

GTX CORP  
Form 10-K  
April 10, 2014

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K**

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(Mark One)

**Q ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2013

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

Commission File Number 000-53046

**GTX Corp**

(Exact name of registrant as specified in its charter)

**Nevada**

(State of incorporation)

**98-0493446**

(I.R.S. Employer Identification No.)

**117 W 9<sup>th</sup> Street; Suite 1214, Los Angeles, CA 90015**

(Address of principal executive offices)

**213-489-3019**

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of each class registered: Name of each exchange on which registered:

None

None

Securities registered under Section 12(g) of the Act:

Common Stock, Par Value \$0.001

(Title of class)

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Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and, will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is 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  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 Act). Yes  No

The aggregate market value of the common stock held by non-affiliates as of June 30, 2013 was \$893,168, based on the closing price of the registrant's common stock reported by the OTCQB market on June 28, 2013. The determination of affiliate status is not necessarily a conclusive determination for other purposes.

The outstanding number of shares of common stock as of April 9, 2014 was 142,002,593.

Documents incorporated by reference: None

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## FORWARD LOOKING STATEMENTS

Information in this report contains “forward looking statements” which may be identified by the use of forward-looking terminology, such as “may”, “shall”, “will”, “could”, “expect”, “estimate”, “anticipate”, “predict”, “probable”, “possible”, “should”, or similar terms, variations of those terms or the negative of those terms. The forward-looking statements specified in the following information have been compiled by our management on the basis of assumptions made by management and considered by management to be reasonable. Our future operating results, however, are impossible to predict and no representation, guaranty, or warranty is to be inferred from those forward-looking statements.

The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives requires the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and we assume no obligation to update any such forward-looking statements.

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

Unless otherwise noted, the terms "GTX Corp", the "Company", "we", "us", and "our" refer to the ongoing business operations of GTX Corp and our wholly-owned subsidiaries, Global Trek Xploration, LOCiMOBILE, Inc., and Code Amber News Service, Inc.

## OVERVIEW OF THE BUSINESS

GTX Corp utilizes miniaturized, low power consumption technology in its global positioning system (“GPS”) and cellular location platform of products and services that answer the “where is” question. For subscribers who want to know where their grandmother, child, spouse, pet, bike, motorcycle or any other high valued assets are located, GTX Corp has a solution that answers that question and enables subscribers to track their whereabouts in real time. The ability to track people or property is available through our complete end to end, customizable GPS/GPRS transceiver module, wireless connectivity gateway, smartphone mobile applications (“Apps”), middleware, and viewing portal. We provide various interrelated and complimentary products and services in the Personal Location Services marketplace and integrates two-way GPS tracking technologies that seamlessly integrate with consumer products and enterprise applications. Utilizing its growing global distribution channel network, the Company provides personal location solutions through hardware devices, software platform licensing and smartphone applications.

Since the inception of our business, GTX Corp has developed and commercially released several products, including our award winning, patented GPS tracking smart shoe, a hosted and scalable backend monitoring platform, more than 20 smartphone and tablet Apps and a digital medical record alerttag. The Company has five current and proposed revenue streams comprising of licensing, product sales, recurring subscriptions, advertising, and professional services. These core products and services are supported by GTX’s IP portfolio of issued patents, patents pending, registered trademarks, copyrights, URLs and a library of custom hardware and software ready for license and distribution to the global community.

Our goal is to differentiate ourselves from other providers of personal location solutions through our “white label” licensing model, innovative products, our brand, media and social media recognition, our renowned strategic partners, our growing international channels of distribution, our technology platform and our intellectual property portfolio. Our plan is to integrate customizable tracking solutions that can provide functionality and personalized interfaces

offering consumers and businesses a broad array of localized personal location solutions.

Our operations are currently conducted through the following three wholly-owned subsidiaries that operate in various interrelated sectors of the emerging Location-Based Services and Proximity Marketing industries:

**Global Trek Xploration (“GTX California”)**

GTX California focuses on hardware, software, connectivity, design and development of GPS monitoring products by offering a GPS and cellular location platform that enables subscribers to track in real time the whereabouts of people, pets or high valued assets. Our GPS device, which consists of a miniature transceiver, antenna, circuitry and battery, can be customized and integrated into numerous products whose location and movement can be monitored in real time over the Internet through our 24x7 location data center (“Location Data Center”) tracking portal or on a web enabled cellular telephone. The Location Data Center tracking portal is fully scalable and has been licensed to several partners both in the U.S. and internationally. It is a secure platform equipped with a database, application-programming interface (API) for custom integration and communication SMS gateway software and hardware. Subscriber internet communications are routed through GTX California’s proprietary, fault-tolerant, carrier-class, and application-specific interface software. Our Location Data Center services are also offered to non-GTX California products and hardware systems (i.e. handsets and personal electronics) of major electronics manufacturers through the offer and sale of exclusive licenses (either geographical, regional or product categories).

Our objective is to be a leading provider of wireless location services through the convergence of state-of-the-art enhanced global positioning, wireless communications and other technologies that empower people and businesses with the ability to locate other people or property, whenever and wherever they choose. Markets that GTX California is currently in, or is exploring, include:

- Families with members who have Alzheimer’s disease and developmentally challenged adults;
  - Elder care support and e-health applications;
- Adults and children with cognitive disorders such as Autism and TBI;
- High value asset tracking and location capability of bikes, motorcycles, containers, luggage, and other assets that require monitoring or tracking;
  - Mobile work force, and
  - Field workers, first responders and law enforcement.

## **Technology**

Our current location tracking product design utilizes quad-band GSM telephony chip sets and can be adapted to the prevalent wireless technologies, be they 3G or 4G. Our module's GPS electronics, utilizing advanced "weak signal server-enhanced" technology will provide rapid location identification.

Each module is programmed with a unique identification number and uses standard cellular frequencies to communicate its location. The module is also programmed with a unique subscriber identification number allowing each owner to subscribe to different services.

GTX California has developed a "carrier-class" architecture and facility to create and manage the proprietary Location Data Center (reliable to 99.999%). The local service center runs on redundant off-the-shelf servers. This enables cost-efficient expansion, without the need for application code changes.

The products are supported by the existing infrastructure for the worldwide cell network that provides coverage throughout the United States, Canada, Mexico and numerous other countries that operate on the global GSM Wireless networks. In addition, the personal locators will have the ability to roam seamlessly on the networks of 290 partners in over 210 countries.

As part of the our expansion strategy/roadmap, the Company is currently exploring the development of a CDMA module, that should open up new carrier relationships and territories that are predominantly CDMA, such as Japan and Korea.

## **Strategic Relationships and Licensing Arrangements**

The goal of GTX California is to offer location based hardware and/or its data monitoring platform to third parties for the sale and distribution of location based products/services in various markets. We begin the process by entering into a platform test agreement with a potential partner with the intent to transition into a long term relationship. By establishing and building partnerships, through licensing agreements, OEM, and carrier relationships, we facilitate efficient entry into new markets leveraging each company's core competencies. We enhance the value of our distribution channels by aligning our sales and marketing efforts with strategic partners, including co-branding, distribution and marketing with telecommunication companies, wireless carriers, national retailers and major consumer branded companies.

GTX California has the ability to customize its products to different form factors for the specific needs of its branded partners. To date, the Company has created three custom solutions: 1) the monitoring of seniors by installing the GPS device into specially designed shoes; 2) the monitoring of children by installing the GPS device into specially designed shoes and backpacks; and 3) the monitoring of various high value assets.

In 2010, GTX California entered into a license agreement with Aetrex Worldwide, Inc. under which we granted Aetrex the exclusive right to embed our GPS tracking device into certain footwear products manufactured and sold solely by Aetrex (the "License Agreement"). The Navistar™ GPS Shoes monitor the locations of "wandering" seniors afflicted with dementia. In order to activate the tracking features of the Navistar GPS Shoe, the user of the shoes purchases a monthly cellular connection plan from GTX California. The Company is responsible for the cellular/GPS activation, for arranging and providing cellular connection services and for collecting the monthly fees. We receive and retain the recurring monthly monitoring fees received from users of the Aetrex embed tracking footwear, although we have agreed to remit a varying portion of those monthly fees to Aetrex. Although the GPS Shoe received significant interest from various eldercare organizations and was prominently featured in the media, sales to date of the Navistar GPS Shoe have not met our expectation or the expectations of Aetrex. Accordingly, effective March 18, 2014, we did not renew our license agreement with Aetrex, and Aetrex has ceased actively marketing or selling this first generation line of GPS Shoes.

During 2013, the Company entered into an exclusive three-year contract with Atlantic Footcare, Inc., ("Atlantic") to develop and launch the GPS SmartSole™ (the "SmartSole"), a product designed to monitor the location of the wearer of shoes that are outfitted with the SmartSole. Atlantic is the Company's exclusive manufacturer of the new shoe insole to be used with our embedded GPS devices. The patented SmartSole fits easily into most shoes providing the user even more opportunities to use the tracking device in comparison to that provided with the Navistar GPS Shoes. The SmartSoles are designed to bring peace of mind to family members and those caring for the millions of people suffering from memory impairment and chronic wandering. A miniaturized GPS tracking chip is embedded in the insoles and powered by a rechargeable battery that lasts up to 5 days on a single inductive charge (50% longer than the battery life in the Navistar GPS Shoes). The inductive charger also makes the SmartSole significantly easier to use than the GPS Shoe. The SmartSole sends a signal to the central monitoring website showing the wearer's exact location using a combination of satellite and cellular technology. Once the GPS tracking account is set up, the location of the SmartSole can be monitored from a computer, tablet or smartphone. As of the date of this Annual Report, the GPS SmartSole™ is still in its testing phase both in the US and internationally. The product is expected to be commercially released beginning in June 2014.

Designed for less chronic wanderers and as an introduction to our other footwear-based location monitoring products, in March 2014 we released the Bluetooth Low Energy ("BLE") SmartSoles, a footwear system designed to monitor when the wearer enters or leaves a room or building. The BLE SmartSoles were specifically designed based on the needs of assisted living facilities and the care giving communities. Similar to the SmartSole, the BLE SmartSole looks and feels like a regular insole, may be placed in most shoes and trimmed to fit. The BLE SmartSole is embedded with a miniaturized BLE chip that reports when the user crosses a virtual perimeter. The BLE SmartSole has a battery life of over one year, alleviating the caregiver from the worry of recharging or replacing batteries. The technology is customizable for personal home use or commercial assisted living facilities. The caregiver is alerted via email or text when the wearer leaves the area.

During July 2013, the Company converted its platform test agreement with AttachaPack LLC into an exclusive licensing agreement for the GPS Tracking platform and to allow the miniaturized two-way GPS with SOS and emergency voice capabilities to be embedded in AttachaPack™ backpacks. AttachaPack™ offers a range of innovative backpacks that feature interchangeable pockets in hundreds of patterns so kids can easily customize and create their own backpack.

On February 15, 2013 and June 26, 2013, the Company entered into two separate one-year advisory service agreements with Brewer Sports International, LLC (“BSI”) (the “Advisory Agreements”). The goal of the Advisory Agreements is to increase our brand and market awareness in an effort to increase sales and expand our global reach, including integration of our GPS Smart Shoe technology with BSI’s Coalition for Concussion Treatment campaign. BSI will utilize its extensive network to facilitate outreach efforts with synergetic companies and partnering organizations as well as secure product endorsements and global exposure for our product line. BSI has included the Company in its Traumatic Brain Injury awareness conference and expand its social media awareness programs relative to this issue and the products and services offered by the Company. As compensation for such services, the Company has granted BSI 5,500,000 shares of common stock valued at \$145,000.



**LOCiMOBILE, Inc.,**

LOCiMOBILE, Inc., our mobile application subsidiary, developed and owns LOCiMOBILE®, a suite of mobile tracking applications (“Apps”) that turn the latest Smartphones and tablets such as iPhone®, iPad, Blackberry, Google Android and other GPS enabled handsets into a tracking and location based social networking device which can then be viewed through our Location Data Center tracking portal or on any connected device with internet access. As of the date of this Annual Report, our 20+ Apps have experienced over 1.6 million downloads in 162 countries. Additionally, we have released our newest enterprise App, *Track My Work Force*, which allows employers to easily track and monitor employees, drivers, sales reps, and more using their Smartphone, tablet or any web enabled devices. The Company continues to rollout new and innovative products which will include a series of applications that will be geared for the enterprise user, by offering “private label” versions of our popular consumer Apps to companies looking for a more personalized and secure methods of keeping track of their employees. Our roadmap also consists of additional applications for the iPad, other tablets, TV’s, and more applications for the iPhone and Google Android operating systems, all of which are expected to contribute to our user base community, the value of our brand, and revenues from App sales, monthly subscriptions and advertising.

The LOCiMOBILE® Apps can be downloaded to the user’s smartphone from the company’s [www.locimobile.com](http://www.locimobile.com) website, the Apple iTunes online store and the Android Marketplace. Part of the future evolution of the LOCiMobile® products development may include the implementation of Cloud Architecture, which is a style of computing in which dynamically scalable and often virtualized resources are provided as a service over the Internet. This type of architecture will allow our subscribers to take location data and augment that data with other pertinent information providing a content rich solution. This will not only enhance the user experience but also create value to the viewers and subscribers. Knowing the whereabouts of a loved one, friend or co-worker has value, but knowing particulars about those whereabouts and if there are any other friends or loved ones in the area, or if there are any potential dangers in the area, increases the value of the information. For example, knowing the location of a child and then augmenting that information with the known whereabouts of registered sex offenders increases the value of the information and ultimately empowers the user. More and more people use their smart phones to text, e-mail, search the Internet or listen to music. Because these devices are becoming smarter, growing in use and numbers and are proliferating worldwide, they create the perfect long term environment for developing geo spatial, dynamic in real time solutions that interact not only with each other but with other widely adopted platforms and data bases. This in turn will create value when intersecting information with location and proximity. Seamlessly adding location and proximity to a common exchange of text messaging significantly change the dynamics of text messaging.

**Code Amber News Service, Inc. (“CANS”)**

CANS is a U.S. and Canadian syndicator of all state Amber Alerts providing website tickers and news feeds to merchants, internet service providers, affiliate partners, corporate sponsors and local, state and federal agencies, as well as, marketing and selling the patent pending electronic personal health record Code Amber Alertag. The Alertag is a product and service that provides worldwide access to critical personal information in emergency situations for persons who subscribe to the product and service. The Alertag is offered on an annual \$29.95 subscription based model, and complements the overall GTX business model of providing location based e-health technologies and services.

**GENERAL**

We maintain several Internet websites including; www.gtxcorp.com, www.locimobile.com, www.gpsshoe.com, www.gpssmartsole.com, www.codeameralertag.com and www.gpstrackingapps.com. Our annual reports, quarterly reports, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), and other information related to this Company, are available, free of charge, on our website as soon as we electronically file those documents with, or otherwise furnish them to, the Securities and Exchange Commission. The Company’s various Internet websites and the information contained therein, or connected thereto, are not, and are not intended, to be incorporated into this Annual Report on Form 10-K.

## **INTELLECTUAL PROPERTY INVESTMENT**

We have invested, and continue to invest, significantly in intellectual properties, which consist of patents, trademarks and URLs. Patents consist of apparatus patents and applications and system and method patents and applications. We have a program to file applications for and obtain patents in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We hold approximately 17 U.S. issued patents and have two foreign patents pending, the majority of which cover all aspect of the personal locator, its operating system and user interface.

In 2011, we entered into a multi-patent licensing agreement with a third-party for the rights to an additional 62 domestic and international patents. This license was entered into in order to eliminate actual or potential conflicts between our patented technologies and the licensed patents.

## **THE INDUSTRY**

Location-based services are once again central to the wireless industry. Technological challenges have been resolved with 3G and 4G network speeds now consistent with higher-speed coverage that is widely available. In our ever-mobile society, it helps to know where we are and where we are going. Same with caregivers of seniors suffering from Alzheimer’s and dementia, freight forwarding companies wanting to know where their packages, are and employers wanting to know where their field workers are. Many parents desire to have the ability to know where their children are and where they are going. Having such information is now possible with access to real-time information delivered on-demand through locator systems and technologies such as ours.

The rising need for two-way GPS and location based services is influenced by several factors, among them:

· Universal awareness and expanding penetration of GPS enabled mobile smartphones & tablets (*estimated 2 billion shipments worldwide by 2015*).

· Personal and asset security concerns affecting a greater portion of the population.

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Increasing numbers of elderly or memory impaired (*Alzheimer's, Autism, etc. 9million in U.S. and growing to 270 million worldwide*).

- Corporations needing to manage worker productivity and logistics.
- Government agencies, law enforcement and military personnel monitoring.
- Massive life style adoption of Location Based Social Networking.
- Proximity Advertising - the new standard.

## **GROWTH STRATEGY**

By approaching the marketplace with a business-to-business (B2B) and business-to-consumer (B2C) strategy through our three business units, our goal is to become one of the major providers of personal and asset location services to specific niche business channel partners and once we hit critical mass in pricing, to the mass consumer markets. The strategy is to establish licensing relationships with key industry partners who will embed our technology into their products to sell to their established customer base. Key elements of our strategy include:

Providing our Personal Locator embedded module to licensees to empower their products with two-way GPS tracking capabilities;

A mass market retail price under \$199.00 for Personal Location devices;

A monthly service fee structure, under \$20.00, having multiple convenient access points (mobile phone, land line, or via the Internet); and

Ease of use at the location interface point as well as with the device.

## **COMPETITION**

Personal location and property tracking devices of various kinds and from various vendors are increasing rapidly in the marketplace. Nevertheless, we believe this rapidly growing market acceptance of tracking solutions represents a tremendous opportunity as the intrinsic value of the tracking solutions is recognized and mass market adoption continues.

There are numerous competitors for our GPS products and our LOCiMOBILE® smart phone applications, including Location Based Technologies, Inc., Google Latitude, Foursquare, Trimble Navigation, Inc., Brick House Security and SOS Gps, Inc. Our competitors often are better financed, or have greater marketing and scientific resources than we can provide. We are also aware of a number of foreign competitors that offer personal location tracking products similar to ours, which may impact our ability to expand our products abroad. Our smart phone locator apps also compete against a number of other smart phone apps, some of which have features similar to our Apps.

In related markets, GPS devices have become widely used for automotive and marine applications where line-of-sight to GPS satellites is not a significant issue. Manufacturers such as Garmin, Navman, Magellan, TomTom, Pharos, NovAtel and DeLorne are finding a market interested in using these products for both business and leisure purposes. Location devices are gaining significant market acceptance and commercialization in part due to the use of GPS technology in devices such as chart plotters, fitness and training devices, fish finders, laptop computers, PDAs, etc.

## **GOVERNMENT REGULATION**

We are subject to federal, state and local laws and regulations applied to businesses generally as well as FCC, IC and CE wireless device regulations and controls. We believe that we are in conformity with all applicable laws in all relevant jurisdictions. We do not believe that our operations are subject to any environmental laws and regulations of the United States nor the states in which they operate.

#### OTHER LOCATION PRODUCTS

In addition to marketing our own proprietary products, we also market and sell the line of Prime devices, the GTX AVL, and the “Micro LOCi”, tracking devices that are manufactured by third party suppliers. The Prime is a compact, fully certified quad-band integrated device that provides complete GSM/GPRS functionality for mobile tracking applications, which is waterproof, shock proof and comes with an SOS button. The micro LOCi is a more compact, fully certified quad-band integrated device that provides complete GSM/GPRS functionality for mobile tracking applications. The GTX AVL is a low cost vehicle tracking device. These products are sold under our GTX brand, and they can be branded with other companies’ names. All these devices operate through, and use our middleware platform and viewing portal. These devices can be sold individually or as a complete solution including platform and wireless connectivity, providing us with product sales revenues and subsequent recurring monthly service revenues. In addition to hardware device sales, as part of our international expansion plans, we are also licensing our enterprise portal and middleware platform, which contributes to an increase in monthly subscription revenues. The Company currently has three international licensed distributors and anticipates signing on an additional five or six during 2014.

