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: March 31, 2022

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	**46-3424568**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

44043 Fremont Blvd., Fremont, CA 94538
(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)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	**N/A**	**N/A**

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 ☐	Accelerated filer ☐
Non-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 ☒

As of July 12, 2022, there were 9,893,137 shares of the registrant's common stock issued and outstanding.

AERKOMM INC.

Quarterly Report on Form 10-Q
Period Ended March 31, 2022

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

AERKOMM INC.
UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AERKOMM INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Balance Sheets

	March 31, 2022 (Unaudited)	December 31, 2021
Assets		
Current Assets		
Cash	$ 39,989	$ 38,695
Short-term investment	959,843	994,549
Accounts receivable – related party	-	136,800
Inventories, net	1,366,282	1,366,282
Prepaid expenses and other current assets	4,193,144	4,071,231
Total Current Assets	6,559,258	6,607,557
Long-term Investment	4,596,134	4,740,784
Property and Equipment		
Cost	2,969,430	2,968,265
Accumulated depreciation	(2,068,627)	(1,923,438)
	900,803	1,044,827
Prepayment for land	35,861,589	35,861,589
Prepayment for equipment	17,889	17,889
Net Property and Equipment	36,780,281	36,924,305
Other Assets		
Restricted cash	3,248,543	3,250,118
Intangible asset, net	1,773,750	1,897,500
Goodwill	1,475,334	1,475,334
Right-of-use assets, net	125,017	177,994
Deposits	162,694	117,146
Total Other Assets	6,785,338	6,918,092
Total Assets	$ 54,721,011	$ 55,190,738
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term loans	$ 1,795,030	$ 1,633,732
Accounts payable	1,564,627	1,564,627
Accrued expenses and other current liabilities	8,982,813	7,924,044
Long-term loan - current	11,256	11,334
Lease liability – current	322,633	387,508
Total Current Liabilities	12,676,359	11,521,245
Long-term Liabilities		
Long-term bonds payable	8,771,875	8,653,511
Long-term loan – non-current	14,583	18,054
Prepayments from customer – non-current	762,000	762,000
Lease liability – non-current	37,105	62,652
Restricted stock deposit liability	1,000	1,000
Total Long-Term Liabilities	9,586,563	9,497,217
Total Liabilities	22,262,922	21,018,462
Commitments		
Stockholders' Equity		
Preferred stock, $0.001 par value, 50,000,000 shares authorized, 0 shares issued and outstanding as of March 31, 2022 and December 31, 2021	-	-
Common stock, $0.001 par value, 90,000,000 shares authorized, 9,715,889 shares (excluding 149,162 unvested restricted shares) issued and outstanding as of March 31, 2022 and December 31, 2021	9,716	9,716
Additional paid in capital	78,072,975	77,825,976
Accumulated deficits	(44,246,471)	(41,767,258)
Accumulated other comprehensive loss	(1,378,131)	(1,896,158)
Total Stockholders' Equity	32,458,089	34,172,276
Total Liabilities and Stockholders' Equity	$ 54,721,011	$ 55,190,738

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss

	For the Three Months Ended March 31,	
	2022	**2021**
	(Unaudited)	(Unaudited)
Service income – related party	$ 2,953	$ -
Operating expenses	1,780,438	3,170,999
Loss from Operations	(1,777,485)	(3,170,999)
Non-operating loss		
Foreign currency exchange loss	(578,654)	(370,504)
Unrealized investment loss	(5,256)	(624,738)
Bond issuance cost	(118,364)	(47,566)
Other gain (loss), net	2,146	(11,024)
Net Non-Operating Loss	(700,128)	(1,053,832)
Loss Before Income Taxes	(2,477,613)	(4,224,831)
Income Tax Expense	1,600	3,295
Net Loss	(2,479,213)	(4,228,126)
Other Comprehensive Income		
Change in foreign currency translation adjustments	518,027	393,767
Total Comprehensive Loss	$ (1,961,186)	$ (3,834,359)
Net Loss Per Common Share:		
Basic	$ (0.2513)	$ (0.4387)
Diluted	$ (0.2513)	$ (0.4387)
Weighted Average Shares Outstanding - Basic	9,865,051	9,637,051
Weighted Average Shares Outstanding - Diluted	9,865,051	9,637,051

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Changes in Stockholders' Equity

For the three months ended March 31, 2021

	Common Stock		Additional Paid in Capital	Accumulated Deficits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 1, 2021	9,487,889	$ 9,488	$ 73,160,616	$ (32,383,833)	$ (1,754,228)	$ 39,032,043
Stock compensation expense	-	-	1,680,365	-	-	1,680,365
Revaluation of stock warrant	-	-	(355,600)	-	-	(355,600)
Other comprehensive income	-	-	-	-	393,767	393,767
Net loss for the period	-	-	-	(4,228,126)	-	(4,228,126)
Balance as of March 31, 2021	9,487,889	$ 9,488	$ 74,485,381	$ (36,611,959)	$ (1,360,461)	$ 36,522,449

For the three months ended March 31, 2022

	Common Stock		Additional Paid in Capital	Accumulated Deficits	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 1, 2022	9,715,889	$ 9,716	$ 77,825,976	$ (41,767,258)	$ (1,896,158)	$ 34,172,276
Stock compensation expense	-	-	246,999	-	-	246,999
Other comprehensive income	-	-	-	-	518,027	518,027
Net loss for the period	-	-	-	(2,479,213)	-	(2,479,213)
Balance as of March 31, 2022	9,715,889	$ 9,716	$ 78,072,975	$ (44,246,471)	$ (1,378,131)	$ 32,458,089

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

	For the Three Months Ended March 31,	
	2022	**2021**
	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities		
Net loss	$ (2,479,213)	$ (4,228,126)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	268,939	258,315
Stock-based compensation	246,999	1,680,365
Consulting expense adjustment from change in fair value of warrants	-	(355,600)
Unrealized investment loss	5,256	624,738
Amortization of bonds issuance costs	118,364	47,565
Changes in operating assets and liabilities:		
Accounts receivable	136,800	-
Inventories	-	(1,445,680)
Prepaid expenses and other current assets	(121,913)	(622,495)
Deposits	(45,548)	1,539
Accrued expenses and other current liabilities	1,225,046	886,719
Operating lease liability	(34,281)	(1,417)
Net Cash Used for Operating Activities	(679,551)	(3,154,077)
Cash Flows from Investing Activities		
Proceeds from sales of short-term investment	7,823	6,102
Purchase of property and equipment	(1,165)	(3,521)
Purchase of long-term investment	-	(680)
Net Cash Provided by Investing Activities	6,658	1,901
Cash Flows from Financing Activities		
Proceeds from short-term loan	161,298	2,215,105
Repayment of long-term loan	(3,549)	(2,980)
Finance lease liability	(3,164)	(3,164)
Net Cash Provided by Financing Activities	154,585	2,208,961
Net Decrease in Cash and Restricted Cash	(518,308)	(943,215)
Cash and Restricted Cash, Beginning of Period	3,288,813	3,794,591
Foreign Currency Translation Effect on Cash	518,027	393,767
Cash and Restricted Cash, End of Period	$ 3,288,532	$ 3,245,143
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$ -	$ 1,695
Cash paid during the period for interest	$ 7,522	$ 2,671
Cash and Restricted Cash:		
Cash	$ 39,989	$ 33,632
Restricted cash	3,248,543	3,211,511
Total	$ 3,288,532	$ 3,245,143

The accompanying notes are an integral part of these unaudited 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 of its products over the internet in the United States, operating in the infant and toddler products business market. Aerkomm’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 Aerkomm’s common stock to list and trade on the Professional Segment of the regulated market of Euronext Paris (“Euronext Paris”). Aerkomm’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 Aerkomm’s share count, capital structure, or current common stock listing on the OTCQX, where it is also traded (in US dollars) under the symbol “AKOM.”

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. On November 8, 2021, Aircom Seychelles changed its name to Aerkomm SY Ltd. (“Aerkomm SY”) and the ownership was transferred from Aircom to Aerkomm. Aerkomm SY was formed to facilitate Aircom’s global corporate structure for both business operations and tax planning. Presently, Aerkomm SY has no operations. Aerkomm 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. On November 8, 2021, Aircom HK changed its name to Aerkomm Hong Kong Limited (“Aerkomm HK”) and its ownership was transferred from Aircom to Aerkomm. The purpose of Aerkomm 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. Aerkomm HK is also actively seeking strategic partnerships whom Aerkomm may leverage in order to provide more and better services to its customers. Aerkomm also plans to provide local supports to Hong Kong-based airlines via Aerkomm 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. On November 9, 2021, Aircom Japan changed its name to Aerkomm Japan, Inc. (“Aerkomm Japan”) and its ownership was transferred from Aircom to Aerkomm. The purpose of Aerkomm. The purpose of Aerkomm Japan is to conduct business development and operations located within Japan. Aerkomm Japan is in the process of applying for, and will be the holder of, Satellite Communication Blanket License in Japan, which is necessary for Aerkomm to provide services within Japan. Aerkomm 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.

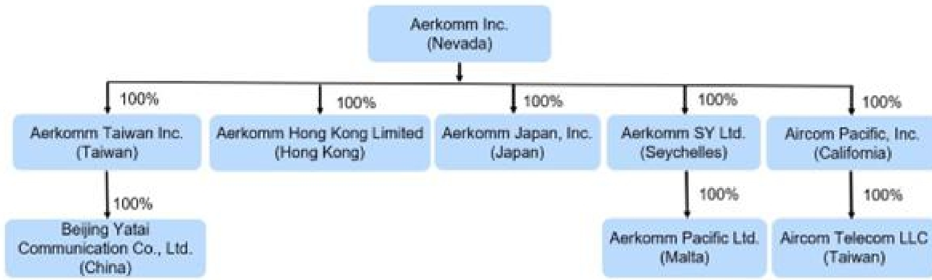
On June 13, 2018, Aerkomm established a new wholly owned subsidiary, Aerkomm Taiwan Inc. (“Aerkomm Taiwan”), a corporation formed under the laws of Taiwan. The purpose of Aerkomm Taiwan is to purchase a parcel of land and raise sufficient fund for ground station building and operate the ground station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

On November 15, 2018, Aircom Taiwan acquired a wholly owned subsidiary, Beijing Yatai Communication Co., Ltd. (“Beijing Yatai”), a corporation formed under the laws of China. The purpose of Beijing Yatai 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. Beijing Yatai 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 Beijing Yatai and teleports located in China. On November 6, 2020, 100% ownership of Beijing Yatai was transferred from Aircom Taiwan to Aerkomm Taiwan.

