

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2020

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: 000-55925

**AERKOMM INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**46-3424568**

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

**923 Incline Way, #39, Incline Village, NV 89451**

(Address of principal executive offices, Zip Code)

**(877) 742-3094**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for comply with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Not applicable.		

As of November 6, 2020, there were 9,540,891 shares of the registrant's common stock issued and outstanding.

AERKOMM INC.

Quarterly Report on Form 10-Q  
Period Ended September 30, 2020

---

TABLE OF CONTENTS

<b>PART I</b>		
<b>FINANCIAL INFORMATION</b>		
Item 1.	<a href="#">Financial Statements</a>	1
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	25
Item 3.	<a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	37
Item 4.	<a href="#">Controls and Procedures</a>	37
<b>PART II</b>		
<b>OTHER INFORMATION</b>		
Item 1.	<a href="#">Legal Proceedings</a>	38
Item 1A.	<a href="#">Risk Factors</a>	38
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	38
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	38
Item 4.	<a href="#">Mine Safety Disclosures</a>	38
Item 5.	<a href="#">Other Information</a>	38
Item 6.	<a href="#">Exhibits</a>	39

**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS.**

**AERKOMM INC.**  
**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

	<b><u>Page</u></b>
<a href="#">Condensed Consolidated Balance Sheets as of September 30, 2020 (unaudited) and December 31, 2019</a>	2
<a href="#">Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three-Month and Nine-Month Periods Ended September 30, 2020 (unaudited) and 2019 (unaudited)</a>	3
<a href="#">Condensed Consolidated Statements of Changes in Stockholders' Equity for the Nine-Month Periods Ended September 30, 2020 (unaudited) and 2019 (unaudited)</a>	4
<a href="#">Condensed Consolidated Statements of Cash Flows for the Nine-Month Periods Ended September 30, 2020 (unaudited) and 2019 (unaudited)</a>	5
<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	6

**AERKOMM INC. AND SUBSIDIARIES**  
Condensed Consolidated Balance Sheets  
September 30, 2020 and December 31, 2019

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
<b><u>Assets</u></b>		
<b>Current Assets</b>		
Cash	\$ 74,184	\$ 751,329
Short-term investment	121,460	-
Accounts receivable	-	451,130
Inventories, net	5,030,717	3,038,564
Prepaid expenses and other current assets	1,678,486	2,976,986
<b>Total Current Assets</b>	<b>6,904,847</b>	<b>7,218,009</b>
<b>Property and Equipment</b>		
Cost	2,806,068	2,777,144
Accumulated depreciation	(1,279,468)	(869,747)
Net	1,526,600	1,907,397
Prepayment for land	35,861,589	35,861,589
<b>Total Property and Equipment</b>	<b>37,388,189</b>	<b>37,768,986</b>
<b>Other Assets</b>		
Restricted cash	41,350	225,500
Intangible asset, net	2,516,250	2,887,500
Goodwill	1,475,334	1,475,334
Right-of-use assets, net	424,119	302,602
Deposits	116,775	113,660
<b>Total Other Assets</b>	<b>4,573,828</b>	<b>5,004,596</b>
<b>Total Assets</b>	<b>\$ 48,866,864</b>	<b>\$ 49,991,591</b>
<b><u>Liabilities and Stockholders' Equity</u></b>		
<b>Current Liabilities</b>		
Short-term bank loan	\$ 163,200	\$ -
Short-term loans	1,314,162	-
Accounts payable	1,874,339	912,729
Accrued expenses and other current liabilities	4,220,478	2,077,220
Long-term loan - current	9,635	8,666
Lease liability – current	413,213	332,379
<b>Total Current Liabilities</b>	<b>7,995,027</b>	<b>3,330,994</b>
<b>Long-term Liabilities</b>		
Long-term loan – non-current	30,717	36,803
Prepayment from customer	762,000	762,000
Lease liability – non-current	256,299	45,199
Restricted stock deposit liability	1,000	1,000
<b>Total Long-Term Liabilities</b>	<b>1,050,016</b>	<b>845,002</b>
<b>Total Liabilities</b>	<b>9,045,043</b>	<b>4,175,996</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding as of September 30, 2020 and December 31, 2019	-	-
Common stock, \$0.001 par value, 90,000,000 shares authorized, 9,391,729 shares (excluding 149,162 unvested restricted shares) issued and outstanding as of September 30, 2020 and December 31, 2019	9,392	9,392
Additional paid in capital	71,019,515	69,560,529
Accumulated deficits	(30,129,350)	(23,271,687)
Accumulated other comprehensive loss	(1,077,736)	(482,639)
<b>Total Stockholders' Equity</b>	<b>39,821,821</b>	<b>45,815,595</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 48,866,864</b>	<b>\$ 49,991,591</b>

See accompanying notes to the condensed consolidated financial statements.

**AERKOMM INC. AND SUBSIDIARIES**  
Condensed Consolidated Statements of Operations and Comprehensive Loss  
For the Three-Month and Nine-Month Periods ended September 30, 2020 and 2019

	<b>Three-Month Period Ended September 30,</b>		<b>Nine-Month Period Ended September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net sales	\$ -	\$ -	\$ -	\$ 1,599,864
Cost of sales	-	-	-	1,587,222
Gross profit	-	-	-	12,642
Operating expenses	1,556,729	2,733,350	6,199,323	6,356,161
Loss from Operations	(1,556,729)	(2,733,350)	(6,199,323)	(6,343,519)
Net Non-Operating Loss	(813,222)	(78,433)	(655,065)	(533,459)
Loss before Income Taxes	(2,369,951)	(2,811,783)	(6,854,388)	(6,876,978)
Income Tax Expense	12	-	3,275	3,235
Net Loss	(2,369,963)	(2,811,783)	(6,857,663)	(6,880,213)
Other Comprehensive Income (Loss)				
Change in foreign currency translation adjustments	(367,280)	59,237	(595,097)	524,531
Total Comprehensive Loss	\$ (2,737,243)	\$ (2,752,546)	\$ (7,452,760)	\$ (6,355,682)
Net Loss Per Common Share:				
Basic	\$ (0.2484)	\$ (0.2967)	\$ (0.7188)	\$ (0.7377)
Diluted	\$ (0.2484)	\$ (0.2967)	\$ (0.7188)	\$ (0.7377)
Weighted Average Shares Outstanding - Basic	9,540,891	9,475,413	9,540,891	9,326,382
Weighted Average Shares Outstanding - Diluted	9,540,891	9,475,413	9,540,891	9,326,382

See accompanying notes to the condensed consolidated financial statements.

**AERKOMM INC. AND SUBSIDIARIES**  
Condensed Consolidated Statements of Changes in Stockholders' Equity  
For the Nine-Month Periods ended September 30, 2020 and 2019

	Common Stock		Additional Paid in Capital	Accumulated Deficits	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2018	9,098,090	\$ 9,098	\$ 56,582,800	\$ (15,292,128)	\$ 119,964	\$ 41,419,734
Stock compensation expense	-	-	313,042	-	-	313,042
Revaluation of stock warrant	-	-	(68,200)	-	-	(68,200)
Other comprehensive income	-	-	-	-	343,596	343,598
Net loss for the period	-	-	-	(2,382,992)	-	(2,382,992)
Balance as of March 31, 2019 (unaudited)	9,098,090	9,098	56,827,642	(17,675,120)	463,560	39,625,180
Issuance of common stock	152,000	152	6,047,478	-	-	6,047,630
Issuance of stock warrant	-	-	5,000	-	-	5,000
Stock compensation expense	-	-	346,549	-	-	346,549
Revaluation of stock warrant	-	-	(268,367)	-	-	(268,367)
Other comprehensive income	-	-	-	-	121,698	121,698
Net loss for the period	-	-	-	(1,685,438)	-	(1,685,438)
Balance as of June 30, 2019 (unaudited)	9,250,090	9,250	62,958,302	(19,360,558)	585,258	44,192,252
Issuance of common stock	141,619	142	4,762,916	-	-	4,763,058
Stock compensation expense	-	-	735,078	-	-	735,078
Revaluation of stock warrant	-	-	415,800	-	-	415,800
Other comprehensive income	-	-	-	-	59,237	59,237
Net loss for the period	-	-	-	(2,811,783)	-	(2,811,783)
Balance as of September 30, 2019 (unaudited)	9,391,709	\$ 9,392	\$ 68,872,096	\$ (22,172,341)	\$ 644,495	\$ 47,353,642

	Common Stock		Additional Paid in Capital	Accumulated Deficits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance as of December 31, 2019	9,391,729	\$ 9,392	\$ 69,560,529	\$ (23,271,687)	\$ (482,639)	\$ 45,815,595
Stock compensation expense	-	-	464,827	-	-	464,827
Revaluation of stock warrant	-	-	(66,200)	-	-	(66,200)
Other comprehensive income	-	-	-	-	343,775	343,775
Net loss for the period	-	-	-	(2,366,494)	-	(2,366,494)
Balance as of March 31, 2020 (Unaudited)	9,391,729	9,392	69,959,156	(25,638,181)	(138,864)	44,191,503
Stock compensation expense	-	-	448,987	-	-	448,987
Revaluation of stock warrant	-	-	455,500	-	-	455,500
Other comprehensive loss	-	-	-	-	(571,592)	(571,592)
Net loss for the period	-	-	-	(2,121,206)	-	(2,121,206)
Balance as of June 30, 2020 (Unaudited)	9,391,729	9,392	70,863,643	(27,759,387)	(710,456)	42,403,192
Stock compensation expense	-	-	282,572	-	-	282,572
Revaluation of stock warrant	-	-	(126,700)	-	-	(126,700)
Other comprehensive loss	-	-	-	-	(367,280)	(367,280)
Net loss for the period	-	-	-	(2,369,963)	-	(2,369,963)
Balance as of September 30, 2020 (Unaudited)	9,391,729	\$ 9,392	\$ 71,019,515	\$ (30,129,350)	\$ (1,077,736)	\$ 39,821,821

See accompanying notes to the condensed consolidated financial statements.

**AERKOMM INC. AND SUBSIDIARIES**  
Condensed Consolidated Statements of Cash Flows  
For the Nine-Month Periods ended September 30, 2020 and 2019

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>
	(Unaudited)	(Unaudited)
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (6,857,663)	\$ (6,880,213)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	780,971	781,007
Stock-based compensation expense	1,196,386	1,394,669
R&D expenses transferred from inventory and construction in progress	-	416,231
Consulting expense adjustment from change in fair value of warrants	262,600	84,233
Unrealized losses on trading security	68,911	-
Changes in operating assets and liabilities:		
Accounts receivable	451,130	1,095,061
Inventories	(1,992,153)	(1,485,350)
Prepaid expenses and other current assets	1,292,279	(985,849)
Deposits	(3,115)	(252)
Accounts payable	961,610	(840,092)
Accrued expenses and other current liabilities	2,143,258	(1,650,867)
Operating lease liability	179,372	41,069
Net Cash Used for Operating Activities	<u>(1,516,414)</u>	<u>(8,030,353)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of trading security	(184,150)	-
Purchase of property and equipment	(28,924)	(6,455)
Prepayment on land and satellite equipment	-	(624,462)
Net Cash Used for Investing Activities	<u>(213,074)</u>	<u>(630,917)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from short-term bank loan	163,200	-
Proceeds from short-term loans	1,314,162	-
Proceeds from long-term loan	-	45,765
Proceeds from issuance of common stock	-	10,810,688
Payment on loan-term loan	(5,117)	-
Payment on finance lease liability	(8,955)	-
Net Cash Provided by Financing Activities	<u>1,463,290</u>	<u>10,856,453</u>
Net Increase (Decrease) in Cash and Restricted Cash	(266,198)	2,195,183
Cash and Restricted Cash, Beginning of Period	976,829	88,309
Foreign Currency Translation Effect on Cash	(595,097)	524,531
Cash and Restricted Cash, End of Period	<u>\$ 115,534</u>	<u>\$ 2,808,023</u>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for income taxes	\$ 3,275	\$ -
Cash paid during the period for interest	\$ 4,593	\$ 338

See accompanying notes to the condensed consolidated financial statements.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 1 - Organization**

Aerkomm Inc. (formerly Maple Tree Kids Inc.) (“Aerkomm”) was incorporated on August 14, 2013 in the State of Nevada. Aerkomm was a retail distribution company selling all its products over the internet in the United States, operating in the infant and toddler products business market.

On December 28, 2016, Aircom Pacific Inc. (“Aircom”) purchased approximately 86.3% of Aerkomm’s issued and outstanding common stock as of the closing date of purchase. As a result of the transaction, Aircom became the controlling shareholder of Aerkomm. Aircom was incorporated on September 29, 2014 under the laws of the State of California.

On February 13, 2017, Aerkomm entered into a share exchange agreement (“Exchange Agreement”) with Aircom and its shareholders, pursuant to which Aerkomm acquired 100% of the issued and outstanding capital stock of Aircom in exchange for approximately 99.7% of the issued and outstanding capital stock of Aerkomm. As a result of the share exchange, Aircom became a wholly-owned subsidiary of Aerkomm, and the former shareholders of Aircom became the holders of approximately 99.7% of Aerkomm’s issued and outstanding capital stock.

On December 31, 2014, Aircom acquired a newly incorporated subsidiary, Aircom Pacific Ltd. (“Aircom Seychelles”), a corporation formed under the laws of the Republic of Seychelles. Aircom Seychelles was formed to facilitate Aircom’s global corporate structure for both business operations and tax planning. Presently, Aircom Seychelles has no operations. Aircom is working with corporate and tax advisers in finalizing its global corporate structure and has not yet concluded its final plan.

On October 17, 2016, Aircom acquired a wholly owned subsidiary, Aircom Pacific Inc. Limited (“Aircom HK”), a corporation formed under the laws of Hong Kong. The purpose of Aircom HK is to conduct Aircom’s business and operations in Hong Kong. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in Hong Kong. Aircom HK is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to Hong Kong-based airlines via Aircom HK and teleports located in Hong Kong.