#### EMPLOYEES AND CONSULTANTS

As of December 31, 2013, the Company had four employees and over a dozen independent contractors. Any selling, marketing, technical, IT and/or software development work that is not handled by our employees is outsourced to qualified contractors and consultants as deemed necessary.

ITEM 1A:

RISK FACTORS

Investing in our common stock is highly speculative and involves a high degree of risk. Any potential investor should carefully consider the risks and uncertainties described below before purchasing any shares of our common stock. The risks described below are those we currently believe may materially affect us. If any of them occur, our business, financial condition, operating results or cash flow could be materially harmed. As a result, the trading price of our stock could decline, and you might lose all or part of your investment. Our business, financial condition and operating results, or the value of any investment you make in the stock of our company, or both, could be adversely affected by any of the factors listed and described below. These risks and uncertainties, however, are not the only ones that we face. Additional risks and uncertainties not currently known to us, or that we currently think are immaterial, may also impair our business operations or the value of your investment.

**RISKS RELATED TO OUR BUSINESS**

*We will need additional funding in the near future to continue to fund our current level of operations.*

As of December 31, 2013, we had a working capital deficit of approximately \$736,000 and an accumulated deficit of approximately \$15,436,000. In addition, for the year ended December 31, 2013, we had a loss of approximately \$1,505,000 and negative cash flow from operating activities of approximately \$345,000. Revenues generated from our current operations are not sufficient to pay our on-going operating expenses. Therefore, we will have to obtain additional funding from the sale of our securities or from strategic transactions in order to fund our current level of operations. In order to fund our working capital needs and our product development costs, in September 2013 we entered into a Securities Purchase Agreement with 112359 Factor Fund, LLC (the "Fund") which included, among other debentures, a secured convertible debenture payable in eight (8) tranches totaling \$425,000. As of April 9, 2014, the debenture has provided us with \$375,000 and will provide us with a final payment of \$50,000 in April 2014. Additionally, on July 24, 2013, we also entered into a Security Purchase Agreement (the "SPA") with Atlantic, whereby Atlantic has committed to loan the Company \$100,000 in cash, of which \$81,250 has been funded as of April 9, 2014. Aside from the Fund and Atlantic SPA, we have not identified the sources for additional financing that we may require, and we do not have commitments from third parties to provide this financing. Certain investors may be unwilling to invest in our securities since we are traded on the OTCQB market and not on a national securities exchange, particularly if there is only limited trading in our common stock on the OTCQB market at the time we seek financing. There is no assurance that sufficient funding through a financing will be available to us at acceptable terms or at all. Historically, we have raised capital through the issuance of our equity securities. However, given the risks associated with our business, the risks associated with our common stock, the worldwide financial crisis that has severely affected the capital markets, and our status as a small, unknown public company, we expect in the near future, we will have a great deal of difficulty raising capital through traditional financing sources. Therefore, we cannot guarantee that we will be able to raise capital, or if we are able to raise capital, that such capital will be in the amounts needed. Our failure to raise capital, when needed, and in sufficient amounts, will severely impact our ability to continue to develop our business as planned. In addition, if we are unable to obtain funding as, and when needed, we may have to further reduce and/or cease our future operations. Any additional funding that we obtain in an equity or convertible debt financing is likely to reduce the percentage ownership of the company held by our existing security holders.

Based on the above factors, our auditors have concluded that there is substantial doubt as to our ability to continue as a going concern.

***We have had operating losses since formation and expect to continue to incur net losses for the near term.***

Previously, we anticipated that revenues from the Navistar™ GPS Shoe that was released December 2011 would increase significantly this year and would provide the funds necessary to fund our working capital needs. However, revenues from the Navistar™ GPS Shoe have been minimal, and the license agreement for commercialization of the Navistar™ GPS Shoe has expired and not been renewed. As a result, we currently have a working capital deficit and our current and projected revenues are not sufficient to fund our anticipated operating needs. We have reported net losses of approximately \$1,505,000 and \$1,218,000 for the years ended December 31, 2013 and 2012, respectively. Unless our sales increase substantially in the near future, we anticipate that we will continue to incur net losses in the near term, and we may never be able to achieve profitability. In order to achieve profitable operations we need to significantly increase our revenues from the sales of product and licensing fees. We cannot be certain that our business will ever be successful or that we will generate significant revenues and become profitable. As a result, an investment in our company is highly speculative and no assurance can be given that our business model will be successful and, therefore, that our stockholders will realize any return on their investment or that they will not lose their entire investment.

***Our current sources of funding are limited, and any additional funding that we may obtain may be on unfavorable terms and may significantly dilute our existing shareholders.***

We currently have limited funds available from which we can fund our current and proposed operating activities. In September 2013 we entered into a secured convertible debenture payable in eight (8) tranches totaling \$425,000. As of April 9, 2014, the debenture has provided us with \$375,000 and will provide us with a final payment of \$50,000 in April 2014. Additionally, in July 2013, Atlantic committed to loan the Company \$100,000 in cash, of which \$81,250 has been loaned as of April 9, 2014. The amount of funds currently available to us under these debentures, and the amount of revenues that we currently generate, collectively are not sufficient to fund our operating expenses. As a result, unless our revenues increase significantly in the near future, we will have to obtain additional public or private equity financings or debt financings in order to continue our operations. Any additional funding that we obtain in a financing is likely to reduce the percentage ownership of the company held by our existing security-holders. The amount of this dilution may be substantial based on our current stock price, and could increase if the trading price of our common stock declines at the time of any financing from its current levels. We may also attempt to raise funds through corporate collaboration and licensing arrangements. To the extent we raise additional capital by issuing equity securities, our stockholders will experience further dilution. If we raise funds through debt financings, we may become subject to restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to relinquish some rights to our technologies or products, or grant licenses on terms that are not favorable to us. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain the needed additional funding, we will have to reduce or even totally discontinue our operations, which would have a significant negative impact on our stockholders and could result in a total loss of their investment in our stock.

Our future capital requirements, and our currently projected operating and liquidity requirements, will depend on many factors, including:

- The testing and ultimately the commercial success of the GPS SmartSole™;
- Our ongoing general and administrative expenses related to our being a reporting company;
- Market acceptance of our LOCiMOBILE® products, and the revenues generated from users of our smartphone products;
- The cost of developing and improving our products and technologies;
- The consummation of one or more licensing agreements with the parties currently considering the release of products based on our technologies; and
- The sale of devices to our international partners and the corresponding monthly subscription fees.

Funding, especially on terms acceptable to us, may not be available to meet our future capital needs because of the state of the credit and capital markets. Global market and economic conditions have been, and continue to be, disruptive and volatile. The cost of raising money in the debt and equity capital markets for smaller companies like ours has increased substantially while the availability of funds from those markets has diminished significantly. Also, low valuations and decreased appetite for equity investments, among other factors, may make the equity markets difficult to access on acceptable terms or unavailable altogether.

If adequate funds are not available, we may be required to delay, scale-back or eliminate our product enhancement and new product development programs. There can be no assurance that additional financing will be available on acceptable terms or at all, if and when required.



***Our projected revenues in 2014 rely heavily on the commercial success of new, commercially untested product, the GPS SmartSole™, that we intend to release later this year.***

Our first generation location monitoring shoe (the Navistar GPS Shoe) received significant industry and media acclaim. However, because of design and other issues that affected that product, sales of the Navistar GPS Shoe did not meet our expectations. We are now completing the development and testing of a second generation footwear product, the GPS SmartSole™, which product we expect to be commercially released later this year. While we believe that the design of the GPS SmartSole™, as well as the pricing and marketing changes, will remedy certain of the issues that affected the Navistar GPS Shoe, the GPS SmartSole™ also is a new, and untested, product. No assurance can be given that our new footwear product will be a commercial success or that the GPS SmartSole™ will generate significant revenues for us.

***The nature of our business is speculative and dependent on a number of variables beyond our control that cannot be reliably ascertained in advance.***

The revenues and profits of an enterprise involved in the location based business are generally dependent upon many variables. Our customer appeal depends upon factors which cannot be reliably ascertained in advance and over which we have no control, such as unpredictable customer and media reviews, industry analyst commentaries, and comparisons to competitive products. As with any relatively new business enterprise operating in a specialized and intensely competitive market, we are subject to many business risks which include, but are not limited to, unforeseen marketing difficulties, excessive research and development expenses, unforeseen negative publicity, competition, product liability issues, manufacturing and logistical difficulties, and lack of operating experience. Many of the risks may be unforeseeable or beyond our control. There can be no assurance that we will successfully implement our business plan in a timely or effective manner, that we will be able to generate sufficient interest in our products, or that we will be able to market and sell enough products and services to generate sufficient revenues to continue as a going concern.

***Our wireless location products and technologies have to continuously evolve and respond to market changes. If we are unable to commercially release products that are accepted in the market or that generate significant revenues, our financial results will continue to suffer.***

Wireless technology is rapidly changing, as are the products that our customers are demanding. In order to be able to provide our customers with the products and services that they desire, we too must continuously develop and offer new and improved products and services. We have attempted to adjust our product offerings to address changing market conditions by offering products such as proprietary GPS enabled transport containers, footwear location products, and a variety of smartphone location Apps, secure backpacks, etc.. These products have met with short-term or limited commercial success, and there can be no assurances that consumer or commercial demand for our future products will meet, or even approach, our expectations. In addition, our pricing and marketing strategies may not be successful. Lack of customer demand, a change in marketing strategy and changes to our pricing models could dramatically alter our financial results. Unless we are able to release location based products that meet a significant

market demand, we will not be able to improve our financial condition or the results of our future operations.

***In order for our products to be successful, we need to establish market recognition quickly, following the introduction of our products.***

We believe it is imperative to our success that we obtain significant market recognition in order to compete in our various markets. We have numerous competitors in all of our markets, many of whom have products that directly compete with our existing and proposed products and services. Accordingly, it is important that we establish market recognition for our brands in order to be able to continue to be a material participant in the large markets that we are addressing. To date, we have utilized various marketing and promotional programs and have tried to build market recognition both directly for our products and also by tying our products to the Code Amber brand that we own. However, we have limited experience conducting marketing campaigns, and we may fail to generate significant interest. We cannot be certain that we will be able to expand our brand and name recognition sufficiently to capitalize on the market acceptance of our name and brand.

***We may encounter manufacturing or assembly problems for our products, which would adversely affect our results of operations and financial condition.***

To date, we have only manufactured a limited number of products. In addition, we are continually redesigning and enhancing our products and we are designing new products based on that technology that we hope to manufacture and market in the near future. The manufacture and assembly of our products involves complex and precise processes, some of which have subcontracted to other companies and consultants. To date, we have experienced some quality issues with the limited production of some of our initial products. Although we have addressed these issues, we have only manufactured a limited quantity of products and so we do not yet know whether we will encounter any serious problems in the production of larger quantities of our existing or new products. Any significant problems in manufacturing, assembling or testing our products could delay the sales of our products and have an adverse impact on our business and prospects. The willingness of manufacturers to make the product, or lack of availability of manufacturing capacity, may have an adverse impact on the availability of our products and on our ability sell our products. Manufacturing difficulties will harm our ability to compete and adversely affect our results of operations and financial condition, and may hinder our ability to grow our business as we expect.

***We currently depend upon one manufacturer for some of the components of our principal products and if we encounter problems with this manufacturer there is no assurance that we could obtain products from other manufacturers without significant disruptions to our business.***

We expect that most of the components and subassemblies of our products will be initially manufactured for us by only one manufacturer. Although we could arrange for other manufacturers to supply these components and subassemblies, there is no assurance that we could do so without undue cost, expense and delay. If our sole manufacturers are unable to provide us with adequate supplies of high-quality components on a timely and

cost-efficient basis, our operations will be disrupted and our net revenue and profitability will suffer. Moreover, if those manufacturers cannot consistently produce high-quality products that are free of defects, we may experience a high rate of product returns, which would also reduce our profitability and may harm our reputation and brand. Although we believe that we could locate alternate contract manufacturers, our operations would be impacted until alternate manufacturers are found.

***Our markets are highly competitive, and our failure to compete successfully would limit our ability to sell our products, attract and retain customers and grow our business.***

Competition in the wireless location services market in the U.S. and abroad is intense. The adoption of new technology in the communications industry likely will intensify the competition for improved wireless location technologies. The wireless location services market has historically been dominated by large companies, such as Siemens AG, AT&T and LoJack Corporation. In addition, a number of other companies such as Trimble Navigation, Zoomback, Verizon, FireFly, Disney, Mattel, Digital Angel Corporation, Location-Based Technologies, Inc. and WebTech Wireless Inc. either have announced plans for new products or have commenced selling products that are similar to our wireless location products, and new competitors are emerging both in the U.S. and abroad to compete with our wireless location services products. Due to the rapidly evolving markets in which we compete, additional competitors with significant market presence and financial resources may enter those markets, thereby further intensifying competition, adversely affecting our sales, and adversely affecting our business and prospects.

***We may not be successful in developing our new products and services.***

The market for telecommunications based products and services is characterized by rapid technological change, changing customer needs, frequent new product introductions and evolving industry standards. These market characteristics are exacerbated by the emerging nature of this market and the fact that many companies are expected to introduce continually new and innovative products and services. Our success will depend partially on our ability to introduce new products, services and technologies continually and on a timely basis and to continue to improve the performance, features and reliability of our products and services in response to both evolving demands of prospective customers and competitive products. There can be no assurance that any of our new or proposed products or services will maintain the market acceptance already established. Our failure to design, develop, test, market and introduce new and enhanced products, technologies and services successfully so as to achieve market acceptance could have a material adverse effect upon our business, operating results and financial condition.

There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction or marketing of new or enhanced products and services, or that our new products and services will adequately satisfy the requirements of prospective customers and achieve significant acceptance by those customers. Because of certain market characteristics, including technological change, changing customer needs, frequent new product and service introductions and evolving industry standards, the continued introduction of new products and services is critical. Delays in the introduction of new products and services may result in customer dissatisfaction and may delay or cause a loss of revenue. There can be no assurance that we will be successful in developing new products or services or improving existing products and services that respond to technological changes or evolving industry standards.

In addition, new or enhanced products and services introduced by us may contain undetected errors that require significant design modifications. This could result in a loss of customer confidence which could adversely affect the use of our products, which in turn, could have a material adverse effect upon our business, results of operations or

financial condition.

***Our software products are complex and may contain unknown defects that could result in numerous adverse consequences, resulting in costly litigation or diverting management's attention and resources.***

Complex software products such as those associated with our products often contain latent errors or defects, particularly when first introduced, or when new versions or enhancements are released. We have experienced and addressed errors and defects in the software associated with our products, but do not believe these errors will have a material negative effect in the future on the functionality of the products. However, there can be no assurance that, despite testing, additional defects and errors will not be found in the current version, or in any new versions or enhancements of this software or any of our products, any of which could result in damage to our reputation, the loss of sales, a diversion of our product development resources, and/or a delay in market acceptance, and thereby materially adversely affecting our business, operating results and financial condition. Furthermore, there can be no assurance that our products will meet all of the expectations and demands of our customers. The failure of our products to perform to customer expectations could give rise to warranty claims. Any of these claims, even if not meritorious, could result in costly litigation or divert management's attention and resources. Any product liability insurance that we may carry could be insufficient to protect us from all liability that may be imposed under any asserted claims.

***We expect continued fluctuations in revenues and expenses.***

We have had relatively minor sales to date. We rely heavily on channel partners, a few licensees and telecommunications carriers to sell our products. If any of these relationships change or are disrupted, we could lose a significant portion of anticipated revenue.

Our sales will continue to be uncertain and we expect fluctuation in revenues and expenses until we commercially scale our existing contracts, enter into other license agreements that provide us with regular royalties or subscription revenues, or our LOCiMOBILE® applications are continually downloaded by a significant number of users who pay our download fees.

As such, the amount of revenues we receive, if any, from licensing agreements, downloads, etc. will fluctuate and depend upon our customer's willingness to buy or products, and for our partner's abilities to sell the products that contain our technology. Accordingly, it is uncertain if and when we will receive future orders from our current and potential future customers.

As with any relatively new business enterprise operating in a specialized and intensely competitive market, we are subject to many business risks which include, but are not limited to, unforeseen negative publicity, competition,

product liability and lack of operating experience. Many of the risks may be unforeseeable or beyond our control. There can be no assurance that we will successfully implement our business plan in a timely manner, or generate sufficient interest in our products or services, or that we will be able to market and sell enough products and services to generate sufficient revenues to continue as a going concern.

Our expense levels in the future will be based, in large part, on our expectations regarding future revenue, and as a result net income/loss for any quarterly period in which material orders are delayed could vary significantly. In addition, our costs and expenses may vary from period to period because of a variety of factors, including our research and development costs, our introduction of new products and services, cost increases from third-party service providers or product manufacturers, production interruptions, changes in marketing and sales expenditures, and competitive pricing pressures.

***There are risks of international sales and operations.***

We anticipate that a substantial portion of our future revenue from the sale of our products and services may be derived from customers located outside the United States. As such, a portion of our sales and operations could be subject to tariffs and other import-export barriers, currency exchange risks and exchange controls, foreign product standards, potentially adverse tax consequences, longer payment cycles, problems in collecting accounts receivable, political instability, and difficulties in staffing and managing foreign operations. Although we intend to monitor our exposure to currency fluctuations, there can be no assurance that exchange rate fluctuations will not have an adverse effect on our results of operations or financial condition. In the future, we could be required to sell our products and services in other currencies, which would make the management of currency fluctuations more difficult and expose our business to greater risks in this regard.

Our products may be subject to numerous foreign government standards and regulations that are continually being amended. Although we will endeavor to satisfy foreign technical and regulatory standards, there can be no assurance that we will be able to comply with foreign government standards and regulations, or changes thereto, or that it will be cost effective for us to redesign our products to comply with such standards or regulations. Our inability to design or redesign products to comply with foreign standards could have a material adverse effect on our business, financial condition and results of operations.

Because of the global nature of the telecommunications business, it is possible that the governments of other states and foreign countries might attempt to regulate our transmissions or prosecute us for violations of their laws. There can be no assurance that violations of local laws will not be alleged by state or foreign governments, that we might not unintentionally violate such law, or that such laws will not be modified, or new laws enacted, in the future.

Any of the foregoing factors could have a material adverse effect on our business, results of operations, and financial condition.

***If we fail to develop and maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our current and potential stockholders could lose confidence in our financial reports, which could harm our business and the trading price of our common stock.***

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate and report on our internal controls over financial reporting and, depending on our future growth, may require our independent registered public accounting firm to annually attest to our evaluation, as well as issue their own opinion on our internal controls over financial reporting. The process of implementing and maintaining proper internal controls and complying with Section 404 is expensive and time consuming. We cannot be certain that the measures we will undertake will ensure that we will maintain adequate controls over our financial processes and reporting in the future. Furthermore, if we are able to

rapidly grow our business, the internal controls that we will need will become more complex, and significantly more resources will be required to ensure our internal controls remain effective. Failure to implement required controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness in our internal controls, the disclosure of that fact, even if the weakness is quickly remedied, could diminish investors' confidence in our financial statements and harm our stock price. In addition, non-compliance with Section 404 could subject us to a variety of administrative sanctions, including the suspension of trading, ineligibility for future listing on one of the Nasdaq Stock Markets or national securities exchanges, and the inability of registered broker-dealers to make a market in our common stock, which may reduce our stock price.