On October 31, 2019, Aerkomm SY 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 Aerkomm’s business and operations and to engage with suppliers and potential airlines customers in the European Union.

NOTE 1 - Organization - Continued

The Company's organization structure is as following:



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.

Going Concern

The accompanying financial statements have been prepared in conformity with U.S. GAAP which contemplates continuation of the Company on a going concern basis. The going concern basis assumes that assets are realized, and liabilities are settled in the ordinary course of business at amounts disclosed in the financial statements. The Company's ability to continue as a going concern depends upon its ability to market and sell its products to generate positive operating cash flows. For the three months ended March 31, 2022, the Company reported net loss of $2,479,213. As of March 31, 2022, the Company had working capital deficit of approximately $6.0 million. In addition, the Company had net cash outflows of $679,551 for the three months ended March 31, 2022. These conditions give rise to substantial doubt as to whether the Company will be able to continue as a going concern.

Currently, the Company has taken measures that management believes will improve its financial position by financing activities, including through public offerings, private placements, 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 the outstanding payable to the Company's vendors. On April 25, 2022, the Lenders further amended the commitment and agreed to increase the percentage of earlier closing amount from 25% to 100% and the full $20 million is available to the Company. As of July 12, 2022, the Company borrowed approximately $190,000 (approximately NTD 5,640,000) under the Loans from one of the Lenders.

With the $20 million in Loans committed by the Lenders and our holdings of marketable securities in Ejectt, the Company believes its working capital will be adequate to sustain its operations for the next sixteen months. However, there is no assurance that management will be successful in furthering the Company's business plan, especially if the Company is not able to raise additional funding from the above sources or from other sources. There are a number of additional factors that could potentially arise that could result in shortfalls in the Company's business plan, such as general worldwide economic conditions, competitive pricing in the connectivity industry, the continuing impact of the COVID 19 pandemic, the Company's operating results continuing to deteriorate and the Company's banks and shareholders not being able to provide continued financial support.

NOTE 1 - Organization - Continued

Management's plan is to continue improve operations to generate positive cash flows and raise additional capital through private of public offerings. If the Company is not able to generate positive operating cash flows, and raise additional capital, there is the risk that the Company may not be able to meet its short-term obligations. On June 28, 2022, the Company entered into a subscription agreement with an investor who agreed to purchase 516,666 shares of the Company's common stock for 6.00 Euros per share for an aggregate purchase price of 3,100,000 Euros. On June 29, 2022, the Company received the first installment of $3,175,201, equivalent to 3,000,000 Euros, from this investor (see Note 20 – Subsequent Event below), which improved our financial position in mitigating the situation.

NOTE 2 - Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of March 31, 2022, and the condensed consolidated statements of operations and comprehensive loss and cash flows for the three months ended March 31, 2022 and 2021 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 March 31, 2022 and the results of operations and cash flows for the three months ended March 31, 2022 and 2021. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these three months periods are unaudited. The results of operations for the three months ended March 31, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 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, Beijing Yatai and Aerkomm Malta. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications of Prior Year Presentation

Certain prior year balance sheet, and cash flow statement amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

The preparation of unaudited condensed 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. On an ongoing basis, management reviews these estimates and assumptions using the currently available information. Changes in facts and circumstances may cause the Company to revise its estimates. The Company bases its estimates on past experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. The inputs into our judgments and estimates consider the economic implications of COVID-19 on the Company's critical and significant accounting estimates. Estimates are used when accounting for items and matters including, but not limited to, revenue recognition, residual values, lease classification and liabilities, finance lease receivables, inventory obsolescence, right-of-use assets, determinations of the useful lives and valuation of long-lived assets, estimates of allowances for doubtful accounts and prepayments, estimates of impairment of long-lived assets, valuation of deferred tax assets, issuance of common stock and warrants exercised and other provisions and contingencies.

NOTE 2 - Summary of Significant Accounting Policies - Continued

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 March 31, 2022 and December 31, 2021, the total balance of cash in bank exceeding the amount insured by the Federal Deposit Insurance Corporation (FDIC) for the Company was $0 and $0, respectively. The balance of cash deposited in foreign financial institutions exceeding the amount insured by local insurance is approximately $3,110,000 and $3,106,000 as of March 31, 2022 and December 31, 2021, 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.

Investment in Equity Securities

According to FASB issued Accounting Standards Updates 2016-01 (ASU 2016-01), it requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value being recorded in current period earnings, impacting the net income. For the investments in equity securities without readily determinable fair values, the investments may be recorded at cost, subject to impairment, and adjusted through net income for observable price changes.

Holdings of marketable equity securities with no significant influence over the investee are accounted for using cost method. Marketable equity security costs are initially recognized at fair value plus transaction costs which are directly attributable to the acquisition. The cost of the securities sold is based on the weighted average cost method. Stock dividends from the investment are included to recalculate the cost basis of the investment based on the total number of shares.

Accounts receivable

Accounts receivables are carried at the amounts invoiced to customers less allowance for doubtful accounts. The allowance is an estimate based on a review of individual customer accounts on a quarterly basis. Accounts receivables are written off against allowances when they are deemed uncollectible. Recoveries of accounts receivable previously written off are recorded as other income when received.

The Company's review on the collectability of accounts receivable is based on an assessment of historical experience, current economic conditions, future expectation regarding customer solvency, and other collection indicators.

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 to 6 years and lease improvement – 5 years or remaining lease term, whichever is shorter.

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 three months periods ended March 31, 2022 and 2021.

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 the 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 and restricted cash, short-term investment, accounts receivable, inventory, prepaid expenses, other receivable, accounts payable, short-term loan, accrued expenses and other payable approximated their fair value due to the short-term nature of these financial instruments. The Company's long-term bonds payable, 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 March 31, 2022 and December 31, 2021.

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 year ended December 31, 2021 composed of the sales of ground antenna units to a related party and sales of network hardware to a non-related party. 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. 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. As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenue when (or as) the Company satisfies a performance obligation. Customers may make payments to the Company either in advance or in arrears. If payment is made in advance, the Company will recognize a contract liability under prepayments from customers until which point the Company has satisfied the requisite performance obligations to recognize revenue.

Stock-based Compensation

The Company adopted the modified prospective method to measure stock-based compensation expense. Under the modified prospective method, stock-based compensation expense recognized during the period is based on the portion of the share-based payment awards granted after the effective date and ultimately expected to vest during the period. Stock-based compensation expense recognized in the Company's statement of income is based on the vesting terms and the estimated fair value of the award at grant date. As stock-based compensation expense recognized in the statement of income is based on awards ultimately expected to vest, it is reduced for estimated forfeiture. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

The Company uses the Black-Scholes option pricing model in its determination of fair value of share-based payment awards on the date of grant. Such option pricing model is affected by assumptions based on a number of highly complex and subjective variables.

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 2017. 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.

NOTE 2 - Summary of Significant Accounting Policies - Continued

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.

Loss Per Share

Basic 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. The Company had 1,849,868 and 2,016,339 common stock equivalents, primarily stock options and warrants, as of March 31, 2022 and 2021, respectively. For the three months periods ended March 31, 2022 and 2021, the assumed exercise of the Company's common stock equivalents were not included in the calculation as the effect would be anti-dilutive.

NOTE 3 - Recent Accounting Pronouncements

Simplifying the Accounting for Debt with Conversion and Other Options.

In June 2020, the FASB issued ASU 2020-06 to simplify the accounting in ASC 470, Debt with Conversion and Other Options and ASC 815, Contracts in Equity's Own Entity. The guidance simplifies the current guidance for convertible instruments and the derivatives scope exception for contracts in an entity's own equity. Additionally, the amendments affect the diluted EPS calculation for instruments that may be settled in cash or shares and for convertible instruments. This ASU will be effective beginning in the first quarter of the Company's fiscal year 2022. Early adoption is permitted. The amendments in this update must be applied on either full retrospective basis or modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. The Company adopted ASU 2020-06 as of March 31, 2022 and the adoption does not have significant impact on its condensed consolidated financial statements and related disclosures as of and for the three months period ended March 31, 2022.

Financial Instruments

In June 2016, the FASB issued ASU 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 unaudited condensed consolidated financial statements.

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 adoption of ASU 2019-12 does not have a significant impact on the Company's unaudited condensed consolidated financial statements as of and for the three months period ended March 31, 2022.

NOTE 3 - Recent Accounting Pronouncements - Continued

Earnings Per Share

In April 2021, the FASB issued ASU 2021-04, which included Topic 260 “Earnings Per Share”. This guidance clarifies and reduces diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options due to a lack of explicit guidance in the FASB Codification. The ASU 2021-04 is effective for all entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. The Company adopted ASU 2021-04 as of March 31, 2022 and the adoption does not have significant impact on its condensed consolidated financial statements as of and for the three months period ended March 31, 2022.

NOTE 4 - Short-term Investment

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 euros) into the account. The transaction was initiated in the beginning of 2020, and the Company pays annual compensation of 20,000 euros to the Liquidity Provider in advance by semi-annual installments at the beginning of each semi-annual period under the agreement. The liquidity agreement had an initial term of one year and is being renewed automatically unless otherwise terminated by either party. As of March 31, 2022, the Company had purchased 5,361 shares of its common stock with the fair value of $46,981. The securities were recorded as short-term investment with an accumulated unrealized loss of $5,276. In January 2022, the Liquidity Provider terminated the agreement and the Company is determining whether to continue a similar program.

On December 3, 2020, the Company entered into three separate stock purchase agreements (or “Stock Purchase Agreement”) from three individuals to purchase an aggregate of 6,000,000 restricted shares of one of the Company’s related parties, YuanJiu Inc. (“YuanJiu”) in a total amount of NT$141,175,000. YuanJiu is a listed company in Taiwan Stock Exchange and the stock title transfer is subject to certain restrictions. Albert Hsu, a member of the Company’s board of directors, is the Chairman of YuanJiu. On July 19, 2021, YuanJiu Inc. changed its name to “EJECTT INC” (“Ejectt”). On March 24, 2021, the Company purchased additional 2,000 shares of Ejectt’s common stock for a total amount of $1,392 from a related party.

As of March 31, 2022, 5,000,000 shares of Ejectt’s common stock were restricted and booked under long-term investment. As of March 31, 2022 and December 31, 2021, this investment totaled approximately a 10% ownership of Ejectt.

