GTX CORP
Form 10-Q
May 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

X .

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from ________ to ________

Commission file number **000-53046**

GTX Corp
(Exact name of registrant as specified in its charter)

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

117 W. 9th Street, Suite 1214, Los Angeles, CA, 90015
(Address of principal executive offices) (Zip Code)

(213) 489-3019
(Registrant's telephone number, including area code)

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

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

Yes X . No .

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

Yes X . No .

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

Large accelerated filer .	Accelerated filer .
Non-accelerated filer . (Do not check if a smaller reporting company)	Smaller reporting company X .

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

Yes . No X .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 388,806,685 common shares issued and outstanding as of May 16, 2016.

GTX CORP AND SUBSIDIARIES

For the quarter ended March 31, 2016

FORM 10-Q

PART I

ITEM 1. FINANCIAL STATEMENTS

GTX CORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,140	$ 7,868
Accounts receivable, net	29,551	40,984
Inventory	98,946	57,643
Other current assets	65,444	55,449
Total current assets	232,081	161,944
Property and equipment, net	131,792	131,792
Intangible assets	15,000	15,000
Total assets	$ 378,873	$ 308,736
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable and accrued expenses	$ 432,003	$ 438,960
Accrued expenses - related parties	363,801	291,451
Deferred revenues	2,775	2,775
Convertible promissory note, net of discount	692,620	556,250
Total current liabilities	1,491,199	1,289,436
Long-term convertible debt	200,000	200,000
Total liabilities	1,691,199	1,489,436
Commitments and contingencies		
Stockholders deficit:		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	-	-
	371,852	355,431

Common stock, $0.001 par value; 2,071,000,000 shares authorized; 371,852,873 and 355,431,281 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively		
Additional paid-in capital	17,136,911	16,982,932
Accumulated deficit	(18,821,089)	(18,519,063)
Total stockholders deficit	(1,312,326)	(1,180,700)
Total liabilities and stockholders deficit	$ 378,873	$ 308,736

See accompanying notes to consolidated financial statements.

GTX CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2016	2015
Revenues	$ 86,449	$ 144,212
Cost of goods sold	40,831	102,349
Gross margin	45,618	41,863
Operating expenses		
Wages and professional fees	274,043	261,530
General and administrative	59,958	56,099
Total operating expenses	334,001	317,629
Loss from operations	(288,383)	(275,766)
Other income/(expenses)		
Loss on extinguishment of debt	-	(32,058)
Derivative income (expense), net	-	13,490
Interest expense	(13,643)	(17,488)
Total other income/(expenses)	(13,643)	(36,056)
Net loss	$ (302,026)	$ (311,822)
Weighted average number of common shares outstanding - basic and diluted	357,642,741	281,997,720
Net loss per common share - basic and diluted	$ (0.00)	$ (0.00)

See accompanying notes to consolidated financial statements.

GTX CORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net loss	$ (302,026)	$ (311,822)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	-	759
Stock-based compensation	140,400	124,500
Loss on extinguishment of debt	-	32,058
Derivative (income) expense, net	-	(13,490)
Amortization of debt discount	15,370	17,488
Changes in operating assets and liabilities:		
Accounts receivable	11,433	12,758
Inventory	(41,303)	(20,140)
Other current and non-current assets	(9,995)	1,180
Accounts payable and accrued expenses	(6,957)	1,328
Accrued expenses - related parties	72,350	5,100
Deferred revenues	-	(56,970)
Net cash used in operating activities	(120,728)	(207,251)
Cash flows from investing activities		
Purchase of property and equipment	-	(2,085)
Net cash used in investing activities	-	(2,085)
Cash flows from financing activities		
Proceeds from convertible promissory notes	162,000	225,000
Payments on convertible promissory notes	(11,000)	-
Net cash provided by financing activities	151,000	225,000
Net change in cash and cash equivalents	30,272	15,664
Cash and cash equivalents, beginning of period	7,868	12,168
Cash and cash equivalents, end of period	$ 38,140	$ 27,832
Supplemental disclosure of cash flow information:		
Income taxes paid	$ -	$ -
Interest paid	$ -	$ -

Supplementary disclosure of noncash financing activities:				
Debt discount on convertible promissory notes	$	23,000	$	-
Issuance of common stock for conversion of debt	$	30,000	$	225,232

See accompanying notes to consolidated financial statements.

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GTX CORP AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(Unaudited)

1.