On December 15, 2016, Aircom acquired a wholly owned subsidiary, Aircom Japan, Inc. (“Aircom Japan”), a corporation formed under the laws of Japan. The purpose of Aircom Japan is to conduct business development and operations located within Japan. Aircom Japan is in the process of applying for, and will be the holder of, Satellite Communication Blanket License in Japan, which is necessary for Aircom to provide services within Japan. Aircom Japan will also provide local supports to airlines operating within the territory of Japan.

Aircom Telecom LLC (“Aircom Taiwan”), which became a wholly owned subsidiary of Aircom in December 2017, was organized under the laws of Taiwan on June 29, 2016. Aircom Taiwan is responsible for Aircom’s business development efforts and general operations within Taiwan.

On June 13, 2018, Aerkomm established a new wholly owned subsidiary, Aerkomm Taiwan Inc. (“Aerkomm Taiwan”), a corporation formed under the laws of Taiwan. The purpose of Aerkomm Taiwan is to purchase a parcel of land and raise sufficient fund for ground station building and operate the ground station for data processing (although that cannot be guaranteed).

On November 15, 2018, Aircom Taiwan acquired a wholly owned subsidiary, Beijing Yatai Communication Co., Ltd. (“Aircom Beijing”), a corporation formed under the laws of China. The purpose of Aircom Beijing is to conduct Aircom’s business and operations in China. Presently, its primary function is business development, both with respect to airlines as well as content providers and advertisement partners based in China as most business conducted in China requires a local registered company. Aircom Beijing is also actively seeking strategic partnerships whom Aircom may leverage in order to provide more and better services to its customers. Aircom also plans to provide local supports to China-based airlines via Aircom Beijing and teleports located in China.

On October 31, 2019, Aircom Seychelles established a new a wholly owned subsidiary, Aerkomm Pacific Limited (“Aerkomm Malta”), a corporation formed under the laws of Malta. The purpose of Aerkomm Malta is to conduct Aircom’s business and operations and to engage with suppliers and potential airlines customers in the European Union.

Aerkomm and its subsidiaries (the “Company”) are full-service, development stage providers of in-flight entertainment and connectivity solutions with their initial market in the Asian Pacific region.



**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 1 - Organization - Continued**

The Company has not generated significant revenues, excluding non-recurring revenues in 2018 and 2019, and will incur additional expenses as a result of being a public reporting company. Currently, the Company has taken measures that management believes will improve its financial position by financing activities, including through a public offering, short-term borrowings and equity contributions. Two of the Company's current shareholders (the "Lenders") each committed to provide to the Company a \$10 million bridge loan (together, the "Loans") for an aggregate principal amount of \$20 million, to bridge the Company's cash flow needs prior to its obtaining a mortgage loan to be secured by a parcel of land (the "Land") the Company purchased in Taiwan. The Lenders also agreed to an earlier closing of up to 25% of the principal amounts of the Loans upon the Company's request prior to the time that title to the Land is vested in the Company's subsidiary, Aerkomm Taiwan, to pay down outstanding payables to the Company's vendors. On April 16, 2020, the Company signed a loan agreement with one of its business partners, EESquare Superstore Corp. ("EESquare") for a working capital loan of up to \$1.5 million (unaudited), with an interest rate at 3.25%. On July 29, 2020, the Company filed an amendment to the Registration Statement on Form S-1, originally filed on April 30, 2020, with the Securities and Exchange Commission, or the SEC, pursuant to Section 5 of the Securities Act of 1933 to issue and sell up to 1,951,219 shares (approximately \$47,276,000) (unaudited) of the Company's common stock, at a per share price of €20.50 (approximately \$24.23). The Form S-1 was subsequently amended on July 29, 2020, October 21, 2020 and November 5, 2020, and was declared effective on November 6, 2020. With the \$20 million in Loans committed by the Lenders, the working capital loan from EESquare and expected future capital raising efforts, including the filing for upcoming registered public offering, the Company believes its working capital will be adequate to sustain its operations for the next twelve months.

On January 16, 2019, the Company completed a 1-for-5 reverse split of the Company's authorized, issued and outstanding shares of common stock, which was completed by the filing of a Certificate of Change Pursuant to NRS 78.209 with the Nevada Secretary of State on December 26, 2018 (see Note 14). All of the references in these financial statements to authorized common stock and issued and outstanding common stock have been adjusted to reflect this reverse split.

The Company's common stock is quoted for trading on the OTC Markets Group Inc. OTCQX Best Market under the symbol "AKOM." On July 17, 2019, the French *Autorité des Marchés Financiers* (the "AMF") granted visa number 19-372 on the prospectus relating to the admission of the Company's common stock to list and trade on the Professional Segment of the regulated market of Euronext Paris ("Euronext Paris"). The Company's common stock began trading on Euronext Paris on July 23, 2019 under the symbol "AKOM" and is denominated in Euros on Euronext Paris. This listing did not alter the Company's share count, capital structure, or current common stock listing on the OTCQX, the Company's primary trading market for its common stock.

**NOTE 2 - Summary of Significant Accounting Policies**

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of September 30, 2020, and the condensed consolidated statements of operations and comprehensive loss for the three and nine months ended September 30, 2020 and 2019 and of changes in stockholders' equity and cash flows for the nine months ended September 30, 2020 and 2019 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2020 and the results of its operations for the three and nine months ended September 30, 2020 and 2019 and of its cash flows for the nine months ended September 30, 2020 and 2019. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these three-month and nine-month periods are unaudited. The results of operations for the nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020 or for any other interim period or other future year.

Principle of Consolidation

Aerkomm consolidates the accounts of its subsidiaries, Aircom, Aircom Seychelles, Aircom HK, Aircom Japan, Aircom Taiwan, Aerkomm Taiwan, Aircom Beijing and Aerkomm Malta. All significant intercompany accounts and transactions have been eliminated in consolidation.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 2 - Summary of Significant Accounting Policies - Continued**

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from these estimates.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash in banks. As of September 30, 2020 and December 31, 2019, the total balance of cash in bank exceeding the amount insured by the Federal Deposit Insurance Corporation (FDIC) for the Company was approximately \$0 (unaudited) and \$233,000, respectively. The balance of cash deposited in foreign financial institutions exceeding the amount insured by local insurance is approximately \$0 and \$37,000 as of September 30, 2020 and December 31, 2019, respectively.

The Company performs ongoing credit evaluation of its customers and requires no collateral. An allowance for doubtful accounts is provided based on a review of the collectability of accounts receivable. The Company determines the amount of allowance for doubtful accounts by examining its historical collection experience and current trends in the credit quality of its customers as well as its internal credit policies. Actual credit losses may differ from management's estimates.

Short-term investment

The Company's short-term investment securities are classified as trading security. The securities are stated at fair value within current assets on the Company's condensed balance sheets. Fair value is calculated based on publicly available market information or other estimates determined by the Company. Changes in fair value are recorded in current income.

Inventories

Inventories are recorded at the lower of weighted-average cost or net realizable value. The Company assesses the impact of changing technology on its inventory on hand and writes off inventories that are considered obsolete. Estimated losses on scrap and slow-moving items are recognized in the allowance for losses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. When value impairment is determined, the related assets are stated at the lower of fair value or book value. Significant additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred.

Depreciation is computed by using the straight-line and double declining methods over the following estimated service lives: ground station equipment – 5 years, computer equipment - 3 to 5 years, furniture and fixtures - 5 years, satellite equipment – 5 years, vehicles – 5 years and lease improvement – 5 years.

Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss credited or charged to income in the period of sale or disposal.

The Company reviews the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. It determined that there was no impairment loss for the nine-month period ended September 30, 2020 and for the year ended December 31, 2019.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 2 - Summary of Significant Accounting Policies - Continued**

Right-of-Use Asset and Lease Liability

In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842) ("ASU 2016-02"), which modifies lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases and finance leases under previous accounting standards and disclosing key information about leasing arrangements.

A lessee should recognize the lease liability to make lease payments and the right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases and finance leases, a right-of-use asset and a lease liability are initially measured at the present value of the lease payments by discount rates. The Company's lease discount rates are generally based on its incremental borrowing rate, as the discount rates implicit in the Company's leases is readily determinable. Operating leases are included in operating lease right-of-use assets and lease liabilities in the consolidated balance sheets. Finance leases are included in property and equipment and lease liability in our consolidated balance sheets. Lease expense for operating expense payments is recognized on a straight-line basis over the lease term. Interest and amortization expenses are recognized for finance leases on a straight-line basis over the lease term.

For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The Company adopted ASU 2016-02 effective January 1, 2019.

Goodwill and Purchased Intangible Assets

The Company's goodwill represents the amount by which the total purchase price paid exceeded the estimated fair value of net assets acquired from acquisition of subsidiaries. The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment.

Purchased intangible assets with finite life are amortized on the straight-line basis over the estimated useful lives of respective assets. Purchased intangible assets with indefinite life are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Purchased intangible asset consists of satellite system software and is amortized over 10 years.

Fair Value of Financial Instruments

The Company utilizes the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions.

The carrying amounts of the Company's cash, accounts receivable, other receivable, accounts payable, short-term loans, accrued expense and other payable approximated their fair value due to the short-term nature of these financial instruments. The Company's long-term loan and lease payable approximated the carrying amount as its interest rate is considered as approximate to the current rate for comparable loans and leases, respectively. There were no outstanding derivative financial instruments as of September 30, 2020.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 2 - Summary of Significant Accounting Policies - Continued**

Revenue Recognition

The Company recognizes revenue when performance obligations identified under the terms of contracts with its customers are satisfied, which generally occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. The Company's revenue for the nine months ended September 30, 2019 was the sales of compact adaptor for smartphone that allows users to turn their smartphone into a satellite smartphone to provide reliable connectivity beyond the coverage of traditional networks. The majority of the Company's revenue is recognized at a point in time when product is shipped or service is provided to the customer. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods, which includes estimates for variable consideration. During 2019, the Company adopted the provisions of ASU 2014-09 Revenue from Contracts with Customers (Topic 606) and the principal versus agent guidance within the new revenue standard. The application of Topic 606 (versus prior U.S. GAAP) did not have a significant impact on the Company's comparative financial statements as presented.

Research and Development Costs

Research and development costs are charged to operating expenses as incurred. For the nine-month periods ended September 30, 2020 and 2019, the Company incurred \$0 (unaudited) and \$416,231 (unaudited) of research and development costs, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Adjustments to prior period's income tax liabilities are added to or deducted from the current period's tax provision.

The Company follows FASB guidance on uncertain tax positions and has analyzed its filing positions in all the federal, state and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in those jurisdictions. The Company files income tax returns in the US federal, state and foreign jurisdictions where it conducts business. It is not subject to income tax examinations by US federal, state and local tax authorities for years before 2015. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on its consolidated financial position, results of operations, or cash flows. Therefore, no reserves for uncertain tax positions have been recorded. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months.

The Company's policy for recording interest and penalties associated with any uncertain tax positions is to record such items as a component of income before taxes. Penalties and interest paid or received, if any, are recorded as part of other operating expenses in the consolidated statement of operations.

Foreign Currency Transactions

Foreign currency transactions are recorded in U.S. dollars at the exchange rates in effect when the transactions occur. Exchange gains or losses derived from foreign currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in current income. At the end of each period, assets and liabilities denominated in foreign currencies are revalued at the prevailing exchange rates with the resulting gains or losses recognized in income for the period.

Translation Adjustments

If a foreign subsidiary's functional currency is the local currency, translation adjustments will result from the process of translating the subsidiary's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported under other comprehensive income (loss) as a separate component of stockholders' equity.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 2 - Summary of Significant Accounting Policies - Continued**

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include stock warrants and outstanding stock options, shares to be purchased by employees under the Company's employee stock purchase plan.

Subsequent Events

The Company has evaluated events and transactions after the reported period up to November 7, 2020, the date on which these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of September 30, 2020 have been included in these consolidated financial statements.

**NOTE 3 - Recent Accounting Pronouncements**

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12 to simplify the accounting in ASC 740, Income Taxes. This guidance removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period, and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This ASU will be effective beginning in the first quarter of the Company's fiscal year 2021. Early adoption is permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. The Company is currently evaluating the impact this ASU will have on its consolidated financial statements and related disclosures, as well as the timing of adoption.

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which modifies the measurement of expected credit losses of certain financial instruments. In February 2020, the FASB issued ASU 2020-02 and delayed the effective date of ASU 2016-13 until fiscal year beginning after December 15, 2022. The Company is currently evaluating the impact of adopting ASU 2016-13 on its consolidated financial statements.

Intangibles

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other" (Topic 350): Simplifying the Test for Goodwill Impairment, which goodwill shall be tested at least annually for impairment at a level of reporting referred to as a reporting unit. ASU 2017-04 will be effective for annual periods beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2017-04 on its consolidated financial statements.