As of March 31, 2022 and December 31, 2021, the fair value of the investment was as follows:

	March 31, 2022	December 31, 2021
Investment cost – Ejectt – short-term	$ 673,189	$ 694,544
Investment cost - Liquidity	52,257	24,354
Total Investment Cost	725,446	718,898
Appreciation in market value (Allowance for value decline)	234,397	275,651
Net	$ 959,843	$ 994,549

NOTE 5 - Inventories

As of March 31, 2022 and December 31, 2021, inventories consisted of the following:

	March 31, 2022	December 31, 2021
	(Unaudited)	
Satellite equipment for sale under construction	$ 1,366,282	$ 1,366,282
Supplies	5,039	5,125
	1,371,321	1,371,407
Allowance for inventory loss	(5,039)	(5,125)
Net	$ 1,366,282	$ 1,366,282

NOTE 6 - Prepaid Expenses

As of March 31, 2022 and December 31, 2021, prepaid expenses consisted of the following:

	March 31, 2022	December 31, 2021
Prepaid engineering expense	$ 4,065,989	$ 3,892,518
Prepaid professional expense	67,550	113,400
Others	41,046	49,169
Total	$ 4,174,587	$ 4,055,087

NOTE 7 - Property and Equipment

As of March 31, 2022 and December 31, 2021, the balances of property and equipment were as follows:

	March 31, 2021	December 31, 2021
	(Unaudited)	
Ground station equipment	$ 1,854,027	$ 1,854,027
Computer software and equipment	341,287	340,122
Satellite equipment	275,410	275,410
Vehicle	378,603	378,603
Leasehold improvement	83,721	83,721
Furniture and fixture	36,382	36,382
	2,969,430	2,968,265
Accumulated depreciation	(2,068,627)	(1,923,438)
Net	900,803	1,044,827
Prepayments - land	35,861,589	35,861,589
Prepaid equipment	17,889	17,889
Total	$ 36,780,281	$ 36,924,305

On July 10, 2018, the Company and Aerkomm Taiwan entered into a real estate sale contract (the “Land Purchase Contract”) 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. Pursuant to the terms of the Land Purchase 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 $34,474,462 in total. As of March 31, 2022 and December 31, 2021, 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 after the full payment of the Land acquisition price no later than June 30, 2022. According to the amended Land Purchase Contract dated on November 10, 2020, the transaction may be terminated at any time by both the buyer and the seller and agreed by all parties if the Company is unable to obtain the qualified satellite license issued by Taiwan authority before July 31, 2021. As of July 12, 2022, the license applications are still in progress.

Depreciation expense was $145,189 and $134,565 for the three months periods ended March 31, 2022 and 2021, respectively.

NOTE 8 - Long-term Investment

On August 20, 2021, the Company entered into Stock Subscription Agreement (or "Subscription Agreement") with tz-Comm Inc. (or "tz-Comm"), a Nevada company, to purchase 40% of tz-Comm's ownership with a cash payment of $40,000. The purpose of the Company's investment in tz-Comm is to collaborate with the other shareholders in developing future business opportunities in the U.S. and Asia. The Company accounts for its investment in tz-Comm by the equity method of accounting under which the Company's share of the net income of tz-Comm is reported in the Company's income statement. As of March 31, 2022, the balance of net investment in tz-Comm was $36,386.

As of March 31, 2022, 5,000,000 shares of Ejectt's common stock were restricted. As of March 31, 2022 and December 31, 2021, the fair value of the long-term investment in Ejectt was $4,559,748 and $4,704,398, respectively.

NOTE 9 - Intangible Asset, Net

As of March 31, 2022 and December 31, 2021, the cost and accumulated amortization for intangible asset were as follows:

	March 31, 2022 (Unaudited)	December 31, 2021
Satellite system software	$ 4,950,000	$ 4,950,000
Accumulated amortization	(3,176,250)	(3,052,500)
Net	$ 1,773,750	$ 1,897,500

Amortization expense was $123,750 for each of the three months periods ended March 31, 2022 and 2021.

NOTE 10 - Operating and Finance Leases

A. Lease term and discount rate:

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

	2022	2021
	(Unaudited)	
Weighted-average remaining lease term		
Operating lease	0.87 Year	0.63 Year
Finance lease	2.60 Years	2.84 Years
Weighted-average discount rate		
Operating lease	6.00%	6.00%
Finance lease	3.82%	3.82%

B. The balances for the operating and finance leases are presented as follows within the unaudited condensed consolidated balance sheets as of March 31, 2022 and December 31, 2021:

Operating Leases

	March 31, 2022	December 31, 2021
	(Unaudited)	
Right-of-use assets	$ 125,017	$ 177,994
Lease liability – current	$ 311,304	$ 376,027
Lease liability – non-current	$ 14,765	$ 36,639

Finance Leases

	March 31, 2022	December 31, 2021
	(Unaudited)	
Property and equipment, at cost	$ 56,770	$ 56,770
Accumulated depreciation	(28,560)	(25,529)
Property and equipment, net	$ 28,210	$ 31,241
Lease liability - current	$ 11,329	$ 11,481
Lease liability – non-current	22,340	26,013
Total finance lease liabilities	$ 33,669	$ 37,494

The components of lease expense are as follows within the unaudited condensed consolidated statements of operations and comprehensive loss for the three months periods ended March 31, 2022 and 2021:

Operating Leases

	March 31, 2022	March 31, 2021
	(Unaudited)	(Unaudited)
Lease expense	$ 51,083	$ 57,932
Sublease rental income	(17,036)	(2,826)
Net lease expense	$ 34,047	$ 55,106

Finance Leases

	March 31, 2022	March 31, 2021
	(Unaudited)	(Unaudited)
Amortization of right-of-use asset	$ 3,031	$ 3,023
Interest on lease liabilities	347	451
Total finance lease cost	$ 3,378	$ 3,474

NOTE 10 - Operating and Finance Leases - Continued

Supplemental cash flow information related to leases for the three months periods ended March 31, 2022 and 2021 is as follows:

	March 31, 2022		March 31, 2021	
	(Unaudited)		(Unaudited)	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflows from operating leases	$	34,682	$	45,085
Operating cash outflows from finance lease	$	2,825	$	2,713
Financing cash outflows from finance lease	$	347	$	451
Leased assets obtained in exchange for lease liabilities:				
Operating leases	$	-	$	27,288

Maturity of lease liabilities:

<u>Operating Leases</u>

	Related Party		Others		Total	
	(Unaudited)		(Unaudited)		(Unaudited)	
April 1, 2022 – March 31, 2023	$	55,164	$	260,091	$	315,255
April 1, 2023 – March 31, 2024		-		14,876		14,876
Total lease payments	$	55,164	$	274,967	$	330,131
Less: Imputed interest		(117)		(3,945)		(4,062)
Present value of lease liabilities	$	55,047	$	271,022	$	326,069
Current portion		(55,047)		(256,257)		(311,304)
Non-current portion	$	-	$	14,765	$	14,765

<u>Finance Leases</u>

	Total	
	(Unaudited)	
April 1, 2022 – March 31, 2023	$	12,419
April 1, 2023 – March 31, 2024		12,419
April 1, 2024 – March 31, 2025		10,738
Total lease payments	$	35,576
Less: Imputed interest		(1,907)
Present value of lease liabilities	$	33,669
Current portion		(11,329)
Non-current portion	$	22,340

NOTE 11 - Short-term Loan

In June 2021, the Company entered into a loan agreement in the amount of $1,433,177 (NT $40,000,000) with a non-related party. This loan bears no interest. This loan is collateralized with 3,000,000 shares of Ejectt stocks that the Company currently owns. As of March 31, 2022, the outstanding loan balance was $1,048,218 (NTD30,000,000). As of July 12, 2022, the two parties signed the amendment agreement to extend the loan repayment date to July 16, 2022.

NOTE 12 - 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 March 31, 2022 are as follows:

Twelve months ending March 31,		(Unaudited)
2023	$	13,270
2024		13,270
2025		2,212
Total installment payments		28,752
Less: Imputed interest		(2,913)
Present value of long-term loan		25,839
Current portion		(11,256)
Non-current portion	$	14,583

NOTE 13 - Long-term Bonds Payable and Restricted Cash

On December 3, 2020, the Company closed a private placement offering consisting of US$10,000,000 in aggregate principal amount of its Credit Enhanced Zero Coupon Convertible Bonds (the “Zero Coupon Bonds”) and US$200,000 in aggregate principal amount of its 7.5% convertible bonds (the “Coupon Bonds”), both due on December 2, 2025 (collectively the “Bonds”). Unless previously redeemed, converted or repurchased and cancelled, the Zero-Coupon Bonds will be redeemed on December 2, 2025 at 105.11% of their principal amount and the Coupon Bonds will be redeemed on December 2, 2025 at 100% of their principal amount plus any accrued and unpaid interest. The Coupon Bonds will bear interest from and including December 2, 2020 at the rate of 7.5% per annum. Interest on the Coupon Bonds is payable semi-annually in arrears on June 1 and December 1 each year, commencing on June 1, 2021.

The Company has the option to redeem the Bonds at a redemption amount equal to the Early Redemption Amount, as defined in the Offering Memorandum, at any time on or after December 2, 2023 and prior to the Maturity Date, if the Closing Price of the Company’s Common Stock listed on the Euronext Paris for 20 trading days in any period of 30 consecutive trading days, the last day of which occurs not more than fifteen trading days prior to the date on which notice of such redemption is given, is greater than 130% of the Conversion Price on each applicable trading day or (ii) in whole or in part of the Bonds on the second anniversary of the issue date or (iii) where 90% or more in principal amount of the Bonds issued have been redeemed, converted or repurchased and cancelled.

Unless previously redeemed, converted or repurchased and cancelled, the Bonds may be converted at any time on or after December 3, 2020 up to November 20, 2025 into shares of Common Stock of the Company with a par value of $0.001 each. The initial conversion price for the Bonds is $13.30 per share and is subject to adjustment in specified circumstances.

Holders of the Bonds may also require the Company to repurchase all or part of the Bonds on the third anniversary of the Issue Date, at the Early Redemption Amount. Unless the Bonds have been previously redeemed, converted or repurchased and cancelled, Holders of the Bonds will also have the right to require the Company to repurchase the Bonds for cash at the Early Redemption Amount if an event of delisting or a change of control occurs.