***We may suffer from product liability claims.***

Faulty operation of our products may result in product liability claims brought against us. Regardless of the merit or eventual outcome, product liability claims may materially adversely affect our business and further result in:

- decreased demand for our products or withdrawal of the products from the market;
- injury to our reputation and significant media attention;
- costs of litigation; and
- substantial monetary awards to plaintiffs.

We have purchased annual product liability insurance with liability limits of \$1,000,000 per occurrence and \$2,000,000 in the aggregate. This coverage may not be sufficient to fully protect us against product liability claims. We intend to expand our product liability insurance coverage as sales of our products expand. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against product liability claims could prevent or limit the commercialization of our products and expose us to liability in excess of our coverage.



***Our ability to compete could be jeopardized and our business seriously compromised if we are unable to protect ourselves from third-party challenges or infringement of the proprietary aspects of the wireless location products and technology we develop.***

Our products utilize a variety of proprietary rights that are critical to our competitive position. Because the technology and intellectual property associated with our wireless location products are evolving and rapidly changing, our current intellectual property rights may not adequately protect us in the future. We rely on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions to protect the intellectual property utilized in our products. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. In addition, monitoring unauthorized use of our products is difficult and we cannot be certain the steps we have taken will prevent unauthorized use of our technology. Also, it is possible that no additional patents or trademarks will be issued from our currently pending or future patent or trademark applications. Because legal standards relating to the validity, enforceability and scope of protection of patent and intellectual property rights are uncertain and still evolving, the future viability or value of our intellectual property rights is uncertain. Moreover, effective patent, trademark, copyright and trade secret protection may not be available in some countries in which we distribute or anticipate distributing our products. Furthermore, our competitors may independently develop similar technologies that limit the value of our intellectual property, design or patents. In addition, third parties may at some point claim certain aspects of our business infringe their intellectual property rights. While we are not currently subject to nor aware of any such claim, any future claim (with or without merit) could result in one or more of the following:

- Significant litigation costs;
- Diversion of resources, including the attention of management;
- Our agreement to pay certain royalty and/or licensing fees;
- Cause us to redesign those products that use such technology; or
- Cessation of our rights to use, market, or distribute such technology.

Any of these developments could materially and adversely affect our business, results of operations and financial condition. In the future, we may also need to file lawsuits to enforce our intellectual property rights, to protect our trade secrets, or to determine the validity and scope of the proprietary rights of others. Whether successful or unsuccessful, such litigation could result in substantial costs and diversion of resources. Such costs and diversion could materially and adversely affect our business, results of operations and financial condition.

***We depend on our key personnel to manage our business effectively in a rapidly changing market. If we are unable to retain our key employees, our business, financial condition and results of operations could be harmed.***

Our future success depends to a significant degree on the skills, efforts and continued services of our executive officers and other key engineering, manufacturing, operations, sales, marketing and support personnel. If we were to lose the services of one or more of our key executive officers or other key engineering, manufacturing, operations, sales, marketing and support personnel, we may not be able to grow our business as we expect, and our ability to compete could be harmed, adversely affecting our business and prospects.

***Our products depend on continued availability of GPS and cellular wireless telecommunications systems.***

Our products use existing GPS and cellular wireless telecommunications systems to identify the position of our products. Any temporary or permanent change in the availability of these systems, or any material change in the existing infrastructure and our ability to access those systems, would materially and adversely affect our business, operating results and financial condition may be materially and adversely affected.

***Rapid technological change in our market and/or changes in customer requirements could cause our products to become obsolete or require us to redesign our products, which would have a material adverse effect on our business, operating results and financial condition.***

The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, uncertain product life cycles, changing customer demands and evolving industry standards, any of which can render existing products obsolete. We believe that our future success will depend in large part on our ability to develop new and effective products in a timely manner and on a cost effective basis. As a result of the complexities inherent in our products, major new products and product enhancements can require long development and testing periods, which may result in significant delays in the general availability of new releases or significant problems in the implementation of new releases. In addition, if we or our competitors announce or introduce new products our current or future customers may defer or cancel purchases of our products, which could materially adversely affect our business, operating results and financial condition. Our failure to develop successfully, on a timely and cost effective basis, new products or new product enhancements that respond to technological change, evolving industry standards or customer requirements would have a material adverse effect on our business, operating results and financial condition.

***Changes in the government regulation of our wireless location products or wireless carriers could harm our business.***

Our products, wireless carriers and other components of the communications industry are subject to domestic government regulation by the Federal Communications Commission (the “FCC”) and international regulatory bodies. If we are unable to satisfy all of the regulations of the FCC or any other regulatory body, we could be prevented from releasing one or more of our products, which could materially and adversely affect our future revenues. In addition, any delay in obtaining FCC and other regulatory approval could likewise have a negative impact on our business and on our relationships with our customers. These regulatory bodies could enact regulations that affect our products or the service providers which distribute our products, such as limiting the scope of the service providers' market, capping fees for services provided by them or imposing communication technology standards which impact our products. Changes in these regulations could affect our products and, thereby, adversely affect our business and operations.

***Future acquisitions or strategic investments may not be successful and may harm our operating results.***

As part of our strategy, we have acquired or established smaller businesses, and we may do so in the future. For example, in the past we established our LOCiMOBILE, Inc. subsidiary and purchased our Code Amber News Service, Inc. subsidiary. Future acquisitions or strategic investments could have a material adverse effect on our business and operating results because of:

The assumption of unknown liabilities, including employee obligations. Although we normally conduct extensive legal and accounting due diligence in connection with our acquisitions, there are many liabilities that cannot be discovered, and which liabilities could be material.

We may become subject to significant expenses related to bringing the financial, accounting and internal control procedures of the acquired business into compliance with U.S. GAAP financial accounting standards and the Sarbanes Oxley Act of 2002.

Our operating results could be impaired as a result of restructuring or impairment charges related to amortization expenses associated with intangible assets.

We could experience significant difficulties in successfully integrating any acquired operations, technologies, customers' products and businesses with our existing operations.

- Future acquisitions could divert substantial capital and our management's attention.
- We may not be able to hire the key employees necessary to manage or staff the acquired enterprise operations.

***Our executive officers and directors have the ability to significantly influence matters submitted to our stockholders for approval.***

As of April 9, 2014 our executive officers and directors, in the aggregate, beneficially own shares representing approximately 24.7% of our common stock. Beneficial ownership includes shares over which an individual or entity has investment or voting power and includes shares that could be issued upon the exercise of options and warrants within 60 days after the date of determination. On matters submitted to our stockholders for approval, holders of our common stock are entitled to one vote per share. If our executive officers and directors choose to act together, they would have significant influence over all matters submitted to our stockholders for approval, as well as our management and affairs. For example, these individuals, if they chose to act together, would have significant influence on the election of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. This concentration of voting power could delay or prevent an acquisition of our company on terms that other stockholders may desire.

Failure to manage growth effectively could adversely affect our business, results of operations and financial condition.

The success of our future operating activities will depend upon our ability to expand our support system to meet the demands of our growing business. Any failure by our management to effectively anticipate, implement, and manage changes required to sustain our growth would have a material adverse effect on our business, financial condition, and results of operations. We cannot assure you that we will be able to successfully operate acquired businesses, become profitable in the future, or effectively manage any other change.

## RISKS RELATED TO AN INVESTMENT IN OUR SECURITIES

***The resale of shares by the holders of our convertible promissory notes and our other investors could depress the market price of our common stock.***

We have issued a substantial amount of convertible promissory notes in the recent past to fund our working capital and other financial needs. A number of the holders of these convertible notes have been converting these promissory notes into shares of our common stock. The resale of a significant number of these shares into the public market by the investors could depress the market price of our common stock.

***Our convertible notes may be converted into shares of our common stock at less than the then-prevailing market price for our common stock if the lenders chooses to convert the notes.***

As of December 31, 2013 we had short term convertible notes with outstanding principal balances totalling \$142,500 and long term convertible notes with outstanding principal balances totalling approximately \$730,000 which could be convertible into shares of the Company's common stock at at prices less than the then-prevailing market price. The lenders for these convertible notes have a financial incentive to convert the notes and realize the profit equal to the difference between the conversion price and the market price. If the convertible notes are converted, the price of our common stock could decrease. See further discussion regarding the conversion features of our convertible debentures in footnote 7 of our Financial Statements included herein.

***Our common stock is thinly traded and the price of our common stock may be negatively impacted by factors that are unrelated to our operations.***

Our common stock is currently quoted on the OTCQB market. Trading of our stock through the OTCQB market is frequently thin and highly volatile. The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our business objectives, the results of our clinical trials, trading volume in our common stock, changes in general conditions in the economy and the financial markets, or other developments which affect us or our industry. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

***When we issue additional shares in the future, it will likely result in the dilution of our existing stockholders.***

Our certificate of incorporation authorizes the issuance of up to 2,071,000,000 shares of common stock with a \$0.001 par value and 10,000,000 preferred shares with a par value of \$0.001, of which 142,002,593 common shares and no preferred shares were issued and outstanding as of April 9, 2014. From time to time we may increase the number of shares available for issuance in connection with our equity compensation plans. Our board of directors may fix and determine the designations, rights, preferences or other variations of each class or series within each class of preferred stock and may choose to issue some or all of such shares to provide additional financing or acquire more businesses in the future.

The issuance of any shares for acquisition, licensing or financing efforts, upon conversion of any preferred stock or exercise of warrants and options, pursuant to our equity compensation plans, or otherwise may result in a reduction of the book value and market price of the outstanding shares of our common stock. If we issue any such additional shares, such issuance will cause a reduction in the proportionate ownership and voting power of all current stockholders.

***Financial Industry Regulatory Authority (FINRA) sales practice requirements may also limit a stockholder's ability to buy and sell our common stock.***

The Financial Industry Regulatory Authority (“FINRA”) has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

***We have never paid dividends on our common stock and do not anticipate paying any in the foreseeable future.***

We have never declared or paid a cash dividend on our common stock and we do not expect to pay cash dividends in the foreseeable future. If we do have available cash, we intend to use it to grow our business. Our payment of any future dividends will be at the discretion of our board of directors after taking into account various factors, including but not limited to our financial condition, operating results, cash needs, growth plans and the terms of any credit agreements that we may be a party to at that time. In addition, our ability to pay dividends on our common stock may be limited by Nevada corporate law. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their investment. Investors seeking cash dividends should not purchase our common stock.

*The elimination of monetary liability against our directors, officers and employees under Nevada law and the existence of indemnification rights to our directors, officers and employees may result in substantial expenditures by us and may discourage lawsuits against our directors, officers and employees.*

Our Amended and Restated Bylaws contain specific provisions that eliminate the liability of our directors for monetary damages to our company and stockholders, and permit indemnification of our directors and officers to the extent provided by Nevada law. We may also have contractual indemnification obligations under our employment agreements with our officers. The foregoing indemnification obligations could result in our company incurring substantial expenditures to cover the cost of settlement or damage awards against directors and officers, which we may be unable to recoup. These provisions and resultant costs may also discourage our company from bringing a lawsuit against directors and officers for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors and officers even though such actions, if successful, might otherwise benefit our company and stockholders.

You may have difficulty selling our shares because they are deemed “penny stocks.”

Our common stock is currently quoted on the OTCQB market under the symbol “GTXO.” Since our common stock is not listed on a national securities exchange, if the trading price of our common stock remains below \$5.00 per share, trading in our common stock will be subject to the requirements of certain rules promulgated under the Exchange Act, which require additional disclosure by broker-dealers in connection with any trades involving a stock defined as a penny stock (generally, any non-national securities exchange equity security that has a market price of less than \$5.00 per share, subject to certain exceptions). The additional burdens imposed upon broker-dealers could discourage broker-dealers from effecting transactions in our common stock, which could severely limit the market liquidity of the common stock and the ability of holders of the common stock to sell their shares.

Stockholders should be aware that, according to SEC Release No. 34-29093, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (1) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (2) manipulation of prices through pre-arranged matching of purchases and sales and false and misleading press releases; (3) boiler room practices involving high-pressure sales tactics and unrealistic price projections by inexperienced sales persons; (4) excessive and undisclosed bid-ask differential and markups by selling broker-dealers; and (5) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the resulting inevitable collapse of those prices and with consequent investor losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to our securities. The occurrence of these patterns or practices could increase the volatility of our share price.

ITEM 1B.

UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTIES

Our executive, administrative and operating offices are located at 117 W 9<sup>th</sup> Street, Suite 1214, Los Angeles, California 90015. Our office space is approximately 1,230 square feet and consists of administrative work space for a base rent of \$1,325 per month. The lease is currently on a month-to-month basis.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that additional contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events.

We are not currently a party to any material legal proceedings. We are not aware of any pending or threatened litigation against us that we expect will have a material adverse effect on our business, financial condition, liquidity, or operating results. However, legal claims are inherently uncertain, and we cannot assure you that we will not be adversely affected in the future by legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.



**PART II****ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information.** Our common stock is quoted on the over-the-counter market on the OTC Bulletin Board and OTCQB trading platform under the symbol "GTXO." The following table sets forth the high and low sale prices for our common stock on the OTC Bulletin Board and OTCQB market for the periods indicated:

	<b>Year Ended</b>	
	December 31,	
	2013	
	<b>High</b>	<b>Low</b>
Quarter ended March 31, 2013	\$0.069	\$ 0.016
Quarter ended June 30, 2013	\$0.044	\$ 0.010
Quarter ended September 30, 2013	\$0.038	\$ 0.006
Quarter ended December 31, 2013	\$0.020	\$ 0.008

	<b>Year Ended</b>	
	December 31,	
	2012	
	<b>High</b>	<b>Low</b>
Quarter ended March 31, 2012	\$0.130	\$ 0.060
Quarter ended June 30, 2012	\$0.121	\$ 0.020
Quarter ended September 30, 2012	\$0.049	\$ 0.016
Quarter ended December 31, 2012	\$0.0349	\$ 0.009

As of April 8, 2014 the last reported sales price of our common stock on the OTCQB market was \$0.04.

**Holder of Record.** As of April 9, 2014, an aggregate of 142,002,593 shares of our common stock were issued and outstanding and were owned by approximately 140 holders of record, based on information provided by our transfer agent. The foregoing number of record holders does not include any persons who hold their stock in "street name."

**Recent Sales of Unregistered Securities.**

On January 29, 2014, we issued 1.35 million shares of common stock to a total of five employees and consultants, at a price of \$0.0095 per share, as compensation for services rendered. The foregoing shares were issued in reliance upon an exemption from the registration requirements pursuant to Section 4(2) of the Securities Act of 1933, as amended.

**Re-Purchase of Equity Securities.**

None

**Dividends.**

We have never declared or paid cash dividends on our capital stock and we do not anticipate declaring or paying cash dividends on our capital stock in the foreseeable future. Any payments of cash dividends will be at the discretion of

our board of directors, and will depend upon our results of operations, earnings, capital requirements, legal and contractual restrictions, and other factors deemed relevant by our board of directors.

### Equity Compensation Plan Information.

On March 14, 2008, we adopted the 2008 Equity Compensation Plan (the “2008 Plan”) pursuant to which we are authorized to grant stock options, stock awards and stock appreciation rights of up to 7,000,000 shares of common stock to our employees, officers, directors and consultants. The 2008 Plan is administered by the Board of Directors of the Company. The following table provides information with respect to outstanding options as of December 31, 2013 pursuant to compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance.

	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
(a)			
<u>2013</u>			
Equity compensation plans approved by security holders	775,133	\$0.138	1,912,237
Equity compensation plans not approved by security holders	--	--	--
Total	775,133	\$0.138	1,912,237

As a result of the cancellation and expiration of options subsequent to December 31, 2013, there are approximately 2,182,000 options available for issuance under the 2008 Plan as of April 9, 2014.

## ITEM 6. SELECTED FINANCIAL DATA.

Not applicable to a “smaller reporting company” as defined in Item 10(f)(1) of SEC Regulation S-K.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Overview

*Business.* GTX Corp and its subsidiaries, (GTX California, LOCiMOBILE, Inc. and CANS) are engaged in businesses that design, develop and sell various interrelated and complementary products and services in the Personal Location Services marketplace. GTX California focuses on hardware and software design and development of products and services by offering a Global Positioning System (“GPS”) and cellular location platform that enables subscribers to track in real time the whereabouts of people, pets or high valued assets through a miniaturized transceiver module, wireless connectivity gateway, middleware and viewing portal. LOCiMOBILE, Inc. has developed and owns LOCiMobile™, a suite of mobile tracking applications that turn the iPhone, Android, BlackBerry and other GPS enabled handsets into a tracking device which can then be tracked from handset to handset or through our Location Data Center tracking portal and which allows the user to send a map to the recipient’s phone showing the user’s location. CANS is a U.S. and Canadian syndicator of all state Amber Alerts providing website tickers and news feeds to merchants, internet service providers, affiliate partners, corporate sponsors and local, state and federal agencies, as well as, marketing and selling the patent pending electronic medical health record Code Amber Alertag.

## Results of Operations

The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this Annual Report.

The following table represents our statement of operations for the years ended December 31, 2013 and 2012:

	Year ended December 31,			
	2013		2012	
	\$	% of Revenues	\$	% of Revenues
Revenues	\$149,994	100%	\$367,114	100%
Cost of goods sold	86,729	58%	291,388	79%
Gross margin	63,265	42%	75,726	21%
Operating expenses				
Wages and benefits	414,854	277%	635,622	173%
Professional fees	406,205	271%	366,330	100%
Impairment of fixed assets	36,695	24%	103,000	28%
General and administrative	157,520	105%	189,112	52%
Total operating expenses	1,015,274	677%	1,294,064	353%
Loss from operations	(952,009)	(635)%	(1,218,338)	(332)%
Other income (expense), net	(552,901)	(369)%	829	-%
Net loss	\$(1,504,910)	(1,003)%	\$(1,217,509)	(332)%

Revenues

Revenues in fiscal 2013 decreased \$217,120 or 59% in comparison to fiscal 2012 primarily due to revenues generated from the shipment in 2012 of approximately 1,500 of our GPS devices to Aetrex Worldwide, Inc. (“Aetrex”) for use in the Aetrex Navistar™ GPS Shoe (the “Navista™ GPS Shoe”). No such sale occurred during 2013, and the Aetrex agreement has expired and not been renewed. The decrease in revenues in 2013 also is attributable to a decrease in revenues generated from our Apps due to a decrease in the purchase of new Apps and a large increase in downloads for upgrades by current subscribers, which upgrades are provided free of charge.

#### Cost of goods sold

Cost of goods sold for fiscal 2013 decreased by \$204,659 or 70% compared to fiscal 2012 due primarily to the decrease in the number of GPS devices sold to Aetrex as discussed above as well as a reduction in the amount of commissions paid on the sale of our Apps.

#### Wages and benefits

Wages and benefits decreased \$220,768 or 35% for fiscal 2013 in comparison to fiscal 2012 due to a decline in our operation and the resultant continued cost cutting efforts, which included reductions in management positions. These reductions in overhead will remain in place as we maintain a low-overhead approach to operations that will scale as operations require.

#### Professional fees

Professional fees consist of costs attributable to consultants and contractors who primarily spend their time on sales, marketing and product development; investor relations; legal fees; and accounting expenses. Such costs increased \$39,875 or 11% in fiscal 2013 compared to fiscal 2012 primarily due to increased accounting and legal fees associated with our debt financing, as well as, patent applications.

### Impairment of fixed assets

Management evaluates our capitalized assets on a regular basis and recognizes a write-down to net realizable value when it is determined that the assets value has been impaired. Impairment of fixed assets for fiscal 2013 represents the write-down of capitalized direct labor and shoe mold costs to net realizable value. During fiscal 2012, such impairment related to capitalized software development costs.

