

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2018

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

For the transition period from _____ to _____

Commission File Number: 000-55925

AERKOMM INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

46-3424568

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

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

(Address of principal executive offices, Zip Code)

(877) 742-3094

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of November 13, 2018, there were 46,758,238 shares of common stock of the registrant issued and outstanding.

AERKOMM INC.

**Quarterly Report on Form 10-Q
Period Ended September 30, 2018**

TABLE OF CONTENTS

**PART I
FINANCIAL INFORMATION**

Item 1.	Financial Statements	1
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	26
Item 4.	Controls and Procedures	27

**PART II
OTHER INFORMATION**

Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Mine Safety Disclosures	28
Item 5.	Other Information	28
Item 6.	Exhibits	28

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

AERKOMM INC.
CONSOLIDATED FINANCIAL STATEMENTS

	<u>Page</u>
Consolidated Balance Sheet as of September 30, 2018 (unaudited) and March 31, 2018	2
Consolidated Statements of Operations and Comprehensive Loss for the Three and Six Month Periods Ended September 30, 2018 and 2017 (unaudited)	3
Consolidated Statements of Cash Flows for the Six Month Period Ended September 30, 2018 and 2017 (unaudited)	4
Notes to Consolidated Financial Statements (unaudited)	5

AERKOMM INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	<u>September 30,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
	(unaudited)	
<u>Assets</u>		
Current Assets		
Cash	\$ 896,773	\$ 58,237
Accounts receivable	1,745,000	-
Inventories	-	208,674
Prepaid expenses	1,568,302	362,602
Other receivable	419,194	427,291
Other current assets	9,736	1,202
Total Current Assets	<u>4,639,005</u>	<u>1,058,006</u>
Property and Equipment		
Cost	2,624,969	407,501
Accumulated depreciation	<u>(187,313)</u>	<u>(119,782)</u>
	2,437,656	287,719
Prepayment for land	33,850,000	-
Prepayment for equipment	-	181,250
Construction in progress	1,483,916	3,254,170
Net Property and Equipment	<u>37,771,572</u>	<u>3,723,139</u>
Other Assets		
Intangible asset, net	3,506,250	3,753,750
Goodwill	1,450,536	1,450,536
Deposits - related party	2,379	2,542
Deposits - others	47,083	148,839
Total Other Assets	<u>5,006,248</u>	<u>5,355,667</u>
Total Assets	<u>\$ 47,416,825</u>	<u>\$ 10,136,812</u>
<u>Liabilities and Stockholders' Equity</u>		
Current Liabilities		
Short-term bank loan	\$ -	\$ 10,000
Short-term loan - related parties	-	325,040
Accounts payable	1,650,000	
Accrued expenses	155,912	881,214
Other payable - related parties	868,079	1,299,578
Other payable - others	1,090,104	2,264,637
Total Current Liabilities	<u>3,764,095</u>	<u>4,780,469</u>
Restricted stock deposit liability	1,700	14
Total Liabilities	<u>3,765,795</u>	<u>4,780,483</u>
Commitments and Contingency		
Stockholders' Equity		
Preferred stock, \$0.001 par value, 50,000,000 shares authorized, none issued and outstanding as of September 30, 2018 and March 31, 2018		-
Common stock, \$0.001 par value, 450,000,000 shares authorized, 45,490,363 shares (excluding 1,267,875 unvested restricted shares) issued and outstanding as of September 30, 2018 and 41,449,735 shares (excluding 10,362 unvested restricted shares) issued and outstanding as of March 31, 2018	45,490	41,418
Additional paid in capital	56,841,387	13,787,372
Subscribed capital	-	690,648
Subscriptions receivable	-	(559,608)
Accumulated deficits	(13,231,175)	(8,602,971)
Accumulated other comprehensive loss	(4,672)	(530)
Total Stockholders' Equity	<u>43,651,030</u>	<u>5,356,329</u>
Total Liabilities and Stockholders' Equity	<u>\$ 47,416,825</u>	<u>\$ 10,136,812</u>