Pursuant to the agreements of Bonds, Bank of Panhsin Co., Ltd. (the “BG Bank”) committed to issue a bank guarantee for the benefit of the holders of the Bonds. The Bank Guarantee is intended to provide a source of funds for the principal, premium, interest (if any) and any other payment obligations of the Company which shall include the default interest under the Bonds upon the Company’s failure to pay amounts pursuant to the Indenture or upon the Bonds being declared due and payable on the occurrence of an Event of Default pursuant to this Indenture. In order to obtain the guarantee from BG Bank, the Company entered into a line of credit in the amount of $10,700,000 with BG Bank on December 1, 2020. The line of credit will be expired on December 2, 2025. The annual fee is based on 1% of the line of credit amount and due quarterly. The line of credit is guaranteed by one of the Company’s shareholders with his personal property, and the Company’s time deposit of $3,210,000 (the “Deposit”) at BG Bank is pledged as collateral as of March 31, 2022 and December 31, 2021, and the Deposit was recorded as restricted cash.

Management has accounted for the convertible bonds by assuming that they will be repaid and redeemed at maturity; accordingly, the Company has included the redemption premium as part of the accretion tables and calculation of interest and issuance cost to be amortized over the life of the bond. Any value borne from the conversion feature of the bond and or issuance costs related to the origination and distribution of these bonds have been accounted for as debt discounts to be amortized using the effective interest method over the life of the bond

NOTE 13 - Long-term Bonds Payable and Restricted Cash - Continued

As of March 31, 2022 and December 31, 2021, the long-term bonds payable consisted of the following:

	March 31, 2022	December 31, 2021
	(Unaudited)	
Credit Enhanced Zero Coupon Convertible Bonds	$ 10,000,000	$ 10,000,000
Coupon Bonds	200,000	200,000
	10,200,000	10,200,000
Unamortized loan fee	(1,428,125)	(1,546,489)
Net	$ 8,771,875	$ 8,653,511

Bond issuance cost was $118,364 and $47,566 for the three months ended March 31, 2022 and 2021, respectively.

NOTE 14 - 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 March 31, 2022 and December 31, 2021, the Company received $762,000 from Klingon in milestone payments towards the equipment purchase price. As of March 31, 2022, the project is still ongoing.

NOTE 15 - Income Taxes

Income tax expense for the three months periods ended March 31, 2022 and 2021 consisted of the following:

	Three Months Ended March 31,	
	2022	2021
Current:	(Unaudited)	(Unaudited)
Federal	$ -	$ -
State	1,600	1,600
Foreign	-	1,695
Total	$ 1,600	$ 3,295

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 months periods ended March 31, 2022 and 2021.

	Three Months Ended March 31,	
	2022	2021
	(Unaudited)	(Unaudited)
Tax benefit at statutory rate	$ (594,755)	$ (1,091,340)
Net operating loss carryforwards (NOLs)	736,007	(113,227)
Foreign investment losses	(187,620)	451,534
Stock-based compensation expense	51,900	357,400
Amortization expense	21,800	22,630
Accrued payroll	73,900	61,900
Unrealized exchange losses	161,168	299,703
Others	(260,800)	14,695
Tax expense at effective tax rate	$ 1,600	$ 3,295

NOTE 15 - Income Taxes - Continued

Deferred tax assets (liability) as of March 31, 2022 and December 31, 2021 consist approximately of:

	March 31, 2022 (Unaudited)	December 31, 2021
Net operating loss carryforwards (NOLs)	$ 9,181,000	$ 9,802,000
Stock-based compensation expense	2,826,000	2,757,000
Accrued expenses and unpaid expense payable	723,000	634,000
Tax credit carryforwards	68,000	68,000
Unrealized exchange losses (gain)	111,000	(44,000)
Excess of tax amortization over book amortization	(376,000)	(468,000)
Others	(15,000)	(186,000)
Gross	12,518,000	12,563,000
Valuation allowance	(12,518,000)	(12,563,000)
Net	$ -	$ -

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 a decrease of approximately $45,000 for the three months ended March 31, 2022.

As of March 31, 2022 and December 31, 2021, 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 $24,794,000 and $21,147,000, respectively, were generated and will be carried forward indefinitely to reduce future federal taxable income. As of March 31, 2022 and December 31, 2021, the Company had State NOLs of approximately $35,413,000 and $31,370,000 respectively, available to reduce future state taxable income, expiring in 2042.

As of March 31, 2022 and December 31, 2021, the Company has Japan NOLs of approximately $350,000 and $358,000, respectively, available to reduce future Japan taxable income, expiring in 2031.

As of March 31, 2022 and December 31, 2021, the Company has Taiwan NOLs of approximately $3,011,000 and $3,279,000, respectively, available to reduce future Taiwan taxable income, expiring in 2031.

As of March 31, 2022 and December 31, 2021, the Company had approximately $37,000 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 March 31, 2022 and December 31, 2021, the Company had approximately $39,000 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 16 - 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 March 31, 2022 and December 31, 2021, 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 as of March 31, 2022 and December 31, 2021.

	March 31, 2022	December 31, 2021
	(Unaudited)	
Restricted stock - vested	1,802,373	1,802,373
Restricted stock - unvested	149,162	149,162
Total restricted stock	1,951,535	1,951,535

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:

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. As of March 31, 2022, Boustead has not exercised any of the stock warrants.

On October 31, 2021, following approval by the Board of Directors, the Company issued a warrant to Mr. Sheng-Chun Chang for the purchase of up to 751,879 shares of the Company's common stock, exercisable at a price of $2.60 per share, the closing price of the common stock on the OTC Markets, Inc. QX tier on October 21, 2021. The issuance of the warrant is (i) in recognition of Mr. Chang's support of the Company through his previous personal guarantee of the Company's $10,000,000 line of credit with the Panhsin Bank (the "Bank") in relation to the private placement offering of $10,000,000 credit enhanced zero coupon convertible bonds and (ii) in exchange for Mr. Chang's agreement to renew his guarantee with the Bank for so long as the guarantee would be required by the Bank. The warrant will vest 20% on issuance. On each anniversary of the issue date, beginning with December 3, 2021 and ending with December 3, 2025, the warrant will vest with respect to 20% of the number of shares of the Company's common stock issuable upon conversion of the principal amount of the credit enhanced bonds still required to be guaranteed by the Panhsin Bank.

NOTE 17 - Significant Related Party Transactions

In addition to the information disclosed in other notes, the Company has significant related party transactions as follows:

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

Related Party	Relationship
Well Thrive Limited ("WTL")	Major stockholder
Ejectt Inc. ("Ejectt")	Stockholder; Albert Hsu, a Director of Aerkomm, is the Chairman
Star Jec Inc. ("Star Jec")	Albert Hsu, a Director of Aerkomm, is the Chairman
AA Twin Associates Ltd. ("AATWIN")	Georges Caldironi, COO of Aerkomm, is sole owner
EESquare Japan ("EESquare JP")	Yih Lieh (Giretsu) Shih, President Aircom Japan, is the Director
Wealth Wide Int'l Ltd. ("WWI")	Bummy Wu, a stockholder, is the Chairman

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.

NOTE 17 - Significant Related Party Transactions - Continued

a. As of March 31, 2022 and December 31, 2021:

	March 31, 2022	December 31, 2021
Other receivable from:		
EESquare JP [1]	$ 4,941	$ -
Others	473	471
Total	$ 5,414	$ 471
Customer Prepayment from Ejectt [2]	$ 361,910	$ -
Loan from WTL [3]	$ 746,812	$ 1,143,259
Other payable to:		
AATWIN [4]	$ 294,429	$ 294,429
Interest payable to WTL[3]	55,300	54,602
Others [6]	296,471	345,369
Total	$ 646,200	$ 694,400
Lease liability to WWI [5]	$ 55,047	$ 55,025

1. Aircom Japan entered into a sublease agreement with EESquare JP for the period between March 5, 2019 and March 4, 2023. Pursuant to the terms of this lease agreement, EESquare JP pays Aircom Japan a rental fee of approximately $920 per month.

2. On April 18, 2021, the Company entered into a memorandum of understanding with Ejectt pursuant to which Ejectt will serve as the exclusive service provider to the Company in Asia with respect to the installation and service of the Company's Aerkomm AirCinema Cube ("ACC") product and the related software platform ("Rayfin") on which AAC will operate. In March 2022, Ejectt made prepayment of $361,910 to the Company in order to obtain certain air certificate.

3. The Company has loans from WTL due to operational needs under the Loans (Note 1). As of July 12, 2022, the Company borrowed approximately $190,000 (approximately NTD 5,640,000) from WTL under the loans.

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

5. Aircom Hong Kong has a lease agreement with WWI for the warehouse with a monthly rental cost of $450. The lease term was from July 1, 2020 to June 1, 2022. Aircom Hong Kong has another lease agreement with WWI for its office space in Hong Kong with a monthly rental cost of HKD 30,000 (approximately $3,829). The lease term is from June 28, 2020 to June 27, 2022.

6. Represents receivable/payable from/to employees as a result of regular operating activities.

b. For the three months periods ended March 31, 2022 and 2021:

	Three Months Ended March 31,	
	2022	2021
	(Unaudited)	(Unaudited)
Purchase from Ejectt[1]	$ -	$ 1,807,100
Revenue from Star Jec [2]	2,953	-
Consulting expense charged by AATWIN [3]	-	54,388
Interest expense charged by WTL [4]	2,428	17,951
Rental expense charged by WWI [5]	11,915	11,988
Rental income from EESqaure JP [6]	(2,578)	(2,826)

NOTE 17 - Significant Related Party Transactions - Continued

1. Represents inventory prepayment paid to Ejectt. On May 11, 2020, the Company entered into a product purchase agreement (PO1) with Ejectt 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 and the Company paid 20% of the total amount, or $361,420, as an initial deposit. On July 15, 2020, the Company signed a second product purchase agreement (PO2) of $1,807,100 with Ejectt for an additional 100 sets of the AirCinema Cube for the same purchase amount and paid a 10% initial deposit of $180,710 on this agreement as well. In February 2021, the Company paid the remaining balance of the PO1 and received the inventory with aggregate value of $1,807,100. The deposit on PO2 was refunded by Ejectt on June 1, 2021.

2. On December 14 2021, Aerkomm Japan and Star Jet, a Taiwan limited liability company, signed a Housing Service Order. Further on January 22, 2022, Aerkomm Japan and Star Jet signed a Satellite Service Order. Under the two orders, Aerkomm Japan agreed to provide satellite services and housing services to Star Jec.

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

4. The Company has loans from WTL due to operational needs under the Loans (Note 1). As of July 12, 2022, the Company borrowed approximately $190,000 (approximately NTD 5,640,000) from WTL under the loans.

5. Aircom Hong Kong has a lease agreement with WWI for the warehouse with a monthly rental cost of $450. The lease term was from July 1, 2020 to June 1, 2022. Aircom Hong Kong has another lease agreement with WWI for its office space in Hong Kong with a monthly rental cost of HKD 30,000 (approximately $3,829). The lease term is from June 28, 2020 to June 27, 2022.

