

GTX CORP  
Form 10-Q  
May 15, 2014

**FORM 10-Q**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
(Mark one)**

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

**For the quarterly period ended March 31, 2014**

**OR**

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

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

Commission file number **000-53046**

**GTX Corp**

(Exact name of registrant as specified in its charter)

**Nevada**

**98-0493446**

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 156,099,555 common shares issued and outstanding as of May 15, 2014.

**GTX CORP AND SUBSIDIARIES**

**For the quarter ended March 31, 2014**

**FORM 10-Q**

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**PART I****ITEM 1. FINANCIAL STATEMENTS**

GTX CORP AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$101,523	\$64,754
Accounts receivable, net	2,640	1,892
Inventory	1,310	766
Other current assets	31,593	27,740
Total current assets	137,066	95,152
Property and equipment, net	5,099	7,722
Intangible assets	111,302	82,222
Total assets	\$253,467	\$185,096
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$436,176	\$340,226
Accrued expenses - related parties	333,150	306,250
Deferred revenues	22,569	18,991
Short-term debt - related party	1,500	4,000
Convertible promissory note, net of discount	141,475	90,797
Derivative liabilities	286,051	70,535
Total current liabilities	1,220,921	830,799
Long-term convertible debt	265,177	237,672
Long-term derivative liabilities	1,488,573	411,708
Total liabilities	2,974,671	1,480,179
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
	148,503	131,352

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Common stock, \$0.001 par value; 2,071,000,000 shares authorized; 148,502,593 and 131,352,518 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively

Additional paid-in capital	14,343,238	14,009,430
Accumulated deficit	(17,212,945)	(15,435,865)
Total stockholders' deficit	(2,721,204 )	(1,295,083 )
Total liabilities and stockholders' deficit	\$253,467	\$185,096

See accompanying notes to consolidated financial statements.

GTX CORP AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended March	
	31,	
	2014	2013
Revenues	\$20,814	\$45,446
Cost of goods sold	9,900	26,887
Gross margin	10,914	18,559
Operating expenses		
Wages and professional fees	215,228	188,487
General and administrative	77,522	44,753
Total operating expenses	292,750	233,240
Loss from operations	(281,836 )	(214,681 )
Other income/(expenses)		
Loss on extinguishment of debt	(169,463 )	(35,687 )
Derivative income (expense), net	(1,316,452 )	999
Interest expense	(9,329 )	(5,950 )
Total other income/(expenses)	(1,495,244 )	(40,638 )
Net loss	\$(1,777,080 )	\$(255,319 )
Weighted average number of common shares outstanding - basic and diluted	144,896,193	89,337,501
Net loss per common share - basic and diluted	\$(0.01 )	\$(0.00 )

See accompanying notes to consolidated financial statements.

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

Three Months Ended March	
31,	
2014	2013
Cash	
flows	
from	
operating	
activities	
Net	
loss	
\$ (1,777,080)	\$ (255,319)
Adjustments	
to	
reconcile	
net	
loss	
to	
net	
cash	
used	
in	
operating	
activities:	
Depreciation	19,463
Impairment	
of	
capitalized	5,062
assets	
Stock-based	
compensation	49,915
Loss	
on	
extinguishment	35,687
of	
debt	
Derivative	
expense	(999)
net	
Changes	
in	
operating	
assets	
and	

liabilities:		
Accounts receivable <sup>(748)</sup>	(8,329)	
Inventory <sup>(544)</sup>	-	
Other current and non-current assets		
Accounts payable and accrued expenses		
Accrued expenses related parties		
Deferred revenues		
Net cash used in operating activities	(134,286)	(54,616)
Cash flows from investing activities		
Purchase of property and equipment		
Net cash used in investing activities	(1,445)	-
Cash flows from financing		



activities		
Proceeds		
from		
conversion of	25,000	25,000
promissory		
notes		
Proceeds		
from		
short-term		
debt	-	10,000
-		
related		
party		
Payments		
on		
short-term		
debt	(2,500)	(5,000)
-		
related		
party		
Net		
cash		
provided	172,500	30,000
by		
financing		
activities		
Net		
change		
in		
cash	36,769	(24,616)
and		
cash		
equivalents		
Cash		
and		
cash		
equivalents	64,754	30,649
beginning		
of		
period		
Cash		
and		
cash		
equivalents	\$101,523	\$6,033
end		
of		
period		