See accompanying notes to the consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	Three Month Period Ended		Six Month Period Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue				
Net sales	\$ 1,730,000	\$ -	\$ 1,730,000	\$ -
Service income	15,000	-	15,000	-
Total Revenue	1,745,000	-	1,745,000	-
Cost and Expenses				
Cost of sales	1,650,000	-	1,650,000	-
Operating expenses	2,594,500	1,398,590	4,730,085	3,821,775
Total Cost and Expenses	4,244,500	1,398,590	6,380,085	3,821,775
Loss from Operations	(2,499,500)	(1,398,590)	(4,635,085)	(3,821,775)
Net Non-Operating Income (Loss)	1,427	(998)	6,881	(363)
Loss before Income Taxes	(2,498,073)	(1,399,588)	(4,628,204)	(3,822,138)
Income Tax Expense	-	4,453	-	7,504
Net Loss	(2,498,073)	(1,404,041)	(4,628,204)	(3,829,642)
Other Comprehensive Loss				
Change in foreign currency translation adjustments	2,474	(242)	(4,142)	(249)
Total Comprehensive Loss	\$ (2,495,599)	\$ (1,404,283)	\$ (4,632,346)	\$ (3,829,891)
Net Loss Per Common Share:				
Basic	\$ (0.0539)	\$ (0.0342)	\$ (0.1043)	\$ (0.0936)
Diluted	\$ (0.0539)	\$ (0.0342)	\$ (0.1043)	\$ (0.0936)
Weighted Average Shares Outstanding - Basic	46,420,146	41,096,011	44,413,205	40,923,293
Weighted Average Shares Outstanding - Diluted	46,420,146	41,096,011	44,413,205	40,923,293

See accompanying notes to the consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows Statement
(Unaudited)

	Six Month Period Ended	
	September 30,	
	2018	2017
Cash Flows From Operating Activities		
Net loss	\$ (4,628,204)	\$ (3,829,642)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	315,376	283,932
Stock-based compensation	786,334	1,127,835
R&D expenses transferred from inventory and construction in progress	439,296	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,745,000)	-
Inventories	-	1,230
Prepaid expenses	(1,205,700)	(211,535)
Other receivable - others	8,097	152,264
Other current assets	(8,534)	-
Deposits - related party	163	3,941
Deposits - others	101,756	679,874
Accounts payable	1,650,000	-
Accrued expenses	(725,302)	383,203
Other payable - related party	(431,499)	(19,539)
Other payable - others	(1,174,533)	439,445
Net Cash Used for Operating Activities	<u>(6,617,750)</u>	<u>(988,992)</u>
Cash Flows from Investing Activities		
Prepaid investment	-	(100,000)
Prepayment on land	(33,850,000)	-
Acquisition of property and equipment	(496,931)	(279,968)
Net Cash Used for Investing Activities	<u>(34,346,931)</u>	<u>(379,968)</u>
Cash Flows from Financing Activities		
Proceeds from (Repayment of) short-term bank loan	(10,000)	10,000
Repayment of short-term loan – related parties	(325,040)	-
Proceeds from issuance of common stock	41,262,899	300,022
Proceeds from subscribed capital	-	544,913
Issuance of stock warrant	879,500	30,000
Net Cash Provided by Financing Activities	<u>41,807,359</u>	<u>884,935</u>
Net Increase (Decrease) in Cash	842,678	(484,025)
Cash, Beginning of Period	58,237	490,840
Foreign currency translation effect on cash	(4,142)	(249)
Cash, End of Period	<u>\$ 896,773</u>	<u>\$ 6,566</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	<u>\$ 4,000</u>	<u>\$ 3,833</u>
Cash paid during the period for interest	<u>\$ 2,008</u>	<u>\$ -</u>
Non-cash financing activities:		
Restricted stock deposit liability transferred to (from) common stock	<u>\$ (1,686)</u>	<u>\$ 1,918</u>
Other payable to related parties transferred to subscribed capital	<u>\$ -</u>	<u>\$ 2,024,000</u>

See accompanying notes to the consolidated financial statements.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

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.

On December 28, 2016, Aircom Pacific Inc. (“Aircom”) purchased 700,000 shares of Aerkomm’s common stock, representing 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.

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 (or 87.81% on a fully-diluted basis). 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.

Aircom was incorporated on September 29, 2014 under the laws of the State of California.

