Plan and/or cash payments made outside of the Plan.

11.2 With respect to Awards of Performance Shares, which may be issued for no consideration or such minimum consideration as is required by applicable law, the Committee shall:

- (a) determine and designate from time to time those Participants to whom Awards of Performance Shares are to be made;
  - (b) determine the performance period (the "Performance Period") and/or performance objectives (the "Performance Objectives") applicable to such Awards;
  - (c) determine the form of settlement of a Performance Share; and
  - (d) generally determine the terms and conditions of each such Award. At any date, each Performance Share shall have a value equal to the Fair Market Value, determined as set forth in Section 2.15.
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11.3 Performance Periods may overlap, and Participants may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

11.4 The Committee shall determine the Performance Objectives of Awards of Performance Shares. Performance Objectives may vary from Participant to Participant and between Awards and shall be based upon such performance criteria or combination of factors as the Committee may deem appropriate, including for example, but not limited to, minimum earnings per share or return on equity. If during the course of a Performance Period there shall occur significant events which the Committee expects to have a substantial effect on the applicable Performance Objectives during such period, the Committee may revise such Performance Objectives.

11.5 The Committee shall determine for each Participant the number of Performance Shares which shall be paid to the Participant if the applicable Performance Objectives are exceeded or met in whole or in part.

11.6 If a Participant terminates service with the Company during a Performance Period because of death, Disability, Retirement or under other circumstances in which the Committee in its discretion finds that a waiver would be appropriate, that Participant, as determined by the Committee, may be entitled to a payment of Performance Shares at the end of the Performance Period based upon the extent to which the Performance Objectives were satisfied at the end of such period and pro rated for the portion of the Performance Period during which the Participant was employed by the Company; provided, however, the Committee may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Committee deems appropriate or desirable. If a Participant terminates service with the Company during a Performance Period for any other reason, then such Participant shall not be entitled to any payment with respect to that Performance Period unless the Committee shall otherwise determine.

11.7 Each Award of a Performance Share shall be paid in whole shares of Stock, or cash, or a combination of Stock and cash as the Committee shall determine, with payment to be made as soon as practicable after the end of the relevant Performance Period.

11.8 The Committee shall have the authority to approve requests by Participants to defer payment of Performance Shares on terms and conditions approved by the Committee and set forth in a written Award Agreement between the Participant and the Company entered into in advance of the time of receipt or constructive receipt of payment by the Participant.

### ARTICLE XII

#### OTHER STOCK-BASED AWARDS

12.1 Other awards of Stock and other awards that are valued in whole or in part by reference to, or are otherwise based on, Stock ("Other Stock-Based Awards"), including, without limitation, convertible preferred stock, convertible debentures, exchangeable securities, phantom stock and Stock awards or options valued by reference to book value or performance, may be granted either alone or in addition to or in tandem with Stock Options, Stock Rights, Restricted Stock, Deferred Stock or Stock Awards granted under the Plan and/or cash awards made outside of the Plan. Subject to the provisions of the Plan, the Committee shall have authority to determine the Eligible Participants to whom and the time or times at which such Awards shall be made, the number of shares of Stock subject to such Awards, and all other conditions of the Awards. The Committee also may provide for the grant of shares of Stock upon the completion of a specified Performance Period. The provisions of Other Stock-Based Awards need not be the same with respect to each recipient.

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12.2 Other Stock-Based Awards made pursuant to this Article XII shall be subject to the following terms and conditions:

(a) Subject to the provisions of this Plan and the Award Agreement, shares of Stock subject to Awards made under this Article XII may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the shares are issued, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

(b) Subject to the provisions of this Plan and the Award Agreement and unless otherwise determined by the Committee at the time of the Award, the recipient of an Award under this Article XII shall be entitled to receive, currently or on a deferred basis, interest or dividends or interest or dividend equivalents with respect to the number of shares covered by the Award, as determined at the time of the Award by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional Stock or otherwise reinvested.

(c) Any Award under this Article XII and any Stock covered by any such Award shall vest or be forfeited to the extent so provided in the Award Agreement, as determined by the Committee, in its sole discretion.

(d) Upon the Participant's Retirement, Disability or death, or in cases of special circumstances, the Committee may, in its sole discretion, waive in whole or in part any or all of the remaining limitations imposed hereunder (if any) with respect to any or all of an Award under this Article XII.

(e) Each Award under this Article XII shall be confirmed by, and subject to the terms of, an Award Agreement.

(f) Stock (including securities convertible into Stock) issued on a bonus basis under this Article XII may be issued for no cash consideration.

12.3 Other Stock-Based Awards may include a phantom stock Award, which is subject to the following terms and conditions:

(a) The Committee shall select the Eligible Participants who may receive phantom stock Awards. The Eligible Participant shall be awarded a phantom stock unit, which shall be the equivalent to a share of Stock.