6. Aircom Japan entered into a sublease agreement with EESquare JP for the period between March 5, 2019 and March 4, 2021. Pursuant to the terms of this lease agreement, EESquare JP pays Aircom Japan a rental fee of approximately $920 per month.

NOTE 18 - 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.

NOTE 18 - Stock Based Compensation - Continued

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 2014 Plan, the “Plans”) and the reservation of 1,000,000 shares of common stock for issuance under the Aerkomm 2017 Plan. 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. 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). The Aerkomm 2017 Plan was approved by the Company’s stockholders on March 28, 2018. On October 21, 2021, the Board of Directors voted to increase the number of shares of common stock reserved for issuance under the Aerkomm 2017 Plan to 2,400,000 shares.

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 be vested commencing on the vesting start date and the remaining shares shall be vested 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 be vested commencing on the vesting start date and the remaining shares shall be vested 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 be vested 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 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 September 16, 2018, the Compensation Committee approved to issue options for 4,000 shares under the Aerkomm 2017 Plan to one of the Company’s independent directors. These options shall be vested immediately.

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 shall be vested 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 are vested on the grant date, and 25% of the shares shall be vested on each of October 4, 2020, October 4, 2021 and October 4, 2022, respectively.

NOTE 18 - Stock Based Compensation - Continued

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 be vested at the date of 1/12th each month for the next 12 months on the same day of December 2019.

On February 19, 2020, the Board of Directors approved to issue options for 2,000 shares under the Aerkomm 2017 Plan to one of the Company's consultants for service provided in 2019. These options shall be vested immediately.

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

On December 11, 2020, the Board of Directors approved the grant of options to purchase an aggregate of 284,997 shares under the Aerkomm 2017 Plan to 37 of its directors, officers, employees and consultants. Shares shall be vested in full on the earlier of the filing date of the Company's Form 10-K for the year ended December 31, 2020 or March 31, 2021.

On January 23, 2021, 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 1/12th each month for the next 12 months at the end of each month up to December 2021. On January 23, 2021, the Board of Directors approved to issue options for 2,000 shares under the Aerkomm 2017 Plan to one of the Company's consultants for service provided in 2020. These options vested immediately.

On September 1, 2021, the Board of Directors approved to issue options for 18,750 shares under the Aerkomm 2017 Plan to one of the Company's officers. These options shall be vested immediately.

On September 17, 2021, the Board of Directors approved to issue options for 4,000 shares under the Aerkomm 2017 Plan to one of the Company's independent directors. These options shall be vested at the rate of 1/12th each month for the next 12 months on the same day of September 2021.

On October 21, 2021, the Board of Directors approved to issue options for 150,000 shares under the Aerkomm 2017 Plan to one of the Company's officers. These options shall be vested immediately.

On December 1, 2021, the Board of Directors approved to issue options for 18,750 shares under the Aerkomm 2017 Plan to one of the Company's officers. These options shall be vested immediately.

On December 29, 2021, the Board of Directors approved to issue options for an aggregate of 8,000 shares under the Aerkomm 2017 Plan to two of the Company's independent directors, 4,000 shares each. All of these options shall be vested at the date of 1/12th each month for the next 12 months on the same day of December 2021.

On December 31, 2021, the Board of Directors approved to issue options for 2,000 shares under the Aerkomm 2017 Plan to one of the Company's consultants for service provided in 2020. These options vested immediately.

On March 1, 2022, the Board of Directors approved to issue options for 18,750 shares under the Aerkomm 2017 Plan to one of the Company's officers. These options shall be vested immediately.

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 $246,999 and $1,680,365 for the three months periods ended March 31, 2022 and 2021, 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.

NOTE 18 - Stock Based Compensation - Continued

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.

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 three months period ended March 31, 2022 and year ended December 31, 2021 under the Plans as follows:

Assumptions	
Expected term	5-10 years
Expected volatility	45.79% - 72.81%
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 three months ended March 31, 2022 and the year ended December 31, 2021 are as follows:

	Number of Shares	**Weighted Average Exercise Price Per Share**	**Weighted Average Fair Value Per Share**
Options outstanding at January 1, 2021	932,262	$ 0.4081	$ 0.1282
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	(820,391)	0.0067	0.0020
Options outstanding at December 31, 2021	111,871	3.3521	1.0539
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at March 31, 2022 (unaudited)	111,871	3.3521	1.0539

NOTE 18 - Stock Based Compensation - Continued

There are no unvested stock awards under Aircom 2014 Plan for the three months period ended March 31, 2022 and the year ended December 31, 2021.

Of the shares covered by options outstanding as of March 31, 2022, 111,871 are now exercisable. Information related to stock options outstanding and exercisable at March 31, 2022, is as follows:

	Options Outstanding (Unaudited)			**Options Exercisable** (Unaudited)		
Range of Exercise Prices	**Shares Outstanding at 3/31/2022**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Shares Exercisable at 3/31/2022**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**
$ 3.3521	111,871	4.25	3.3521	111,871	4.25	3.3521

As of March 31, 2022, there was no unrecognized stock-based compensation expense for the Aircom 2014 Plan. No option was exercised during the three months periods ended March 31, 2022 and 2021.

<u>Aerkomm 2017 Plan</u>

Activities related to options outstanding under Aerkomm 2017 Plan for the three months ended March 31, 2022 and the year ended December 31, 2021 are as follows:

	Number of Shares	**Weighted Average Exercise Price Per Share**	**Weighted Average Fair Value Per Share**
Options outstanding at January 1, 2021	992,397	$ 12.7486	9.3927
Granted	215,500	4.3698	3.3578
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2021	1,207,897	11.2537	7.5309
Granted	18,750	12.1023	9.2639
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at March 31, 2022 (unaudited)	1,226,647	11.2667	7.5573

Activities related to unvested stock awards under Aerkomm 2017 Plan for the three months period ended March 31, 2022 and the year ended December 31, 2021 are as follows:

	Number of Shares	**Weighted Average Fair Value Per Share**
Options unvested at January 1, 2021	438,291	$ 8.4541
Granted	215,500	3.3578
Vested	(613,597)	5.0867
Forfeited/Cancelled	-	-
Options unvested at December 31, 2021	40,194	8.9422
Granted	18,750	9.2639
Vested	(21,750)	8.9441
Forfeited/Cancelled	-	-
Options unvested at March 31, 2022 (unaudited)	37,194	9.1033

NOTE 18 - Stock Based Compensation - Continued

Of the shares covered by options outstanding under the Aerkomm2017 Plan as of March 31, 2022, 1,189,453 are now exercisable; 37,194 shares will be exercisable for the twelve-month period ending March 31, 2023. Information related to stock options outstanding and exercisable at March 31, 2022, is as follows:

	Options Outstanding (Unaudited)			**Options Exercisable** (Unaudited)		
Range of Exercise Prices	**Shares Outstanding at 3/31/2022**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**	**Shares Exercisable at 3/31/2022**	**Weighted Average Remaining Contractual Life (years)**	**Weighted Average Exercise Price**
$ 2.72 – 4.20	518,500	8.10	$ 3.9013	516,656	8.10	$ 3.9007
7.00 – 10.00	312,997	8.67	8.2870	312,997	8.67	8.2870
11.00 – 14.20	130,150	7.96	11.5450	102,800	7.95	11.6572
20.50 – 27.50	141,000	5.66	24.3638	133,000	5.63	24.5962
30.00 – 35.00	124,000	5.25	34.4012	124,000	5.25	34.4012
	1,226,647	7.66	11.2667	1,189,453	7.66	11.2190

As of March 31, 2022, total unrecognized stock-based compensation expense related to stock options was approximately $156,000, which is expected to be recognized on a straight-line basis over a weighted average period of approximately 0.45 year. No option was exercised during the three months period ended March 31, 2022 and the year ended December 31, 2021.

NOTE 19 - Commitments

As of March 31, 2022, 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 retrofit solution allowing the installation of the Company's "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 the Company's 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 AERKOMM K++ system. The EU-China Bilateral Aviation Safety Agreement, or BASA, went into effect on September 3, 2020, giving a boost to the regions' aviation manufacturers by simplifying the process of gaining product approvals from the European Union Aviation Safety Agency, or EASA, and the Civil Aviation Administration of China, or CAAC, while also ensuring high safety and environment standards will continue to be met. Pursuant to the terms of our Airbus agreement, Airbus agreed to 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 expected to be in the fourth quarter of 2022, although there is no guarantee that the project will be successfully completed in the projected timeframe.

*Airbus Interior Service Agreement***:** On July 24, 2020, Aerkomm Malta, entered into an agreement with Airbus Interior Services, a wholly-owned subsidiary of Airbus. This new agreement follows the agreement that Aircom signed with Airbus on November 30, 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.

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. On November 17, 2021, we signed a new agreement with Hong Kong Airlines Ltd and Ejectt Inc. Based on the long-term relationship and anticipated further co-operation between Aerkomm and Hong Kong Airlines, Aerkomm agreed that it will provide to Hong Kong Airlines the Low Earth Orbit (LEO) satellite version of the Aerkomm K++ System with the Telesat Lightspeed service when available. The Aerkomm K++ System will be delivered with a full certified Service Bulletin by Airbus.

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. Republic Engineers made no payments against the purchase order and the Company did not begin any work on the ordered shipsets. On July 7, 2020, Republic Engineers and Mr. Raja filed a complaint against Aerkomm, Aircom and Aircom Telecom (the "Aircom Parties") in the Superior Court of the State of California for the County of Almeda, 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 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 was 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. The Aircom Parties filed a motion for judgment on the pleadings in August 2021, asking the Court to find the Complaint for Declaratory Relief to be moot, because the contracts that are the subject of the Complaint have been terminated. On September 22, 2021, the Court granted that motion, and dismissed the complaint. At the request of Republic Engineers, the Court granted Republic Engineers leave to amend its complaint to attempt to allege a viable claim. On May 10, 2022, Republic Engineers and Aircom Parties entered into a settlement and mutual release agreement, which included, among other things, a denial of wrongdoing by both parties, a requirement that Republic Engineering file a motion with the Court to dismiss its lawsuit against the Aircom Parties and a mutual release by each party of any and all claims against the other party relating to this dispute. On May 17, 2022, Republic Engineers filed with the Court a motion to dismiss with prejudice, its lawsuit against the Aircom Parties and on that same day the Court officially dismissed the lawsuit.