**NOTE 4 - Inventories**

As of September 30, 2020 and December 31, 2019, inventories consisted of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
Satellite equipment for sale under construction	\$ 4,669,297	\$ 3,038,564
Supplies	5,284	5,230
	<u>4,674,581</u>	<u>3,043,794</u>
Allowance for inventory loss	(5,284)	(5,230)
Net	4,669,297	3,038,564
Prepayment for inventory	361,420	-
Total	<u>\$ 5,030,717</u>	<u>\$ 3,038,564</u>

**AERKCOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 5 - Property and Equipment**

As of September 30, 2020 and December 31, 2019, the balances of property and equipment were as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
Ground station equipment	\$ 1,854,027	\$ 1,854,027
Computer software and equipment	335,709	328,863
Satellite equipment	275,410	275,410
Vehicle	220,819	198,741
Leasehold improvement	83,721	83,721
Furniture and fixture	36,382	36,382
	<u>2,806,068</u>	<u>2,777,144</u>
Accumulated depreciation	(1,279,468)	(869,747)
Net	<u>1,526,600</u>	<u>1,907,397</u>
Prepayments - land	35,861,589	35,861,589
Net	<u>\$ 37,388,189</u>	<u>\$ 37,768,986</u>

On May 1, 2018, the Company and Aerkomm Taiwan entered into a binding memorandum of understanding with Tsai Ming-Yin (the "Seller") with respect to the acquisition by Aerkomm Taiwan of a parcel of land located in Taiwan. The land is expected to be used to build a satellite ground station and data center. On July 10, 2018, the Company, Aerkomm Taiwan and the Seller entered into a certain real estate sales contract regarding this acquisition. Pursuant to the terms of the contract, and subsequent amendments on July 30, 2018, September 4, 2018, November 2, 2018 and January 3, 2019, the Company paid to the seller in installments refundable prepayments of \$33,850,000 as of December 31, 2018. On July 2, 2019, the Company paid the remaining purchase price balance of \$624,462. Under the terms of the real estate sales contract, these purchase price payments are no longer refundable as of September 30, 2020. The Company is currently negotiating with the Seller to allow for a refund of the full purchase price if licenses and approvals needed to transfer land title to Aerkomm Taiwan are not granted by a certain date. There can be no assurances, however, that it will be successful in these negotiations or that the required licenses and approvals will be granted by a certain date, if at all. As of September 30, 2020 and December 31, 2019, the estimated commission payable for the land purchase in the amount of \$1,387,127 was recorded to the cost of land and the payment to be paid no later than December 31, 2021.

Depreciation expense was \$136,095 (unaudited) and \$136,449 (unaudited) for the three-month periods ended September 30, 2020 and 2019, respectively, and \$409,721 (unaudited) and \$409,757 (unaudited) for the nine-month periods ended September 30, 2020 and 2019, respectively.

**NOTE 6 - Intangible Asset, Net**

As of September 30, 2020 and December 31, 2019, the cost and accumulated amortization for intangible asset were as follows:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
Satellite system software	\$ 4,950,000	\$ 4,950,000
Accumulated amortization	(2,433,750)	(2,062,500)
Net	<u>\$ 2,516,250</u>	<u>\$ 2,887,500</u>

Amortization expense was \$123,750 (unaudited) and \$123,750 (unaudited) for the three-month periods ended September 30, 2020 and 2019, respectively, and \$371,250 (unaudited) and \$371,250 (unaudited) for the nine-month periods ended September 30, 2020 and 2019, respectively.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 7 - Short-term Investment and Restricted Cash**

On September 9, 2019, the Company entered into a liquidity agreement with a security company (“the Liquidity Provider”) in France, which is consistent with customary practice in the French securities market. The liquidity agreement complies with applicable laws and regulations in France and authorizes the Liquidity Provider to carry out market purchases and sales of shares of the Company’s common stock on the Euronext Paris market. To enable the Liquidity Provider to carry out the interventions provided for in the contract, the Company contributed approximately \$225,500 (€200,000) into the account. The transaction was initiated from the beginning of 2020, and the Company will pay the compensation of 20,000 euros in advance by semi-annual installments at the beginning of the semi-annual period of the agreement. The liquidity agreement has a term of one year and will be renewed automatically unless otherwise terminated by either party. As of September 30, 2020, the Company purchased 7,732 shares (unaudited) of its common stock with the fair value of \$121,460 (unaudited). The securities were recorded as short-term investment with unrealized loss of \$68,911 (unaudited). The remaining cash balance was \$41,350 (€35,290) (unaudited).

**NOTE 8 - Operating and Finance Leases**

A. Lease term and discount rate:

The weighted-average remaining lease term (in years) and discount rate related to the leases were as follows:

	Unaudited
Weighted-average remaining lease term	
Operating lease	2.08 Years
Finance lease	4.10 Years
Weighted-average discount rate	
Operating lease	6.00%
Finance lease	3.82%

B. The balances of the operating and finance leases are presented as follows within the balance sheets as of September 30, 2020 and December 31, 2019:

Operating Leases

	September 30, 2020	December 31, 2019
	(Unaudited)	
Right-of-use assets	\$ 424,119	\$ 302,602
Lease liability - current	\$ 402,636	\$ 322,430
Lease liability – non-current	\$ 217,571	\$ -

Finance Leases

	September 30, 2020	December 31, 2019
	(Unaudited)	
Property and equipment, at cost	\$ 56,770	\$ 56,770
Accumulated depreciation	(10,398)	(1,569)
Property and equipment, net	\$ 46,372	\$ 55,201
Lease liability - current	\$ 10,577	\$ 9,949
Lease liability – non-current	38,728	45,199
Total finance lease liabilities	\$ 49,305	\$ 55,148

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 8 - Operating and Finance Leases - Continued**

The components of lease expense are as follows within the condensed consolidated statements of operations and comprehensive loss for the three-month and nine-month periods ended September 30, 2020 and 2019:

Operating Leases

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Lease expense	\$ 126,396	\$ 101,088	\$ 346,741	\$ 345,083
Sublease rental income	(2,827)	-	(8,372)	-
Net lease expense	<u>\$ 123,569</u>	<u>\$ 101,088</u>	<u>\$ 338,369</u>	<u>\$ 345,083</u>

Finance Leases

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2020</b>	<b>September 30, 2019</b>	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Amortization of right-of-use asset	\$ 2,897	\$ -	\$ 8,829	\$ -
Interest on lease liabilities	481	-	1,493	-
Total finance lease cost	<u>\$ 3,378</u>	<u>\$ -</u>	<u>\$ 10,322</u>	<u>\$ -</u>

Supplemental cash flow information related to leases for the nine-month periods ended September 30, 2020 and 2019 is as follows:

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
	(Unaudited)	(Unaudited)
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from operating leases	\$ 151,360	\$ 304,014
Operating cash outflows from finance lease	\$ 7,462	\$ -
Financing cash outflows from finance lease	\$ 1,493	\$ -
Leased assets obtained in exchange for lease liabilities:		
Operating leases	\$ 453,049	\$ 722,423

Maturity of lease liabilities:

Operating Leases

	(Unaudited)
October 1, 2020 – September 30, 2021	\$ 421,637
October 1, 2021 – September 30, 2022	167,555
October 1, 2022 – September 30, 2023	59,504
Total lease payments	648,696
Less: Imputed interest	(28,489)
Present value of lease liabilities	620,207
Current portion	(402,636)
Non-current portion	<u>\$ 217,571</u>



**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 8 - Operating and Finance Leases - Continued**

Finance Leases

	<u>(Unaudited)</u>
October 1, 2020 – September 30, 2021	\$ 12,277
October 1, 2021 – September 30, 2022	12,277
October 1, 2022 – September 30, 2023	12,277
October 1, 2023 – September 30, 2024	12,277
October 1, 2024 – September 30, 2025	4,478
Total lease payments	53,586
Less: Imputed interest	<u>(4,281)</u>
Present value of lease liabilities	49,305
Current portion	<u>(10,577)</u>
Non-current portion	<u>\$ 38,728</u>

**NOTE 9 - Short-term Bank Loan**

On April 16, 2020, the Company received loan proceeds in the amount of \$163,200 under the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. According to PPP, borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8- or 24-week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred. The Company has applied for the forgiveness of the loan within the maturity date and is waiting for the approval.

**NOTE 10 - Short-term Loan**

On April 16, 2020, the Company signed a loan agreement with one of its business partners, EESquare Superstore Corp. (“EESquare”) for a working capital loan of up to \$1.5 million (unaudited), with an interest rate at 3.25% (unaudited). The agreement will expire on April 15, 2022. Each advance shall be due and payable in full no later than one year from the date of such advance or the termination of the agreement, whichever comes first. As of September 30, 2020, the Company has drawn down \$1,100,000 (unaudited) under this loan agreement.

**NOTE 11 - Long-term Loan**

The Company has a car loan credit line of NT\$1,500,000 (approximately US\$48,371), which matures on May 21, 2024, from a Taiwan financing company with annual interest rate of 9.7%. The installment payment plan is 60 months to pay off the balance on the 21st of each month. Future installment payments as of September 30, 2020 are as follows:

	<u>(Unaudited)</u>
<u>Twelve months ending September 30,</u>	
2021	\$ 13,119
2022	13,119
2023	13,119
2024	8,746
Total installment payments	48,103
Less: Imputed interest	<u>(7,751)</u>
Present value of long-term loan	40,352
Current portion	<u>(9,635)</u>
Non-current portion	<u>\$ 30,717</u>

**NOTE 12 - Prepayment from Customer**

On March 9, 2015, the Company entered into a 10-year purchase agreement with Klingon Aerospace, Inc. (“Klingon”), which was formerly named as Luxe Electronic Co., Ltd. In accordance with the terms of this agreement, Klingon agreed to purchase from the Company an initial order of onboard equipment comprising an onboard system for a purchase price of \$909,000, with payments to be made in accordance with a specific milestones schedule. As of September 30, 2020 and December 31, 2019, the Company received \$762,000 from Klingon in milestone payments towards the equipment purchase price. As of November 7, 2020, the project is still ongoing.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 13 - Income Taxes**

Income tax expense for the three-month and nine-month periods ended September 30, 2020 and 2019 consisted of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current:				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	1,600	1,600
Foreign	12	-	1,675	1,635
Total	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 3,275</u>	<u>\$ 3,235</u>

The following table presents a reconciliation of the Company's income tax at statutory tax rate and income tax at effective tax rate for the three-month and nine-month periods ended September 30, 2020 and 2019.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Tax benefit at statutory rate	\$ (240,895)	\$ (688,749)	\$ (1,244,715)	\$ (1,703,699)
Valuation allowance on net operating loss carryforwards	183,521	531,909	752,812	1,136,489
Unrealized investment losses (gains)	(8,487)	107,200	89,803	290,900
Stock-based compensation expense	59,300	154,400	251,200	292,900
Amortization and depreciation expense	(22,013)	58,700	3,320	33,100
Accrued payroll	98,900	900	174,800	(40,900)
Unrealized exchange losses (gains)	(76,526)	11,653	(104,720)	98,920
Accrued consulting expense	-	(122,300)	-	(122,300)
Others	6,212	(53,713)	80,775	17,825
Tax expense at effective tax rate	<u>\$ 12</u>	<u>\$ -</u>	<u>\$ 3,275</u>	<u>\$ 3,235</u>

Deferred tax assets (liabilities) as of September 30, 2020 and December 31, 2019 consist approximately of:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
	(Unaudited)	
Net operating loss carryforwards (NOLs)	\$ 7,688,000	\$ 6,388,000
Stock-based compensation expense	1,884,000	1,549,000
Accrued expenses and unpaid expense payable	312,000	53,000
Tax credit carryforwards	68,000	68,000
Excess of tax amortization over book amortization	(587,000)	(619,000)
Unrealized exchange gain	(230,000)	(106,000)
Others	(151,000)	(104,000)
Gross	<u>8,984,000</u>	<u>7,229,000</u>
Valuation allowance	(8,984,000)	(7,229,000)
Net	<u>\$ -</u>	<u>\$ -</u>

Management does not believe the deferred tax assets will be utilized in the near future; therefore, a full valuation allowance is provided. The net change in deferred tax assets valuation allowance was an increase of approximately \$ 1,755,000 (unaudited) for the nine months ended September 30, 2020.

As of September 30, 2020 and December 31, 2019, the Company had federal NOLs of approximately \$8,243,000 available to reduce future federal taxable income, expiring in 2037, and additional federal NOLs of approximately \$ 14,514,000 (unaudited) and \$11,314,000, respectively, were generated and will be carried forward indefinitely to reduce future federal taxable income. As of September 30, 2020 and December 31, 2019, the Company had State NOLs of approximately \$ 25,144,000 (unaudited) and \$21,117,000 respectively, available to reduce future state taxable income, expiring in 2040 and 2039, respectively.

As of September 30, 2020 and December 31, 2019, the Company has Japan NOLs of approximately \$367,000 (unaudited) and \$350,000, respectively, available to reduce future Japan taxable income, expiring through 2031.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 13 - Income Taxes - Continued**

As of September 30, 2020 and December 31, 2019, the Company has Taiwan NOLs of approximately \$2,701,000 (unaudited) and \$1,898,000, respectively, available to reduce future Taiwan taxable income, expiring in 2030 and 2029, respectively.

As of September 30, 2020 and December 31, 2019, the Company had approximately \$37,000 (unaudited) and \$37,000 of federal research and development tax credit, available to offset future federal income tax. The credit begins to expire in 2034 if not utilized. As of September 30, 2020 and December 31, 2019, the Company had approximately \$39,000 (unaudited) and \$39,000 of California state research and development tax credit available to offset future California state income tax. The credit can be carried forward indefinitely.

The Company's ability to utilize its federal and state NOLs to offset future income taxes is subject to restrictions resulting from its prior change in ownership as defined by Internal Revenue Code Section 382. The Company does not expect to incur the limitation on NOLs utilization in future annual usage.

**NOTE 14 - Capital Stock**

1) Preferred Stock:

The Company is authorized to issue 50,000,000 shares of preferred stock, with par value of \$0.001. As of September 30, 2020, there were no preferred stock shares outstanding. The Board of Directors has the authority to issue preferred stock in one or more series, and in connection with the creation of any such series, by resolutions providing for the issuance of the shares thereof, to determine dividends, voting rights, conversion rights, redemption privileges and liquidation preferences.

2) Common Stock:

The Company is authorized to issue 90,000,000 shares of common stock, reflecting a reverse split in the ratio of 1 for 5 effective January 16, 2019, with par value of \$0.001.

On February 13, 2017, all of Aircom's 5,513,334 restricted shares were converted to 2,055,947 shares of Aerkomm's restricted stock at the ratio of 2.681651 to 1, pursuant to the Exchange Agreement (see Note 1). As of September 30, 2020 and December 31, 2019, the restricted shares consisted of the following:

	<b>September 30, 2020</b>	<b>December 31, 2019</b>
	(Unaudited)	
Restricted stock - vested	1,802,373	1,802,373
Restricted stock - unvested	149,162	149,162
<b>Total restricted stock</b>	<b>1,951,535</b>	<b>1,951,535</b>

The unvested shares of restricted stock were recorded under a deposit liability account awaiting future conversion to common stock when they become vested.