(b) Under an Award of phantom stock, payment shall be made on the dates or dates as specified by the Committee or as stated in the Award Agreement and phantom stock Awards may be settled in cash, Stock, or some combination thereof.

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(c) The Committee shall determine such other terms and conditions of each Award as it deems necessary in its sole discretion.

### ARTICLE XIII

#### ACCELERATION EVENTS

13.1 For the purposes of the Plan, an Acceleration Event shall occur in the event of a "Change in Control".

13.2 A "Change in Control" shall be deemed to have occurred if:

(a) Any "Person" as defined in Section 3(a)(9) of the Act, including a "group" (as that term is used in Sections 13(d)(3) and 14(d)(2) of the Act), but excluding the Company and any employee benefit plan sponsored or maintained by the Company and (including any trustee of such plan acting as trustee) who:

(i) makes a tender or exchange offer for any shares of the Company's Stock (as defined below) pursuant to which any shares of the Company's Stock are purchased (an "Offer"); or

(ii) together with its "affiliates" and "associates" (as those terms are defined in Rule 12b-2 under the Act) becomes the "Beneficial Owner" (within the meaning of Rule 13d-3 under the Act) of at least fifty percent (50%) of the Company's Stock (an "Acquisition");

(b) The shareholders of the Company approve a definitive agreement or plan (i) to merge or consolidate the Company with or into another Company and (x) the Company shall not be the surviving corporation or (y) the Company shall be the surviving corporation and in connection therewith, all or part of the outstanding stock shall be changed into or exchanged for stock or other securities of any other Person or cash or any other property, (ii) to sell or otherwise dispose of 50% or more of its assets, or (iii) to liquidate the Company;

(c) The Company shall be a party to a statutory share exchange with any other Person after which the Company is a subsidiary of any other Person; or

(d) When, as a result of, or in connection with, any tender or exchange offer, merger or other business combination, sale of assets or contested election, or any combination of the foregoing, the individuals who, prior to such transaction, constitute the Board (the "Incumbent Directors") cease for any reason other than death to constitute at least a majority thereof.

13.3 Upon the occurrence of an Acceleration Event, the Committee may, in its discretion, declare that all then outstanding Performance Shares with respect to which the applicable Performance Period has not been completed shall be paid as soon as practicable as follows:

(a) all Performance Objectives applicable to the Award of Performance Shares shall be deemed to have been satisfied to the extent necessary to result in payment of one hundred percent (100%) of the Performance Shares covered by the Award; and

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(b) the applicable Performance Period shall be deemed to have ended on the date of the Acceleration Event;

(c) the payment to the Participant shall be the amount determined either by the Committee, in its sole discretion, or in the manner stated in the Award Agreement. This amount shall then be multiplied by a fraction, the numerator of which is the number of full calendar months of the applicable Performance Period that have elapsed prior to the date of the Acceleration Event, and the denominator of which is the total number of months in the original Performance Period; and

(d) upon the making of any such payment, the Award Agreement as to which it relates shall be deemed canceled and of no further force and effect.

13.4 Upon the occurrence of an Acceleration Event, the Committee, in its discretion, may declare that 50% of all then outstanding Stock Options not previously exercisable and vested as immediately exercisable and fully vested, in whole or in part. Notwithstanding the foregoing sentence, the percentage of outstanding Stock Options which may become immediately exercisable and fully vested upon the Acceleration Event may, in the Committee's discretion, be higher or lower than 50%.

13.5 Upon the occurrence of an Acceleration Event, the Committee, in its discretion, may declare the restrictions applicable to Awards of Restricted Stock, Deferred Stock or Other Stock- Based Awards to have lapsed, in which case the Company shall remove all restrictive legends and stop-transfer orders applicable to the certificates for such shares of Stock, and deliver such certificates to the Participants in whose names they are registered.

13.6 The value of all outstanding Stock Option, Stock Rights, Restricted Stock, Deferred Stock, Performance Shares, Stock Awards and Other Stock-Based Awards, in each case to the extent vested, shall, unless otherwise determined by the Committee in its sole discretion at or after grant but prior to any Change in Control, be cashed out on the basis of the "Change in Control Price," as defined in Section 13.7 as of the date such Change in Control is determined to have occurred or such other date as the Committee may determine prior to the Change in Control.

13.7 For purposes of Section 13.7, "Change in Control Price" means the highest price per share of Stock paid in any sale reported on a national exchange or quoted on Nasdaq or the Bulletin Board, or paid or offered in any bona fide transaction related to a Potential or actual Change in Control of the Company at any time during the sixty (60) day period immediately preceding the occurrence of the Change in Control, in each case as determined by the Committee except that, in the case of Incentive Stock Options and Stock Appreciation Rights (or Limited Stock Appreciation Rights) relating to such Incentive Stock Options, such price shall be based only on transactions reported for the date on which the optionee exercises such Stock Appreciation Rights (or Limited Stock Appreciation Rights).