Supplemental  
disclosure  
of  
cash  
flow  
information:

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

Supplementary  
disclosure  
of noncash  
financing  
activities:

Issuance of common stock for	750	\$	-
--	-----	----	---

other  
current  
asset

Issuance of common stock for	315,351	\$	-
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conversion  
of  
debt

Issuance of debt for	25,000	\$	-
-------------------------------	--------	----	---

intangible  
assets

Issuance of common stock for	-	\$	32,000
--	---	----	--------

accrued  
expenses

-  
related  
parties

\$	-	\$	3,200
----	---	----	-------

Issuance  
of  
common  
stock  
for  
accrued  
interest

-  
related  
party

Issuance  
of  
common  
stock

\$ 49,187

for  
short-term  
debt

Issuance  
of  
stock  
payable

- \$ 120,000

for  
other  
current  
asset

See  
accompanying  
notes  
to  
consolidated  
financial  
statements.

**GTX CORP AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2014**

**(Unaudited)**

**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 engaged in 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 unaudited consolidated financial statements of GTX have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and applicable regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted pursuant to such rules and regulations. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of financial position and results of operations have been included. Our operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. The accompanying unaudited consolidated financial statements should be read in conjunction with our audited consolidated financial

statements for the year ended December 31, 2013, which are included in our Annual Report on Form 10-K.

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

**Going Concern**

The consolidated financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred net losses of \$1,777,080 and \$255,319 for the three months ended March 31, 2014 and 2013, respectively, has incurred losses since inception resulting in an accumulated deficit of \$17,212,945 as of March 31, 2014, and has negative working capital of \$1,083,855 as of March 31, 2014. The majority of our net loss during the three months ended March 31, 2014 results from \$1,316,452 of derivative expense due to adjustments to derivative liabilities associated with our convertible debt and not from operations. However, the Company anticipates further losses in the development of its business.

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

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Use of Estimates**

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

### **Fair Value Estimates**

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

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

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

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

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

### **Derivative Instruments**

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

separately as a derivative instrument liability.

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

### **Reclassifications**

For comparability, certain prior period amounts have been reclassified, where appropriate, to conform to the financial statement presentation used in 2014. These reclassifications have no impact on net loss.

**Recently Issued Accounting Pronouncements**

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

**3. RELATED PARTY TRANSACTIONS**

In order to preserve cash for other working capital needs, various officers and members of management have agreed to accrue, and defer payment of, portions of their salaries since fiscal 2011. As of March 31, 2014 and December 31, 2013, the Company owed \$333,150 and \$306,250, respectively for such accrued wages.

**4. DEBT**

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

	March 31, 2014	December 31, 2013
Atlantic Note	\$ 162,500	\$ 112,500
BSM Note dated June 26, 2013	30,000	30,000
Total short-term convertible notes	192,500	142,500
Less: Debt discount	(51,025 )	(51,703 )
Short-term convertible notes, net of debt discount	141,475	90,797
Related party short-term borrowings	1,500	4,000
Short-term borrowings	\$ 142,975	\$ 94,797
Short-term derivative liabilities	\$ 286,051	\$ 70,535

***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 (i) 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 (ii) 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:

\$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) have been received as of March 31, 2014.

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.