NOTE 19 - Commitments - Continued

Shenzhen Yihe: On June 20, 2018, the Company entered into that certain Cooperation Framework Agreement, as supplemented on July 19, 2019, with Shenzhen Yihe Culture Media Co., Ltd., or Yihe, the authorized agent of Guangdong Tengnan 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 its RMB 8 million payment to Yihe. The Company received notice from the Arbitration Court on October 16, 2020 of receipt of its arbitration filing and the requirement to pay the Arbitration Court RMB 190,000 in fees relating to the arbitration. These fees were paid on October 28, 2020. The Company intends to aggressively pursue this matter. As of September 30, 2021, the prepayment was reclassified to other receivable and full allowance was reserved. On March 25, 2022, the Shenzhen International Arbitration Court issued a judgment in our favor. The Court deemed the Company's agreement with Yihe terminated as of November 24, 2020, the date of the Company's filing with the Court, and held that Yihe is required to promptly repay us RMB 7.5 million and reimburse the Company RMB 178,125 in court costs. The Company will make every effort to collect these amounts from Yihe.

NOTE 20 - Subsequent Events

Stock Subscription Agreement

On June 28, 2022, the Company entered into a subscription agreement with an investor who agreed to purchase 516,666 shares of our common stock for 6.00 Euros per share for an aggregate purchase price of 3,100,000 Euros (the "Purchase Price"). On June 29, 2022, the Company received the first installment of the Purchase Price of $3,175,201, equivalent to 3,000,000 Euros, from this investor. Despite the fact that the Company have received the investor's funds, the subscription agreement is subject to a cooling off period pursuant to which it may be terminated prior to July 29, 2022 by either party at any time and for any reason. If the subscription agreement is terminated by the investor, the Company will be required to return the Purchase Price funds to the investor, without interest.

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 Aerkomm 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; Aerkomm 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, 2021, 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

Aerkomm Inc., is a development stage Non-Geostationary Orbit NGSO Low Earth Orbit and Medium Earth Orbit (LEO/MEO) satellite communication technology provider, focusing on B5G / 6G communications. With our advanced technology, we intend to provide our partners the benefits of E / V / Ka / Ku and X band unique solutions that encompasses a wide range of service options. Such options include connectivity solutions (IVI) on Vehicles (RVs, EVs….etc), Internet of Things (IOT) scenarios, internet in rural and remote sites to complement mobile communication weakness, maritime market and aviation market, including Government UAVs, as well as the provision of in-flight broadband entertainment and connectivity (IFEC) for commercial airlines and corporate jets.

Our technology will have several uses including:

1. **Aviation**: Target customers will be Government UAVs, commercial airlines and corporate jet operators. For Government UAVs we plan to generate revenue from the product price and monthly subscription fee for satellite bandwidth. We plan to generate revenue from e-commerce and monthly subscription fee for satellite bandwidth from commercial airlines. From corporate jet operators we plan to generate revenue from the product price and monthly subscription fee for satellite bandwidth.

2. **Vehicles and Autopilot Trucks**: Target customers will be all autopilot vehicles, using B5G, LEO satellites. We plan to generate revenue from the product price and monthly subscription fee for satellite bandwidth.

3. **Trains and Fixed Infrastructure**: Target customers will be train operators and associated infrastructure. We plan to generate revenue from the product price and monthly subscription fee for satellite bandwidth.

4. **Remote Locations**: Target customers will be remote islands and mountain regions. We plan to generate revenue from the product price and monthly subscription fee for satellite bandwidth.

5. **Maritime**: Target customers will be cruise liners, freighters, tankers, ferry boats, yachts, and oilrigs. We plan to generate revenue from the product price and monthly subscription fee for satellite bandwidth.

With our advanced technologies and a unique business model, our initial focus has been to become a service provider of IFEC solutions through which we 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 seat-back display, as well as on passengers' own personal devices. We also expect to provide content management services and e-commerce solutions related to our IFEC solutions.

Traditionally, providers of in-flight connectivity have focused primarily on the profit margin derived from the sale of hardware to airlines and of bandwidth to passengers. Both airlines and passengers must "pay to play," which results in low participation and usage rates.

We break away from this model and expect to set a new trend with our innovative business approach which, we believe, will set us apart from our competitors by our partnering with airlines and other strategic partners, such as online advertisers and content providers. We plan to offer a choice of different business models of our IFEC system to commercial airlines. We plan to offer the choice of free hardware while the airline will pay for the monthly connectivity cost. We will also offer the option of the airline paying for the hardware while we pay for the connectivity cost. Airlines will potentially be able to generate new revenues through participating in our different revenue sharing model depending on which model they select, while passengers will not be required to pay for connectivity. That is, for passengers, connectivity will be free. We believe that, taken together, this novel approach will create an incentive for airlines to work with us, and this collaboration should act to drive up passenger usage rates. We believe that this is an innovative approach that will differentiate us from most existing market players.

Our main source of revenue is expected to be derived from fees related to the content channeled through our IFEC network from selected partners including internet companies, content providers, advertisers, telecom service providers, e-commerce participants, and premium sponsors. In other words, we plan to use connectivity as a tool rather than as a commodity for sale, which we believe will allow us to achieve a greater return.

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 expect that our first such ground station will be built in Taiwan, on land that we have acquired, to service our East Asia market.

Additionally, we have developed and begun to market two internet connectivity systems, one for hotels primarily located in remote regions and the other for maritime use. Both systems operate through LEO/MEO satellite connectivity. We also expect to develop a remote connectivity system that will be applicable to the highspeed rail industry.

Our total sales were $2,953 and $0 for the three months ended March 31, 2022 and the year ended December 31, 2021.

Business Development

We are actively working with prospective airline customers to provide them with the Airbus to-be-certified AERKOMM K++ system. We have entered into non-binding memoranda of understanding, or MOUs, including, most recently, with Thai Smile which operates a fleet of 20 Airbus A320 aircrafts. There can be no assurances, however, that any MOUs we entered into 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 LEO/MEO connectivity IFEC solutions for airlines and have suspended work on our dual band (Ka/Ku) satellite inflight connectivity solution.

In connection with the Airbus project, we also identified owners of Airbus Corporate Jet, or 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 could generate additional revenue and income for our company.

Our AERKOMM K++ System

Our proprietary IFEC system, which is called the AERKOMM K++ system, will contain a ultra-low-profile radome (that is, a dome or similar structure protecting our radio equipment) containing two 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 Organisation Approval.

GEO (Geostationary Earth Orbiting) and NGSO (Non-Stationary Orbit) MEO (Medium Earth Orbiting) / LEO (Low Earth Orbiting) Satellites

Our initial AERKOMM K++ system will work with geostationary earth orbiting, or GEO satellites. Performance of GEO satellites diminishes greatly in the areas near the Earth's poles. One of the main advantages of NGSO satellites over GEO satellites is considerably lower latency as well as worldwide coverage, particularly over the poles. Whereas GEO satellites have roughly 550 milliseconds of round-trip latency time, LEO satellites boast a latency of 240 milliseconds, signifying a distinct advantage in the sphere of real-time applications. Only LEO satellites can collect high quality data over the North and South poles. We are developing technologies to work with MEO/LEO satellites and plans to partner with Airbus to develop aircraft installation solutions. As new MEO and LEO 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 MEO/LEO satellite connectivity, although it cannot assure you that it will be successful in this new area of endeavor. We have two cooperation agreements in place with LEO/MEO satellite providers. On June 23, 2020, we entered into a cooperation agreement with Telesat LEO Inc., 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. On January 10, 2022, Aerkomm entered into a cooperation agreement with New Skies Satellites B.V., a Dutch company with its principal offices located at Rooseveltplantsoen The Hague, Netherlands ("SES"). SES is one of the world leaders in satellite operations and is operating a constellation of satellites in medium-earth orbit (MEO) and geostationary-earth orbit (GEO) with a multi-terabit, high-throughput, low-latency network infrastructure (the "SES Satellite Network"), used for the global mobility market, including aviation, maritime, and the global fixed location market, including equipment, mobile back haul, teleport and data center co-location. SES has launched SES-17, a GEO satellite, and a series of MEO satellites (O3b), and will launch additional MEO satellites ("O3b mPOWER") as part of the SES Satellite Network. Through this agreement, Aerkomm and SES will jointly collaborate both technically and commercially.

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

<u>*Changes in Company's Certifying Accountant*</u>

On January 27, 2022, Chen & Fan Accountancy Corporation resigned as our independent accounting firm, effective as of January 27, 2022.

On January 27, 2022, our audit committee and our board of directors appointed Friedman LLP ("Friedman") as our new independent registered public accounting firm, however, on May 19, 2022, we dismissed Friedman.

On May 19, 2022, we appointed WWC, P.C. ("WWC") as our new independent registered public accounting firm to audit and review our financial statements, effective May 20, 2022.

Aerkomm chairs MIH Consortium "Next Generation Communication" Interest Group

In February 2022, Aerkomm was appointed as the chair of the "Next Generation Communication" interest group of the MIH Consortium. This MIH group was formed to begin an industry discussion on the standardization of 6G satellite communication protocols.

The MIH Consortium of Taipei operates the MIH Open EV Alliance and was formed with the objective of creating an open EV ecosystem to promote collaboration in the mobility industry. MIH's goal is to bring strategic partners together to build the next generation of EV, autonomous driving, and mobility service applications.

Joint Venture Agreement

On January 10, 2022, we entered into a joint venture (the "Joint Venture") agreement (the "Agreement") with Sakai Display Products Corporation, a company incorporated under the laws of Japan ("SDPJ"), and PanelSemi Corporation, a company incorporated under the laws of Taiwan ("PanelSemi"). We did not have any relationship with SDPJ or PanelSemi prior to entering into the Agreement.

Through this Joint Venture, we intend to develop and commercialize a tile antenna ("Tile Antenna"). The Joint Venture will be operated through Mepa Labs Inc., a newly formed California corporation ("MLI"), which will be owned initially 100% by SDPJ. We will license to MLI our intellectual property, know-how and research and development results related to the Tile Antenna. SDPJ will provide MLI with working capital to develop the Tile Antenna proof of concept ("POC"). Upon approval of the POC by an initial customer or a laboratory each approved by SDPJ, we will contribute the intellectual property to MLI in exchange for 52% of the equity interest in Newco, and SDPJ and PanelSemi collectively will contribute $20 million in cash (less the contributions funded prior to the POC approval). SDPJ will hold 45% of Newco's equity interest and PanelSemi will hold the remaining 3%.

Moreover, according to the Agreement, SDPJ will invest €7.5 million in Aerkomm via private placement subject to and upon approval of the POC. There can be no assurance, however, that SDPJ will ever consummate any investment in Aerkomm.