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**ARTICLE XIV**

**AMENDMENT AND TERMINATION**

14.1 The Board, upon recommendation of the Committee, or otherwise, at any time and from time to time, may amend or terminate the Plan as may be necessary or desirable to implement or discontinue this Plan or any provision thereof. No amendment, without approval by the Company's shareholders, shall:

- (a) alter the group of persons eligible to participate in the Plan;
- (b) except as provided in Sections 3.6 and 3.11, increase the maximum number of shares of Stock or Stock Options or Stock Rights which are available for Awards under the Plan or increase the maximum number of shares with respect to which Stock Options or Stock Rights may be granted to any employee under the Plan;
- (c) extend the period during which Incentive Stock Option Awards may be granted beyond November 5, 2014
- (d) limit or restrict the powers of the Board and the Committee with respect to the administration of this Plan; or
- (e) change any of the provisions of this Article XIV.

14.2 No amendment to or discontinuance of this Plan or any provision thereof by the Board or the shareholders of the Company shall, without the written consent of the Participant, adversely affect, as shall be determined by the Committee, any Award theretofore granted to such Participant under this Plan; provided, however, the Committee retains the right and power to:

- (a) annul any Award if the Participant competes against the Company or any Subsidiary or is terminated for cause as determined by the Committee;
- (b) provide for the forfeiture of shares of Stock or other gain under an Award as determined by the Committee for competing against the Company or any Subsidiary; and
- (c) convert any outstanding Incentive Stock Option to a Nonqualified Stock Option.

14.3 If an Acceleration Event has occurred, no amendment or termination shall impair the rights of any person with respect to an outstanding Award as provided in Article XIII.

**ARTICLE XV**

**MISCELLANEOUS PROVISIONS**

15.1 Nothing in the Plan or any Award granted hereunder shall confer upon any Participant any right to continue in the employ of the Company (or to serve as a director thereof) or interfere in any way with the right of the Company to terminate his or her employment at any time. Unless specifically provided otherwise, no Award granted under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of the Company or its Subsidiaries for the benefit of its employees unless the Company shall determine otherwise. No Participant shall have any claim to an Award until it is actually granted under the Plan. To the extent that any person acquires a right to receive payments from the Company under the Plan, such right shall, except as otherwise provided by the Committee, be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts, except as provided in Article VIII with respect to Restricted Stock and except as otherwise provided by the Committee.

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15.2 The Company may make such provisions and take such steps as it may deem necessary or appropriate for the withholding of any taxes which the Company or any Subsidiary is required by any law or regulation of any governmental authority, whether federal, state or local, domestic or foreign, to withhold in connection with any Stock Option or the exercise thereof, any Stock Right or the exercise thereof, or in connection with any other type of equity-based compensation provided hereunder or the exercise thereof, including, but not limited to, the withholding of payment of all or any portion of such Award or another Award under this Plan until the Participant reimburses the Company for the amount the Company is required to withhold with respect to such taxes, or canceling any portion of such Award or another Award under this Plan in an amount sufficient to reimburse itself for the amount it is required to so withhold, or selling any property contingently credited by the Company for the purpose of paying such Award or another Award under this Plan, in order to withhold or reimburse itself for the amount it is required to so withhold.

15.3 The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required. Any provision herein relating to compliance with Rule 16b-3 under the Act shall not be applicable with respect to participation in the Plan by Participants who are not subject to Section 16(b) of the Act.

15.4 The terms of the Plan shall be binding upon the Company, its Subsidiaries, and their successors and assigns.

15.5 Neither a Stock Option, Stock Right, nor any other type of equity-based compensation provided for hereunder, shall be transferable except as provided for herein. If any Participant makes such a transfer in violation hereof, any obligation of the Company shall forthwith terminate.

15.6 This Plan and all actions taken hereunder shall be governed by the laws of the State of Florida, except to the extent preempted by ERISA.

15.7 The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver shares of Stock or payments in lieu of or with respect to Awards hereunder; provided, however, that, unless the Committee otherwise determines with the consent of the affected Participant, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

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15.8 Each Participant exercising an Award hereunder agrees to give the Committee prompt written notice of any election made by such Participant under Section 83(b) of the Code, or any similar provision thereof.

15.9 If any provision of this Plan or an Award Agreement is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award Agreement under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award Agreement, it shall be stricken and the remainder of the Plan or the Award Agreement shall remain in full force and effect.

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METROPOLITAN HEALTH NETWORKS, INC.

By:

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Authorized Officer

ATTEST:

(Corporate Seal)

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Secretary

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