3) Stock Warrant:

The Company has entered into a service agreement which provides for the issuance of warrants to purchase shares of its common stock to a service provider as payment for services. The warrants allow the service provider to purchase a number of shares of Aerkomm common stock equal to the service fee value divided by 85% of the share price paid by investors for Aerkomm's common stock in the first subsequent qualifying equity financing event, at an exercise price of \$0.05 per share. For the nine-month periods ended September 30, 2020 and 2019, Aerkomm has not issued additional stock warrants to the service provider as payment for additional services. As of September 28, 2019, these warrants are equivalent to 4,891 shares of the Company's common stock. On September 29, 2019, the Company settled with the service provider to cancel all these warrants with \$75,000 in three installments payable on July 3, August 1, and September 1, 2019 and all three installments were paid on schedule.

In connection with the Underwriting Agreement with Boustead Securities, LLC, or Boustead, the Company agreed to issue to Boustead warrants to purchase a number of the Company's shares equal to 6% of the gross proceeds of the public offering, which shall be exercisable, in whole or in part, commencing on April 13, 2018 and expiring on the five-year anniversary at an initial exercise price of \$53.125 per share, which is equal to 125% of the offering price paid by investors. As of December 31, 2019, the Company issued total warrants to Boustead to purchase 77,680 shares of the Company's stock. For the nine-month periods ended September 30, 2020 and 2019, the Company recorded an increase of \$262,600 and \$84,233, respectively, in additional paid-in capital as adjustment for the issuance costs of these stock warrants.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 15 - Significant Related Party Transactions**

A. Name of related parties and relationships with the Company:

<u>Related Party</u>	<u>Relationship</u>
Dmedia Holding LP (“Dmedia”)	Major stockholder
Well Thrive Limited (“WTL”)	Major stockholder; Sheng-Chun Chang is the President
Yuan Jiu Inc. (“Yuan Jiu”)	Stockholder; Albert Hsu, a Director of Aerkomm, is the Chairman
AA Twin Associates Ltd. (“AATWIN”)	Georges Caldironi, COO of Aerkomm, is sole owner

B. Significant related party transactions:

The Company has extensive transactions with its related parties. It is possible that the terms of these transactions are not the same as those which would result from transactions among wholly unrelated parties.

a. As of September 30, 2020 and December 31, 2019:

	<u>September 30,</u> <u>2020</u> (Unaudited)	<u>December 31,</u> <u>2019</u>
Inventory prepayment to:		
Yuan Jiu <sup>1</sup>	\$ 361,420	\$ -
Loans from WTL <sup>2</sup>	\$ 214,162	\$ -
Interest payable to WTL <sup>2</sup>	\$ 12,326	\$ -
Other payable to:		
AATWIN <sup>3</sup>	\$ 150,777	\$ -
Others <sup>4</sup>	196,322	30,971
Total	\$ 347,099	\$ 30,971

1. Represents inventory prepayment paid to Yuan Jiu. On May 11, 2020, the Company entered into a product purchase agreement with Yuan Jiu to purchase 100 sets of the AirCinema Cube to be installed on aircraft of commercial airline customers. The total purchase amount under this agreement was \$1,807,100 (unaudited) and the Company paid 10% of the total amount as an initial deposit of \$180,710 (unaudited). On July 15, 2020, the Company signed a second product purchase agreement of \$1,807,100 (unaudited) with Yuan Jiu for an additional 100 sets of the AirCinema Cube for the same purchase amount and paid a 10% initial deposit of \$180,710 (unaudited) on this agreement as well.

2. The Company has a short-term loan from WTL due to operational needs under the Loans (note 1). The loan amount was up to \$172,712 (NTD 5,000,000). The loan agreement, bears an interest rate of 5% per annum, will terminate on December 31, 2020. The Company has drawn down \$158,895 (NTD 4,600,000) (unaudited) and has repaid \$82,902 (NTD 2,400,000) (unaudited) of the outstanding loan as of September 30, 2020. As of November 7, 2020, the Company borrowed additional \$138,169 (NTD 4,000,000) (unaudited) from WTL.

The Company has another loan from WTL due to operational needs under the Loans (note 1). The original loan amount was approximately \$2.64M (NTD 80,000,000). The loan agreement, bears an interest rate of 5% per annum, will terminate on December 31, 2021. The Company has repaid \$2.53M (NTD 76,000,000) of the outstanding loan amount as of September 30, 2020. As of November 7, 2020, the Company borrowed additional \$37,997 (NTD 1,100,000) (unaudited) from WTL under this loan.

As of September 30, 2020, the total outstanding loan balance from WTL was \$214,162 (NTD 6,200,000) (unaudited).

3. Represents payable to AATWIN due to consulting agreement on January 1, 2019. The monthly consulting fee is €15,120 (approximately \$17,000) and will be expired December 31, 2021.

4. Represents payable to employees as a result of regular operating activities.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 15 - Significant Related Party Transactions - Continued**

b. For the three-month and nine-month periods ended September 30, 2020 and 2019:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Consulting expense charged by AATWIN	\$ 53,669	\$ -	\$ 153,890	\$ -
Interest expense charged by WTL	2,921	-	11,988	-
Interest expense charged by Dmedia	-	1,446	-	1,744

Aerkomm had short-term loans from Dmedia with an annual interest rate of 3% during the nine-month period ended September 30, 2019. The Company repaid the short-term loan in full on July 1, 2019.

**NOTE 16 - Stock Based Compensation**

In March 2014, Aircom's Board of Directors adopted the 2014 Stock Option Plan (the "Aircom 2014 Plan"). The Aircom 2014 Plan provided for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of Aircom. On February 13, 2017, pursuant to the Exchange Agreement, Aerkomm assumed the options of Aircom 2014 Plan and agreed to issue options for an aggregate of 1,088,882 shares to Aircom's stock option holders.

One-third of stock option shares will be vested as of the first anniversary of the time the option shares are granted or the employee's acceptance to serve the Company, and 1/36th of the shares will be vested each month thereafter. Option price is determined by the Board of Directors. The Aircom 2014 Plan became effective upon its adoption by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aircom 2014 Plan.

On May 5, 2017, the Board of Directors of Aerkomm adopted the Aerkomm Inc. 2017 Equity Incentive Plan (the "Aerkomm 2017 Plan" and together with the Aircom 2015 Plan, the "Plans") and the reservation of 1,000,000 shares of common stock for issuance under the Aerkomm 2017 Plan. On June 23, 2017, the Board of Directors voted to increase the number of shares of common stock reserved for issuance under the Aerkomm 2017 Plan to 2,000,000 shares. The Aerkomm 2017 Plan provides for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of the Company, as determined by the Compensation Committee of the Board of Directors (or, prior to the establishment of the Compensation Committee on January 23, 2018, the Board of Directors).

On June 23, 2017, the Board of Directors agreed to issue options for an aggregate of 291,000 shares under the Aerkomm 2017 Plan to certain officers and directors of the Company. The option agreements are classified into three types of vesting schedule, which includes, 1) 1/6 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/60 for the next 60 months on the same day of the month as the vesting start date; 2) 1/4 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/36 for the next 36 months on the same day of the month as the vesting start date; 3) 1/3 of the shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 16 - Stock Based Compensation - Continued**

On July 31, 2017, the Board of Directors approved to issue options for an aggregate of 109,000 shares under the Aerkomm 2017 Plan to 11 of its employees. 1/3 of these shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

On December 29, 2017, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On June 19, 2018, the Compensation Committee approved to issue options for 32,000 and 30,000 shares under the Aerkomm 2017 Plan to two of the Company executives. One-fourth of the 32,000 shares subject to the option shall vest on May 1, 2019, 2020, 2021 and 2022, respectively. One-third of the 30,000 shares subject to the option shall vest on May 29, 2019, 2020 and 2021, respectively.

On December 29, 2018, the Compensation Committee approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options were vested immediately upon issuance.

On July 2, 2019, the Board of Directors approved the grant of options to purchase an aggregate of 339,000 shares under the Aerkomm 2017 Plan to 22 of its directors, officers and employees. 25% of the shares vested on the grant date, 25% of the shares vested on July 17, 2019, 25% of the shares will vest on the first anniversary of the grant date, and 25% of the shares will vest upon the second anniversary of the grant date.

On October 4, 2019, the Board of Directors approved the grant of options to purchase an aggregate of 85,400 shares under the Aerkomm 2017 Plan to three (3) of its employees. 25% of the shares vested on the grant date, and 25% of the shares will vest on each of October 4, 2020, October 4, 2021 and October 4, 2022, respectively.

On December 29, 2019, the Board of Directors approved to issue options for an aggregate of 12,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 4,000 shares each. All of these options shall vest at the date of 1/12th each month for the next 12 months on the same day of December 2019.

On September 17, 2020, the Board of Directors approved to issue options for in the amount of 4,000 shares under the Aerkomm 2017 Plan to one of the Company's independent directors. These options shall vest at the date of 1/12th each month for the next 12 months on the same day of September 2020.

Option price is determined by the Compensation Committee. The Aerkomm 2017 Plan has been adopted by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aerkomm 2017 Plan. The Aerkomm 2017 Plan was approved by the Company's stockholders on March 28, 2018.

Valuation and Expense Information

Measurement and recognition of compensation expense based on estimated fair values is required for all share-based payment awards made to its employees and directors including employee stock options. The Company recognized compensation expense of \$1,196,386 and \$1,394,670 for the nine-month periods ended September 30, 2020 and 2019, respectively, related to such employee stock options.

Determining Fair Value

Valuation and amortization method

The Company uses the Black-Scholes option-pricing-model to estimate the fair value of stock options granted on the date of grant or modification and amortizes the fair value of stock-based compensation at the date of grant on a straight-line basis for recognizing stock compensation expense over the vesting period of the option.

Expected term

The expected term is the period of time that granted options are expected to be outstanding. The Company uses the SEC's simplified method for determining the option expected term based on the Company's historical data to estimate employee termination and options exercised.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 16 - Stock Based Compensation - Continued**

Expected dividends

The Company does not plan to pay cash dividends before the options are expired. Therefore, the expected dividend yield used in the Black-Scholes option valuation model is zero.

Expected volatility

Since the Company has no historical volatility, it used the calculated value method which substitutes the historical volatility of a public company in the same industry to estimate the expected volatility of the Company's share price to measure the fair value of options granted under the Plans.

Risk-free interest rate

The Company based the risk-free interest rate used in the Black-Scholes option valuation model on the market yield in effect at the time of option grant provided in the Federal Reserve Board's Statistical Releases and historical publications on the Treasury constant maturities rates for the equivalent remaining terms for the Plans.

Forfeitures

The Company is required to estimate forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. The Company uses historical data to estimate option forfeitures and records share-based compensation expense only for those awards that are expected to vest.

The Company used the following assumptions to estimate the fair value of options granted in nine-month period ended September 30, 2020 and year ended December 31, 2019 under the Plans as follows:

**Assumptions**

Expected term	5-10 years
Expected volatility	45.81 – 72.22%
Expected dividends	0%
Risk-free interest rate	0.69 - 2.99%
Forfeiture rate	0 - 5%

Aircom 2014 Plan

Activities related to options for the Aircom 2014 Plan for the nine months ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2019	932,262	\$ 0.4081	\$ 0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2019	932,262	0.4081	0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at September 30, 2020 (unaudited)	<u>932,262</u>	0.4081	0.1282

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 16 - Stock Based Compensation - Continued**

Activities related to unvested stock awards under Aircom 2014 Plan for the nine-month period ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Options unvested at January 1, 2019	85,975	\$ 0.4963
Granted	-	-
Vested	(85,975)	0.4963
Forfeited/Cancelled	-	-
Options unvested at December 31, 2019	-	-
Granted	-	-
Vested	-	-
Forfeited/Cancelled	-	-
Options unvested at September 30, 2020 (unaudited)	-	-

Of the shares covered by options outstanding as of September 30, 2020, 932,262 shares of stock option under 2014 Plan are now exercisable. Information related to stock options outstanding and exercisable at September 30, 2020, is as follows:

Range of Exercise Prices	Options Outstanding (Unaudited)			Options Exercisable (Unaudited)		
	Shares Outstanding at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 0.0067	820,391	4.42	\$ 0.0067	820,391	4.42	\$ 0.0067
\$ 3.3521	111,871	5.75	3.3521	111,871	5.75	3.3521
	<u>932,262</u>	4.58	0.4081	<u>932,262</u>	4.58	0.4081

As of September 30, 2020, there was no unrecognized stock-based compensation expense for the Aircom 2014 Plan. No option was exercised during the nine-month periods ended September 30, 2020 and 2019.