### General and administrative

General and administrative costs during fiscal 2013 decreased \$31,592 or 17% in comparison to fiscal 2012 primarily due to reductions in depreciation expense as many of our fixed assets are now fully depreciated. Additionally, we have implemented various cost cutting measures that have reduced our general and administrative costs.

### Other income (expense), net

Other income (expense), net for fiscal 2013 consists primarily of costs associated with our debt financing during the year. As part of a securities purchase agreement entered into in September 2013, we issued a \$200,000 convertible note as payment for services provided in facilitating the agreement. As the debenture related to services that had already been received, the full amount was recorded as finance costs at the time of issuance. We also recorded a loss on extinguishment of debt of approximately \$119,000 due to the extinguishment and conversion of portions of our convertible notes. The net derivative expense represents the change in fair value of the derivative liability during the period as well as the amortization of the related debt discount. Lastly, included is approximately \$28,000 of interest expense relating to our long-term and short-term convertible notes.

### Net loss

Net loss during fiscal 2013 increased approximately 24% in comparison to the net loss incurred during fiscal 2012. The increase is primarily due to costs associated with our debt financings as discussed above.

### Liquidity and Capital Resources

As of December 31, 2013, we had approximately \$65,000 in cash and \$30,000 of other current assets, compared to \$831,000 of current liabilities, resulting in a working capital deficit of approximately \$736,000, compared to approximately \$31,000 in cash and a working capital deficit of approximately \$664,000 as of December 31, 2012.

Net cash used in operating activities was approximately \$345,000 for fiscal 2013 compared to approximately \$254,000 for fiscal 2012. The increase in net cash used in operating activities was largely attributable to an increase in our net loss offset by depreciation, the loss on extinguishment of debt, stock based compensation, finance costs and adjustments to our derivative liabilities, as well as, increases in accounts payable to vendors and the continued accrual of portions of wages payable to members of management and various officers in an effort to preserve cash for working capital needs.

Net cash used in investing activities during fiscal 2013 and 2012 was approximately \$1,000 and \$15,000, respectively and consisted primarily of payments for the purchase of office equipment.

Net cash provided by financing activities during fiscal 2013 was \$380,750 and consisted of proceeds totaling \$386,250 received from advances under various convertible note payable agreements, as well as, short-term loans totaling \$40,000 received from related parties. As of December 31, 2013, the Company had paid \$36,000 towards the related party loans, as well as, \$9,500 towards a short-term loan owed to a vendor.

Net cash provided by financing activities during fiscal 2012 was approximately \$208,000 and primarily consists of proceeds received from the sale of shares from an equity line financing agreement that we had with Dutchess Equity Fund, L.P. (“Dutchess”). During fiscal 2012, we sold 2,756,142 shares of common stock to Dutchess resulting in proceeds of approximately \$164,000. The equity line expired in November 2012 and accordingly is no longer available for our use.

Because revenues from our operations have, to date, been insufficient to fund our working capital needs, we currently rely on the cash we receive from our financing activities to fund our capital expenditures and to support our working capital requirements. Previously, we anticipated that revenues from the Navistar™ GPS Shoe that was released December 2011 would increase significantly this year and would provide the funds necessary to fund our working capital needs. However, revenues from the Navistar™ GPS Shoe have been minimal, and the Navistar license agreement was allowed to expire. Accordingly, we no longer anticipate that the Navistar™ GPS Shoe will generate any future revenues. Despite the disappointing results of the Navistar GPS shoe, we continue to believe that there is a significant market opportunity for a product that can monitor the location of senior citizens and children through GPS devices embedded in footwear. As a result, in July 2013, we entered into an exclusive three-year contract with Atlantic Footcare, Inc. (“Atlantic”), to develop and launch GPS SmartSole™ (the “SmartSole”). Atlantic is the Company’s exclusive manufacturer of the new shoe insole to be used with our embedded GPS devices. As of the date of this Annual Report, the GPS SmartSole™ is in its testing phase both in the US and internationally. The SmartSole product is expected to be commercially released beginning in June 2014.

We expect to continue to generate revenues from our other licenses, Alertag subscriptions, Track My Work Force subscriptions, international distributors, hardware sales, professional services and new customers in the pipeline. However, the amount of such revenues is unknown and is not expected to be sufficient to fund our working capital needs. For our internal budgeting purposes, we have assumed that such revenues will not be sufficient to fund all of our planned operating and other expenditures. In addition, our actual cash expenditures may exceed our planned expenditures, particularly if we invest in the development of improved versions of our existing products and technologies, and if we increase our marketing expenses. Accordingly, we anticipate that we will have to continue to raise additional capital in order to fund our operations in 2014.

In order to fund our working capital needs and our product development costs in September 2013 we entered into a Securities Purchase Agreement with 112359 Factor Fund, LLC (the “Fund”) pursuant to which we issued and sold to the Fund (i) an amended and restated convertible debenture (the “A & R 1<sup>st</sup> Debenture”) in the principal amount of \$123,394, (ii) a secured convertible debenture in the principal amount of \$200,000 (the “2<sup>nd</sup> Debenture”), and (iii) a secured convertible debenture payable in eight (8) tranches totaling an aggregate principal balance of \$901,000 (the “3<sup>rd</sup> Debenture” and together with the A & R 1<sup>st</sup> Debenture and 2<sup>nd</sup> Debenture, the “Debentures”). The 3<sup>rd</sup> Debenture has provided us with \$225,000 of funds to date, and will continue to provide us with \$50,000 of working capital per month through April 2014. The following is a summary of the terms of the Debentures:

The A & R 1<sup>st</sup> Debenture results from the assignment of our debenture to JMJ Financial (the “JMJ Note”) to the Fund. Since this debenture merely replaced an outstanding loan, the Company did not receive any additional cash from the issuance of this debenture. The A & R 1<sup>st</sup> Debenture amends and restates in its entirety the JMJ Note. The principal changes effected in the A & R 1<sup>st</sup> Debenture include: an increase in the amount outstanding from \$74,394 to \$123,394; the reduction of the interest rate to the lesser of the applicable Federal Rate or 6% per annum; the extension of the maturity dates to the third anniversary of the original payment dates; and the grant to the Fund of the right to convert any portion of the principal amount of the A & R 1<sup>st</sup> Debenture into shares of common stock of the Company at a price equal to 100% of the average of the 5 lowest closing market prices for the Company’s common stock for the 30 trading days preceding conversion. The Fund may not, however, convert the A & R 1<sup>st</sup> Debenture if such conversion would result in the Fund owning more than 4.99% of the Company’s outstanding shares of common stock.

The 2<sup>nd</sup> Debenture, in the amount of \$200,000, was issued to the Fund in consideration for the Fund’s various agreements issued under the Security Purchase Agreement. Since this debenture was issued as payment for services and fees, the Company also did not receive any cash from the issuance of this debenture. The 2<sup>nd</sup> Debenture matures December 31, 2017 and accrues interest on the unconverted outstanding principal balance at a rate per annum of the lesser of the applicable Federal Rate or six percent (6%). Upon the later to occur of (a) the date on which the Fund has paid the Company the full \$425,000 purchase price of the 3<sup>rd</sup> Debenture, or (b) the date on which all amounts due to the Fund, except for amounts due under the 2<sup>nd</sup> Debenture, have been fully paid, at the option of the Fund, the outstanding principal amount due under the 2<sup>nd</sup> Debenture may be converted into shares of the Company’s common stock at a price equal to the lesser of (a) the outstanding balance due under the Debenture divided by \$0.01 per shares (the “Conversion Price,”) or (b) 9.99% of the then-current issued and outstanding capital stock of the Company as of the first (1<sup>st</sup>) anniversary of the Payment Compliance Date.

The face amount of the 3<sup>rd</sup> Debenture is \$901,000. The Fund has agreed to purchase the 3<sup>rd</sup> Debenture in eight (8) installments (each such installment that is paid is referred to as a “Tranche”). The 3<sup>rd</sup> Debenture matures on the third (3<sup>rd</sup>) anniversary date of each Tranche payment. The payment dates (the date on which the Company receives the amounts indicated in the “Tranche” column) and maturity dates of each Tranche are as follows:

Tranche Number	Tranche Payment Date	Tranche	Obligation	Maturity Date
1	September 19, 2013	\$75,000	\$159,000	September 18, 2016
2	October 14, 2013	\$50,000	\$106,000	October 13, 2016
3	November 15, 2013	\$50,000	\$106,000	November 14, 2016
4	December 13, 2013	\$50,000	\$106,000	December 12, 2016
5	January 17, 2014	\$50,000	\$106,000	January 16, 2017
6	February 14, 2014	\$50,000	\$106,000	February 13, 2017

7	March 14, 2014	\$50,000	\$106,000	March 13, 2017
8	April 18, 2014	\$50,000	\$106,000	April 17, 2017
<b>Total Principal</b>		<b>\$425,000</b>	<b>\$901,000</b>	

Interest on the 3rd Debenture accrues on the unconverted outstanding principal balance hereof at a rate per annum of the lesser of the applicable Federal Rate or six percent (6%) and on a pro rata basis to the extent that each Tranche has been paid. The outstanding amounts due under the 3rd Debenture are convertible at the option of the Fund into shares of the Company's common stock at 100% of the average of the five (5) lowest closing market prices for the Common Stock for the thirty (30) trading days preceding each conversion; provided, however, that the Fund cannot own more than 4.99% of the Company's outstanding shares of common stock at any time, which limit may be waived by the Fund upon 65 days' notice.

As of the date of this Annual Report, the Fund had converted the full amount owed under the A & R 1<sup>st</sup> Debenture into 12,300,099 shares of our common stock, had converted \$19,000 of the 3<sup>rd</sup> Debenture into 2,000,000 shares of our common stock, and had made seven of the eight Tranche payments required under the 3<sup>rd</sup> Debenture.

As described above, on July 12, 2013, we entered into an Exclusive Manufacturing Agreement (the "Agreement") with Atlantic, whereby Atlantic serves as our exclusive manufacturer of its new shoe insole to be used with our embedded GPS devices. In conjunction with the Agreement, on July 24, 2013 (the "Closing"), we also entered into a Security Purchase Agreement (the "SPA") with Atlantic. Pursuant to the SPA, Atlantic purchased (A) a convertible promissory note (the "Atlantic Note") in the original principal amount of \$200,000, accruing interest 6% per annum, and maturing on November 13, 2014, and (B) a warrant to purchase shares of the Company's common stock, par value \$0.001 per share (the "Warrant").

In accordance with the SPA, Atlantic agrees to lend to the Company up to \$200,000, as follows:

\$50,000 (comprised of \$25,000 in cash and \$25,000 in insole development and tooling costs associated with (i) manufacturing insoles containing the Company's GPS devices, the value of which shall be determined by Atlantic (the "Services")); and

(ii) 3 installments of \$50,000 (each comprised of \$25,000 in cash and \$25,000 in Services) of which two installments and a portion of the third installment (\$12,500) has been received as of the date of this Annual Report.



Atlantic may at any time elect to convert all of the entire outstanding principal amount of the Atlantic Note plus the accrued interest into 12% of the Company's issued and outstanding common stock immediately following the issuance thereof, multiplied by a fraction, the numerator of which is the principal amount of the Atlantic Note then outstanding and the denominator of which is \$200,000.

The Company issued a Warrant to Atlantic, whereby Atlantic is entitled to purchase from the Company a total number of shares of common stock, such that, when added to the total number of shares of common stock acquired by Atlantic upon conversion of the Atlantic Note, equals 12% of the common stock outstanding as of the date of such conversion, as such total outstanding amount may, be increased by issuances of common stock occurring on or prior to November 13, 2014 (or by issuances of common stock occurring after November 13, 2014 but pursuant to convertible instruments issued or commitments made by the Company prior to November 13, 2014) other than issuances of excluded securities as such term is defined in the Atlantic Note, at an exercise price per share equal to \$0.001 per share, at any time and from time to time on or after the Closing Date and through and including November 13, 2020.

On June 26, 2013, the Company entered into a Convertible Promissory Note with BSM Lending, LLC, for the principal sum of \$30,000 plus interest of 15% per annum (the "BSM Note") and matures on June 25, 2014. The Company may repay the BSM Note and accrued interest at any time prior to maturity. The BSM Note is convertible into shares of common stock of the Company at a price equal to 65% of the 5 day average closing price per share of the Company's common stock (the "Conversion Rate"). BSM may elect to convert in increments of less than 9.9% of the issued and outstanding shares of common stock of the Company, however, the Company will give the option to BSM to convert any amount exceeding 9.9% prior to such a conversion. Additionally, the BSM Note includes an automatic conversion feature whereby all amounts of principal will be converted into shares of common stock at the then effective Conversion Rate upon the sale of all or substantially all of the assets of the Company or in the event of a change in control.

The licensing agreements, distribution agreements and product sales initiatives we have in place have, to date, not generated substantial revenues. No assurance can be given that our current contractual arrangements and the revenues from our GPS tracking shoes, device sales, subscriptions, Alertags, software licensing, or our smart phone or tablet Apps will generate significant revenues during the balance of 2014.

In addition to continuing to incur normal operating expenses, we intend to continue our research and development efforts for our various technologies and products, including hardware, software, interface customization, and website development, and we also expect to further develop our sales, marketing and manufacturing programs associated with the commercialization, licensing and sales of our GPS devices and technology, and the commercialization of the LOCiMOBILE® applications for GPS enabled handsets. We currently do not have sufficient capital on hand to fully fund our proposed research and development activities, which lack of product development may negatively affect our future revenues.

As noted above, based on budgeted revenues and expenditures, unless revenues increase significantly, we believe that our existing and projected sources of liquidity may not be sufficient to satisfy our cash requirements for the next

twelve months. Accordingly, we will need to raise additional funds in 2014. The sale of additional equity securities will result in additional dilution to our existing stockholders. Sale of debt securities could involve substantial operational and financial covenants that might inhibit our ability to follow our business plan. Any additional funding that we obtain in a financing is likely to reduce the percentage ownership of the Company held by our existing security-holders. The amount of this dilution may be substantial based on our current stock price, and could increase if the trading price of our common stock declines at the time of any financing from its current levels. We may also attempt to raise funds through corporate collaboration and licensing arrangements. To the extent that we raise additional funds through collaboration and licensing arrangements, we may be required to grant licenses on terms that are not favorable to us. There can be no assurance that financing will be available in amounts or on terms acceptable to us, if at all. If we are unable to obtain the needed additional funding, we may have to further reduce our current level of operations, or may even have to totally discontinue our operations.

We are subject to many risks associated with early stage businesses, including the above discussed risks associated with the ability to raise capital. Please see the section entitled "Risk Factors" for more information regarding risks associated with our business.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2013:

	<b>Total</b>	<b>Payments due by period</b>		
		<b>Less than 1 year</b>	<b>1-3 years</b>	<b>More than 3 years</b>
1 <sup>st</sup> Debenture	\$ 53,438	\$ 53,438	\$ -	\$ -
2 <sup>nd</sup> Debenture	200,000	-	-	200,000
3 <sup>rd</sup> Debenture	477,000	-	477,000	-
Atlantic Note	112,500	112,500	-	-
BSM Note	30,000	30,000	-	-
<b>Total</b>	<b>\$ 872,938</b>	<b>\$195,938</b>	<b>\$477,000</b>	<b>\$200,000</b>

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Inflation

Inflation and changing prices have had no effect on our net sales and revenues or on our income from continuing operations over our two most recent fiscal years.

Critical Accounting Policies and Estimates

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgment.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

We have identified the following critical accounting policies that are most important to the portrayal of our financial condition and results of operations and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. The following is a review of the more critical accounting policies and methods used by us:

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 \$1,504,910 and \$1,217,509 for the years ended December 31, 2013 and 2012, respectively, has incurred losses since inception resulting in an accumulated deficit of \$15,435,865 as of December 31, 2013, and has negative working capital of approximately \$736,000 as of December 31, 2013. A significant part of our negative working capital position at December 31, 2013 consisted of \$306,250 of amounts due to officers and management of the Company for accrued wages. 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. Obtainment of additional financing or its attainment of profitable operations is 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.

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### Revenue Recognition

Revenues consist primarily of the sale of our the monthly service fee from subscribers of the GPS Shoe, our mobile tracking applications sold via the Apple iTunes Store and the Google Marketplace, the sale of GPS tracking devices and the related monthly service fees, licensing agreements, and the sale of Code Amber Alertags.

The Company recognizes revenue from product sales when the product is shipped to the customer and title has transferred. The Company recognizes application revenue when the application is purchased by the customer. The Company assumes no remaining significant obligations associated with the product sale other than that related to its warranty program discussed below. Revenue related to monthly service fees both for the GPS Shoes and GPS tracking devices, licensing agreements and annual subscriptions are recognized over the respective terms of the agreements.

Revenue from multiple-element arrangements is allocated to the elements based on the relative fair value of each element, which is generally based on the relative sales price of each element when sold separately. Each element's allocated revenue is recognized when the revenue recognition criteria for that element have been met. If the Company cannot objectively determine the fair value of any undelivered element included in a multiple-element arrangement, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

### Product Warranty

The Company's warranty policy provides repair or replacement of products (excluding GPS Shoe devices) returned for defects within ninety days of purchase. Warranty liabilities are recorded at the time of sale for the estimated costs that may be incurred under our standard warranty. As of December 31, 2013, products returned for repair or replacement have been immaterial. Accordingly, a warranty liability has not been deemed necessary. The GPS Shoe devices are covered under the manufacturer's standard limited warranty which covers any defects in materials and workmanship for a period of 12 months following the purchase of the device by the customer.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### 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.

The identification of, and accounting for, derivative instruments is complex. 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. That 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.

### Stock-based Compensation

Stock-based compensation expense is recorded for stock and stock options awarded in return for services rendered. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight-line basis, which is generally commensurate with the vesting period. The Company estimates forfeitures that it expects will occur and records expense based upon the number of awards expected to vest.

### Recently Issued Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, on testing for indefinite-lived intangible assets for impairment. The new guidance enables an entity to simplify the testing for a drop in value of intangible assets such as trademarks, patents, and distribution rights. The amended standard reduces the cost of accounting for indefinite-lived intangible assets, especially in cases where the likelihood of impairment is low. The changes permit businesses and other organizations to first use subjective criteria to determine if an intangible asset has lost value. The amendments to U.S. GAAP were effective for fiscal years starting after September 15, 2012. The Company's adoption of this accounting guidance does not have a material impact on the consolidated financial statements and related disclosures.

There were other updates recently issued, most of which represented technical clarifications and corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to a "smaller reporting company" as defined in Item 10(f)(1) of SEC Regulation.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by Item 8 are submitted in a separate section of this report, beginning on page 33, and are incorporated herein and made a part hereof.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

#### ITEM 9A.

#### CONTROLS AND PROCEDURES

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file with the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate, to allow for timely decisions regarding required disclosure. As required by SEC Rule 15d-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and financial

officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our principal executive and financial officers concluded that our disclosure controls and procedures are effective to ensure the information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed and reported within the time periods specified in the SEC's rules and forms.

#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 15d-15(f) under the Exchange Act, and for assessing the effectiveness of internal control over financial reporting.

Internal control over financial reporting is intended to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use, or disposition of our assets that could have a material effect on our financial statements.

Management, with the participation of our principal executive and financial officers, conducted an evaluation of the effectiveness of our internal control over financial reporting, as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this annual report.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during the annual reporting period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 9B.

OTHER INFORMATION

None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**  
Executive Officers and Directors. Each of our directors was elected by the stockholders and serves until his or her successor is elected and qualified.

The board of directors currently has no nominating or compensation committee at this time.

Our Chief Executive Officer serves pursuant to an employment agreement that was automatically extended for one year on March 14, 2014, and that will automatically be extended for successive one-year periods if not cancelled by either party. See “Item 10, Executive Compensation – Employment Agreements.”