#### *Long-term debt*

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

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	March 31, 2014	December 31, 2013
Fund A & R 1st Debenture dated September 19, 2013	\$—	\$53,438
Fund 2nd Debenture dated September 19, 2013	200,000	200,000
Fund 3rd Debenture dated September 19, 2013	702,550	477,000
Total long-term convertible notes	902,550	730,438
Less: Debt discount	(637,373 )	(492,766)
Total long-term convertible notes, net of debt discount	\$265,177	\$237,672
Long-term derivative liabilities	\$1,488,573	\$411,708

At March 31, 2014, our long-term debt matures as follows:

2014	-
2015	-
2016	702,550
2017	200,000
2018 and thereafter	-
Total	\$ 902,550

*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”).

The A & R 1<sup>st</sup> Debenture accrued interest at the lesser of the applicable Federal Rate or 6% per annum and was convertible 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. During the three months ended March 31, 2014, the Fund converted the remaining amount owed under the A & R 1<sup>st</sup> Debenture of \$53,438 into 5,625,075 shares of our common stock resulting in a loss on extinguishment of debt of \$11,813. In accordance with the terms of the A & R 1<sup>st</sup> Debenture, all accrued interest owed was forgiven as the debt was converted in full prior to its maturity date.

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 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:

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

**Total Principal**

**\$425,000 \$901,000**

8

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 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 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. During the three months ended March 31, 2014, the Fund converted \$92,450 owed under the 3rd Debenture into 8,500,000 shares of our common stock resulting in a loss on extinguishment of debt of \$157,650. As of March 31, 2014, the Fund had made the first seven Tranche payments required under the 3rd Debenture.

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 March 31, 2014 and December 31, 2013, 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 \$722,603 during the three months ended March 31, 2014.

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 287% as of March 31, 2014 and a risk free rate of 1% and volatility of 301% as of December 31, 2013. 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 \$593,849 for the three months ended March 31, 2014.



**5. EQUITY****Common Stock**

The Company issued the following shares of common stock during the three months ended March 31, 2014:

	<b>Value of Shares</b>	<b>Number of Shares</b>
Shares issued for services rendered	\$32,075	2,275,000
Shares issued with repurchase rights	3,532	750,000
Shares issued for conversion of debt	315,351	14,125,075
<b>Total shares issued</b>	<b>\$350,958</b>	<b>17,150,075</b>

Shares issued for services rendered were to various members of management, the Board of Directors, employees and consultants and are expensed as Stock-Based Compensation in the accompanying consolidated statement of operations. 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 Fund Debentures discussed in Note 4.

**Common Stock Warrants**

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

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

	<b>Exercise Price \$</b>	<b>Number of Warrants</b>
Outstanding and exercisable at December 31, 2013	0.02 -	7,720,000
Warrants exercised	0.08	-
Warrants granted		



Warrants expired	0.08	(5,720,000)
Outstanding and exercisable at March 31, 2014	0.02	2,000,000

**Stock Warrants as of March 31, 2014**

<b>Exercise Price</b>	<b>Warrants Outstanding</b>	<b>Remaining Life (Years)</b>	<b>Warrants Exercisable</b>
\$0.02	2,000,000	1.44	2,000,000

In connection with the SPA entered into with Atlantic on July 12, 2013 (See Note 4), 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 March 31, 2014, Atlantic has not converted any portion of the Atlantic Note.

**Common Stock Options**

Under the Company's 2008 Equity Compensation Plan (the "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. After adjusting for expired and estimated pre-vesting forfeitures, options for approximately 2,182,000 shares were still available for grant under the 2008 Plan as of March 31, 2014.

Stock option activity under the 2008 Plan for the three months ended March 31, 2014 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>
Outstanding at December 31, 2013	775,133	\$0.14	1.09	\$46,901
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options cancelled/forfeited/ expired	(269,887)	\$0.25	-	(29,539)
Outstanding at March 31, 2014	505,246	\$0.079	1.37	\$17,362
Exercisable at March 31, 2014	505,246	\$0.079	1.37	\$17,362

The Company recognizes option expense ratably over the vesting periods. As all outstanding options had vested as of December 31, 2012, we have recognized no compensation expense related to options granted under the 2008 Plan during the three months ended March 31, 2014 and 2013. The Company intends to issue new shares to satisfy share option exercises.