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

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

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

Aircom Telecom LLC (“Aircom Taiwan”), which became a wholly owned subsidiary of Aircom in December 2017, was organized under the laws of Taiwan on June 29, 2016. During 2017, Aircom advanced a total of \$460,000 to Aircom Taiwan, which was not affiliated with Aircom during that time, for working capital, as part of a planned \$1,500,000 aggregate equity investment (the “Equity Investment”) in Aircom Taiwan. Before Aircom Taiwan was allowed to issue equity to Aircom, a foreign investor, the Equity Investment must be approved by the Investment Review Committee of the Ministry of Economic affairs of Taiwan (the “Committee”). Aircom entered into an Equity Pre-Subscription Agreement with Aircom Taiwan on August 13, 2017 to memorialize the terms of the Equity Investment. On December 19, 2017, the Committee approved Aircom’s initial Equity Investment (valued as of that date at NT\$15,150,000, or approximately US\$500,000) and the purchase of the founding owner’s total equity of NT\$100,000 (approximately US\$3,350). As a result, Aircom Taiwan became a wholly owned subsidiary of Aircom.

Aircom Taiwan is responsible for Aircom’s business development efforts and general operations within Taiwan. We are currently planning to locate the site of our first ground station in Taiwan and we expect that if we raise sufficient funds to move forward with this project (although that cannot be guaranteed), Aircom Taiwan will play a significant role in building and operating that ground station.

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 for ground station building and operate the ground station for data processing.

Aircom and its subsidiaries are full service providers of in-flight entertainment and connectivity solutions with their initial market in the Asian Pacific region.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 2 - Summary of Significant Accounting Policies

Change in Fiscal Year

On March 18, 2018, the Company's Board of Directors approved a change in the Company's fiscal year end from December 31 to March 31. Year-over-year quarterly financial data continue to be comparative to prior periods as the three months that comprise each fiscal quarter in the new fiscal year are the same as those in the Company's historical financial statements.

Principle of Consolidation

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

Reclassifications of Prior Period Presentation

Certain prior period balance sheet amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash in banks. As of September 30, 2018, the total balance of cash in bank exceeded the amount insured by the Federal Deposit Insurance Corporation (FDIC) for the Company by approximately \$415,000 and the balance of cash deposited in foreign bank exceeded the amount insured by local deposit insurance is approximately \$76,000.

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 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.

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 six-month periods ended September 30, 2018 and 2017.

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.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 2 - Summary of Significant Accounting Policies - Continued

Goodwill and Purchased Intangible Assets - continued

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, other receivable, short-term bank loan and other payable approximated their fair value due to the short-term nature of these financial instruments.

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 major revenue for the six-month period ended September 30, 2018 was the development of a small cell server terminal which will be utilized in the construction of a satellite-based ground communication system networks. The Company also had minor revenue from providing installation and testing services of a satellite-based ground connectivity system. 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.

Research and Development Costs

Research and development costs are charged to operating expenses as incurred. For the six-month periods ended September 30, 2018 and 2017, the Company incurred approximately \$675,000 and \$253,047 of research and development costs, respectively.

Income Taxes

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

The Company follows FASB guidance on uncertain tax positions and has analyzed its filing positions in all the federal, state and foreign jurisdictions where it is required to file income tax returns, as well as all open tax years in those jurisdictions. The Company files income tax returns in the US federal, state and foreign jurisdictions where it conducts business. 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.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

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 stockholder's 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 stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include stock warrants and outstanding stock options, shares to be purchased by employees under the Company's employee stock purchase plan.

Subsequent Events

The Company has evaluated events and transactions after the reported period up to November 13, 2018, the date on which these consolidated financial statements were available to be issued. All subsequent events requiring recognition as of September 30, 2018 have been included in these consolidated financial statements.

NOTE 3 - Recent Accounting Pronouncements

Financial Instruments

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

Intangibles

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

Leases

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 under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting ASU 2016-02 on its consolidated financial statements.