The following table sets forth information regarding our executive officers and directors.

<b>Name</b>	<b>Position Held</b>	<b>Age</b>	<b>Date First Appointed</b>
Patrick E. Bertagna	President, Chief Executive Officer and Chairman of the Board	50	March 14, 2008
Alex McKean	Interim Chief Financial Officer	50	October 3, 2011
Christopher M. Walsh	Chief Operating Officer	64	March 14, 2008
Louis Rosenbaum	Director	63	March 14, 2008
Andrew Duncan	Director, Audit Committee Member, Corporate Secretary and Treasurer	49	April 2, 2010
Greg Provenzano	Director, Audit Committee Member	52	April 2, 2010
Patrick Aroff	Director	52	March 14, 2008

**Biographical Information**

The following describes the backgrounds of current executive officers and directors. Our Board of Directors has determined that all of our directors, other than Mr. Bertagna, are independent directors as defined in the NASDAQ rules governing members of boards of directors.

Mr. Bertagna is the sole director and the Chief Executive Officer of GTX California, LOCiMOBILE, Inc. and Code Amber News Service, Inc., and Mr. McKean is the Interim Chief Financial Officer of each of those subsidiaries.

**Patrick E. Bertagna – Director, Chief Executive Officer, President and Chairman of the Board**

Mr. Bertagna was the founder of GTX California in September 2002 and has since served as its Chief Executive Officer, President and Chairman of the Board of Directors of GTX. He is co-inventor of our patented GPS footwear technology. His career spans over 30 years in building companies in both technology and consumer branded products.

Mr. Bertagna began his career in consumer products importing apparel from Europe and later went on to import and manufacture apparel, accessories and footwear in over 20 countries. In 1993, Mr. Bertagna transitioned into technology and founded Barcode World, Inc. a supply chain software company, enabling accurate tracking of consumer products from design to retail. In June 2002 after selling this company, Mr. Bertagna combined his two past careers in consumer products and tracking technology and founded GTX.

Mr. Bertagna was born in the South of France and is fluent in French and Spanish, has formed alliances with Fortune 500 companies such as IBM, AT&T, Sports Authority, Federated Stores, Netscape and GE. He has been a keynote speaker and has been awarded several patents.

Mr. Bertagna has extensive knowledge of: the manufacturing industry, internet software development, building intellectual property and overall experience in growing early stage high-tech companies. As a founder of GTX California and co-inventor of the GPS Shoe, this knowledge enables Mr. Bertagna to be uniquely qualified to be on the Board of Directors.

Alex McKean – Interim Chief Financial Officer

Mr. McKean was appointed as our Interim Chief Financial Officer in October 2011, a position that he has agreed to hold until a replacement CFO is identified. He is currently also the Chief Financial Officer of Encore Brands, Inc., a position he has held since October 2009. Previous to that, he acted as an independent management consultant under his own firm, McKean Financial Consulting as well as an independent contractor with Robert Half International and Ajilon Finance. Prior to establishing his own firm, during 2004-2007 Mr. McKean was with Parson Consulting working in such areas as: strategy, financial modeling, SEC filings, process management and Sarbanes Oxley. Mr. McKean has held positions as a Controller and VP of Finance at 24:7 Film from 2002-2004, VP of Finance at InternetStudios.com from 2000-2002, Director of FP&A/SVP at Franchise Mortgage Acceptance Company from 1998-2000, as Corporate Accounting Manager/Treasurer of Polygram Filmed Entertainment from 1996-1998 and Assistant Treasurer/Controller for State Street Bank from 1989-1996.

Mr. McKean holds an International MBA from Thunderbird's School of Global Management and undergraduate degrees in Finance and Political Science from Trinity University.

Christopher M. Walsh - Chief Operating Officer

Mr. Walsh joined this company as its Chief Operating Officer in March 2008. Mr. Walsh began his career with Nike in 1974 and subsequently established and implemented Nike's first manufacturing operation in the Far East. In 1989, Mr. Walsh joined Reebok International as Vice President of Production. In that role he established the Company's inaugural Asian organization headquartered in Hong Kong with satellite organizations across Asia, and also played a critical role on the Reebok Pump Task Force directing the manufacturing initiatives associated with the unique components of the Pump system. After Reebok, Mr. Walsh moved to LA Gear in 1992 and, as Chief Operating Officer, became a critical figure in the turnaround team assembled by LA Gear and was responsible for all research and development, design, manufacturing, sourcing, quality control, distribution and logistics.

Upon leaving LA Gear in 1995, Mr. Walsh founded CW Resources, a Los Angeles based firm providing design, development, manufacturing and licensing consulting services to an extensive client base, both domestic and international, within the footwear, apparel, textile, sporting goods and action sports industries. Since January 2005, he has served as an advisor to GTX California spearheading their footwear research and development and marketing practices.

Mr. Walsh received a B.S. in Marketing from Boston College in 1973 and previously served on numerous organizational boards within the footwear and textile industries including The Two Ten International Footwear Foundation and The Footwear Distributors and Retail Association.

Louis Rosenbaum - Director

Mr. Rosenbaum served as a member of GTX California's Board of Directors from September 2002 until June 2005 and then again from October 2007 until March 2008, at which time he became a director of GTX Corp. Mr. Rosenbaum was a founder of GTX California and an early investor in GTX California.

Mr. Rosenbaum has been the President of Advanced Environmental Services since July 1997. His responsibilities at Advanced Environmental Services encompass supervising all administrative and financial activities, including all contractual aspects of the business. Mr. Rosenbaum has been working in the environmental and waste disposal industry for the past eighteen years. He started with Allied Waste Services, a division of Eastern Environmental (purchased by Waste Management Inc. in 1998) in 1990.

Mr. Rosenbaum founded and was President of Elements, a successful clothing manufacturer that produced a line of upscale women's clothing in Hong Kong, China, Korea and Italy, from 1978 to 1987.

Mr. Rosenbaum has a long history in the consumer products industry, electronics and software sales and development. Mr. Rosenbaum is a co-founder of GTX Corp, was the first large investor and has assisted in the overall vision and development of the Company since inception. Mr. Rosenbaum has served on numerous private and community public boards and this unique blend of experience and history, combined with his strategic and tactical insight, makes Mr. Rosenbaum an asset to the GTX Corp Board.

Andrew Duncan – Director, Member of Audit Committee, Corporate Secretary and Treasurer

Mr. Duncan has been working in the consumer electronics and technology licensing business for over 20 years. Since 2006 he has been the CEO of ClearPlay International, a software licensing company. Prior thereto, he founded Global TechLink Consultants Inc., a technology consultancy company, specializing in technology licensing, multimedia, communication and application technology on a global basis, including Interactive TV, Digital downloads/streaming

and Consumer Electronics. From 1994 to 2001, Mr. Duncan worked as Vice President Consumer Electronics for Gemstar TV Guide International (Los Angeles USA).

Mr. Duncan earned his honors degree in Chemistry from Nottingham University and postgraduate qualifications in Marketing and Direct Marketing from London University (Kings College). He also has a Certificate of Business Management from the Anderson School of Business UCLA.

Mr. Duncan's experience in global intellectual property, branding and licensing, uniquely qualifies him to serve on our Board. Mr. Duncan's long involvement in global business development, with an extensive background working in both Europe and Asia as a business strategist for major corporations, directly assists the Board in its international strategic planning objectives and activities.

Greg Provenzano – Director, Member of Audit Committee

Mr. Provenzano has spent over 30 years in the electronic components and design solutions business. He currently is the Vice President of Global Engineering at Arrow Electronics. Prior to his current position, he was President of WPG Americas and from July 2002 until July 2005, Mr. Provenzano served as Senior Vice President and Regional President of Memec Americas (now AVNET Electronics Company). From 1997 until 2002, he was President and Chief Executive Officer of Memec Insight, Inc.

Mr. Provenzano holds a B.A. from the University of California, Santa Barbara and an M.B.A. from Pepperdine University.

Mr. Provenzano is currently working in the hardware, computer and electronics industry and brings to the board a long career and deep knowledge of the electronics hardware business, sourcing, manufacturing and finance. Mr. Provenzano is a valuable and strategic member of the GTX Board and brings direct expertise in operations, contract negotiations, human resource recruiting and management.

Patrick Aroff - Director

Mr. Aroff was an initial investor in GTX California and has been an advisor to GTX California since September 2002. He served as a member of GTX California's Board of Directors from October 2007 until March 14, 2008, at which time he became a director of GTX Corp. Mr. Aroff has worked and held positions in most every facet of marketing and advertising, including producing and directing commercials for television and radio. Mr. Aroff has won numerous awards nationally and internationally for marketing, design, advertising and art direction.

After leaving a successful advertising career of 18 years in June 2003, Mr. Aroff started a residential and commercial real estate development company. In June 2004, Mr. Aroff co-founded Encore Brands, LLC, a beverage company, where he served as its Chief Executive Officer and a Managing Member until October 2008. Since 2008 Mr. Aroff has been providing brand consulting and development services to the beverage industry including formula concepts, brand names, packaging and marketing.

Mr. Aroff received his education at the Art Center College of Design in Pasadena and has garnered numerous awards during his career, including: Clio, Belding, New York Ad Club, Best in the West, Cannes International Ad Festival, and an OBIE.

Mr. Aroff has experience in both small entrepreneurial start-up companies and large corporations. He has founded several companies and has over 18 years of marketing and advertising experience in large companies, which assists the board as the company commercialized its current and future products.

### **Director Qualifications and Diversity**

Our Board of Directors has not adopted a formal policy with regard to the consideration of diversity when evaluating candidates for election to the Board. However, our Board believes that membership should reflect diversity in its broadest sense, but should not be chosen nor excluded based on race, color, gender, national origin or sexual orientation. In this context, the Board does consider a candidate's experience, education, industry knowledge, history with the Company, and differences of viewpoint when evaluating his or her qualifications for election to the Board. Whenever our Board evaluates a potential candidate, the Board considers that individual in the context of the composition of the Board as a whole.

The standards that our Board considers in selecting candidates (although candidates need not possess all of the following characteristics, and not all factors are weighted equally) include the director's or nominee's, Industry knowledge and contacts in industries served by the Company, independent judgment, ability to broadly represent the interests of all stockholders and other constituencies, maturity and experience in policy making decisions, business skills, background and relevant expertise that are useful to the company and its future needs, and other factors determined to be relevant by the Board.

## Family Relationships

There are no family relationships among the Company's directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers.

## Code of Business Conduct and Ethics.

We have adopted a Code of Business Conduct and Ethics (the "Code") that applies to our directors, officers and employees, including our principal executive officer and principal financial and accounting officer. A copy of our code of ethics will be furnished without charge to any person upon written request. Requests should be sent to: Secretary, GTX Corp, 117 W. 9th Street, #1214 Los Angeles, California 90015.

## Compliance with Section 16(a) of the Exchange Act.

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers and directors, and persons who own more than 10% of a registered class of the company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Executive officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of reporting forms received by the company, the company believes that the following Forms 3 and 4 were filed later than is required under Section 16(a) of the Securities Exchange Act of 1934:

On February 11, 2013, several of our directors and officers were granted shares for services, for which Form 4s were not timely filed. On February 19, 2013, Form 4s were filed for each officer and director for the issuances: Patrick Bertagna – 200,000 shares, Patrick Aroff – 200,000 shares, Andrew Duncan – 200,000 shares, Louis Rosenbaum 200,000. On April 5, 2013 a Form 4 was filed for 200,000 shares granted to Greg Provenzano.

On February 11, 2013, Greg Provenzano was granted 200,000 shares of our common stock for services rendered, however a Form 4 was not timely filed. On April 8, 2013 a Form 4 was filed for Mr. Provenzano.

On April 16, 2013, Patrick Bertagna, Chris Walsh and Andrew Duncan were each granted 250,000 shares of our common stock for services rendered, however a Form 4 was not timely filed. On September 19, 2013 a Form 4 was filed for each of the individuals.

On March 17, 2014, several of our directors and officers were granted shares for services, for which Form 4s were not timely filed. On April 9, 2014, Form 4s were filed for each officer and director for the issuances: Patrick Bertagna – 275,000 shares, Patrick Aroff – 275,000 shares, Andrew Duncan – 275,000 shares, Louis Rosenbaum - 275,000 shares, Greg Provenzano – 275,000 shares. Additionally, Mr. Duncan had transferred 100,000 shares of common stock to a third party on November 12, 2013 for which a Form 4 had not been filed. The transfer was included in Mr. Duncan's Form 4 filed on April 9, 2014.

## ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table. The following table sets forth the compensation for the fiscal years ended December 31, 2013 and 2012 for services rendered to us by all persons who served as our Chief Executive Officer and our Chief Financial Officer and most highly compensated executive officers other than our Chief Executive Officer and Chief Financial Officer (collectively, the "Named Executive Officers") who received compensation in excess of \$100,000 in 2012.

### Summary Compensation Table

**Salary Bonus**

**Total**

Name and Principal Position	Fiscal Year Ended 12/31	(\$)	(\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$) <sup>(4)</sup>	(\$)
<b>Patrick Bertagna</b> <sup>(1)</sup>	2013	150,000	-	160,383	-	10,304	320,687
	2012	150,000	33,933	37,287	-	12,995	234,215
<b>Alex McKean</b> <sup>(2)</sup>	2013	10,000	-	4,500	-	-	14,500
	2012	20,502	-	-	-	-	20,502
<b>Christopher Walsh</b> <sup>(3)</sup>	2013	25,500	-	24,750	-	-	50,250
	2012	96,000	-	8,000	-	-	104,000

Mr. Bertagna, our Chief Executive Officer has agreed to accrue portions of his salary in an effort to preserve cash for other working capital needs of the Company. As of December 31, 2013 and 2012 \$94,916 and \$135,250, respectively, of Mr. Bertagna's salary was accrued for such purposes. Mr. Bertagna was granted 200,000 shares of common stock on February 11, 2013 which vested ratably throughout 2013 with a weighted average fair value of \$0.019 per share, 500,000 shares of common stock valued at \$0.032 per share on March 28, 2013, 250,000 shares of common stock valued at \$0.019 per share on April 16, 2013, 5,250,000 shares of common stock valued at \$0.010<sup>(1)</sup> per share on September 13, 2013, and 4,166,667 shares of common stock valued at \$0.02 per share on October 22, 2013. During 2012, Mr. Bertagna was granted 931,250 shares of common stock (of which 750,000 shares represented a bonus) on April 15, 2012 which vested ratably throughout 2012 with a weighted average fair value of \$0.046 per share, 200,000 shares of common stock valued at \$0.04 per share on June 22, 2012, and 1,000,000 shares of common stock valued at \$0.02 per share on October 2, 2012. During 2013, 9,916,667 of the shares issued to Mr. Bertagna, were issued as payment for accrued wages valued at \$154,083. During 2012, 1,200,000 of the shares issued to Mr. Bertagna, were issued as payment for accrued wages valued at \$28,000.

Mr. McKean, our Interim Chief Financial Officer has agreed to accrue portions of his salary in an effort to preserve cash for other working capital needs of the Company. As of December 31, 2013 and 2012 \$9,670 and \$12,170 was<sup>(2)</sup> owed to Mr. McKean for his services as our Interim Chief Financial Officer. Mr. McKean was granted 100,000 shares of common stock valued at \$0.02 per share on January 23, 2013 and 250,000 shares of common stock valued at \$0.01 per share on September 17, 2013 as payment for accrued wages.

Mr. Walsh, our Chief Operating Officer, has agreed to accrue portions of his salary in an effort to preserve cash for other working capital needs of the Company. As of December 31, 2013 and 2012, \$117,750 and \$117,000,<sup>(3)</sup> respectively of Mr. Walsh's salary was owed to Mr. Walsh for his services as COO. Mr. Walsh was granted 250,000 shares of common stock valued at \$0.019 per share on April 16, 2013 and 2,000,000 shares of common stock on September 17, 2013 valued at \$0.01 per share as payment for accrued wages. Mr. Walsh was granted 200,000 shares of common stock valued at \$0.04 per share on June 22, 2012 as payment for accrued wages.

<sup>(4)</sup> The values shown in this column include additional employee benefits paid including travel, health insurance, auto lease payments and cellular phone service.



## Outstanding Equity Awards

The following table sets forth information as of December 31, 2013 concerning unexercised options, unvested stock and equity incentive plan awards for the Named Executive Officers.

### Outstanding Equity Awards at Fiscal Year-End

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity	Equity	Equity
								Incentive Plan Awards: Number of Shares, Units or Other rights That Have Not Vested (#)	Incentive Plan Awards: Number of Shares, Units or Other rights That Have Not Vested (#)	Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
Patrick Bertagna	12,493 <sup>(1)</sup>	--	--	\$.75/share	2012-2014	--	--	--	--	--
	30,000 <sup>(2)</sup>	--	--	\$.17/share	2013-2014	--	--	--	--	--
	18,750 <sup>(3)</sup>	--	--	\$.17/share	2013-2014	--	--	--	--	--
Christopher Walsh	30,000 <sup>(2)</sup>	--	--	\$.17/share	2013-2014	--	--	--	--	--

For his services as a member of the board of directors, on March 16, 2008 Patrick Bertagna received an option to purchase up to 150,000 shares of common stock at \$0.75 per share. Options to purchase 50,000 shares vested on (1) March 16, 2009, and the remaining options to purchase 100,000 vest at a rate of 4,167 each month for the 23 months beginning on April 16, 2009 and the remaining 4,159 Options vested on March 16, 2011. The options expire on the third anniversary of the vesting date.

On March 24, 2010, each officer received an option to purchase up to 120,000 shares of common stock at \$0.17 per (2) share. The 120,000 options vested at a rate of 10,000 each month for the 12 months beginning on April 1, 2010. The options expire on the third anniversary of the vesting date.

(3) For his services as a member of the board of directors, on March 24, 2010 Patrick Bertagna received an option to purchase up to 75,000 shares of common stock at \$0.17 per share. The 75,000 options vest at a rate of 6,250 each

month for the 12 months beginning on April 1, 2010. The options expire on the third anniversary of the vesting date.

### Long-Term Incentive Plans

There are no arrangements or plans in which we provide pension, retirement or similar benefits for directors or executive officers.

### Director Compensation

We have no formal plan for compensating our directors for their service in their capacity as directors although such directors are expected to receive shares of common stock and/or options in the future to purchase common shares as awarded by our Board of Directors or (as to future options) a Compensation Committee which may be established in the future. Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meetings of our Board of Directors. Our Board of Directors may award special remuneration to any director undertaking any special services on behalf of our company other than services ordinarily required of a director.

The following table summarizes the compensation of each of our directors who is not also a named executive officer for their service as a director for the year ended December 31, 2013. The compensation of Mr. Bertagna, who serves as a director and as our Chief Executive Officer, is described above in the Summary Compensation Table.

### DIRECTOR COMPENSATION

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation (\$)	Total (\$)
Louis Rosenbaum <sup>(1)</sup>	--	6,300	--	N/A	N/A	N/A	6,300
Andrew Duncan <sup>(2)</sup>	--	6,300	--	N/A	N/A	N/A	6,300
Greg Provenzano	--	6,300	--	N/A	N/A	N/A	6,300
Patrick Aroff	--	6,300	--	N/A	N/A	N/A	6,300

Mr. Rosenbaum also provides consulting services to the Company. During 2013, Mr. Rosenbaum earned \$22,750 relating to such services of which \$8,000 remained accrued as of December 31, 2013 in an effort to conserve cash for working capital needs. During 2013, Mr. Rosenbaum was granted 1,400,000 shares of common stock valued at \$18,750 as payment for consulting services earned in 2012 and 2013.