**6. SUBSEQUENT EVENTS**

On April 11, 2014, the Fund converted \$66,550 of the 3<sup>rd</sup> Debenture into 3,484,293 shares of common stock, resulting in a loss on extinguishment of debt in the amount of \$55,400. Additionally, on April 21, 2014, the Fund made its final Tranche installment of \$50,000.

On April 14, 2014, BSM Lending, LLC converted the BSM Note of \$30,000 plus accrued interest of \$3,514 into 1,463,493 shares of our common stock, resulting in a loss on extinguishment of debt in the amount of \$13,464.

On May 5, 2014, the Company issued a total of 2,649,176 shares of common stock valued at \$90,072 to four consultants, two employees and a Board Member for services rendered.

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

### FORWARD-LOOKING STATEMENTS

*This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. These forward looking statements are based on our management's current expectations and beliefs and involve numerous risks and uncertainties that could cause actual results to differ materially from expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. Many factors could cause our actual results to differ materially from those projected in these forward-looking statements, including but not limited to: variability of our revenues and financial performance; risks associated with product development and technological changes; the acceptance our products in the marketplace by existing and potential future customers; general economic conditions. You should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.*

## Introduction

As used in this Quarterly Report, the terms “GTX Corp”, “GTX”, “we”, “us”, “our”, and “the Company” mean GTX Corp and our three wholly-owned subsidiaries.

## Operations

We currently conduct our operations through three wholly-owned subsidiaries that operate in various interrelated sectors of the emerging Location-Based Services and wearable technology marketplace. Our subsidiaries are summarized as follows:

- Global Trek Xploration (“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).

During 2013, we 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. 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 easy to charge. 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 Quarterly 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. On May 8, 2014, we announced our receipt of a purchase order for SmartSole products from a European distributor. These products are expected to be shipped starting in July 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 and the caregiver is alerted via email or text when the wearer leaves the area.

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<sup>TM</sup> GPS Shoes monitor the locations of "wandering" seniors afflicted with dementia. 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 did not meet our expectations 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.

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.

Code Amber News Service, Inc. (“CANS”) is our wholly-owned subsidiary in the U.S. and Canada 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.

## Results of Operations

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

### *Three Months Ended March 31, 2014 (“Q1 2014”) Compared to the Three Months Ended March 31, 2013 (“Q1 2013”)*

	Three Months Ended March 31,		Three Months Ended March 31,	
	2014	2013	2014	2013
	\$	% of Revenues	\$	% of Revenues
Revenues	\$ 20,814	100%	\$ 45,446	100%
Cost of goods sold	9,900	48%	26,887	59%
Net profit	10,914	52%	18,559	41%
Operating expenses:				
Wages and professional fees	215,228	1034%	188,487	415%
General and administrative	77,522	372%	44,753	98%
Total operating expenses	292,750	1406%	233,240	513%
Loss from operations	(281,836)	-1354%	(214,681)	-472%

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Other expense, net	(1,495,244) -7184%	(40,638) -89%
Net loss	\$ (1,777,080) -8538%	\$(255,319) -562%

*Revenues*

Revenues during Q1 2014 decreased by 54% or \$24,632 in comparison to Q1 2013 primarily due to decreases in App revenue and GPS subscription fees on the Navistar GPS Shoes. To counteract the decreases in our App revenues, which were predominately consumer driven, we are focusing on our Track My Workforce App geared towards the enterprise customer. Revenues generated by the Track My Work Force App continue to grow as we introduce the App into the marketplace. Although the Navistar GPS Shoe received significant interest from various eldercare organizations and the public, sales to date of the shoes 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. We are currently in the development of the new SmartSole which is considered the "Next Gen" product after the GPS Shoes. As of the date of this Quarterly Report, the SmartSole is still in its testing phase both in the US and internationally and, accordingly, has not generated any revenues. The product is expected to be commercially released beginning in June 2014.