ORGANIZATION AND BASIS OF PRESENTATION

During the periods covered by these financial statements, GTX Corp and subsidiaries (the Company or GTX) were engaged in businesses that design, develop and sell various interrelated and complementary products and services in the Personal Location Wearable Technology marketplace. GTX owns 100% of the issued and outstanding capital stock of Global Trek Xploration (GTX California) and LOCiMOBILE, Inc. Through February 2015, GTX also owned 100% of the issued and outstanding capital stock of Code Amber News Service, Inc. (CANS), which it dissolved in February 2015.

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

LOCiMOBILE, Inc., has been at the forefront of Smartphone application (App) development since 2008. With a suite of mobile applications that turn the iPhone, iPad, Android and other GPS enabled handsets into a tracking device which can be tracked from handset to handset or through our tracking portal or on any connected device with internet access. LOCiMOBILE has launched numerous Apps across multi mobile device operating systems and continues to launch consumer and enterprise apps.

Basis of Presentation

The accompanying unaudited consolidated financial statements of GTX have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and applicable regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of financial position and results of operations have been included. Our operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2015, which are included in our Annual Report on Form 10-K.

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

Going Concern

The consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred net losses of $302,026 and $311,822 for the three months ended March 31, 2016 and 2015, respectively, has incurred losses since inception resulting in an accumulated deficit of $18,821,089 as of March 31, 2016, and has negative working capital of $1,259,118 as of March 31, 2016. The Company anticipates further losses in the development of its business.

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

2.

SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Fair Value Estimates

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

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

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

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

The carrying values for cash and cash equivalents, accounts receivable, other current assets, accounts payable and accrued liabilities approximate their fair value due to their short maturities.

Derivative Instruments

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

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

Reclassifications

For comparability, certain prior period amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2016. These reclassifications have no impact on net loss.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board has recently issued accounting pronouncements, most of which represent technical corrections to the accounting literature or application to specific industries, which are not expected to have a material impact on the Company s financial position, results of operations or cash flows. We do not believe that the adoption of any recently issued accounting standards will have a material effect on our financial position and results of operations.

3.

RELATED PARTY TRANSACTIONS

In order to preserve cash for other working capital needs, various officers and members of management have agreed to accrue, and defer payment of, portions of their salaries since fiscal 2011. As of March 31, 2016 and December 31, 2015, the Company owed $363,801 and $291,451, respectively for such accrued wages.

4.

DEBT

The following table summarizes the components of our short-term borrowings:

	March 31, 2016	December 31, 2015
Q4 2014 Convertible Notes	$ 126,000	$ 126,000
Q1 2015 Convertible Notes	147,000	150,000
Q2 2015 Convertible Notes	200,000	200,000
Q3 2015 Convertible Notes	51,000	84,000
Q4 2015 Convertible Notes	200,000	196,250
Q1 2016 Convertible Notes	184,000	-
Total short-term convertible notes	908,000	756,250
Less: Debt discount	15,380	-
Convertible notes, net of debt discount	892,620	756,250
Short-term borrowings	$ 692,620	$ 556,250
Long-term borrowings	$ 200,000	$ 200,000

Short-term convertible notes

Convertible Notes

On January 15, 2016, we received an additional installment of $15,000 from an accredited investor relating to the 7.5% Convertible Debenture entered into on October 9, 2015.

On January 27, 2016, pursuant to a Note Purchase Agreement with an unaffiliated third party (the Investor) relating to the sale of an unsecured convertible promissory note and warrant. The third party purchased an additional unit for $25,000 and a principal balance of $30,000. The convertible promissory note is divided into units (Units), each in the principal amount of $30,000, with equal installments of $1,000 due sequentially every week until $30,000 has been repaid and warrants to purchase 1,250,000 shares of common stock at an exercise price of $0.015 per share. The convertible promissory notes are due on November 25, 2016, subject to certain conditions and restrictions set forth in the notes. The convertible promissory note has a relative fair value of $23,899 and the warrants has a relative fair value of $6,101 at the date of issuance determined using the Black-Scholes option-pricing model. The assumptions used to calculate the fair market value are as follows: (i) risk-free interest rate of 0.88% (ii) estimated volatility of 171% (iii) dividend yield of 0.00% and (iv) expected life of the warrants of 25 months. The convertible note is convertible into shares of common stock based on the volume weighted average of the closing price per share for the 20 consecutive trading days prior to the conversion date if there is any outstanding principal balance due after the expiration due date. As of March 31, 2016, $1,000 cash installment payments have been made toward lowering the outstanding principal balance.

On February 5, 2016 an accredited investor with a convertible note of $30,000, converted their outstanding principal balance into 2,250,000 shares of common stock at a conversion price of $0.015.