Income Statement

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

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 3 - Recent Accounting Pronouncements - Continued

Stock Compensation

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

NOTE 4 - Inventories

As of September 30, 2018 and March 31, 2018, inventories consisted of the following:

	September 30, 2018	March 31, 2018
	(Unaudited)	
Satellite equipment for sale under construction	\$ -	\$ 197,645
Parts	-	11,029
Supplies	5,341	5,468
	5,341	214,142
Allowance for inventory loss	(5,341)	(5,468)
Net	<u>\$ -</u>	<u>\$ 208,674</u>

NOTE 5 - Property and Equipment

As of September 30, 2018 and March 31, 2018, the balances of property and equipment were as follows:

	September 30, 2018	March 31, 2018
	(Unaudited)	
Ground station equipment	\$ 1,854,027	\$ -
Satellite equipment	275,410	275,410
Computer software and equipment	320,130	122,085
Furniture and fixture	10,006	10,006
Vehicle	141,971	-
Leasehold improvement	23,425	-
	2,624,969	407,501
Accumulated depreciation	(187,313)	(119,782)
Net	2,437,656	287,719
Prepayments - land	33,850,000	-
Prepayment for equipment	-	181,250
Construction in progress	1,483,916	3,254,170
Net	<u>\$ 37,771,572</u>	<u>\$ 3,723,139</u>

On May 1, 2018, the Company and Aerkomm Taiwan entered into a binding memorandum of understanding with Tsai Ming-Yin (the “Seller”) with respect to the acquisition by Aerkomm Taiwan of a parcel of land located in Taiwan. The land is expected to be used to build a satellite ground station and data center. On July 10, 2018, the Company, Aerkomm Taiwan and the Seller entered into a certain real estate sales contract regarding this acquisition. Pursuant to the terms of the contract, and subsequent amendments on July 30, 2018, September 4, 2018 and November 2, 2018, the Company paid to the seller in installments refundable prepayment of \$33.85 million as of September 30, 2018. The remaining amount of the purchase price, \$624,462, which may also be paid in installments, must be paid in full by the Company and Aerkomm Taiwan in cash before January 4, 2019.

Construction in progress was the payment for the construction of ground station equipment relating to satellite communication system and in-flight system for the Company’s internal use.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 6 - Intangible Asset, Net

As of September 30, 2018 and March 31, 2018, the cost and accumulated amortization for intangible asset were as follows:

	September 30, 2018	March 31, 2018
	(Unaudited)	
Satellite system software	\$ 4,950,000	\$ 4,950,000
Accumulated amortization	(1,443,750)	(1,196,250)
Net	\$ 3,506,250	\$ 3,753,750

NOTE 7 - Short-term Bank Loan

The Company has an unsecured short-term bank credit line of \$10,000, which matured on June 14, 2018, from a local bank with an annual interest rate of 4.75%. The Company repaid the bank loan in full on May 24, 2018.

NOTE 8 - Income Taxes

Income tax expense for the three-month and six-month periods ended September 30, 2018 and 2017 consisted of the following:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Current:				
Federal	\$ -	\$ -	\$ -	\$ -
State	-	-	-	-
Foreign	-	4,453	-	7,504
Total	\$ -	\$ 4,453	\$ -	\$ 7,504

The following table presents a reconciliation of the income tax at statutory tax rate and the Company's income tax at effective tax rate for the three-month and six-month periods ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Six Months Ended September 30,	
	2018	2017	2018	2017
Tax benefit at statutory rate	\$ (524,572)	\$ (472,974)	\$ (971,900)	\$ (1,331,054)
Net operating loss carryforwards (NOLs)	574,199	385,320	1,115,100	978,900
Stock-based compensation expense	84,574	116,900	165,100	386,500
Amortization expense	(62,700)	4,500	(64,400)	33,500
Accrued R&D expense	-	-	(168,000)	-
Others	(71,501)	(29,293)	(75,900)	(60,342)
Tax at effective tax rate	\$ -	\$ 4,453	\$ -	\$ 7,504

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 8 - Income Taxes - Continued

Deferred tax assets (liability) as of September 30, 2018 and March 31, 2018 consist of:

	<u>September 30,</u> <u>2018</u>	<u>March 31,</u> <u>2018</u>
Net operating loss carryforwards (NOLs)	\$ 5,378,000	\$ 2,339,000
Stock-based compensation expense	793,000	566,000
Accrued expenses and unpaid payable	149,000	268,000
Tax credit carryforwards	68,000	68,000
Excess of tax amortization over book amortization	(787,000)	(635,000)
Others	13,000	235,000
	<u>5,614,000</u>	<u>2,841,000</u>
Valuation allowance	(5,614,000)	(2,841,000)
Net	<u>\$ -</u>	<u>\$ -</u>

Management does not believe the deferred tax assets will be utilized in the near future; therefore, a full valuation allowance is provided. The net change in deferred tax assets valuation allowance was an increase of \$2,773,000 for the six months ended September 30, 2018.

As of September 30, 2018 and March 31, 2018, the Company had federal NOLs of approximately \$18,265,000 and \$7,643,000, respectively, available to reduce future federal taxable income, expiring in 2038 and 2037. As of September 30, 2018 and March 31, 2018, the Company had State NOLs of approximately \$20,102,000 and \$8,985,000, respectively, available to reduce future state taxable income, expiring in 2038.

As of September 30, 2018 and March 31, 2018, the Company has Japan NOLs of approximately \$307,000 and \$339,000 available to reduce future Japan taxable income, expiring in 2028.

As of September 30, 2018 and March 31, 2018, the Company has Taiwan NOLs of approximately \$238,000 and \$0 available to reduce future Taiwan taxable income, expiring in 2028. As of September 30, 2018 and March 31, 2018, 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 September 30, 2018 and March 31, 2018, 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 9 - Capital Stock

1) Preferred Stock:

The Company is authorized to issue 50,000,000 shares of preferred stock, with par value of \$0.001. As of September 30, 2018, 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.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 9 - Capital Stock - Continued

2) Common Stock:

The Company is authorized to issue 450,000,000 shares of common stock, with par value of \$0.001.

On February 13, 2017, all of Aircom's 27,566,670 restricted shares were converted to 10,279,738 shares of Aerkomm's restricted stock at the ratio of 2.681651 to 1, pursuant to the Exchange Agreement (see Note 1).

As of September 30, 2018 and March 31, 2018, the restricted shares consisted of the following:

	September 30, 2018	March 31, 2018
Restricted stock - vested	9,011,863	10,269,376
Restricted stock - unvested	1,267,875	10,362
Total restricted stock	10,279,738	10,279,738

The unvested shares of restricted stock were recorded under a deposit liability account awaiting future conversion to common stock when they become vested. For the six-month period ended September 30, 2018, the reporting for 1,267,875 shares previously reported as vested was changed to reflect their actual status as unvested shares, to correct an incorrect presentation in previous periods.

On May 14, 2018, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Boustead Securities, LLC ("Boustead") in connection with the public offering, issuance and sale of up to 7,058,823 shares of the Company's common stock on a best efforts basis, with a minimum requirement of 588,235 shares, at the public offering price of \$8.50 per share, less underwriting discounts, for minimum gross proceeds \$5,000,000 and up to a maximum of \$60,000,000. As of September 30, 2018, pursuant to the Underwriting Agreement, the Company had issued an aggregate of 5,124,811 shares of common stock for gross proceeds of \$43,560,894, or net proceeds of \$39,810,204.

3) Stock Warrant:

The Company has entered into a service agreement which provides for the issuance of warrants to purchase shares of its common stock to a service provider as payment for services. The warrants allow the service provider to purchase a number of shares of Aerkomm common stock equal to the service fee value divided by 85% of the share price paid by investors for Aerkomm's common stock in the first subsequent qualifying equity financing event, at an exercise price of \$0.01 per share. For the six-month period ended September 30, 2018, Aerkomm has issued additional stock warrants exercisable for \$30,000 in value of Aerkomm common stock to the service provider as payment for additional services. As of September 30, 2018, the Company cumulatively recorded \$176,667 as additional paid-in capital in total with respect to these warrants, which is equivalent to 24,452 shares of the Company's common stock.

In connection with the Underwriting Agreement with 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 \$10.625 per share, which is equal to 125% offering price paid by investors. As of September 30, 2018, the Company issued warrants to Boustead to purchase 307,489 shares of the Company's stock.