*Cost of goods sold*

Cost of goods sold decreased 63% or \$16,987 during Q1 2014 in comparison to Q1 2013 primarily due to the write-down of certain capitalized direct labor costs and shoe molds during the year ended December 31, 2013. The depreciation related to these assets had been recorded through cost of goods sold and their write off accounts for \$12,000 of the decrease in depreciation expense when comparing Q1 2014 to Q1 2013.

*Wages and professional fees*

Wages and professional fees during Q1 2014 increased 14% or \$26,741 in comparison to Q1 2013 primarily due to the hiring of a consulting firm for business development, corporate and financing services. Professional fees are expected to remain at this level as we grow our business and expand our products into the wearable technology marketplace both in the U.S. and internationally

*General and administrative*

General and administrative expenses during Q1 2014 increased 73% or \$32,769 in comparison to Q1 2013 primarily due to increases in website development costs and travel expenses. During Q1 2014 we began making improvements to our website to facilitate the upcoming release of the SmartSole to the public. Additionally, several trips throughout the U.S. and Europe were made to promote the SmartSole to potential distributors and elder care facilities.

*Other expense, net*

Other expense, net for Q1 2014 consists primarily of costs associated with our debt financings. During Q1 2014, the Fund converted \$145,888 of debt into 14,125,075 shares of our common stock valued at \$315,351 resulting in a non-cash loss on extinguishment of debt of \$169,463. Additionally, the accounting treatment for the bifurcation of the derivative liabilities embedded in our long-term and short-term convertible notes results in net derivative, non-cash expense of \$1,316,452. 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.

## Liquidity and Capital Resources

As of March 31, 2014, we had approximately \$102,000 of cash and cash equivalents, and a working capital deficit of \$1,084,000, compared to \$65,000 of cash and cash equivalents and a working capital deficit of \$736,000 as of December 31, 2013. A large part of our negative working capital position at March 31, 2014 consisted of \$333,000 of amounts due to officers and management of the Company for accrued wages and \$286,000 related to derivative liabilities on our short-term convertible promissory notes.

During the three months ended March 31, 2014, our net loss was \$1,777,000, compared to a net loss of \$255,000 for the three months ended March 31, 2013. However, net cash used in operating activities for Q1 2014 and Q1 2013 was only \$134,000 and \$55,000, respectively. Net cash used in operations was less than the net loss in Q1 2014 because of non-cash expenses relating to the loss on extinguishment of our convertible debt and derivative expense (\$1,316,000) and the non-cash loss on the extinguishment of debt (\$169,000). These non-cash expenses during Q1 2013 collectively, were only \$34,000.

Net cash provided by financing activities during Q1 2014 was \$172,500 and consisted primarily of proceeds totaling \$175,000 received from advances under various convertible note payable agreements. Net cash provided by financing activities during Q1 2013 was \$30,000 and consists of proceeds totaling \$25,000 received from advances under a convertible note payable agreement, as well as, net proceeds of \$5,000 from a short-term loan received from a Board Member.

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 during 2013 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, the Navistar™ GPS Shoe will not 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 Quarterly 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. On May 8, 2014, we announced our receipt of a purchase order for SmartSole products from a European distributor. These products are expected to be shipped starting in July 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 following is a summary of the terms of the Debentures:

The \$123,394 A & R 1<sup>st</sup> Debenture accrued interest at the lesser of the applicable Federal Rate or 6% per annum and was convertible 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. As of March 31, 2014, the A & R 1<sup>st</sup> Debenture has been converted in full into 12,300,099 shares of common stock resulting in a total loss on extinguishment of \$25,910.