Aerkomm 2017 Plan

Activities related to options outstanding under Aerkomm 2017 Plan for the nine months ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2019	283,000	\$ 28.3867	\$ 17.5668
Granted	436,400	5.4763	3.8452
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2019	719,400	14.4889	9.2431
Granted	6,000	12.7267	9.3328
Exercised	-	-	-
Forfeited/Cancelled	(18,000)	11.8067	7.3457
Options outstanding at September 30, 2020 (unaudited)	<u>707,400</u>	14.5422	9.2921



**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 16 - Stock Based Compensation - Continued**

Activities related to unvested stock awards under Aerkomm 2017 Plan for the nine-month period ended September 30, 2020 and the year ended December 31, 2019 are as follows:

	<u>Number of Shares</u>	<u>Weighted Average Fair Value Per Share</u>
Options unvested at January 1, 2019	171,411	\$ 17.5341
Granted	436,400	3.8452
Vested	(267,683)	7.5460
Forfeited/Cancelled	-	-
Options unvested at December 31, 2019	<u>340,128</u>	<u>7.8313</u>
Granted	6,000	9.3328
Vested	(160,859)	9.5923
Forfeited/Cancelled	(6,625)	4.0800
Options unvested at September 30, 2020 (unaudited)	<u><u>178,644</u></u>	<u><u>6.4352</u></u>

Of the shares covered by options outstanding under the Aircom 2017 Plan as of September 30, 2020, 528,756 shares are now exercisable; 127,944 shares will be exercisable for the twelve-month period ending September 30, 2021; 29,350 shares will be exercisable for the twelve-month period ending September 30, 2022; and 21,350 shares will be exercisable for the twelve-month period ending September 30, 2023. Information related to stock options outstanding and exercisable at September 30, 2020, is as follows:

Range of Exercise Prices	Options Outstanding (Unaudited)			Options Exercisable (Unaudited)		
	Shares Outstanding at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Shares Exercisable at 9/30/2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
\$ 3.96	327,000	8.76	\$ 3.9600	242,250	8.76	\$ 3.9600
\$ 9.00	12,000	9.25	9.0000	9,000	9.25	9.0000
\$ 11.00 – 14.20	103,400	8.97	11.4426	35,506	8.78	12.1816
\$ 20.50 – 27.50	141,000	7.16	24.3638	115,000	7.05	25.2374
\$ 30.00 – 35.00	124,000	6.75	34.4012	124,000	6.75	34.4012
	<u><u>707,400</u></u>	8.12	14.5422	<u><u>528,756</u></u>	7.92	16.3644

As of September 30, 2020, total unrecognized stock-based compensation expense related to stock options was approximately \$800,000, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 1.47 years. No option was exercised during the nine-month period ended September 30, 2020 and the year ended December 31, 2019.

**AERKOMM INC. AND SUBSIDIARIES**  
Notes to Condensed Consolidated Financial Statements

**NOTE 17 – Commitments and Contingencies**

As of September 30, 2020, the Company's significant commitment is summarized as follows:

*Airbus SAS Agreement:* On November 30, 2018, in furtherance of a memorandum of understanding signed in March 2018, the Company entered into an agreement with Airbus SAS ("Airbus"), pursuant to which Airbus will develop and certify a complete solution allowing the installation of our "AERKOMM K++" system on Airbus' single aisle aircraft family including the Airbus A319/320/321, for both Current Engine Option (CEO) and New Engine Option (NEO) models. Airbus will also apply for and obtain on our behalf a Supplemental Type Certificate (STC) from the European Aviation Safety Agency, or EASA, as well as from the U.S. Federal Aviation Administration or FAA, for the retrofit system. It is anticipated that the Bilateral Aviation Safety Agreement between EASA and the Civil Aviation Administration of China, or CAAC, will be finalized and go into effect in 2019. Pursuant to the terms of our Airbus agreement, The Company agreed to pay the service fees that Airbus provides the Company with the retrofit solution which will include the Service Bulletin and the material kits including the update of technical and operating manuals pertaining to the aircraft and provision of aircraft configuration control. The timeframe for the completion and testing of this retrofit solution, including the certification, is approximately 16 months from the purchase order issued in August 2018, although there is no guarantee that the project will be successfully completed in the projected timeframe.

*Hong Kong Airlines Agreement:* On January 30, 2020, Aircom signed an agreement with Hong Kong Airlines Ltd. (HKA) to provide to Hong Kong Airlines both of its Aerkomm AirCinema and AERKOMM K++ IFEC solutions. Under the terms of this new agreement, Aircom will provide HKA its Ka-band AERKOMM K++ IFEC system and its AERKOMM AirCinema system. HKA will become the first commercial airliner launch customer for Aircom.

*Republic Engineers Complaint:* On October 15, 2018, Aircom Telecom entered into a product purchase agreement, or the October 15th PPA, with Republic Engineers Maldives Pte. Ltd., a company affiliated with Republic Engineers Pte. Ltd., or Republic Engineers, a Singapore based, private construction and contracting company. On November 30, 2018, the October 15th PPA was re-executed with Republic Engineers Pte. Ltd. as the signing party. The Company refers to this new agreement as the November 30th PPA and, together with the October 15th PPA, the PPA. Under the terms of the PPA, Republic Engineers committed to the purchase of a minimum of 10 shipsets of the AERKOMM K++ system at an aggregate purchase price of \$10 million. Additionally, under the terms of the PPA, the Executive Director of Republic Engineers, C. A. Raja, agreed to sign an agreement, or the Guarantee, to guarantee all of the obligations of Republic Engineers under the PPA. Republic Engineers had submitted a purchase order, or PO, dated October 15, 2018 for the 10 shipsets and was supposed to have made payments to Aircom Telecom against the purchase order shortly thereafter. To date, Republic Engineers has made no payments against the purchase order and the Company has not begun any work on the ordered shipsets. On July 7, 2020, Republic Engineers and Mr. Raja filed a complaint against Aerkomm, Aircom and Aircom Telecom in the Superior Court of the State of California for the County of Alameda, or the Court, seeking declaratory relief only and no money damages, alleging that the PPA and the PO were not executed or authorized by Republic Engineers and that the Guarantee was not executed or authorized by Mr. Raja. Republic Engineers and C. A. Raja have requested from the Court (i) orders that the PPA, the PO and the Guarantee be declared null and void and (ii) the payment of their reasonable attorney's fees. On July 29, 2020, Aircom Telecom provided notice to Republic Engineers that the PPA and the PO have been terminated according to their terms as a result of the non-performance of Republic Engineers and the Failure of Mr. Raja to provide the Guarantee. Aerkomm denies the allegations in the complaint and believes that the claims filed by Republic Engineers and Mr. Raja have no merit. Aerkomm has retained special litigation counsel and intends to vigorously defend against the claims. Aerkomm does not expect that this proceeding will have a material adverse effect on its results of operations or cash flows.

*Shenzhen Yihe:* On June 20, 2018, the Company entered into the Cooperation Framework Agreement, as supplemented on July 19, 2019, with Shenzhen Yihe Culture Media Co., Ltd., or Yihe, the authorized agent of Guangdong Tengan Internet, or Tencent Group, pursuant to which Yihe agreed to assist the Company with public relations, advertising, market and brand promotion, as well as with the development of a working application of the Tencent Group WeChat Pay payment solution and WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes. As compensation under this Yihe agreement, the Company paid Yihe RMB 8 million (approximately US\$1.2 million). On October 16, 2020, in accordance with the provisions of the agreement with Yihe, as supplemented, the Company filed an arbitration action with the Shenzhen International Arbitration Court, or the Arbitration Court, claiming that Yihe failed to perform under the terms of the supplemented agreement and seeking a complete refund of our RMB 8 million payment to Yihe. The Company received notice from the Arbitration Court on October 16, 2020 of receipt of our arbitration filing and the requirement to pay the Arbitration Court RMB 190,000 in fees relating to the arbitration and the fees were paid on October 28, 2020. The Company intend to aggressively pursue this matter. As of September 30, 2020, the Company reclassified this prepayment to Other Receivable and provided an allowance for the full amount of \$1,155,623 (unaudited) against non-operating loss.

*The COVID – 19 Pandemic:* In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. The company in the process of evaluating if the pandemic will have a material impact on its operations.

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

### Use of Terms

Except as otherwise indicated by the context and for the purposes of this report only, references in this report to "we," "us," "our," or "our company" are to the combined business of Aercomm Inc., a Nevada corporation, and its consolidated subsidiaries, including Aircom Pacific, Inc., a California corporation and wholly-owned subsidiary, or Aircom; Aircom Pacific Ltd., a Republic of Seychelles company and wholly-owned subsidiary of Aircom; Aercomm Pacific Limited, a Malta company and wholly owned subsidiary of Aircom Pacific Ltd.; Aircom Pacific Inc. Limited, a Hong Kong company and wholly-owned subsidiary of Aircom; Aircom Japan, Inc., a Japanese company and wholly-owned subsidiary of Aircom; and Aircom Telecom LLC, a Taiwanese company and wholly-owned subsidiary of Aircom, Aircom Taiwan, or Aircom Beijing.

### Special Note Regarding Forward Looking Statements

Certain information contained in this report includes forward-looking statements. The statements herein which are not historical reflect our current expectations and projections about our future results, performance, liquidity, financial condition, prospects and opportunities and are based upon information currently available to us and our interpretation of what is believed to be significant factors affecting the businesses, including many assumptions regarding future events. The following factors, among others, may affect our forward-looking statements:

- our future financial and operating results;
- our intentions, expectations and beliefs regarding anticipated growth, market penetration and trends in our business;
- the impact and effects of the global outbreak of the coronavirus (COVID-19) pandemic, and other potential pandemics or contagious diseases or fear of such outbreaks, on the global airline and tourist industries, especially in the Asia Pacific region;
- our ability to attract and retain customers;
- our dependence on growth in our customers' businesses;
- the effects of changing customer needs in our market;
- the effects of market conditions on our stock price and operating results;
- our ability to successfully complete the development, testing and initial implementation of our product offerings;
- our ability to maintain our competitive advantages against competitors in our industry;
- our ability to timely and effectively adapt our existing technology and have our technology solutions gain market acceptance;
- our ability to introduce new product offerings and bring them to market in a timely manner;
- our ability to obtain required telecommunications, aviation and other licenses and approvals necessary for our operations
- our ability to maintain, protect and enhance our intellectual property;
- the effects of increased competition in our market and our ability to compete effectively;
- our expectations concerning relationship with customers and other third parties;
- the attraction and retention of qualified employees and key personnel;
- future acquisitions of our investments in complementary companies or technologies; and
- our ability to comply with evolving legal standards and regulations.

Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words “may,” “should,” “expect,” “anticipate,” “estimate,” “believe,” “intend,” or “project” or the negative of these words or other variations on these words or comparable terminology. Actual results, performance, liquidity, financial condition, prospects and opportunities could differ materially from those expressed in, or implied by, these forward-looking statements as a result of various risks, uncertainties and other factors, including the ability to raise sufficient capital to continue our operations. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under “Risk Factors” included in our Annual Report on Form 10-K for the year ended December 31, 2019, and matters described in this report generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this report will in fact occur.

Potential investors should not place undue reliance on any forward-looking statements. Except as expressly required by the federal securities laws, there is no undertaking to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason.

The specific discussions herein about our company include financial projections and future estimates and expectations about our business. The projections, estimates and expectations are presented in this report only as a guide about future possibilities and do not represent actual amounts or assured events. All the projections and estimates are based exclusively on our management’s own assessment of our business, the industry in which we work and the economy at large and other operational factors, including capital resources and liquidity, financial condition, fulfillment of contracts and opportunities. The actual results may differ significantly from the projections.

Potential investors should not make an investment decision based solely on our company’s projections, estimates or expectations.

## **Overview**

We are a full-service development stage provider of IFEC solutions. With advanced technologies and a unique business model, we, as a service provider of IFEC solutions, intend to provide airline passengers with a broadband in-flight experience that encompasses a wide range of service options. Such options include Wi-Fi, cellular, movies, gaming, live TV, and music. We plan to offer these core services, which we are currently still developing, through both built-in in-flight entertainment systems, such as in-seat-back displays, as well as on passengers’ personal devices. We also expect to provide content management services and e-commerce solutions related to our IFEC solutions.

We plan to partner with airlines and offer airline passengers free IFEC services. We expect to generate revenue through advertising and in-flight transactions. We believe that this is an innovative approach that differentiates us from existing market players.

To complement and facilitate our planned IFEC service offerings, we intend to build satellite ground stations and related data centers within the geographic regions where we expect to be providing IFEC airline services. We have purchased an approximately 6.3-acre parcel of land in Taiwan where we expect to build our first ground station. We are currently in the process of having the certificate of title to this Taiwan land parcel transferred to us. Because this process involves filing a plan of usage with the local authorities and obtaining a required license and authorization for our intended land usage, we are not sure at this time when we will receive the official certificate of title to the land. Once that title transfer process is completed, we intend to mortgage the property to finance the cost of the first ground station construction.

## ***Business Development.***

We are actively working with prospective airline customers to provide services to their passengers utilizing the Airbus certified AERKOMM@K++ system. We have entered into non-binding memoranda of understanding with a number of airlines, including Air Malta Airlines of Malta and Onur Air of Turkey. There can be no assurances, however, that these will lead to actual purchase agreements.

In view of the increasing demand by the airlines for a bigger data throughput, during the course of discussions between us and Airbus, we have revised our strategy to focus primarily on Ka-band IFEC solutions for airlines and have suspended work on our dual band (Ka/Ku) satellite inflight connectivity solution. The Ku-band system will, however, still be retained for other product applications such as remote locations and maritime use.

In connection with the Airbus project, we also identified owners of ACJ aircraft, as potential customers of our AERKOMM@K++ system. ACJ customers, however, would not generate enough internet traffic to make our free-service business model viable. To capitalize on this additional market, we plan to sell our AERKOMM@K++ system hardware for installation on ACJ corporate jets and provide connectivity through subscription-based plans. This new corporate jet market would generate additional revenue and income for our company. We are currently in advanced discussions with a number of ACJ customers, some of whom have more than one aircraft in their fleets.

### ***Our AERKOMM®K++ System***

Following the course of discussions between us and Airbus and in view of the increasing demand by the airlines for a bigger data throughput, we have revised our strategy to focus primarily on Ka-band satellite connectivity solutions for aviation customers and have suspended work on our dual band satellite connectivity solution. Our AERKOMM®K++ system will operate through Ka/Ka High Throughput Satellites. The Ku-band system will, however, still be retained for the other applications such as remote locations and maritime use.

Our AERKOMM®K++ system will contain a low profile radome (that is, a dome or similar structure protecting our radio equipment) containing two Ka-band antennas, one for transmitting and the other for receiving, and will comply with the ARINC 791 standard of Aeronautical Radio, Incorporated. Our AERKOMM®K++ system also meets Airbus Design Organization Approval.