<sup>(2)</sup>Mr. Duncan also provides consulting services to the Company. During 2013, Mr. Duncan earned \$30,000 relating to such services of which \$42,250 remained accrued as of December 31, 2013 (consists of amounts earned in 2012 and 2013) in an effort to conserve cash for working capital needs. During 2013, Mr. Duncan was granted 2,350,000

shares of common stock valued at \$26,850 as payment for consulting services.

On March 17, 2014, we issued a total of 750,000 shares of common stock to our board of directors for their continued service on the Board during 2014. The shares include repurchase rights whereby the Company retains the rights to acquire the shares from the stock recipients. Such repurchase rights lapse ratably over twelve months at a rate of 1/12<sup>th</sup> per month beginning on January 1, 2014. We also issued to each board member 125,000 shares of common stock (total of 625,000 shares, valued at \$12,500) as compensation for their attendance at a board meeting.

## Employment Agreements

The following are summaries of the employment agreements with the Company's executive officers:

Patrick E. Bertagna, our Chief Executive Officer and President, is employed pursuant to a written agreement dated as of March 14, 2008. The agreement was for a term of two years, but contained a provision under which the agreement is automatically extended for additional one-year periods unless either party provides written notice to the contrary at least 60 days prior to the end of the term then in effect. As such, Mr. Bertagna receives a base salary of \$150,000 per year; however, in order to preserve cash for other working capital needs, Mr. Bertagna has agreed to accrue portions of his salary in the past and he is continuing to do so in 2014. He is entitled to adjustments to his base salary based on certain performance standards, at the Company's discretion, as follows: (i) a bonus in an amount not less than fifteen percent (15%) of yearly salary, to be paid in cash or stock, if the Company has an increase in annual revenues and Mr. Bertagna performs his duties within the time frame budgeted for such duties at or below the cost budgeted for such duties and (ii) a bonus, to be paid in cash or stock at the Company's sole discretion, equal to \$12,500 for every one million of the Company's outstanding common stock purchase warrants that are exercised.

Mr. Bertagna may also participate in any and all benefits and perquisites as are generally provided for the benefit of executive employees. The agreement terminates on his death, incapacity (after 180 days), resignation or cause as defined in the agreement. If he is terminated without cause, he is entitled to base salary, all bonuses otherwise applicable, and medical benefits for twelve months.

Alex McKean, became the Company's Interim Chief Financial Officer on October 3, 2011 and is not employed pursuant to a formal employment agreement. Mr. McKean has agreed to serve as our interim CFO until a new CFO is identified.

Christopher M. Walsh, our Chief Operating Officer, is employed pursuant to a written agreement dated as of March 14, 2008. The agreement has a term of two years; provided however, that it is automatically extended for additional one-year periods unless either party provides written notice to the contrary at least 60 days prior to the end of the term then in effect. Mr. Walsh accrued a salary of \$25,500 and \$96,000 during 2013 and 2012, respectively, however, in order to preserve cash for other working capital needs, Mr. Walsh has agreed to accrue portions of his salary and he is continuing to do so in 2014. He is entitled to adjustments to his base salary based on certain performance standards, at the Company's discretion, as follows: (i) a bonus in an amount not to exceed fifty percent (50%) of yearly salary, to be paid in cash or stock, if the Company has an increase in annual revenues and Mr. Walsh performs his duties within the time frame budgeted for such duties at or below the cost budgeted for such duties and (ii) a bonus, to be paid in cash or stock at the Company's sole discretion, equal to \$10,000 for every one million of the Company's outstanding common stock purchase warrants that are exercised.

Mr. Walsh may also participate in any and all benefits and perquisites as are generally provided for the benefit of executive employees. The agreement terminates on his death, incapacity (after 180 days), resignation or cause as defined in the Agreement. If he is terminated without cause, he is entitled to base salary, all bonuses otherwise applicable, and medical benefits for twelve months.

## 2008 Equity Compensation Plan

We have adopted an equity incentive plan, the 2008 Equity Compensation Plan (the "2008 Plan"), pursuant to which we are authorized to grant options, restricted stock, unrestricted stock, and stock appreciation rights to purchase up to 7,000,000 shares of common stock to our employees (as such term is defined in the 2008 Plan), officers, directors and consultants. Awards under the 2008 Plan may consist of stock options (both non-qualified options and options intended to qualify as "Incentive Stock Options" under Section 422 of the Internal Revenue Code of 1986, as amended), restricted and unrestricted stock awards and stock appreciation rights.

The 2008 Plan is administered by our Board of Directors or a committee appointed by the Board (the “Committee”). If appointed by the Board, the committee would consist of at least two members of the Board whose members shall, from time to time, be appointed by the Board. The Committee has the authority to interpret the 2008 Plan, to prescribe, amend, and rescind rules and regulations relating to it, to determine the persons to whom awards will be granted, the type of award to be granted, the number of awards to be granted, and the terms and provisions of stock options granted pursuant to the 2008 Plan, including the vesting thereof, subject to the provisions of the 2008 Plan, and to make all other determinations necessary or advisable for the administration of the 2008 Plan.

The 2008 Plan provides that the purchase price of each share of common stock subject to an incentive stock option may not be less than 100% of the fair market value (as such term is defined in the 2008 Plan) of a share of our common stock on the date of grant (or not less than 110% of the fair market value in the case of a grantee holding more than 10% of our outstanding common stock). The aggregate fair market value (determined at the time the option is granted) of the common stock with respect to which incentive stock options are exercisable for the first time by the employee during any calendar year (under all such plans of the grantee’s employer corporation and its parent and subsidiary corporation) shall not exceed \$100,000. No incentive stock option shall be exercisable later than the tenth anniversary of its grant; provided, however, that an incentive stock option granted to an employee holding more than 10% of our outstanding common stock shall not be exercisable later than the fifth anniversary of its grant.

The Committee shall determine the purchase price of each share of common stock subject to a non-qualified stock option. Such purchase price, however, shall not be less than 100% of the fair market value of the common stock on the date of grant. No non-qualified stock option shall be exercisable later than the tenth anniversary of its grant.

The plan also permits the grant of stock appreciation rights in connection with the grant of an incentive stock option or a non-qualified stock option, or unexercised portion thereof held by the grantee. The grant price of a stock appreciation right shall be at least at the fair market value of a share on the date of grant of the stock appreciation right, and be subject to such terms and conditions, not inconsistent with the provisions of the 2008 Plan, as shall be determined by the Committee. Each stock appreciation right may include limitations as to the time when such stock appreciation right becomes exercisable and when it ceases to be exercisable, which may be more restrictive than the limitations on the exercise of the stock option to which it relates. No stock appreciation right shall be exercisable with respect to such related stock option or portion thereof unless such stock option or portion shall itself be exercisable at that time. A stock appreciation right shall be exercised only upon surrender of the related stock option or portion thereof in respect of which the stock appreciation right is then being exercised. Upon the exercise of a stock appreciation right, a grantee shall be entitled to receive an amount equal to the product of (i) the amount by which the fair market value of a share of common stock on the date of exercise of the stock appreciation right exceeds the option price per share specified in the related incentive or non-qualified stock option and (ii) the number of shares of common stock in respect of which the stock appreciation right shall have been exercised. Further, a stock appreciation right shall be exercisable during the grantee's lifetime only by the grantee.

The 2008 Plan also provides us with the ability to grant shares of common stock that are subject to certain transferability, forfeiture or other restrictions. The recipient of restricted stock grants, the type of restriction, the number of shares of restricted stock granted and other such provisions shall be determined by the Committee. The Board, in good faith and in its sole discretion, shall determine the fair market value with regards to awards of restricted stock.

The 2008 Plan also provides us with the ability to grant shares of unrestricted stock. The Committee shall determine and designate from time to time those persons who are to be granted unrestricted stock and number of shares of common stock subject to such grant. The Board, in good faith and in its sole discretion, shall determine the fair market value with regards to awards of unrestricted stock. The grantee shall hold common stock issued pursuant to an unrestricted stock award free and clear of all restrictions, except as otherwise provided in the 2008 Plan.

Unless otherwise determined by the Committee, awards granted under the 2008 Plan are not transferable other than by will or by the laws of descent and distribution.

The 2008 Plan provides that in the event of a merger or change of control, the Committee may substitute stock options, stock awards and stock appreciation rights of the acquired company. Alternatively, the Committee may provide that the stock options, stock awards and stock appreciation rights shall terminate following notice by the Committee.

The Board may, at any time, alter, amend, suspend, discontinue, or terminate the 2008 Plan; provided, however, that such action shall not adversely affect the right of grantees to stock awards or stock options previously granted and no amendment, without the approval of the stockholders of the Corporation, shall increase the maximum number of shares which may be awarded under the 2008 Plan in the aggregate, materially increase the benefits accruing to grantees under the 2008 Plan, change the class of employees eligible to receive options under the 2008 Plan, or materially modify the eligibility requirements for participation in the 2008 Plan.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information as of April 9, 2014, regarding the beneficial ownership of our common stock by (i) each stockholder known by us to be the beneficial owner of more than five percent of our common stock, (ii) by each of our executive officers named in the Summary Compensation Table and our directors and (iii) by all of our executive officers and directors as a group. Each of the persons named in the table has sole voting and investment power with respect to common stock beneficially owned. Unless otherwise noted in the table, the address for each of the persons identified is 117 W 9<sup>th</sup> Street; Suite 1214, Los Angeles, CA 90015. Beneficial ownership is calculated based upon 142,002,593 shares of common stock issued and outstanding as of April 9, 2014.

Name and Address of Beneficial Owner	<b>Amount and Nature of Beneficial Ownership<sup>(1)</sup></b>	Percent of Common Stock
Patrick E. Bertagna <sup>(2)</sup> CEO and Chairman of the Board	17,812,045 shares	12.54 %
Alex McKean <sup>(3)</sup> Interim Chief Financial Officer	570,000 shares	0.40 %
Christopher Walsh Chief Operating Officer	4,161,836 shares	2.93 %
Louis Rosenbaum <sup>(3)</sup> Director	4,946,415 shares	3.48 %
Andrew Duncan Director, Corporate Secretary and Treasurer	5,026,579 shares	3.54 %
Greg Provenzano Director	1,156,908 shares	0.81 %
Patrick Aroff Director	1,402,825 shares	0.99 %
All directors and named executive officers as a group (7 persons)	35,076,608 shares <sup>(4)</sup>	24.70 %

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<sup>(1)</sup> Under Rule 13d-3, a beneficial owner of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares: (i) voting power, which includes the power to vote, or to direct the voting of shares; and (ii) investment power, which includes the power to dispose or direct the disposition of shares. Certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire the shares (for example, upon

exercise of an option) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares outstanding is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of these acquisition rights. As a result, the percentage of outstanding shares of any person as shown in this table does not necessarily reflect the person's actual ownership or voting power with respect to the number of shares of common stock actually outstanding.

The 17,812,045 shares beneficially owned consist solely of common stock. To further secure the Company's obligations under the Debentures discussed in the "*Liquidity and Capital Resources*" section included in Item 7 above, Mr. Bertagna, has pledged 13,180,378 shares of his common stock pursuant to a stock pledge agreement (the (2) "Pledge Agreement") executed by Mr. Bertagna in favor of the Fund. Upon the breach of any provision in the Pledge Agreement or upon the occurrence of any default event under the Debentures, the Fund may exercise any rights and remedies available, including, but not limited to, sale, assignment or other disposal of any or all of the pledged securities in exchange for cash or credit.

(3) The 4,946,415 shares beneficially owned include 4,696,415 shares of common stock and 250,000 stock options.

(4) Includes 250,000 shares of our common stock issuable upon exercise of options.

Changes in Control. We are not aware of any arrangements which may result in "changes in control" as that term is defined by the provisions of Item 403 of Regulation S-K.



ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Director Independence. Four of our five directors are independent within the definition of “independence” as defined in the Nasdaq rules governing members of boards of directors.

Related Party Transactions. There have been no related party transactions, or any other transactions or relationships required to be disclosed pursuant to Item 404 of Securities and Exchange Commission Regulation S-K.

With regard to any future related party transaction, we plan to fully disclose any and all related party transactions in the following manner:

disclosing such transactions in reports where required;  
disclosing in any and all filings with the SEC, where required;  
obtaining disinterested directors consent; and  
obtaining stockholder consent where required.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The Audit Committee has appointed LBB & Associates Ltd., LLP as our independent registered public accounting firm. The following table shows the fees that were paid or accrued by us for audit and other services provided by LBB & Associates Ltd., LLP:

	2013	2012
Audit Fees <sup>(1)</sup>	\$47,497	\$44,590
Audit-Related Fees <sup>(2)</sup>	-	-
Tax Fees <sup>(3)</sup>	-	-
All Other Fees	-	-
Total	\$47,497	\$44,590

Audit fees represent fees for professional services provided in connection with the audit of our annual financial statements and the review of our quarterly financial statements and those services normally provided in connection with statutory or regulatory filings or engagements including comfort letters, consents and other services related to SEC matters. This information is presented as of the latest practicable date for this annual report.

Audit-related fees represent fees for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and not reported above under “Audit Fees.” This category primarily includes services relating to our Registration Statement filed with the Securities Exchange Commission during 2011.

<sup>(3)</sup> LBB & Associates Ltd., LLP does not provide us with tax compliance, tax advice or tax planning services.

All audit related services, tax services and other services rendered by LBB & Associates Ltd., LLP were pre-approved by our Board of Directors or Audit Committee. The Audit Committee has adopted a pre-approval policy that provides for the pre-approval of all services performed for us by LBB & Associates Ltd., LLP. The policy authorizes the Audit Committee to delegate to one or more of its members pre-approval authority with respect to permitted services. Pursuant to this policy, the Board delegated such authority to the Chairman of the Audit Committee.

**PART IV**

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

EXHIBIT INDEX

The Company's financial statements and related notes thereto are listed and included in this Annual Report beginning on page 33. The following exhibits are filed with, or are incorporated by reference into, this Annual Report.

Exhibit Number	Description
3.1	Articles of Incorporation of the Registrant filed with the State of Nevada on April 7, 2006 <sup>(2)</sup>
3.2	Amended and Restated Bylaws of the Registrant <sup>(3)</sup>
4.1	2008 Equity Compensation Plan <sup>(7)</sup>
10.1	Employment Agreement between the Registrant and Patrick E. Bertagna dated March 14, 2008 <sup>(3)</sup>
10.2	Employment Agreement between the Registrant and Christopher M. Walsh dated March 14, 2008 <sup>(3)</sup>
10.4	Registration Rights Agreement, dated November 16, 2009, between the Registrant and Dutchess Equity Fund, LP. <sup>(6)</sup>
10.5	Form of Securities Purchase Agreement (August 2011 Private Placement) <sup>(8)</sup>
10.6	Form of Warrant Agreement (August 2011 Private Placement) <sup>(8)</sup>
10.7	Form of Subscription Application (August 2011 Private Placement) <sup>(8)</sup>
10.8	Securities Purchase Agreement by and between GTX Corp and 112359 Factor Fund, LLC, dated September 19, 2013 <sup>(9)</sup>
10.9	Secured Amended & Restated Convertible Debenture by and between GTX Corp and 112359 Factor Fund, LLC, dated September 19, 2013, in principal amount of \$123,394 <sup>(9)</sup>
10.10	Secured Convertible Debenture by and between GTX Corp and 112359 Factor Fund, LLC, dated September 19, 2013, in the principal amount of \$200,000 <sup>(9)</sup>
10.11	Secured Convertible Debenture by and between GTX Corp and 112359 Factor Fund, LLC, dated September 19, 2013, in the principal amount of \$901,000 <sup>(9)</sup>
10.12	Security Agreement by and between GTX Corp and its subsidiaries and 112359 Factor Fund, LLC, dated September 19, 2013 <sup>(9)</sup>
10.13	Pledge Agreement by and between Patrick Bertagna, GTX Corp and 112359 Factor Fund, LLC, dated September 19, 2013 <sup>(9)</sup>
14.1	Code of Business Conduct and Ethics <sup>(3)</sup>
21.1	Subsidiaries <sup>(4)</sup>
23.1	Consent of LBB & Associates Ltd., LLP <sup>(1)</sup>
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act <sup>(1)</sup>
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act <sup>(1)</sup>
32.1	Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002 <sup>(1)</sup>
101.INS	XBRL Instance Document <sup>(10)</sup>
101.SCH	XBRL Taxonomy Extension Schema <sup>(10)</sup>
101.CAL	XBRL Taxonomy Extension Calculation <sup>(10)</sup>
101.DEF	XBRL Taxonomy Extension Definition <sup>(10)</sup>
101.LAB	XBRL Taxonomy Extension Labels <sup>(10)</sup>
101.PRE	XBRL Taxonomy Extension Presentation <sup>(10)</sup>

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Filed herewith.

(1)

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- (2) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 as filed December 12, 2006.
- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 20, 2008.
- (4) Incorporated by reference to the Registrant's Annual Report on Form 10-K dated March 20, 2009.
- (5) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 18, 2009.
- (6) Incorporated by reference to the Registrant's Current Report on Form 8-K dated March 17, 2010.
  
- (7) Previously filed on May 22, 2008 as an exhibit to our Registration Statement on Form S-8, File No. 333-151114 and incorporated herein by reference.  
  
Previously filed on October 3, 2011 as part of the Registrant's Registration Statement on Form S-1 (File No. 333-177146) and incorporated herein by reference.
- (8) Incorporated by reference to the Registrant's Current Report on Form 8-K dated September 25, 2013.  
In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K is furnished and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other
- (10) document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GTX Corp**

**(Registrant)**

Date: April 9, 2014 By: /s/ Patrick E. Bertagna  
Patrick E Bertagna  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Name</b>	<b>Title</b>	<b>Date</b>
<u>/s/ Patrick E. Bertagna</u>	Chief Executive Officer and Director (Principal Executive Officer)	April 9, 2014
<u>/s/ Alex McKean</u>	Interim Chief Financial Officer (Principal Accounting Officer)	April 9, 2014
<u>/s/ Patrick Aroff</u>	Director	April 9, 2014
<u>/s/ Louis Rosenbaum</u>	Director	April 9, 2014
<u>/s/ Greg Provenzano</u>	Director	April 9, 2014
<u>/s/ Andrew Duncan</u>	Director , Treasurer, Secretary	April 9, 2014

LBB & ASSOCIATES LTD., LLP

10260 Westheimer Road, Suite 310

Houston, TX 77042

Phone: (713) 800-4343 Fax: (713) 456-2408

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors of

GTX Corp

Los Angeles, CA

We have audited the accompanying consolidated balance sheets of GTX Corp (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of GTX Corp as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company's recurring losses from operations and its likely need for additional financing in order to meet its financial obligations raise substantial doubt about its ability to continue as a going concern. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

LBB & Associates Ltd., LLP

Houston, Texas

April 9, 2014

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GTX CORP AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$64,754	\$30,649
Accounts receivable, net	1,892	6,069
Inventory	766	1,557
Other current assets	27,740	8,113
Total current assets	95,152	46,388
Property and equipment, net	7,722	108,635
Intangible assets	82,222	25,972
Total assets	\$185,096	\$180,995
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$340,226	\$231,633
Accrued expenses - related parties	306,250	392,834
Deferred revenues	18,991	28,722
Short-term debt	—	23,000
Short-term debt - related party	4,000	—
Convertible promissory note, net of discount	90,797	3,541
Derivative liabilities	70,535	30,380
Total current liabilities	830,799	710,110
Long-term convertible debt	237,672	—
Long-term derivative liabilities	411,708	—
Total liabilities	1,480,179	710,110
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$0.001 par value; 2,071,000,000 shares authorized; 131,352,518 and 85,401,372 shares issued and outstanding at December 31, 2013 and 2012,	131,352	85,401

respectively

Additional paid-in capital	14,009,430	13,316,439
Accumulated deficit	(15,435,865)	(13,930,955)
Total stockholders' deficit	(1,295,083 )	(529,115 )
Total liabilities and stockholders' deficit	\$ 185,096	\$ 180,995

See accompanying notes to consolidated financial statements.