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 and consists of \$425,000 of cash proceeds to the Company with the remaining \$476,000 being additional debenture to the Company. The Fund funded the 3<sup>rd</sup> Debenture in eight monthly installments during the period from September 18, 2013 through April 21, 2014. The 3<sup>rd</sup> Debenture matures on the third anniversary date of each monthly installment. Interest on the 3<sup>rd</sup> 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 3<sup>rd</sup> 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 lowest closing market prices for the common stock for the 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 Quarterly Report, the 3<sup>rd</sup> Debenture has provided us with the \$425,000 of funding. Additionally, the Fund has converted \$159,000 of the \$901,000 principal balance into 11,984,293 shares of our common stock resulting in a loss on extinguishment of debt totalling \$213,050.

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:

(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

- (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 March 31, 2014.

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") that matures on June 25, 2014. 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. On April 14, 2014, BSM Lending, LLC converted the BSM Note of \$30,000 plus accrued interest of \$3,514 into 1,463,493 shares of our common stock, resulting in a loss on extinguishment of debt in the amount of \$13,464.

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 throughout 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.

Since inception in 2002, we have generated significant losses (as of March 31, 2014, we had an accumulated deficit of approximately \$17,212,945), and we currently expect to incur continued losses until our revenue initiatives collectively generate substantial revenues. Please see the section entitled “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2013 for more information regarding risks associated with our business.

#### 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

We do not believe our business and operations have been materially affected by inflation.

#### Critical Accounting Policies and Estimates

There are no material changes to the critical accounting policies and estimates described in the section entitled “Critical Accounting Policies and Estimates” under Item 7 in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

As a “smaller reporting company”, we are not required to provide the information under this Item 3.

#### ITEM 4. CONTROLS AND PROCEDURES.

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

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report (the “Evaluation Date”). Based upon the evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective. Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure



controls include controls and procedures designed to reasonably ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Controls Over Financial Reporting*

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

## **PART II - OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

None.

### **ITEM 1A. RISK FACTORS.**

*We have a working capital deficit and are in need of additional liquidity.*

Our business plan had assumed that sales of the Navistar<sup>TM</sup> GPS Shoes would provide a substantial amount of our working capital, which revenues would be supplemented by revenues from our other products. Sales of the GPS Shoes have significantly underperformed our expectations, and revenues from our other products have also been less than we projected. As a result of the lack of sales revenues, we currently have a large working capital deficit, and our revenues from our current operations are not sufficient to fund our current operating needs. Accordingly, we will have to find alternative sources of funding in the near future. If we are not able to obtain additional funding in the near future, we may have to further reduce our operations, take other action to protect our properties and business, or cease operations altogether. Any such actions may have a negative effect on the viability of our company and on the trading price of our shares.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

On March 17, 2014, we issued 125,000 shares of common stock to each of the five members on our Board of Directors and 300,000 shares of common stock to a consultant (total of 925,000 shares of common stock valued at \$18,500) for services rendered. Additionally, we issued 150,000 shares of our common stock to each of the five members on our Board of Directors (total of 750,000 shares of common stock) for their continued service on the Board of Directors during 2014. These shares contain repurchase rights whereby the Company retains the rights to acquire the shares from the stock recipients and such repurchase rights lapse ratably over twelve months at a rate of 1/12<sup>th</sup> per month retroactively beginning on January 1, 2014. The value of the shares is calculated in conjunction with the monthly vesting based on the average stock price during the respective month. Accordingly, the 187,500 shares vested as of March 31, 2014 were valued at \$3,532 and the remaining 562,500 will be valued at their average monthly stock price.

On May 5, 2014, the Company issued a total of 2,649,176 shares of common stock valued at \$90,072 to four consultants, two employees and a Board Member for services rendered.

The issuance of the above shares was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.



ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GTX CORP**

/s/ ALEX MCKEAN

Date: May 15, 2014 By: Alex McKean,

Interim Chief Financial Officer (Principal Financial Officer)

/s/ PATRICK BERTAGNA

Date: May 15, 2014 By: Patrick Bertagna,

Chief Executive Officer