### ***GEO (Geostationary Earth Orbiting) and LEO (Low Earth Orbiting) Ka-band Satellites***

Our initial AERKOMM®K++ system will work only with geostationary earth orbiting, or GEO, Ka-band satellites. Performance of GEO satellites diminishes greatly in the areas near the Earth's poles. Only low earth orbiting, or LEO, satellites can collect high quality data over the North and South poles. We are developing technologies to work with LEO satellites and plans to partner with Airbus to develop aircraft installation solutions. As new GEO and LEO Ka-band satellites are being regularly launched over the next few years, which, we expect, will enable the provision of worldwide aircraft coverage, we plan to have the necessary technology ready to take advantage of this new trend in Ka-band aviation connectivity, although it cannot assure you that it will be successful in this new area of endeavor.

### ***Ground-based Satellite System Sales***

Since our acquisition of Aircom Taiwan in December 2017, this wholly owned subsidiary has been developing ground-based satellite connectivity components which have an application in remote regions that lack regular affordable ground-based communications. In September 2018, Aircom Taiwan consummated its first sale of such a component, a small cell server terminal, in the amount of \$1,730,000. This server terminal will be utilized by the purchaser in the construction of a satellite-based ground communication system which will act as a multicast service extension of existing networks. The system is designed to extend local existing networks, such as ISPs and mobile operators, into rural areas and create better coverage and affordable connectivity in these areas. Aircom Taiwan expects to sell additional satellite connectivity components, systems and services to be used in ground mobile units in the future, although there can be no assurances that it will be successful in these endeavors.

In addition, in September 2018, Aircom Taiwan provided installation and testing services of a satellite-based ground connectivity system to a remote island resort and received service income related to this project in the amount of \$15,000. Upon the completion of this system's testing phase, and assuming that the system operates satisfactorily, Aircom Taiwan expects to begin to sell this system to multiple, remotely located resorts. We can make no assurances at this time however, that this system will operate satisfactorily, that we will be successful in introducing this system as a viable product offering or that we will be able to generate any additional revenue from the sale and deployment of this system.

### ***Recent Events***

On April 16, 2020, we received loan proceeds in the amount of \$163,200 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. According to PPP, borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8- or 24-week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred. We has applied for the forgiveness of the loan within the maturity date and is waiting for the approval. While we currently believe that its use of the loan proceeds will meet the conditions for forgiveness of the loan, we cannot assure you that we will not take actions that could cause us to be ineligible for forgiveness of the loan, in whole or in part.

On April 16, 2020, we signed a loan agreement with one of our business partners, EESquare Superstore Corp. for a working capital loan of up to \$1.5 million, with an interest rate at 3.25% and expires on April 15, 2022. Each advance shall be due and payable in full no later than one year from the date of such advance or the termination of the agreement, whichever comes first. As of November 7, 2020, we have drawn down \$1,100,000 under this loan agreement.

On April 30, 2020, we filed a Registration Statement on Form S-1 with the Securities and Exchange Commission, or the SEC, pursuant to Section 5 of the Securities Act of 1933, or the Securities Act, to register for sale of up to 1,951,219 shares (approximately €40 million or \$43,192,000) of our common stock, at a per share price of €20.50 (approximately \$24.23). On July 29, October 20, and November 5, 2020, we filed amendments to the Registration Statement to respond to certain SEC comments. The Form S-1 was declared effective on November 6, 2020.

On June 23, 2020, Aircom entered into a cooperation agreement with Telesat Leo Inc., or Telesat, a wholly owned subsidiary of Telesat Canada. Telesat is one of the world's largest and most successful satellite operators providing critical connectivity solutions that tackle complex communications challenges. Through this agreement, Aircom and Telesat will jointly collaborate to develop a test program for the Telesat low-Earth-orbit (LEO) Network, Telesat's network of low-earth orbit satellites for aircraft connectivity, to assess the technical and commercial viability of incorporating the Telesat LEO Network capacity into Aircom's IFEC product portfolio and network. Aircom and Telesat will collaborate in both technical and commercial activity. The two parties' technical collaboration is expected to include testing network performance, leveraging Telesat's Phase 1 LEO satellite which has been in polar orbit since 2018, ensuring compatibility with existing Aircom IFEC solutions and future user terminal solutions, and end-to-end implementation within regulatory guidelines. Commercial collaboration will include optimizing business and operating models, joint presentations and information sessions with key customers and partners, and exploring a long-term joint development plan. This cooperation agreement between Aircom and Telesat is preliminary and nonbinding and subject to the negotiation and execution of a definitive agreement. Aerkomm expects that a definitive agreement will be signed, although there can be no assurance when this will happen, if at all.

On July 24, 2020, our wholly owned subsidiary in Malta, Aerkomm Pacific Ltd., or Aerkomm Malta, entered into an agreement with Airbus Interior Services relating to the Aerkomm K++ Connectivity Solution Installation on the Airbus A320 family of aircraft. This new agreement between Aerkomm Malta and Airbus Interior Services follows an agreement Aircom signed with Airbus ACJ in November 2018 pursuant to which Airbus agreed to develop, install and certify the Aerkomm K++ System on a prototype A320 aircraft to EASA and FAA certification standards. Under the new agreement, Aerkomm Malta and Airbus Interior Services have agreed that Airbus Interior Services will provide and certify, in accordance with Airbus Design Organization Approval, a complete retrofit solution to develop EASA/FAA certified Service Bulletins, to supply related Aircraft Modification Kits, and to install the Aerkomm K++ Connectivity solution on the A320 family of commercial aircraft. This new agreement also includes Airbus support for the integration of the Aerkomm K++ System components on the aircraft, including ARINC 791 structural reinforcements and related engineering work. Additionally, Airbus Interior Services will provide support for National Airworthiness Authorities (NAA) certification as required in addition to the EASA certification, as well as on-site technical support at the Maintenance Repair Organization (MRO) base for the aircraft retrofit.

On October 15, 2018, Aircom Telecom LLC, or Aircom Telecom, a Taiwanese limited liability company and a wholly owned subsidiary of Aircom, entered into a product purchase agreement, or the October 15<sup>th</sup> PPA, with Republic Engineers Maldives Pte. Ltd., a company affiliated with Republic Engineers Pte. Ltd., or Republic Engineers, a Singapore based, private construction and contracting company. On November 30, 2018, the October 15<sup>th</sup> PPA was re-executed with Republic Engineers Pte. Ltd. as the signing party. We refer to this new agreement as the November 30<sup>th</sup> PPA and, together with the October 15<sup>th</sup> PPA, the PPA. Under the terms of the PPA, Republic Engineers committed to the purchase of a minimum of 10 shipsets of the AERKOMM K++ system at an aggregate purchase price of \$10 million. Additionally, under the terms of the PPA, the Executive Director of Republic Engineers, C. A. Raja, agreed to sign an agreement, or the Guarantee, to guarantee all of the obligations of Republic Engineers under the PPA. Republic Engineers had submitted a purchase order, or PO, dated October 15, 2018 for the 10 shipsets and was supposed to have made payments to Aircom Telecom against the purchase order shortly thereafter. To date, Republic Engineers has made no payments against the purchase order and the Company has not begun any work on the ordered shipsets. On July 7, 2020, Republic Engineers and Mr. Raja filed a complaint against Aerkomm, Aircom and Aircom Telecom in the Superior Court of the State of California for the County of Alameda, or the Court, seeking declaratory relief only and no money damages, alleging that the PPA and the PO were not executed or authorized by Republic Engineers and that the Guarantee was not executed or authorized by Mr. Raja. Republic Engineers and C. A. Raja have requested from the Court (i) orders that the PPA, the PO and the Guarantee be declared null and void and (ii) the payment of their reasonable attorney's fees. On July 29, 2020, Aircom Telecom provided notice to Republic Engineers that the PPA and the PO have been terminated according to their terms as a result of the non-performance of Republic Engineers and the Failure of Mr. Raja to provide the Guarantee. Aerkomm denies the allegations in the complaint and believes that the claims filed by Republic Engineers and Mr. Raja have no merit. Aerkomm has retained special litigation counsel and intends to vigorously defend against the claims. Aerkomm does not expect that this proceeding will have a material adverse effect on its results of operations or cashflow.

### **Principal Factors Affecting Financial Performance**

We believe that our operating and business performance is driven by various factors that affect the commercial airline industry, including trends affecting the travel industry and trends affecting the customer bases that we target, as well as factors that affect wireless Internet service providers and general macroeconomic factors. Key factors that may affect our future performance include:

- the impact and effects of the global outbreak of the coronavirus (COVID-19) pandemic, and other potential pandemics or contagious diseases or fear of such outbreaks, on the global airline and tourist industries, especially in the Asia Pacific region;

- our ability to enter into and maintain long-term business arrangements with airline partners, which depends on numerous factors including the real or perceived availability, quality and price of our services and product offerings as compared to those offered by our competitors;
- the extent of the adoption of our products and services by airline partners and customers;
- costs associated with implementing, and our ability to implement on a timely basis, our technology, upgrades and installation technologies;
- costs associated with and our ability to execute our expansion, including modification to our network to accommodate satellite technology, development and implementation of new satellite-based technologies, the availability of satellite capacity, costs of satellite capacity to which we may have to commit well in advance, and compliance with regulations;
- costs associated with managing a rapidly growing company;
- the impact and effects of the global outbreak of the coronavirus (COVID-19) pandemic, and other potential pandemics or contagious diseases or fear of such outbreaks, on the global airline and tourist industries, especially in the Asia Pacific region;
- the number of aircraft in service in our markets, including consolidation of the airline industry or changes in fleet size by one or more of our commercial airline partners;
- the economic environment and other trends that affect both business and leisure travel;
- continued demand for connectivity and proliferation of Wi-Fi enabled devices, including smartphones, tablets and laptops;
- our ability to obtain required telecommunications, aviation and other licenses and approvals necessary for our operations; and
- changes in laws, regulations and interpretations affecting telecommunications services and aviation, including, in particular, changes that impact the design of our equipment and our ability to obtain required certifications for our equipment.

#### **Emerging Growth Company**

We qualify as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:

- have an auditor report on our internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to shareholder advisory votes, such as “say-on-pay” and “say-on-frequency;” and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO’s compensation to median employee compensation.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards.

In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed \$1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act of 1934, as amended, or the Exchange Act, which would occur if the market value of our shares of common stock that are held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

### **Impact of the COVID-19 Coronavirus Pandemic**

The coronavirus has a particular adverse impact on the airline industry. The outbreak in China and throughout the world since December 2019 has led to a precipitous decrease in the number of daily departures and arrivals for domestic and international flights.

### ***Recent Market Information***

In the IATA (International Air Transportation Association) Airlines Financial Monitor dated April - May 2020, published on May 20, 2020, the following key points were highlighted:

- The Q1 2020 financial results reflected the initial industry-wide deterioration in profitability following the impact of the COVID-19 outbreak on air travel. The adverse outcome was widespread across all regions even though some markets were locked down relatively later in the quarter. All regions posted negative net income figures in Q1.
- Global airline share prices moved lower in Q1, before rallying in April, driven by government support to the industry and the restart of airline operations.
- Oil and jet fuel prices also recovered somewhat in May being that the demand for fuel is expected to increase with the ease of lockdown measures. Sharp production cuts from both OPEC and Russia also provided price support.
- In April, air passenger demand posted its largest decline on record due to the widespread lockdowns and border closures. Air cargo demand was relatively more resilient but still saw volumes fall by 27.7% year-on-year on the disruption in global manufacturing activity. While the passenger load factor declined by 41 ppts versus last year, the cargo load factor rose by 11.2 percentage points as a result of the decline in available capacity with the grounding of the passenger fleet.
- In May 2020, airlines started to return aircraft to service with the relaxation of lockdown measures. An additional 2,444 aircraft re-joined the in-service fleets in the same month. As a result, total seat capacity improved by 25% compared to the previous month. However, total seat capacity was still 49% below the level of a year ago.
- New global aircraft deliveries were limited (16 aircraft) in May as airlines have been postponing or cancelling future deliveries in response to the COVID-19 crisis. As travel demand is expected to recover only gradually, airlines will likely remain cautious regarding capacity increases.

Additionally, on June 5, 2020, the IATA issued its Economics’ Chart of the Week for flights on domestic markets indicating improving demand in May for all markets including in the Asia Pacific region. Although this May improvement in demand is a good sign, the Economics’ Chart of the Week for June 19, 2020 indicates, that airlines have little visibility for demand for the northern winter season which begins in October.

In general, because the progress of the COVID-19 pandemic is so unpredictable, the future of airline and air traffic recovery is extremely unpredictable as well.



### The COVID-19 Pandemic Impact on Aercomm's Business

We do not expect that the COVID-19 pandemic will have a material effect on our business in 2020, in view of the fact that Aercomm is a development stage company. Consequently, we do not have any contractual agreements with airlines that would result in a decrease or complete halt in revenue generation due to the grounding of aircraft and reduction in aircraft fleets and new aircraft purchases. Additionally, because we do not currently have any operational IFEC systems, we are not generating any recurrent operational expenses with satellite companies which provide bandwidth connectivity for operational IFEC systems. We expect that we will acquire certification of our Aercomm K++ System towards the end of the fourth quarter of 2020, and we are targeting the commencement of the initial installations of our Aercomm K++ System by the end of the first quarter of 2021. While according to the current IATA data, the recovery in 2021 is expected to be slow, this could work to our advantage as it will provide us with an opportunity to have more aircraft on the ground available for the retrofit installation of our Aercomm K++ System equipment. That is, we will not have to wait for a prospective airline customer to cycle through its scheduled grounding of aircraft for major maintenance checks to be able to install our K++ System retrofit solution.

With respect to our AirCinema Cube, which we are developing exclusively for installation on Hong Kong Airlines aircraft and which is expected to be ready for installation by September 2020, we believe we will still be able to begin installations on schedule. However, due to the COVID-19 pandemic, even if we can install the AirCinema Cube on schedule, revenue from the AirCinema Cube will, most likely, be delayed until the fleet of Hong Kong Airlines re-commences its full schedule by late in the fourth quarter of 2020 or early in 2021.