In the event that the POC is not approved within 11 months following the signing of the Agreement, the Joint Venture will be terminated, at which time we will terminate the intellectual property license to Newco and Newco will remain 100% owned by SDPJ.

Private Placement Investment

On June 28, 2022, one investor agreed to purchase 516,666 shares of our common stock at a purchase price of Euro 6.00 per share (at an effective exchange rate of 1 Euro for 1.0585 U.S. Dollars) for an aggregate purchase price of Euro 3,100,000. As of this date, we have received the first installment of $3,175,201, equivalent to 3,000,000 Euros, in cash under this subscription agreement. The subscription agreement includes a "cooling off" clause such that, prior to July 29, 2022, either party may terminate the subscription agreement for any or no reason and if the subscription agreement is so terminated, we will be required to return to the investor the funds that we have received within 10 business days of the termination date. This sale was made under the private placement exemption provided by Section 4(a)(2) of the Securities Act of 1933, as amended.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic was unprecedented notably because of the policy response which involved the shutdown of much economic activity including the halt to airline traffic. It produced the sharpest global recession since the Great Depression. However, in its wake, the macro-economic performance has generally speaking been less dire than initially feared. It produced the shortest recession in US history, for instance, limited to two months. US unemployment spiked to 14.7% in April 2020 and few expected the rate to drop as swiftly as has been the case; the unemployment rate declined to 3.6% in May 2022 and thus basically back to the pre-crises low.

Principal Factors Affecting Financial Performance

We believe that our operating and business performance will be 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:

- 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.

Smaller Reporting Company

Although we no longer qualify as an Emerging Growth Company, or EGC, we continue to qualify as a smaller reporting company, which allows us to take advantage of many of the same exemptions from disclosure requirements, including reduced disclosure obligations regarding executive compensation that are available to an EGC. In addition, as a smaller reporting company with less than $100 million in annual revenue, we are not required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In reliance on these exemptions, we have taken advantage of reduced reporting obligations in this quarterly report on Form 10-Q.

Recent Market Information

In the IATA (International Air Transportation Association) 78th Annual General Meeting held in Doha, Qatar, in June 2022, the following key points were highlighted in a report entitled Global Outlook for Air Transport:

- The global economy is facing two simultaneous and wholly global systemic crises: climate change and the COVID-19 pandemic. On top of that, war in Europe adds to human suffering and economic challenges. These all constitute important headwinds for the global economy and for aviation

- Nevertheless, 2022 testifies to the resilience of the air transport industry. After the largest shock in aviation's history, recovery is well underway and forecast to continue through 2022 and beyond.

- The recovery in industry Revenue per Kilometers (RPKs) is expected to gather pace this year as vaccine rollouts continue, travel restrictions are lifted, and more routes are re-opened. Even so, global RPKs are forecast to remain below their pre-pandemic 2019 level until 2024.

- Cost pressures will be a focus for airlines this year as oil and fuel prices have risen sharply, contributing to the global rise in inflation and pushing central banks to lift interest rates.

- Airline financial performance is expected to improve in all regions in 2022, with North America the only region expected to return to profitability this year.

- Immediately prior to the onset of the COVID-19 pandemic, there were, according to Airbus and Boeing, more than 23,000 commercial aircraft flying globally, a number that was expected to more than double in the next 20 years. Both Airbus and Boeing had estimated that the global fleet of commercial aircraft would increase from 23,000 planes in 2019 to more than 45,000 in 2040, according to their respective 2021 reports, "Global Market Forecast report 2021 – 2040" and "Commercial Market Outlook 2021 – 2040." The Global Market Forecast report 2021 – 2040 predicted that the increase would include 40% for aircraft replacement and 60% for growth, with Asia-Pacific (excluding Peoples Republic of China) accounting for 25% of deliveries.

- For March 2022, the global aircraft fleet size stands at 28,394 aircraft, with 22,798 aircraft active and 5,596 grounded. When March 2022 is compared to March 2021, there is a 15% increase in the active global active fleet.

- The global capacity figures are steadily rising.

- Having reached 91.6 million weekly scheduled seats, global capacity figures peaked at the end of March 2022

- There is a 46% increase compared to the same week in March 2021 and an 86% increase compared to March 2020.

- In February 2022 compared to the same month in 2021, there is a 25% increase in worldwide aircraft deliveries

Results of Operations

Comparison of Three Months Ended March 31, 2022 and 2021

The following table sets forth key components of our results of operations during the three months periods ended March 31, 2022 and 2021.

	Three Months Ended March 31,		Change	
	2022	**2021**	**$**	**%**
Service income – related party	$ 2.953	$ -	$ 2,953	100.0%
Operating expenses	1,780,438	3,170,999	(1,390,561)	(43.9)%
Loss from operations	(1,777,485)	(3,170,999)	1,393,514	(43.9)%
Net non-operating expense	(700,128)	(1,053,832)	353,704	(33.6)%
Loss before income taxes	(2,477,613)	(4,224,831)	1,747,218	(41.4)%
Income tax expense	1,600	3,295	(1,695)	(51.4)%
Net Loss	(2,479,213)	(4,228,126)	1,748,913	(41.4)%
Other comprehensive income	518,027	393,767	124,260	31.6%
Total comprehensive loss	$ (1,961,186)	$ (3,834,359)	$ 1,873,173	(48.9)%

Revenue. We have $2,953 of service income for the three-month period ended March 31, 2022 and $0 revenue for the three-month period ended March 31, 2021, respectively. The service income of $2,953 represents an income from providing satellite service to one of our related parties. Our revenue for the three months ended March 31, 2021 was $0 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

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 $1,390,561, or 43.9% to $1,780,438 for the three-month period ended March 31, 2022, from $3,170,999 for the three-month period ended March 31, 2021. Such decrease was mainly due to a decrease in stock-based compensation expense, accounting and auditing fees and director and officer insurance expense of $1,433,366, $227,309 and $126,050, respectively, which was offset by the increases in outside services and consulting fee of $346,773 and $110,944.

Net non-operating expense. We had $700,129 in net non-operating expense for the three-month period ended March 31, 2022, as compared to net non-operating expense of $1,053,832 for the three-month period ended March 31, 2021. The net non-operating expense in the three-month period ended March 31, 2022 includes foreign exchange loss of $578,654, amortization of bond issuing costs of $118,365 and net interest expense of $7,381. Net non-operating expense in the three-month period ended Mach 31, 2021 represents loss on foreign exchange translation of $370,504, unrealized loss from the transactions of our liquidity contract and prepaid investment of $624,738, other financing cost due to amortization of convertible bonds issuing cost of $47,566 and net interest expense of $24,019, which was offset by the employment subsidy from Japanese government of $11,178.

Loss before income taxes. Our loss before income taxes increased by $1,747,218, or 41.4%, to $2,477,613 for the three-month period ended March 31, 2022, from a loss of $4,224,831 for the three-month period ended March 31, 2021, as a result of the factors described above.

Income tax expense. Income tax expense was $1,600 for the three-month period ended March 31, 2022, as compared to the income tax expense of $3,295 for the three-month period ended March 31, 2021.

Total comprehensive loss. As a result of the cumulative effect of the factors described above, our total comprehensive loss decreased by $1,873,173, or 48.9%, to $1,961,186 for the three-month period ended March 31, 2022, from $3,834,359 for the three-month period ended March 31, 2021.

Liquidity and Capital Resources

As of March 31, 2022, we had cash and cash equivalents of $39,989 and restricted cash of $3,248,543. We have financed our operations primarily through cash proceeds from financing activities, including from our 2020 Offering, the issuance of convertible bonds, short-term borrowings and equity contributions by our stockholders.

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

Cash Flow

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net cash used for operating activities	$ (679,551)	$ (3,154,757)
Net cash provided by investing activity	6,658	2,581
Net cash provided by financing activity	154,585	2,208,961
Net decrease in cash and cash equivalents	(518,308)	(943,215)
Cash at beginning of year	3,288,813	3,794,591
Foreign currency translation effect on cash	518,027	393,767
Cash at end of year	$ 3,288,532	$ 3,245,143

Operating Activities

Net cash used for operating activities was $679,551 for the three months ended March 31, 2022, as compared to $3,154,757 for the three months ended March 31, 2021. In addition to the net loss of $2,479,213, the decrease in net cash used for operating activities during the three-month period ended March 31, 2022 was mainly due to the decrease in accounts receivable and the increase in accrued expenses and other current liabilities of $136,800 and $1,225,046, respectively, offset by the decrease in prepaid expenses and other current assets and deposits of $121,913 and $45,548, respectively. In addition to the net loss of $4,249,653, the increase in net cash used for operating activities during the three-month period ended March 31, 2021 was mainly due to increase in inventory and prepaid expenses and other current assets of $1,445,680 and $622,495, respectively, offset by the increase in accrued expense and other current liabilities of $834,818.

Investing Activities

Net cash provided by investing activities for the three months ended March 31, 2022 was 6,658 as compared to net cash used by investing activities of $25,81 for the three months ended March 31, 2021. The net cash provided by investing activities for the three months ended March 31, 2022 was mainly the proceeds from disposal of trading securities of $7,823, which was offset by the cash used for the purchase of property and equipment of $1,165. The net cash provided by investing activities for the three months ended March 31, 2021 was mainly for the proceeds from disposal of trading security of $6,102, which was offset by the purchase of property and equipment of $3,521.

Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2022 and 2021 was $154,585 and $2,208,961, respectively. Net cash provided by financing activities for the three months ended March 31, 2022 were mainly attributable to net proceeds from the borrowing of short-term loan in the amount of $161,298. Net cash provided by financing activities for the three months ended March 31, 2021 were mainly attributable to proceeds from the increase in short-term loans in the amount of $2,215,105.