GTX CORP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,	
	2013	2012
Revenues	\$ 149,994	\$ 367,114
Cost of goods sold	86,729	291,388
Gross margin	63,265	75,726
Operating expenses		
Wages and benefits	414,854	635,622
Professional fees	406,205	366,330
Impairment of capitalized assets	36,695	103,000
General and administrative	157,520	189,112
Total operating expenses	1,015,274	1,294,064
Loss from operations	(952,009 )	(1,218,338 )
Other income/(expenses)		
Finance costs	(200,000 )	(6,500 )
Loss on extinguishment of debt	(118,965 )	—
Derivative expense, net	(206,326 )	(8,921 )
Interest expense	(27,610 )	—
Gain on dismissal of litigation	—	16,250
Total other income/(expenses)	(552,901 )	829
Net loss	\$(1,504,910 )	\$(1,217,509 )
Weighted average number of common shares outstanding - basic and diluted	105,364,447	78,944,535
Net loss per common share - basic and diluted	\$(0.01 )	\$(0.02 )

See accompanying notes to consolidated financial statements.

GTX CORP  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance, December 31, 2011	72,688,980	\$ 72,689	\$ 12,775,754	\$ (12,713,446)	\$ 134,997
Issuance of common stock for services	6,556,250	6,556	261,811		268,367
Issuance of common stock for accrued expenses	3,400,000	3,400	72,600		76,000
Issuance of common stock in conjunction with Dutchess Financing	2,756,142	2,756	161,294		164,050
Issuance of warrants for services	-	-	29,006		29,006
Stock option compensation			15,974		15,974
Net loss				(1,217,509)	(1,217,509)
Balance, December 31, 2012	85,401,372	85,401	13,316,439	(13,930,955)	(529,115)
Issuance of common stock for services	4,800,000	4,800	118,749	-	123,549
Issuance of common stock for accrued expenses	18,516,667	18,517	236,266	-	254,783
Issuance of common stock for conversion of debt	14,675,124	14,675	151,748	-	166,423
Issuance of common stock for financing	2,459,355	2,459	46,728	-	49,187
Issuance of common stock for advisory agreements	5,500,000	5,500	139,500	-	145,000
Net loss				(1,504,910)	(1,504,910)
Balance, December 31, 2013	131,352,518	\$ 131,352	\$ 14,009,430	\$ (15,435,865)	\$ (1,295,083)

See accompanying notes to  
consolidated financial statements.



**GTX CORP AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended December 31, 2013	2012
Cash flows from operating activities		
Net loss	\$ (1,504,910)	\$ (1,217,509)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	65,366	102,139
Impairment of capitalized assets	36,695	103,000
Stock-based compensation	232,298	313,347
Loss on extinguishment of debt	118,065	-
Derivative expense, net	206,326	8,921
Gain on dismissal of litigation	-	(16,250)
Finance costs	200,000	4,500
Changes in		

operating assets and liabilities:		
Accounts receivable	4,177	123,767
Inventory	791	143,394
Other current and non-current assets	16,623	(1,460)
Accounts payable and accrued expenses	119,704	(22,033)
Accrued expenses	-	347,014
- related parties	168,199	
Deferred revenues	(9,731)	(142,821)
Net cash used in operating activities	(345,497)	(253,991)
Cash flows from investing activities		
Purchase of property and equipment	(1,148)	(14,549)
Net cash used in investing activities	(1,148)	(14,549)

Cash flows from financing activities		
Proceeds from issuance of debt	426,250	43,500
Payments of debt	(45,500)	-
Proceeds from issuance of common stock	-	164,050
Net cash provided by financing activities	380,750	207,550
Net change in cash and cash equivalents	34,105	(60,990)
Cash and cash equivalents beginning of period	30,649	91,639
Cash and cash equivalents end of period	64,754	\$ 30,649

**Supplemental  
disclosure  
of  
cash  
flow  
information:**

Income taxes paid	-	\$	-
Interest paid	-	\$	-

**Supplementary  
disclosure  
of noncash  
financing  
activities:**

Issuance of stock payable for other current asset	36,000	\$	-
Issuance of common stock for conversion of debt	215,610	\$	-
Issuance of common stock for accrued expenses - related parties	251,583	\$	76,000
Issuance of common stock for accrued interest	3,200	\$	-

related party Issuance of common stock for prepaid advisory agreement Issuance of convertible debt for intangible assets	\$ 145,000	\$	-
		\$	-

See accompanying notes to consolidated financial statements.

## GTX CORP AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2013

#### 1. ORGANIZATION AND BASIS OF PRESENTATION

GTX Corp and subsidiaries (the “Company” or “GTX”) are engaged in businesses that design, develop and sell various interrelated and complementary products and services in the Personal Location Services marketplace. GTX owns 100% of the issued and outstanding capital stock of Global Trek Xploration (“GTX California”), LOCiMOBILE, Inc., and Code Amber News Service, Inc. (“CANS”).

GTX California is a solution provider offering an enterprise GPS and cellular location platform that provides real-time tracking of the whereabouts of people, pets, vehicles and high valued assets through a miniaturized transceiver module, wireless connectivity gateway, middleware and viewing portal. Our core products and services are supported by an 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, BlackBerry and other GPS enabled handsets into a tracking device which can then be tracked from handset to handset or through our Location Data Center tracking portal and which allows the user to send a map to the recipient’s phone showing the user’s location.



LOCiMOBILE has launched numerous Apps across multi mobile device operating systems and continues to launch consumer and enterprise apps. CANS is a U.S. and Canadian syndicator of all state Amber Alerts providing website tickers and news feeds to merchants, internet service providers, affiliate partners, corporate sponsors and local, state and federal agencies, as well as, marketing and selling the patent pending electronic personal health record Code Amber Alertag.

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States. 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 \$1,504,910 and \$1,217,509 for the years ended December 31, 2013 and 2012, respectively, has incurred losses since inception resulting in an accumulated deficit of \$15,435,865 as of December 31, 2013, and has negative working capital of \$735,647 as of December 31, 2013. A significant part of our negative working capital position at December 31, 2013 consisted of \$306,250 of amounts due to officers and management of the Company for accrued wages. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Revenue Recognition**

Revenues consist primarily of the sale of our the monthly service fee from subscribers of the GPS Shoe, our mobile tracking applications sold via the Apple iTunes Store and the Google Marketplace, the sale of GPS tracking devices and the related monthly service fees, licensing agreements, and the sale of Code Amber Alertags.

The Company recognizes revenue from product sales when the product is shipped to the customer and title has transferred. The Company recognizes application revenue when the application is purchased by the customer. The Company assumes no remaining significant obligations associated with the product sale other than that related to its warranty program discussed below. Revenue related to monthly service fees both for the GPS Shoes and GPS tracking devices, licensing agreements and annual subscriptions are recognized over the respective terms of the agreements.

Revenue from multiple-element arrangements is allocated to the elements based on the relative fair value of each element, which is generally based on the relative sales price of each element when sold separately. Each element's allocated revenue is recognized when the revenue recognition criteria for that element have been met. If the Company cannot objectively determine the fair value of any undelivered element included in a multiple-element arrangement, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

### **Allowance for Doubtful Accounts**

We extend credit based on our evaluation of the customer's financial condition. We carry our accounts receivable at net realizable value. We monitor our exposure to losses on receivables and maintain allowances for potential losses or adjustments. We determine these allowances by (1) evaluating the aging of our receivables; and (2) reviewing high-risk customers financial condition. Past due receivable balances are written off when our internal collection efforts have been unsuccessful in collecting the amount due. Our allowance for doubtful accounts was \$2,000 and \$116,180 as of December 31, 2013 and 2012.

### **Shipping and Handling Costs**

Shipping and handling costs are included in cost of goods sold in the accompanying consolidated statement of operations.

### **Product Warranty**

The Company's warranty policy provides repair or replacement of products (excluding GPS Shoe devices) returned for defects within ninety days of purchase. Warranty liabilities are recorded at the time of sale for the estimated costs that may be incurred under our standard warranty. As of December 31, 2013, products returned for repair or replacement have been immaterial. Accordingly, a warranty liability has not been deemed necessary. The GPS Shoe devices are covered under the manufacturer's standard limited warranty which covers any defects in materials and workmanship for a period of 12 months following the purchase of the device by the customer.

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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.

### **Reclassifications**

For comparability, certain prior period amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2013.

### **Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments with insignificant rate risk and with original maturities of three months or less at the date of purchase.

### **Inventory**

Inventory consists of raw materials, work in process and finished goods and is valued at the lower of cost (first-in, first-out) or net realizable value. The Company evaluates its inventory for excess and obsolescence on a regular basis. In preparing the evaluation the Company looks at the expected demand for the product, as well as changes in technology, in order to determine whether or not a reserve is necessary to record the inventory at net realizable value. For the years ending December 31, 2013 and 2012 the Company did not recognize any charges to expense associated with excess and obsolete inventory cost adjustments.

### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated two year useful lives of the assets. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Expenditures for maintenance and repairs are expensed as incurred.

### ***Website Development***

Under ASC 350-50 – *Intangibles – Goodwill and Other – Website Development Costs*, costs and expenses incurred during the planning and operating stages of the Company’s website development are expensed as incurred. The Company accounts for the development of its website by expensing all costs associated with the planning of the website as incurred and capitalizing the costs to develop the website. Depreciation is calculated using the straight-line method over the estimated two year useful lives of the assets.

### ***Software Development Costs***

Software development costs include payments made to independent software developers under development arrangements primarily for the development of our smart-phone mobile applications (“Apps”). Software development costs are capitalized once technological feasibility of a product is established and it is determined that such costs should be recoverable against future revenues. For products where proven technology exists, this may occur early in the development cycle. Technological feasibility is evaluated on a product-by-product basis. Amounts related to software development that are not capitalized are charged immediately to product research and development costs.

Commencing upon the related product’s release, capitalized software development costs are amortized to cost of sales based upon the higher of (i) the ratio of current revenue to total projected revenue or (ii) the straight-line method. The recoverability of capitalized software development costs is evaluated based on the expected performance of the specific products for which the costs relate. The following criteria are used to evaluate expected product performance: historical performance of comparable products using comparable technology and orders for the product prior to its release.

Significant management judgments and estimates are utilized in the assessment of when technological feasibility is established, as well as in the ongoing assessment of the recoverability of capitalized costs. If revised forecasted or actual product sales are less than and/or revised forecasted or actual costs are greater than the original forecasted amount utilized in the initial recoverability analysis, the net realizable value may be lower than originally estimated in any given quarter, which could result in an impairment charge.

### **Intangible Assets**

The Company records identifiable intangible assets acquired from other enterprises or individuals in an “arm’s length” transaction at cost. Intangible assets consist of a licensing agreement enabling the Company to sell its GPS-related vehicle tracking software and services, the purchase price of Code Amber, LLC in 2008 and insole development costs in 2013. The Company evaluates its intangible assets for impairment on a regular basis and writes down the assets to net realizable value as deemed necessary. As of December 31, 2013 and 2012, no such impairment occurred. As of December 31, 2013 and 2012, the Company had capitalized of \$82,222 and \$25,972 related to intangible assets, respectively.

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### **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.

### **Net Loss Per Common Share**

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted average number of shares of common stock and potentially outstanding shares of common stock during each period. There were no dilutive shares outstanding as of December 31, 2013 and 2012. Common stock equivalents, totaling 8,495,133 and 11,319,570 at December 31, 2013 and 2012, respectively, were not included in the computation of diluted earnings per share in 2013 and 2012 on the consolidated statement of operations due to the fact that the Company reported a net loss in 2013 and 2012 and to do so would be anti-dilutive for that period.

### **Income Taxes**

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized by applying the statutory tax rates in effect in the years in which the differences between the financial reporting and tax filing bases of existing assets and liabilities are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

### **Stock-based Compensation**

Stock-based compensation expense is recorded for stock and stock options awarded in return for services rendered. The expense is measured at the grant-date fair value of the award and recognized as compensation expense on a straight-line basis, which is generally commensurate with the vesting period. The Company estimates forfeitures that it expects will occur and records expense based upon the number of awards expected to vest.

**Recently Issued Accounting Pronouncements**

In July 2012, the FASB issued ASU 2012-02, *Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*, on testing for indefinite-lived intangible assets for impairment. The new guidance enables an entity to simplify the testing for a drop in value of intangible assets such as trademarks, patents, and distribution rights. The amended standard reduces the cost of accounting for indefinite-lived intangible assets, especially in cases where the likelihood of impairment is low. The changes permit businesses and other organizations to first use subjective criteria to determine if an intangible asset has lost value. The amendments to U.S. GAAP were effective for fiscal years starting after September 15, 2012. The Company's adoption of this accounting guidance does not have a material impact on the consolidated financial statements and related disclosures.

There were other updates recently issued, most of which represented technical clarifications and corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company's financial position, results of operations or cash flows.



**3. RELATED PARTY TRANSACTIONS**

In order to preserve cash for other working capital needs various members of management and Board Members agreed to accrue portions of their wages since 2011. As of December 31, 2013 and 2012, the Company owed \$306,250 and \$392,834, respectively, for such accrued wages.

**4. INVENTORY**

Inventory consists solely of finished goods and totaled \$766 and \$1,557 for the years ended December 31, 2013 and 2012, respectively.

**5. PROPERTY AND EQUIPMENT**

Property and equipment, net, consists of the following:

	<b>December 31,</b>	
	<b>2013</b>	<b>2012</b>
Computer and office equipment	\$86,265	\$85,118
Equipment	-	90,062
Software	18,744	18,744
Website development	186,482	186,482
Software development	74,648	74,648
Less: accumulated depreciation	(358,417)	(346,419)
Total property and equipment, net	\$7,722	\$108,635

Depreciation expense for the years ended December 31, 2013 and 2012 was \$65,366 and \$102,139, respectively.

During 2013, management assessed the value of our fixed assets and determined that capitalized direct labor and shoe molds, included in Equipment above, had been impaired. Accordingly, we wrote-down the assets to their estimated net realizable value and recognized an impairment charge of \$36,695 in the accompanying consolidated financial statements for the year ended December 31, 2013.

During 2012, management assessed the value of our capitalized software development costs and determined that, based on the revenues generated from our Apps, that the capitalized assets had been impaired. Accordingly, we wrote-down the software development costs to their estimated net realizable value and recognized an impairment charge of \$103,000 in the accompanying consolidated financial statements for the year ended December 31, 2012.

**6. CONCENTRATIONS**

We currently rely on one manufacturer to supply us with our GPS tracking devices.

**7. DEBT**

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

	December 31, 2013	December 31, 2012
Atlantic Note	\$ 112,500	\$—
BSM Note dated June 26, 2013	30,000	—
JMJ Note dated November 14, 2012	—	27,500
Total short-term convertible notes	142,500	27,500
Less: Debt discount	(51,703 )	(23,959)
Short-term convertible notes, net of debt discount	90,797	3,541
Aetrex note dated September 19, 2012	—	9,500
Line Agreement dated June 27, 2012	—	13,500
Short-term borrowings	—	23,000
Related party short-term borrowings	4,000	—
Short-term borrowings	\$94,797	\$26,541
Short-term derivative liabilities	\$70,535	\$30,380

***Short-term convertible notes******Atlantic Agreement and SPA***

On July 12, 2013, the Company entered into an Exclusive Manufacturing Agreement (the “Agreement”) with Atlantic Footcare, Inc., a Rhode Island corporation (“Atlantic”) whereby Atlantic would be the Company’s exclusive manufacturer of its new shoe insole to be used with our embedded GPS devices. In conjunction with the Agreement, on July 24, 2013 (the “Closing”), we also entered into a Security Purchase Agreement (the “SPA”) with Atlantic. Pursuant to the SPA, Atlantic has committed to purchase (A) a convertible promissory note (the “Atlantic Note”) in the original principal amount of \$200,000, accruing 6% interest per annum, and maturing on November 13, 2014, and (B) a warrant to purchase shares of the Company’s common stock, par value \$0.001 per share (the “Warrant”).

In accordance with the SPA, Atlantic agreed to lend to the Company up to \$200,000, as follows:

- (i) \$50,000 (comprised of \$25,000 in cash and \$25,000 in insole development and tooling costs associated with manufacturing insoles containing the Company’s GPS devices, the value of which shall be determined by Atlantic

(the “Services”)); and

- (i) 3 installments of \$50,000 (each comprised of \$25,000 in cash and \$25,000 in Services) of which two installments and a portion of the third installment (\$12,500) has been received as of December 31, 2013.

Atlantic may at any time elect to convert all of the entire outstanding principal amount of the Atlantic Note plus the accrued interest into 12% of the Company’s issued and outstanding common stock immediately following the issuance thereof, multiplied by a fraction, the numerator of which is the principal amount of the Atlantic Note then outstanding and the denominator of which is \$200,000.

If Atlantic is unable to dispose of the shares of common stock into which the Atlantic Note may be converted and the Warrant may be exercised (the “Registrable Shares”) under Rule 144 as promulgated by the United States Securities and Exchange Commission (the “SEC”) under the Securities Act of 1933, as amended (the “Securities Act”) Atlantic may request that the Company file a Form S-1 registration statement or Form S-3 registration statement (if applicable) with respect to one hundred percent (100%) of the Registrable Shares then outstanding, then the Company shall, as soon as practicable, and in any event within sixty (60) days after the date such request is given by Atlantic, file a registration statement under the Securities Act covering all Registrable Shares that Atlantic requested to be registered.

*BSM Lending, LLC Convertible Promissory Note*

On June 26, 2013, the Company entered into a Convertible Promissory Note with BSM Lending, LLC, for the principal sum of \$30,000 plus interest of 15% per annum (the “BSM Note”). The Company may repay the BSM Note and accrued interest at any time prior to maturity. The BSM Note is convertible into shares of common stock of the Company at a price equal to 65% of the 5 day average closing price per share of the Company’s common stock. The BSM Note matures on June 25, 2014.

*JMJ Convertible Promissory Note*

On November 14, 2012, the Company entered into a convertible promissory note with JMJ Financial (“JMJ”) with a 10% original issue discount in the principal amount of \$200,000 of which a total of \$100,000 was advanced (the “JMJ Note”). In accordance with the terms of the Convertible Note, the Company was assessed a one-time interest charge of 10% on the amount advanced. The JMJ Note was convertible into shares of common stock of the Company at a price equal to the lesser of \$0.025 or 70% of the lowest trade price in the 25 trading days previous to the conversion.

Through September 18, 2013, JMJ had elected to convert portions of the outstanding balance of the JMJ Note into 8,000,100 shares of our common stock valued at \$82,370 at an average conversion price of \$0.006 per share resulting in \$44,772 of the outstanding principle balance being converted into stock. A loss on extinguishment of debt in the amount of \$34,820 was recorded on the conversion.

Effective September 19, 2013, JMJ entered into an assignment agreement (the “Assignment Agreement”) with 112359 Factor Fund, LLC (the “Fund”) whereby JMJ sold 100% of its right, title and interest in the JMJ Note to the Fund. The JMJ Note had an outstanding balance of \$74,394 at the time of the Assignment Agreement. A loss on extinguishment of debt in the amount of \$34,360 for the year ended December 31, 2013 is included in the accompanying consolidated statement of operations as a result of the assignment. See further discussion regarding the Fund agreements below in *Long-term debt*.