In any case, because of the unpredictability of the future developments of the COVID-19 pandemic, we cannot be sure that any of our development, certification, installation or revenue generation expectations, with respect to timing or otherwise, will be met.

### Results of Operations

#### Comparison of Three Months Ended September 30, 2020 and 2019

The following table sets forth key components of our results of operations during the three-month periods ended September 30, 2020 and 2019.

	Three Months Ended		Change	
	September 30,		\$	%
	2020	2019		
Sales	\$ -	\$ -	\$ -	-%
Cost of sales	-	-	-	-%
Operating expenses	1,556,729	2,733,350	(1,176,621)	(43.0)%
Loss from operations	(1,556,729)	(2,733,350)	(1,176,621)	(43.0)%
Net non-operating income (expense)	(813,222)	(78,433)	(734,789)	936.8%
Loss before income taxes	(2,369,951)	(2,811,783)	441,832	(15.7)%
Income tax expense	12	-	12	0.0%
Net Loss	(2,369,963)	(2,811,783)	441,820	(15.7)%
Other comprehensive income (loss)	(367,280)	59,237	(426,517)	(720.0)%
Total comprehensive loss	\$ (2,737,243)	(2,752,546)	15,303	(0.6)%

**Revenue.** Our total revenue was \$0 for each of the three-month periods ended September 30, 2020 and 2019 as we are still developing our core business in in-flight entertainment and connectivity and there was no non-recurring sale of equipment to related parties during the period.

**Cost of sales.** Our cost of sales was \$0 for the each of three-month periods ended September 30, 2020 and 2019 as we did not have any sales during both periods.

**Operating expenses.** Our operating expenses consist primarily of compensation and benefits, professional advisor fees, research and development expenses, cost of promotion, business development, business travel, transportation costs, and other expenses incurred in connection with general operations. Our operating expenses decreased by \$1,176,621 to \$1,556,729 for the three-month period ended September 30, 2020, from \$2,733,350 for the three-month period ended September 30, 2019. Such decrease was mainly due to the decrease in consulting expense as the result of the warrant re-valuation, non-cash stock-based compensation expense, legal expense and stock transfer and public filing fee of \$560,915, \$452,507, \$234,357 and 28,238, respectively, which was offset by the increase in insurance expense, outside services, amortization expense and travel expense of \$56,890, \$23,562, \$17,870 and \$15,728, respectively. The increase in insurance expense was mainly related to the amortization of D&O insurance during the period.

**Net non-operating expense.** We had \$813,222 in net non-operating income for the three-month period ended September 30, 2020, as compared to net non-operating expense of \$78,433 for the three-month period ended September 30, 2019. Net non-operating income in the three-month period ended September 30, 2020 represents a loss from allowance for other receivable, as explained under the Legal Proceedings section below, net interest expense and unrealized loss from the transactions of our liquidity contract of \$1,155,623, \$13,262 and \$8,741, respectively, which was offset by the gain on foreign exchange translation of \$335,831 and Covid-19 subsidy Aircom Japan received from Japanese government of \$21,029, while net non-operating expense in the three-month period ended September 30, 2019 mainly due to the loss on foreign exchange translation of \$77,033 and interest expense of \$1,412.

**Loss before income taxes.** Our loss before income taxes decreased by \$441,832 to \$2,369,963 for the three-month period ended September 30, 2020, from a loss of \$2,811,783 for the three-month period ended September 30, 2019, as a result of the factors described above.

**Total comprehensive loss.** As a result of the cumulative effect of the factors described above and a loss in foreign currency translation adjustment of \$367,280, our total comprehensive loss decreased by \$15,303 to \$2,737,243 for the three-month period ended September 30, 2020, from \$2,752,546 for the three-month period ended September 30, 2019.

#### Comparison of Nine Months Ended September 30, 2020 and 2019

The following table sets forth key components of our results of operations during the three-month periods ended September 30, 2020 and 2019.

	Nine Months Ended September 30,		Change	
	2020	2019	\$	%
Sales	\$ -	\$ 1,599,864	\$ (1,599,864)	(100.0)%
Cost of sales	-	1,587,222	(1,587,222)	(100.0)%
Operating expenses	6,199,323	6,356,161	(156,838)	(2.5)%
Loss from operations	(6,199,323)	(6,343,519)	144,196	(2.3)%
Net non-operating income (expense)	(655,065)	(533,459)	(121,606)	22.8%
Loss before income taxes	(6,854,388)	(6,876,978)	22,590	(0.3)%
Income tax expense	3,275	3,235	40	1.2%
Net Loss	(6,857,663)	(6,880,213)	22,550	(0.3)%
Other comprehensive income (loss)	(595,097)	524,531	(1,119,628)	(213.5)%
Total comprehensive loss	\$ (7,452,760)	(6,355,682)	(1,097,078)	17.3%

**Revenue.** Our total revenue was \$0 and \$1,599,864 for the nine-month periods ended September 30, 2020 and 2019. Our total revenue was \$0 for the nine-month period ended September 30, 2020 as we are still developing our core business in in-flight entertainment and connectivity and there was no non-recurring sale of equipment to related parties during the period. Our total revenue of \$1,599,864 for the nine-month period ended September 30, 2019 was a non-recurring sale of compact adaptor for smartphone that allows users to turn their smartphone into a satellite smartphone to provide reliable connectivity beyond the coverage of traditional networks as we are still developing our core business in in-flight entertainment and connectivity.

**Cost of sales.** Our cost of sales was \$0 and \$1,587,222 for the nine-month periods ended September 30, 2020 and 2019. The cost of sales for the nine-month period ended September 30, 2020 was \$0 as we did not have any sales during the periods. The cost of sales of \$1,587,222 for the nine-month period ended September 30, 2019 was the cost of non-recurring sales of satellite-based mobile communication units.

**Operating expenses.** Our operating expenses consist primarily of compensation and benefits, professional advisor fees, research and development expenses, cost of promotion, business development, business travel, transportation costs, and other expenses incurred in connection with general operations. Our operating expenses decreased by \$156,838 to \$6,199,323 for the nine-month period ended September 30, 2020, from \$6,365,161 for the nine-month period ended September 30, 2019. Such decrease was mainly due to the decrease in R&D expense, non-cash stock-based compensation expense, legal expense and stock transfer and filing fee of \$416,230, \$198,284, \$172,247 and \$79,223, respectively, which was offset by the increase in consulting as the result of warrant re-valuation, non-cash stock-based compensation expense, insurance expense, outside services, travel expense, payroll and related expense and accounting and audit fees of \$187,707, \$164,191, \$137,044, \$97,145, \$74,274 and \$60,767, respectively. The increase in insurance expense was mainly related to the amortization of D&O insurance during the period.

**Net non-operating expense.** We had \$655,065 in net non-operating expense for the nine-month period ended September 30, 2020, as compared to net non-operating expense of \$533,459 for the nine-month period ended September 30, 2019. Net non-operating expense in the nine-month period ended September 30, 2020 represents a loss from allowance for other receivable, as explained under the Legal Proceedings section below, net interest expense and unrealized loss from the transactions of our liquidity contract of \$1,155,623, \$31,690 and \$68,912, respectively, which was offset by a gain on foreign exchange translation of \$551,591 and Covid-19 subsidy Aircom Japan received from Japanese government of \$39,513. Net non-operating expense in the nine-month period ended September 30, 2019 mainly due to the loss on foreign exchange translation of \$528,734 and interest expense of \$4,741.

**Loss before income taxes.** Our loss before income taxes decreased by \$22,590 to \$6,854,388 for the nine-month period ended September 30, 2020, from a loss of \$6,876,978 for the nine-month period ended September 30, 2019, as a result of the factors described above.

**Income tax expense.** Income tax expense was \$3,275 and \$3,235 for the nine-month period ended September 30, 2020 and 2019, respectively, mainly due to California franchise tax and foreign subsidiary's income tax expenses.

**Total comprehensive loss.** As a result of the cumulative effect of the factors described above and a loss in foreign currency translation adjustment of \$595,097, our total comprehensive loss increased by \$1,097,078 to \$7,452,760 for the nine-month period ended September 30, 2020, from \$6,355,682 for the nine-month period ended September 30, 2019.

## Liquidity and Capital Resources

As of September 30, 2020, we had cash and cash equivalents of \$115,534. To date, we have financed our operations primarily through cash proceeds from financing activities, including through our completed public offering, short-term borrowings and equity contributions by our stockholders.

The following table provides detailed information about our net cash flow:

	Nine Months Ended September 30,	
	2020	2019
Net cash provided by (used for) operating activities	\$ (1,516,414)	\$ (8,035,353)
Net cash used for investing activity	(213,074)	(630,917)
Net cash provided by financing activity	1,463,290	10,861,453
Net increase (decrease) in cash and cash equivalents	(266,198)	2,195,183
Cash at beginning of year	976,829	88,309
Foreign currency translation effect on cash	(595,097)	524,531
Cash at end of the periods	<u>\$ 115,534</u>	<u>\$ 2,808,023</u>

### Operating Activities

Net cash used for operating activities was \$1,516,414 for the nine months ended September 30, 2020, as compared to \$8,030,353 for the nine months ended September 30, 2019. In addition to the net loss of \$6,857,663, the increase in net cash used for operating activities during the nine-month period ended September 30, 2020 was mainly due to increase in inventory of \$1,992,153, which was offset by the decrease in accounts receivable and prepaid expenses and other current assets of \$451,130 and 1,292,279, respectively, and increase in accounts payable, accrued expense and other current liabilities and operating lease liability of \$961,610, \$2,143,258 and \$179,372, respectively. In addition to the net loss of \$6,880,213, the increase in net cash used for operating activities during the nine-month period ended September 30, 2019 was mainly due to increase in inventory and prepaid expenses of \$1,485,350 and \$985,849, respectively, and decrease in accounts payable, accrued expenses and other current liabilities and operating lease liability of \$840,092, \$1,650,867 and \$41,069, respectively, offset by the decrease in accounts receivable of \$1,095,061.

### Investing Activities

Net cash used for investing activities for the nine months ended September 30, 2020 was \$213,074 as compared to \$630,917 for the nine months ended September 30, 2019. The net cash used for investing activities for the nine months ended September 30, 2020 was mainly for the purchase of trading securities of \$184,150 and the purchase of property and equipment of \$28,924. The net cash used for investing activities for the nine months ended September 30, 2019 was mainly for the purchase of property and equipment and the final payment of \$624,462 toward the purchase of the Land to build our first satellite ground station and data center.

## ***Financing Activities***

Net cash provided by financing activities for the nine months ended September 30, 2020 and 2019 was \$1,463,290 and \$10,856,453, respectively. Net cash provided by financing activities for the nine months ended September 30, 2020 was mainly attributable to net proceeds from the borrowing of a short-term bank loan under the PPP program in the amount of \$163,200 and short-term loans of \$1,314,162. Net cash provided by financing activities for the nine months ended September 30, 2019 was mainly attributable to net proceeds from the issuance of common stock from ongoing public offering and the borrowing of a long-term loan in the amounts of \$10,810,688 and \$45,765, respectively.

The Company has not generated significant revenues, excluding non-recurring revenues from affiliates in the second quarter of fiscal 2018, and will incur additional expenses as a result of being a public reporting company. For the nine-month period ended September 30, 2020, the Company incurred a comprehensive loss of \$7,452,760 and had negative working capital of \$1,090,180 as of September 30, 2020. Currently, we have taken measures that management believes will improve our financial position by financing activities, including through our 2018/2019 public offering, short-term borrowings and other private loan commitments, including the Loans from our investors and a business partner, discussed below. With our current available cash, the \$20 million in loan commitments from the Lenders, of which \$5 million is immediately available while the remaining \$15 million will become available only upon completion of the transfer to us of the Taiwan land parcel certificate of title, and our expectations for our ability to raise funds in the near term, we believe our working capital will be adequate to sustain our operations for the next twelve months.

### **Shareholders' Loans**

Two of our current shareholders (the "Lenders") each committed to provide to the Company a \$10 million bridge loan (together, the "Loans") for an aggregate principal amount of \$20 million, to bridge our cash flow needs prior to our obtaining a mortgage loan to be secured by the parcel of land (the "Land") we purchased in Taiwan. The Lenders also agreed to an earlier closing of up to 25% of the principal amounts of the Loans upon our request prior to the time that title to the Land is vested in our subsidiary, Aer Komm Taiwan, to pay down outstanding payables to our vendors. As of November 7, 2002, we have borrowed approximately \$390,328 (NTD 11,300,000) from one of the Lenders under the Loans.

### **Paycheck Protection Program Loan**

On April 16, 2020, we received loan proceeds in the amount of \$163,200 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. According to PPP, borrowers may be eligible for loan forgiveness if the funds were used for eligible payroll costs, payments on business mortgage interest payments, rent, or utilities during either the 8- or 24-week period after disbursement. A borrower can apply for forgiveness once it has used all loan proceeds for which the borrower is requesting forgiveness. Borrowers can apply for forgiveness any time up to the maturity date of the loan. If borrowers do not apply for forgiveness within 10 months after the last day of the covered period, then PPP loan payments are no longer deferred. The Company has applied for the forgiveness of the loan within the maturity date and is waiting for the approval.

### **EESquare Loan**

On April 16, 2020, we signed a loan agreement with one of our business partners, EESquare Superstore Corp. for a working capital loan of up to \$1.5 million, with an interest rate at 3.25% and expires on April 15, 2022. Each advance shall be due and payable in full no later than one year from the date of such advance or the termination of the agreement, whichever comes first. As of November 6, 2020, we have drawn down \$1,100,000 under this loan agreement.