On May 9, 2019, two of our current shareholders, whom we refer to as the Lenders, each committed to provide us with a $10 million bridge loan, or 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 our Taiwan land parcel which we recently purchased. The Taiwan land parcel consists of approximately 6.36 acres of undeveloped land located at the Taishui Grottoes in the Xinyi District of Keelung City, Taiwan. Aerkomm Taiwan contracted to purchase the Taiwan land parcel for NT$1,056,297,507, or US$34,474,462, and as of July 3, 2019 we completed payment of the purchase price for the Taiwan land parcel in full. We are now waiting for title to the Taiwan land parcel to be transferred to us pending the completion of our satellite ground station licensing process. The Loans will be secured by the Taiwan land parcel with the initial closing date of the Loans to be a date, designated by us, within 30 days following the date that the title for the Taiwan land parcel is fully transferred to and vested in our subsidiary, Aerkomm Taiwan. The Loans will bear interest, non-compounding, at the Bank of America Prime Rate plus 1%, annually, calculated on the actual number of days the Loans are outstanding and based on a 365-day year and will be due and payable upon the earlier of (1) the date of our obtaining a mortgage loan secured by the Taiwan land parcel with a principal amount of not less than $20 million and (2) one year following the initial closing date of the Loans. 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 Taiwan land parcel is transferred to our subsidiary, Aerkomm Taiwan, provided that we provide adequate evidence to the Lenders that the proceeds of such an earlier closing would be applied to pay our vendors. We, of course, cannot provide any assurances that we will be able to obtain a mortgage on the Taiwan land parcel once the acquisition is completed. On April 25, 2022, the Lenders amended the commitment and agreed to increase the percentage of earlier closing amount from 25% to 100%. As of the date of this report, we have drawn down approximately $190,000 (approximately NTD 5,640,000) under the Loans from one of the Lenders.

On July 10, 2018, in conjunction with our agreement to acquire the Taiwan land parcel, we entered into a binding letter of commitment with Metro Investment Group Limited, or MIGL, pursuant to which we agreed to pay MIGL an agent commission of four percent (4%) of the full purchase price of the Taiwan land parcel, equivalent to approximately US$1,387,127, for MIGL's services provided with respect to the acquisition. Under the terms of the initial agreement with MIGL, we agreed to pay this commission no later than 90 days following payment in full of the Taiwan land parcel purchase price. On May 2019 and December 2021, we amended the binding letter of commitment with MIGL to extend the payment to be paid after the full payment of the Land acquisition price until no later than June 30, 2022. If there is a delay in payment, we shall be responsible for punitive liquidated damages at the rate of one tenth of one percent (0.1%) of the commission per day of delay with a maximum cap to these damages of five percent (5%). Under applicable Taiwanese law, the commission was due and payable upon signing of the letter of commitment even if the contract is cancelled for any reason and the acquisition is not completed. We have recorded the estimated commission to the cost of land and will be paying the amount no later than June 30, 2022. We are currently negotiating with MIGL to amend the agreement to further extend the payment term.

On December 3, 2020, the Company closed a private placement offering (the “Bond Offering”) consisting of US$10,000,000 in aggregate principal amount of its Credit Enhanced Zero Coupon Convertible Bond due 2025 (the “Credit Enhanced Bonds”) and US$200,000 in aggregate principal amount of its 7.5% convertible bonds due 2025 (the “Coupon Bonds,” and together with the Credited Enhanced Bonds, the “Bonds”).

Payments of principal, premium, interest and any payments thereof in respect of the Credit Enhanced Bonds will have the benefit of a bank guarantee denominated in U.S. dollars and issued by Bank of Panhsin Co., Ltd., based in Taiwan. Unless previously redeemed, converted or repurchased and canceled, the Credit Enhanced Bonds will be redeemed on December 2, 2025 at 105.11% of their principal amount and the Coupon Bonds will be redeemed on December 2, 2025 at 100% of their principal amount plus any accrued and unpaid interest. The Coupon Bonds will bear interest from and including December 2, 2020 at the rate of 7.5% per annum. Interest on the Coupon Bonds is payable semi-annually in arrears on June 1 and December 1 each year, commencing on June 1, 2021. Unless previously redeemed, converted or repurchased and cancelled, the Bonds may be converted at any time on or after December 3, 2020 up to November 20, 2025 into shares of Common Stock of the Company with a par value US$0.001 each (such shares of Common Stock, the “Conversion Shares”). The initial conversion price for the Bonds is US$13.30 per Conversion Share and is subject to adjustment in specified circumstances. Please refer to our Current Report on Form 8-K filed with SEC on December 4, 2020.

We have not generated significant revenues, excluding non-recurring revenues in 2021 and 2019, and will incur additional expenses as a result of being a public reporting company. Currently, we have taken measures that management believes will improve our financial position by financing activities, including having successfully completed our Bond Offering, 2020 Offering, short-term borrowings and other private loan commitments, including the Loans from our investors, discussed above. With our current available cash, the $20 million in loan commitments from the Lenders 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.

However, even if we successfully raise sufficient capital to satisfy our needs over the next twelve months, following that period we will require additional cash resources for the implementation of our strategy to expand our business or for other investments or acquisitions we may decide to pursue. If our internal financial resources are insufficient to satisfy our capital requirements, we will need seek to sell additional equity or debt securities or obtain additional credit facilities, although there can be no assurances that we will be successful in these efforts. The sale of additional equity securities could result in dilution to our stockholders. The incurrence of indebtedness would result in increased debt service obligations and could require us to agree to operating and financial covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to expand our business operations and could harm our overall business prospects.

On June 28, 2022, we entered into a subscription agreement with an investor who agreed to purchase 516,666 shares of our common stock for 6.00 Euros per share for an aggregate purchase price of 3,100,000 Euros (the “Purchase Price”). On June 29, 2022, we received the first installment of the Purchase Price of $3,175,201, equivalent to 3,000,000 Euros, from this investor. Despite the fact that we have received the investor’s funds, the subscription agreement is subject to a cooling off period pursuant to which it may be terminated prior to July 29, 2022 by either party at any time and for any reason. If the subscription agreement is terminated by the investor, we will be required to return the Purchase Price funds to the investor, without interest. Because of the wording of the subscription agreement, we cannot assure you at this time that we will not be required to return the Purchase Price funds to the investor.

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 three months ended March 31, 2022 and 2021 were $1,165 and $3,521, respectively.

We anticipate an increase in capital spending in our fiscal year ended December 31, 2022 and estimate that capital expenditures will range from $10 million to $50 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:

Concentrations of Credit Risk. Financial instruments that potentially subject to significant concentrations of credit risk consist primarily of cash in banks. As of December 31, 2021 and 2020, the total balance of cash in bank exceeding the amount insured by the Federal Deposit Insurance Corporation (FDIC) for the Company was approximately $0 and $0, respectively. The balance of cash deposited in foreign financial institutions exceeding the amount insured by local insurance is approximately $3,110,000 and $3,106,000 as of March 31, 2022 and December 31, 2021, respectively. We perform 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. We determine 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 our estimates.

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 three-month periods ended March 31, 2022 and 2021, we incurred approximately $0 and $0 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, 2022 and 2021.

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 the 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. We adopted ASU 2016-02 effective January 1, 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 the Company's cash and restricted cash, accounts payable, short-term loan and other payable approximated their fair value due to the short-term nature of these financial instruments. The Company's short-term investment and long-term investment are classified within Level 1 of the fair value hierarchy on March 31, 2022. The Company's long-term bonds payable, 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 March 31, 2022.

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 revenue for the three months ended March 31, 2022 composed of the service income to one of our related parties. 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. We adopted the provisions of ASU 2014-09 Revenue from Contract with Customers (Topic 606) and the principal versus agent guidance within the new revenue standard. As such, the Company identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenue when (or as) we satisfy a performance obligation. Customers may make payments to the Company either in advance or in arrears. If payment is made in advance, the Company will recognize a contract liability under prepayments from customers until which point the Company has satisfied the requisite performance obligations to recognize revenue.

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 2017. 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 our company. Such adjustments are accumulated and reported under other comprehensive income (loss) as a separate component of stockholders' equity.

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 July 13, 2022, the date on which these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of March 31, 2022 have been included in these consolidated financial statements.

Recent Accounting Pronouncements

<u>Simplifying the Accounting for Debt with Conversion and Other Options.</u>

In June 2020, the FASB issued ASU 2020-06 to simplify the accounting in ASC 470, Debt with Conversion and Other Options and ASC 815, Contracts in Equity's Own Entity. The guidance simplifies the current guidance for convertible instruments and the derivatives scope exception for contracts in an entity's own equity. Additionally, the amendments affect the diluted EPS calculation for instruments that may be settled in cash or shares and for convertible instruments. This ASU will be effective beginning in the first quarter of the Company's fiscal year 2022. Early adoption is permitted. The amendments in this update must be applied on either full retrospective basis or modified retrospective basis through a cumulative-effect adjustment to retained earnings/(deficit) in the period of adoption. We adopted ASU 2020-06 as of March 31, 2022 and the adoption does not have significant impact on our consolidated financial statements and related disclosures as of and for the three months period ended March 31, 2022.

<u>Financial Instruments</u>

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. We are currently evaluating the impact of adopting ASU 2016-13 on our unaudited condensed consolidated financial statements.

<u>Simplifying the Accounting for Income Taxes</u>

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 adoption of ASU 2019-12 does not have a significant impact on our unaudited condensed consolidated financial statements as of and for the three months period ended March 31, 2022.

Earnings Per Share

In April 2021, the FASB issued ASU 2021-04, which included Topic 260 "Earnings Per Share". This guidance clarifies and reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options due to a lack of explicit guidance in the FASB Codification. The ASU 2021-04 is effective for all entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. we adopted ASU 2021-04 as of March 31, 2022 and the adoption does not have significant impact on our condensed consolidated financial statements as of and for the three months period ended March 31, 2022.

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 March 31, 2022.

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, 2021, filed with the SEC on July 1, 2022, and further referenced below, which we are still in the process of remediating as of March 31, 2022, 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 March 31, 2022, 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 March 31, 2022 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 March 31, 2022 to the legal proceedings previously disclosed in Item 3 "Legal Proceedings" of our Annual Report on Form 10-K filed on July 1, 2022.

ITEM 1A. RISK FACTORS.

For information regarding additional risk factors, please refer to our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC on July 1, 2022.

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

We have not sold any equity securities during the quarter ended March 31, 2022 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.

We have no information to disclose that was required to be in a report on Form 8-K during the quarter ended March 31, 2022 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

Exhibit No.	Description
2.1	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)
2.2	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)
3.1	Restated Articles of Incorporation of the registrant (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on May 4, 2017)
3.2	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)
3.3	Amended and Restated Bylaws of the registrant (incorporated by reference to Exhibit 3.3 to the Annual Report on Form 10-K filed on March 30, 2020)
31.1*	Certifications of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certifications of Principal Financial and Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Principal Financial and Accounting Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* 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: July 13, 2022

AERKOMM 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)

Exhibit 31.1

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: July 13, 2022

/s/ Louis Giordimaina

Louis Giordimaina
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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: July 13, 2022

/s/ Y. Tristan Kuo

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

Exhibit 32.1

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 March 31, 2022 (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 13th day of July 2022.

/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.

Exhibit 32.2

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 March 31, 2022 (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 13th day of July 2022.

/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.