On June 27, 2012, the Company entered into an agreement with an unrelated third party (the “Holder”) for a \$55,000 line of credit (the “Line Agreement”). The Company was unable to repay the amount owed under the Line Agreement by the November 27, 2012 maturity date and owed \$13,500 as of December 31, 2012. On January 14, 2013, the Holder of the Line Agreement entered into an assignment agreement with an unrelated third party (the “Assignee”) whereby the Assignee assumed all of the Holder’s right, title, and interest in and to the Line Agreement in the aggregate amount of \$13,500 (the “Note”). As consideration for the assignment of the Note, on January 15, 2013, we issued the Assignee 2,459,355 shares of common stock and the Assignee paid the Holder \$13,500. The market value of the 2,459,355 shares of common stock on the date of the assignment was approximately \$49,000 resulting in the Company recording a loss on extinguishment of debt of approximately \$35,700.

*Long-term debt*

The following table summarizes the components of our long-term debt:

	<b>December 31, 2013</b>
Fund A & R 1st Debenture dated September 19, 2013	\$53,438

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Fund 2nd Debenture dated September 19, 2013	200,000
Fund 3rd Debenture dated September 19, 2013	477,000
Total long-term convertible notes	730,438
Less: Debt discount	(492,766)
Total long-term convertible notes, net of debt discount	\$237,672
Long-term derivative liabilities	\$ 411,708

At December 31, 2013, our long-term debt matures as follows:

2014	-
2015	-
2016	530,438
2017	200,000
2018 and thereafter	-
Total	\$ 730,438

*112359 Factor Fund*

Effective September 19, 2013, the Company entered into a Securities Purchase Agreement with 112359 Factor Fund, LLC (the “Fund”) pursuant to which the Company issued and sold to the Fund (i) an amended and restated convertible debenture (the “A & R 1<sup>st</sup> Debenture”) in the principal amount of \$123,394, (ii) a secured convertible debenture in the principal amount of \$200,000 (the “2<sup>nd</sup> Debenture”), and (iii) a secured convertible debenture payable in eight (8) tranches totaling an aggregate principal balance of \$901,000 (the “3<sup>rd</sup> Debenture” and together with the A & R 1<sup>st</sup> Debenture and 2<sup>nd</sup> Debenture, the “Debentures”).

As discussed above in *Short-term borrowings*, effective September 19, 2013, JMJ entered into an assignment agreement with the Fund, whereby JMJ sold 100% of its right, title and interest in the JMJ Note to the Fund. In order to amend and restate the terms of the JMJ Note that was transferred to the Fund, the Company agreed to exchange the JMJ Note for a new debenture (i.e., the A & R 1<sup>st</sup> Debenture). The principal changes effected in the A & R 1<sup>st</sup> Debenture include: an increase in the amount outstanding from \$74,394 to \$123,394; the reduction of the interest rate to the lesser of the applicable Federal Rate or 6% per annum; the extension of the maturity dates to the third anniversary of the original payment dates; and the grant to the Fund of the right to convert any portion of the principal amount of A & R 1<sup>st</sup> Debenture into shares of common stock of the Company at a price equal to 100% of the average of the 5 lowest closing market prices for the Company’s common stock for the 30 trading days preceding conversion. The Fund may not, however, convert the A & R 1<sup>st</sup> Debenture if such conversion would result in the Fund owning more than 4.99% of the Company’s outstanding shares of common stock, subject to the Fund’s right to waive this limit upon 65 days prior notice. If the A & R 1<sup>st</sup> Debenture is repaid and/or converted in full prior to its maturity date, all accrued interest will be forgiven.

The 2<sup>nd</sup> Debenture, in the amount of \$200,000, was issued to the Fund in consideration for the Fund’s various agreements issued under the Security Purchase Agreement. The 2<sup>nd</sup> Debenture matures December 31, 2017 and accrues interest on the unconverted outstanding principal balance at a rate per annum of the lesser of the applicable Federal Rate or six percent (6%). Following the Payment Compliance Date, as defined below, at the option of the Fund, the outstanding principal amount due under the 2<sup>nd</sup> Debenture may be converted into shares of the Company’s common stock at a price equal to lesser of (a) the outstanding balance due under the Debenture divided by \$0.01 per shares (the “Conversion Price,”) or (b) 9.99% of the then-current issued and outstanding capital stock of the Company as of the first (1<sup>st</sup>) anniversary of the Payment Compliance Date. The “Payment Compliance Date” shall mean the later to occur of (a) the date on which the Fund has paid the Company the full \$425,000 purchase price of the 3<sup>rd</sup> Debenture, or (b) the date on which all amounts due to the Fund, except for amounts due under the 2<sup>nd</sup> Debenture, have been fully paid. If the 2<sup>nd</sup> Debenture is repaid and/or converted in full prior to its maturity date, all accrued interest will be forgiven.

The face amount of the 3<sup>rd</sup> Debenture is \$901,000. The Fund has agreed to purchase the 3<sup>rd</sup> Debenture in eight (8) installments (each such installment that is paid is referred to as a “Tranche”). The 3<sup>rd</sup> Debenture matures on the third (3<sup>rd</sup>) anniversary date of each Tranche payment. The payment and maturity dates of each Tranche are as follows:

<b>Tranche Number</b>	<b>Tranche Payment Date</b>	<b>Tranche Obligation</b>	<b>Maturity Date</b>
1	September 19, 2013	\$75,000 \$159,000	September 18, 2016

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2	October 14, 2013	\$50,000	\$106,000	October 13, 2016
3	November 15, 2013	\$50,000	\$106,000	November 14, 2016
4	December 13, 2013	\$50,000	\$106,000	December 12, 2016
5	January 17, 2014	\$50,000	\$106,000	January 16, 2017
6	February 14, 2014	\$50,000	\$106,000	February 13, 2017
7	March 14, 2014	\$50,000	\$106,000	March 13, 2017
8	April 18, 2014	\$50,000	\$106,000	April 17, 2017
<b>Total Principal</b>		<b>\$425,000</b>	<b>\$901,000</b>	

Interest on the 3rd Debenture accrues on the unconverted outstanding principal balance hereof at a rate per annum of the lesser of the applicable Federal Rate or six percent (6%) and on a pro rata basis to the extent that each Tranche has been paid. The outstanding amounts due under the 3rd Debenture are convertible at the option of the Fund into shares of the Company's common stock at 100% of the average of the five (5) lowest closing market prices for the Common Stock for the thirty (30) trading days preceding each conversion; provided, however, that the Fund cannot own more than 4.99% of the Company's outstanding shares of common stock at any time, which limit may be waived by the Fund upon 65 days notice. If the 3rd Debenture is repaid and/or converted in full prior to its maturity date, all accrued interest will be forgiven.



As of December 31, 2013, the Fund had converted \$69,956 owed under the A & R 1<sup>st</sup> Debenture into 6,675,024 shares of our common stock and had made the first four Tranche payments required under the 3<sup>rd</sup> Debenture. A loss on extinguishment of debt in the amount of \$14,097 was recorded on the conversion.

The Debentures are secured by a blanket lien on substantially all of the Company's assets pursuant to the terms of a security agreement (the "Security Agreement") executed by the Company and its subsidiaries in favor of the Fund. If an event of default occurs and continues for more than 30 days following written notice of default from the Fund, under the Security Agreement, the fund may, in addition to any other remedies available to it, foreclose upon the assets securing such Debentures.

In addition, to further secure the Company's obligations under the Debentures, the Company's Chief Executive Officer, Mr. Patrick Bertagna, has pledged 13,180,378 shares of his common stock of the Company (the "Pledged Securities") pursuant to a stock pledge agreement (the "Pledge Agreement") executed by Mr. Bertagna in favor of the Fund. Upon the breach of any provision in the Pledge Agreement or upon the occurrence of any default event under the Debentures, the Fund may exercise any rights and remedies available, including, but not limited to, sale, assignment or other disposal of any or all of the Pledged Securities in exchange for cash or credit. The Fund's rights under the Pledge Agreement are limited to the extent that the Fund has agreed not to own more than 4.99% of the Company's outstanding shares of common stock at any time, which limitation the Fund can, however, waive upon 65 days' notice.

#### ***Derivative liabilities***

The conversion features embedded in the convertible notes were evaluated to determine if such conversion feature should be bifurcated from its host instrument and accounted for as a freestanding derivative. Excluding the 2<sup>nd</sup> Debenture, in all of the long-term and short-term convertible notes outstanding at December 31, 2013 and December 31, 2012, the conversion feature was accounted for as a derivative liability. The derivatives associated with the long-term and short-term convertible notes were recognized as a discount to the debt instrument and the discount is amortized over the expected life of the notes with any excess of the derivative value over the note payable value recognized as additional interest expense at the issuance date. Included in Derivative Expense, net in the accompanying consolidated statements of operations is expense related to the recording and amortization of the debt discount totaling \$497,255 and \$22,594 during the years ended December 31, 2013 and 2012, respectively.

The derivative liability was calculated using the Black Scholes method over the expected terms of the convertible debentures, with a risk free rate of 1% and volatility of 301% as of December 31, 2013 and a risk free rate of 1% and volatility of 546% as of December 31, 2012. Included in Derivative Expense, net in the accompanying consolidated statements of operations is income arising from the change in fair value of the derivatives of \$290,929 and \$17,214 during the years ended December 31, 2013 and 2012, respectively.

## **8. INCOME TAXES**

The provision for refundable Federal income tax consists of the following as of December 31:

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	2013	2012
Federal income tax benefit calculated at statutory rate of 35%	\$ 527,000	\$ 425,000
Less: Stock based compensation expense	(81,000 )	(110,000)
Change in valuation allowance	(446,000)	(315,000)
Net income tax provision	\$—	\$—

The cumulative tax effect at the expected rate of 35% of significant items comprising our net deferred tax amount is as follows at December 31:

	2013	2012
Deferred tax asset attributable to:		
Net operating losses carried forward	\$ 3,414,000	\$ 2,968,000
Less: Valuation allowance	(3,414,000)	(2,968,000)
Net deferred tax asset	\$—	\$—

The Company established a full valuation allowance. The Company continually reviews the adequacy of the valuation allowance and recognizes a benefit from income taxes only when reassessment indicates that it is more likely than not that the benefits will be realized.

At December 31, 2013, the Company had an unused net operating loss carryover approximating \$9,754,000 that is available to offset future taxable income, which expires beginning in 2028.

No provision was made for federal income tax since the Company has net operating losses. The provision for income taxes included in the accompanying financial statements consists of the state minimum tax imposed on corporations.

**9. EQUITY****Common Stock**

The Company issued the following shares of common stock for the years ended December 31:

	<b>2013</b>		<b>2012</b>	
	<b>Value of</b>	<b># of shares</b>	<b>Value of</b>	<b># of shares</b>
	<b>Shares</b>		<b>Shares</b>	
Shares issued for services rendered	\$68,300	3,800,000	\$175,500	4,806,250
Shares issued for accrued salaries and expenses	254,783	18,516,667	76,000	3,400,000
Shares issued with repurchase rights	9,315	1,000,000	67,867	1,500,000
Shares issued for conversion of debt	166,423	14,675,124	-	-
Shares issued for advisory agreements	145,000	5,500,000	-	-
Shares issued for financing	49,187	2,459,355	10,000	250,000
<b>Total restricted shares issued</b>	<b>\$693,008</b>	<b>45,951,146</b>	<b>\$329,367</b>	<b>9,956,250</b>

Shares issued for services rendered were to various members of management, employees and consultants and are expensed as Stock-Based Compensation in the accompanying consolidated statement of operations. Shares issued for accrued salaries and expenses were granted to members of management, Board Members, consultants and employees as payment for portions of amounts owed to them for services rendered in previous periods. Shares issued with repurchase rights relate to shares granted to members of management and the Board of Directors whereby the Company retained the rights to acquire the shares from the stock recipients and such repurchase rights lapsed rateably over twelve months at a rate of 1/12<sup>th</sup> per month beginning on January 1, 2013. Upon vesting, the shares are revalued based on the average stock price during the respective month and the related stock based compensation expense is recognized. Shares issued for conversion of debt relate to conversions of the JMJ note and A & R 1<sup>st</sup> Debenture discussed in Note 7. Shares issued for financing relate to shares issued to the Assignee as payment of the Line Agreement (see Note 7). Shares issued for advisory agreements relate to shares issued to BSI as payment for two separate advisory agreements (see discussion below).

***Brewer Agreements***

On February 15, 2013, the Company entered into a one-year advisory service agreement with Brewer Sports International, LLC (“BSI”) (the “February Advisory Agreement”). During the term of the February Advisory Agreement, BSI will provide consulting services aimed at increasing and enhancing the Company’s brand, distribution and sales in the professional sports industry. As compensation for such services, on May 14, 2013 the Company issued BSI 3,000,000 shares of common stock valued at the grant date fair value of \$120,000.

On June 26, 2013, the Company entered into a second one-year advisory service agreement with BSI (the “June Advisory Agreement”). During the term of the June Advisory Agreement, BSI will include the Company in its

upcoming Traumatic Brain Injury awareness conference, participate in the direct response marketing campaign and expand its social media awareness programs relative to this issue and the products and services offered by the Company. As compensation for such services, on June 26, 2013 the Company issued BSI 2,500,000 shares of common stock valued at the grant date fair value of \$25,000.

### **Common Stock Warrants**

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

In connection with the SPA entered into with Atlantic on July 12, 2013 (See Note 7), the Company issued a Warrant to Atlantic, whereby Atlantic is entitled to purchase from the Company a total number of shares of common stock, such that, when added to the total number of shares of common stock acquired by Atlantic upon conversion of the Atlantic Note, equals 12% of the common stock outstanding as of the date of such conversion, as such total outstanding amount may, be increased by issuances of common stock occurring on or prior to November 13, 2014 (or by issuances of common stock occurring after November 13, 2014 but pursuant to convertible instruments issued or commitments made by the Company prior to November 13, 2014), other than issuances of excluded securities as such term is defined in the Atlantic Note, at an exercise price per share equal to \$0.001 per share, at any time and from time to time on or after the Closing Date and through and including November 13, 2020. As of the December 31, 2013, Atlantic has not converted any portion of the Atlantic Note.

On September 10, 2012, the Company entered into a six-month consulting agreement for corporate advisory services and granted the consulting firm 2,000,000 shares of common stock (valued at \$40,000) and a warrant to purchase up to 2,000,000 shares of common stock. The warrant has a three-year term and may be exercised at an exercise price of \$0.02 per share. The fair value of the warrant is estimated to be \$29,006 using the Black-Scholes option pricing model based on the following assumptions: expected dividend yield 0%, expected volatility 126%, risk-free interest rate 0.25%, and expected life of 36 months. The value of the common stock shares and warrant totaling \$69,000 has been expensed as stock based compensation during the year ended December 31, 2012.

A summary of the Company's warrant activity and related information is provided below:

	<b>Exercise Price \$</b>	<b>Number of Warrants</b>
Outstanding and exercisable at December 31, 2011	0.08 – 1.40	6,991,000
Warrants exercised		-
Warrants granted	0.02	2,000,000
Warrants expired		-
Outstanding and exercisable at December 31, 2012	0.08 - 0.40	8,991,000
Warrants exercised		-
Warrants granted		
Warrants expired	0.40	(1,271,000)
Outstanding and exercisable at December 31, 2013	0.02 - 0.08	7,720,000

Stock Warrants as of December 31, 2013

Price	Outstanding Warrants	Remaining Warrants Life (Years)	Exercisable Warrants
\$0.02	2,000,000	1.69	2,000,000
\$0.08	5,720,000	0.13	5,720,000
	7,720,000		7,720,000

**Common Stock Options**

Under the Company’s 2008 Plan, we are authorized to grant stock options intended to qualify as Incentive Stock Options, “ISO”, under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified options, restricted and unrestricted stock awards and stock appreciation rights to purchase up to 7,000,000 shares of common stock to our employees, officers, directors and consultants, with the exception that ISOs may only be granted to employees of the Company and its subsidiaries, as defined in the 2008 Plan.

The Company recognizes option expense ratably over the vesting periods. During 2013 and 2012, the Company recorded compensation expense related to options granted under the 2008 Plan of \$0 and \$15,974, respectively. As of December 31, 2013 and 2012, all options granted were fully vested.

The fair value of option grants was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<b>2013</b>	<b>2012</b>
Expected dividend yield	N/A	0.00%
Risk-free interest rate	N/A	0.50%
Expected volatility	N/A	60%
Expected life (in years)	N/A	3

No options were granted during 2013.

The Plan provides for the issuance of a maximum of 7,000,000 shares of which, after adjusting for estimated pre-vesting forfeitures and expired options, approximately 2,182,000 were available for issuance as of April 9, 2014.

Stock option activity under the Plan for the period from December 31, 2012 to December 31, 2013 is summarized as follows:

<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (in years)</b>	<b>Grant Date Fair Value</b>
2,328,570	\$0.20	1.02	205,234

Outstanding at December 31, 2012				
Options granted	-	\$ -	-	-
Options exercised	-	\$ -	-	-
Options cancelled/forfeited/expired	(1,553,437)	\$0.22	-	(158,333)
Outstanding at December 31, 2013	775,133	\$0.14	1.09	\$ 46,901
Exercisable at December 31, 2013	775,133	\$0.09	1.09	\$ 46,901

As of December 31, 2013, after adjusting for estimated pre-vested forfeitures, there was \$0 of unrecognized compensation cost related to unvested stock options. The Company intends to issue new shares to satisfy share option exercises.

## **10. COMMITMENTS & CONTINGENCIES**

### **Bonuses**

Several executive members of management have employment agreements which, among other provisions, provide for the payment of a bonus, as determined by the Board of Directors, in amounts ranging from 15% to 50% of the executive's yearly compensation, to be paid in cash or stock at the Company's sole discretion, if the Company has an increase in year over year revenues and the Executive performs his duties (i) within the time frame budgeted for such duties and (ii) at or below the cost budgeted for such duties.

### **Contingencies**

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome, whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that additional contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events.

## **11. SUBSEQUENT EVENTS**

On January 10, 2014, the Fund converted \$19,000 owed under the 3rd Debenture into 2,000,000 shares of our common stock, resulting in a loss on conversion of \$3,600. On January 13, 2014, the Fund converted the remaining \$53,438 owed under the A & R 1<sup>st</sup> Debenture into 5,625,075 shares of our common stock, resulting in a loss on

conversion of \$11,813. On March 26, 2014, the Fund elected to convert \$73,540 of the 3<sup>rd</sup> Debenture into 6,500,000 shares of our common stock. As of April 9, 2014, the shares had not yet been issued to the Fund. Additionally, for the period from January 1, 2014 through April 9, 2014, we received proceeds under the 3<sup>rd</sup> Debenture totaling \$150,000.

On January 29, 2014, the Company issued a total of 1,350,000 shares of common stock, valued at \$12,825, to three consultants and two employees for services rendered. The shares were valued at the estimated grant date fair value.

On March 17, 2014, we issued 150,000 shares of common stock to each of the Company's Board Members for their continued service on the Board during 2014 (total of 750,000 shares of common stock) . The shares include repurchase rights whereby the Company retains the rights to acquire the shares from the stock recipients. Such repurchase rights lapse ratably over twelve months at a rate of 1/12<sup>th</sup> per month beginning on January 1, 2014. Additionally, 125,000 shares of common stock was issued to each of the Board Members (total of 625,000 shares, valued at \$12,500) as compensation for their attendance at a board meeting. Lastly, 300,000 shares of common stock, valued at \$6,000 were issued to a consultant for services rendered. The shares issued to the Board Members for their 2014 service are valued based on the average stock price during the respective month and the related stock based compensation expense is recognized as the repurchase rights lapse. The remaining shares were valued at the estimated grant date fair value.

We received cash proceeds under the Atlantic Note totaling \$25,000 during the period from January 1, 2014 through April 9, 2014.