### **€40 Million Public Offering**

On April 30, 2020, we filed a Registration Statement on Form S-1 with the SEC pursuant to Section 5 of the Securities Act to register for sale of up to 1,951,219 shares (approximately €40 million or \$47,276,000) of our common stock, at a per share price of €20.50 (approximately \$24.23). On July 29, October 21 and November 5, 2020, we filed amendments to the Registration Statement to respond to certain SEC comments. The Form S-1 was declared effective on November 6, 2020. We cannot provide any assurance, however, we will be able to raise any funds under the registered offering.

## **Capital Expenditures**

Our operations continue to require significant capital expenditures primarily for technology development, equipment and capacity expansion. Capital expenditures are associated with the supply of airborne equipment to our prospective airline partners, which correlates directly to the roll out and/or upgrade of service to our prospective airline partners' fleets. Capital spending is also associated with the expansion of our network, ground stations and data centers and includes design, permitting, network equipment and installation costs.

Capital expenditures for the nine months ended September 30, 2020 and 2019 were \$213,074 and \$630,917, respectively.

On May 1, 2018, the Company and Aer Komm Taiwan entered into a binding memorandum of understanding with Tsai Ming-Yin (the "Seller") with respect to the acquisition by Aer Komm Taiwan of a parcel of land located in Taiwan. The land is expected to be used to build a satellite ground station and data center. On July 10, 2018, the Company, Aer Komm Taiwan and the Seller entered into a certain real estate sales contract regarding this acquisition. Pursuant to the terms of the contract, and subsequent amendments on July 30, 2018, September 4, 2018, November 2, 2018 and January 3, 2019, the Company paid to the seller in installments refundable prepayments of \$33,850,000 as of December 31, 2018. On July 2, 2019, the Company paid the remaining purchase price balance of \$624,462. Under the terms of the real estate sales contract, these purchase price payments are no longer refundable. The Company is currently negotiating with the Seller to allow for a refund of the full purchase price if licenses and approvals needed to transfer land title to Aer Komm Taiwan are not granted by a certain date. There can be no assurances, however, that it will be successful in these negotiations or that the required licenses and approvals will be granted by a certain date, if at all. As of September 30, 2020, the estimated commission payable for the land purchase in the amount of \$1,387,127 was recorded to the cost of land and the payment to be paid no later than December 31, 2021.

We anticipate an increase in capital spending in our fiscal year ended December 31, 2020 and estimate that capital expenditures will range from \$6 million to \$40 million as we begin airborne equipment installations and continue to execute our expansion strategy. We expect to raise these funds through our planned public offering, the registration statement for which is currently under review by the SEC, and/or through other sources of equity or debt financings. There can be no assurance, however, that our planned public offering will proceed successfully, if at all, or that we will be able to raise the required funds through other means on acceptable terms to us, if at all.

## **Inflation**

Inflation and changing prices have not had a material effect on our business and we do not expect that inflation or changing prices will materially affect our business in the foreseeable future. However, our management will closely monitor price changes in our industry and continually maintain effective cost control in operations.

## **Off Balance Sheet Arrangements**

We do not have any off balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity or capital expenditures or capital resources that is material to an investor in our securities.

## **Seasonality**

Our operating results and operating cash flows historically have not been subject to significant seasonal variations. This pattern may change, however, as a result of new market opportunities or new product introductions.

## **Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires our management to make assumptions, estimates and judgments that affect the amounts reported, including the notes thereto, and related disclosures of commitments and contingencies, if any. We have identified certain accounting policies that are significant to the preparation of our financial statements. These accounting policies are important for an understanding of our financial condition and results of operation. Critical accounting policies are those that are most important to the portrayal of our financial condition and results of operations and require management's difficult, subjective, or complex judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. We believe the following critical accounting policies involve the most significant estimates and judgments used in the preparation of our financial statements:

**Revenue Recognition.** We recognize revenue when performance obligations identified under the terms of contracts with our customers are satisfied, which generally occurs upon the transfer of control in accordance with the contractual terms and conditions of the sale. Our major revenue for the three-month period ended March 31, 2020 was the development of a small cell server terminal which will be utilized in the construction of a satellite-based ground communication system networks. We also had minor revenue from providing installation and testing services of a satellite-based ground connectivity system. The majority of our revenue is recognized at a point in time when product is shipped, or service is provided to the customer. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods, which includes estimates for variable consideration.

**Inventories.** Inventories are recorded at the lower of weighted-average cost or net realizable value. We assess the impact of changing technology on our inventory on hand and writes off inventories that are considered obsolete. Estimated losses on scrap and slow-moving items are recognized in the allowance for losses.

**Research and Development Costs.** Research and development costs are charged to operating expenses as incurred. For the nine-month periods ended September 30, 2020 and 2019, we incurred approximately \$0 (unaudited) and \$416,231 (unaudited) of research and development costs, respectively.

**Property and Equipment.** Property and equipment are stated at cost less accumulated depreciation. When value impairment is determined, the related assets are stated at the lower of fair value or book value. Significant additions, renewals and betterments are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed by using the straight-line and double declining method over the following estimated service lives: computer equipment - 3 to 5 years, furniture and fixtures - 5 years, satellite equipment - 5 years, vehicles - 5 years and lease improvement - 5 years. Construction costs for on-flight entertainment equipment not yet in service are recorded under construction in progress. Upon sale or disposal of property and equipment, the related cost and accumulated depreciation are removed from the corresponding accounts, with any gain or loss credited or charged to income in the period of sale or disposal. We review the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We determined that there was no impairment loss for the three-month periods ended March 31, 2020 and 2019.

**Goodwill and Purchased Intangible Assets.** Goodwill represents the amount by which the total purchase price paid exceeded the estimated fair value of net assets acquired from acquisition of subsidiaries. We test goodwill for impairment on an annual basis, or more often if events or circumstances indicate that there may be impairment. Purchased intangible assets with finite life are amortized on the straight-line basis over the estimated useful lives of respective assets. Purchased intangible assets with indefinite life are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Purchased intangible asset consists of satellite system software and is amortized over 10 years.

**Fair Value of Financial Instruments.** We utilize the three-level valuation hierarchy for the recognition and disclosure of fair value measurements. The categorization of assets and liabilities within this hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The three levels of the hierarchy consist of the following:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 - Inputs to the valuation methodology are quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active or inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the instrument.

Level 3 - Inputs to the valuation methodology are unobservable inputs based upon management's best estimate of inputs market participants could use in pricing the asset or liability at the measurement date, including assumptions.

The carrying amounts of our cash, accounts receivable, other receivable, short-term loans, accounts payable, and other payable approximated their fair value due to the short-term nature of these financial instruments.

**Translation Adjustments.** If a foreign subsidiary's functional currency is the local currency, translation adjustments will result from the process of translating the subsidiary's financial statements into the reporting currency of our company. Such adjustments are accumulated and reported under other comprehensive income (loss) as a separate component of stockholder's equity.

#### **Recent Accounting Pronouncements**

**Financial Instruments.** In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

**Intangibles.** In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other" (Topic 350): Simplifying the Test for Goodwill Impairment, which goodwill shall be tested at least annually for impairment at a level of reporting referred to as a reporting unit. ASU 2017-04 will be effective for annual periods beginning after December 15, 2019. We are currently evaluating the impact of adopting ASU 2017-04 on our consolidated financial statements.

**Leases.** In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), which modifies lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the timing of adoption and the impact of adopting ASU 2016-02 on our consolidated financial statements.

**Income Statement.** In February 2018, FASB issued ASU 2018-02, "Income Statement - Reporting Comprehensive Income" (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which required deferred tax liabilities and assets to be adjusted for the effect of a change in tax laws or rates with effect included in income from continuing operations in the reporting period that includes the enactment date of Tax Cut and Jobs Act. ASU 2018-02 will be effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We are currently evaluating the timing of adoption and the impact of adopting ASU 2018-02 on our consolidated financial statements.

**Stock Compensation.** In June 2018, FASB issued ASU 2018-07, "Compensation-Stock Compensation" (Topic 718): Improvement of Nonemployee Share-Based Payment Accounting, which amends the accounting for nonemployee share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 will be effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within the fiscal year. We are currently evaluating the timing of adoption and the impact of adopting ASU 2018-07 on our consolidated financial statements.

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

Not applicable.

### ITEM 4. CONTROLS AND PROCEDURES.

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and 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.

As required by Rule 13a-15(e) of the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of September 30, 2020.

Based upon, and as of the date of this evaluation, our chief executive officer and chief financial officer determined that, because of the material weaknesses described in Item 9A “Controls and Procedures” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on March 20, 2020, and further referenced below, which we are still in the process of remediating as of September 30, 2020, our disclosure controls and procedures were not effective.

#### Changes in Internal Control Over Financial Reporting

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

During its evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2020, our management identified the following material weaknesses:

- We do not have sufficient and skilled accounting personnel with an appropriate level of technical accounting knowledge and experience in the application of accounting principles generally accepted in the United States commensurate with our financial reporting requirements. To mitigate the current limited resources and limited employees, we rely heavily on the use of external legal and accounting professionals.

In order to cure the foregoing material weakness, we have taken or plan to take the following remediation measures:

- On November 5, 2018, we added a staff accountant with a CPA and technical accounting expertise to further support our current accounting personnel. As necessary, we will continue to engage consultants or outside accounting firms in order to ensure proper accounting for our consolidated financial statements.

We intend to complete the remediation of the material weakness discussed above as soon as practicable, but we can give no assurance that we will be able to do so. Designing and implementing an effective disclosure controls and procedures is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to devote significant resources to maintain a financial reporting system that adequately satisfies our reporting obligations. The remedial measures that we have taken and intend to take may not fully address the material weakness that we have identified, and material weaknesses in our disclosure controls and procedures may be identified in the future. Should we discover such conditions, we intend to remediate them as soon as practicable. We are committed to taking appropriate steps for remediation, as needed.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Other than in connection with the implementation of the remedial measures described above, there were no changes in our internal controls over financial reporting during quarter ended September 30, 2020 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.**

There were no material developments during the quarter ended September 30, 2020 to the legal proceedings previously disclosed in Item 3 “Legal Proceedings” of our Annual Report on Form 10-K filed on March 30, 2020.

**ITEM 1A. RISK FACTORS.**

For information regarding risk factors relating to us, please refer to our Amendment No. 3 to our Registration Statement on Form S-1 filed with the SEC on November 5, 2020.

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

We have not sold any equity securities during the quarter ended September 30, 2020 that were not previously disclosed in a current report on Form 8-K that was filed during the quarter.

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

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

On March 20, 2020, Aircom Pacific, Inc. signed a nonbinding memorandum of understanding, or MOU, with Yuan Jiu Inc., or Yuan Jiu, a Taiwanese company, with respect to the development, manufacture and purchase of AERKOMM K++, AirCinema Cube equipment for installation on the aircraft of Hong Kong Airlines. On May 11, 2020, the Company entered into a product purchase agreement with Yuan Jiu, replacing the MOU, to purchase 100 sets of the AirCinema Cube. The total purchase amount under this agreement was \$1,807,100 and the Company paid 10% (\$180,710) of the total amount as an initial deposit. On July 15, 2020, the Company signed a second product purchase agreement with Yuan Jiu for an additional 100 sets of the AirCinema Cube for the same purchase amount and paid a 10% initial deposit (\$180,710) on this agreement as well.

**Other than disclosed above, we have no information to disclose that was required to be in a report on Form 8-K during the quarter ended September 30, 2020 but was not reported. There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.**



ITEM 6. EXHIBITS.

<b>Exhibit No.</b>	<b>Description</b>
2.1	<a href="#">Agreement and Plan of Merger, dated September 26, 2013, between Aerkomm Inc. and Maple Tree Kids LLC (incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-1 filed on November 5, 2013)</a>
2.2	<a href="#">Form of Share Exchange Agreement, dated February 13, 2017, among Aerkomm Inc., Aircom Pacific, Inc. and the shareholders of Aircom Pacific, Inc. (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed on February 14, 2017)</a>
3.1	<a href="#">Restated Articles of Incorporation of the registrant (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed on May 4, 2017)</a>
3.2	<a href="#">Certificate of Change Pursuant to NRS 78.209 (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on January 16, 2019)</a>
3.2	<a href="#">Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.3 to the Form 10-K filed on March 30, 2020)</a>
31.1*	<a href="#">Certifications of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2*	<a href="#">Certifications of Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2*	<a href="#">Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith

**SIGNATURES**

Pursuant to the requirements 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.

Date: November 9, 2020

**AERKCOMM INC.**

*/s/ Louis Giordimaina*

\_\_\_\_\_  
Name: Louis Giordimaina  
Title: Chief Executive Officer  
*(Principal Executive Officer)*

*/s/ Y. Tristan Kuo*

\_\_\_\_\_  
Name: Y. Tristan Kuo  
Title: Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

## CERTIFICATIONS

I, Louis Giordimaina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aerkomm Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ Louis Giordimaina  
Louis Giordimaina  
Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATIONS

I, Y. Tristan Kuo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Aerkomm Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2020

/s/ Y. Tristan Kuo  
Y. Tristan Kuo  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Louis Giordimaina, the Chief Executive Officer of AERKOMM INC. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 20, 2020 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 9th day of November, 2020.

/s/ Louis Giordimaina  
Louis Giordimaina  
Chief Executive Officer  
*(Principal Executive Officer)*

A signed original of this written statement required by Section 906 has been provided to Aerkomm Inc. and will be retained by Aerkomm Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Y. Tristan Kuo, the Chief Financial Officer of AERKOMM INC. (the "Company"), DOES HEREBY CERTIFY that:

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

IN WITNESS WHEREOF, the undersigned has executed this statement this 9th day of November 2020.

/s/ Y. Tristan Kuo  
Y. Tristan Kuo  
Chief Financial Officer  
*(Principal Financial and Accounting Officer)*

A signed original of this written statement required by Section 906 has been provided to Aerkomm Inc. and will be retained by Aerkomm Inc. and furnished to the Securities and Exchange Commission or its staff upon request.