NOTE 10 – Major Customer

The Company has one major customer, which represents 10% or more of the total sales of the Company for the period. Sales to and account receivable from the customer for the six-month period ended and as of September 30, 2018 was \$1,730,000.

NOTE 11 – Major Vendor

The Company has one major vendor, which represents 10% or more of the total purchases of the Company for the period. Purchases from and account payable to the customer for the six-month period ended and as of September 30, 2018 was \$1,650,000.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 12 – Related Party Transactions

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

Related Party	Relationship
Daniel Shih *	Co-founder and ex-shareholder; Aircom’s CEO and Director between February 13, 2017 and April 26, 2017; Aircom’s CFO between February 13, 2017 and May 5, 2017
Dmedia Holding LP (“Dmedia”)	23.925% shareholder
Yih Lieh (Giretsu) Shih	President of Aircom Japan
Louis Giordimanina	Employee of Aircom
Klingon Aerospace, Inc. (“Klingon”)	Daniel Shih was the Chairman from February 2015 to February 2016
Wealth Wide Int’l Ltd. (“WWI”)	Bummy Wu, a shareholder, is the Chairman
WISD Intellectual Property Agency, Ltd. (“WISD”)	Patrick Li, Director of Aircom, is the Chairman; Chih-Ming (Albert) Hsu, Director of the Company, is a Director

* Daniel Shih has relinquished “beneficial ownership” of substantially all of his equity interests in the Company (whether held directly or indirectly) in a manner acceptable to the Company. This means that Daniel Shih no longer, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares (i) voting power, which includes the power to vote, or to direct the voting of, securities, and/or (ii) investment power, which includes the power to dispose, or to direct the disposition of, shares of our common stock, except for a *de minimus* number of shares of the common stock which will continue to be beneficially owned by him by way of his being a control person in another entity that owns shares of the common stock. Daniel Shih will, however, retain a pecuniary interest in some of the shares of the common stock over which he has relinquished voting and investment power. Daniel Shih has also removed himself from any and all activities relating to the Company’s business, including, but not limited to managerial, directional, advisory, promotional, developmental and fund-raising activities, effective upon the effectiveness of the registration statement on Form S-1 originally filed with the SEC on December 20, 2017 and declared effective on April 13, 2018, as amended and supplemented to date. Additionally, Barbie Shih (Barbie), Daniel Shih’s wife, was not re-elected to our board of directors on December 29, 2017. As a result of these events, neither Daniel nor Barbie will maintain any active affiliation with, or material beneficial ownership interest in, the Company.

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.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 12 – Related Party Transactions – Continued

a. As of September 30, 2018 and March 31, 2018,

	<u>September 30, 2018</u>	<u>March 31, 2018</u>
Rental deposit to Daniel Shih	\$ 2,379	\$ 2,542
Loan from Dmedia ¹	\$ -	\$ 325,040
Other payable to:		
Klingon ²	\$ 762,000	\$ 762,000
Louis Giordimanina	45	135,973
Daniel Shih ³	5,287	132,305
Yih Lieh (Giretsu) Shih ⁴	-	81,752
WWI ⁵	39,341	38,241
Others ⁴	61,406	149,307
Total	<u>\$ 868,079</u>	<u>\$ 1,299,578</u>

1. Represents short-term loan from Dmedia. This short-term loan will expire on January 30, 2019 with an annual interest rate of 3%. The Company repaid the short-term loan in full on June 14, 2018.
2. On March 9, 2015, the Company entered into a 10-year purchase agreement with Klingon. In accordance with the terms of this agreement, Klingon agreed to purchase from the Company an initial order of onboard equipment comprising an onboard system for a purchase price of \$909,000, with payments to be made in accordance with a specific milestones schedule. As of September 30, 2018, the Company received \$762,000 from Klingon in milestone payments towards the equipment purchase price. Since the project might not be successful, the Company reclassified the balance from customer prepayment to other payable due to uncertainty.
3. The amount as of March 31, 2018 represents payable to employees as a result of regular operating activities, while the amount as of September 30, 2018 represents rental payable.
4. Represents payable to employees as a result of regular operating activities.
5. Represents rent for a warehouse in Hong Kong to store the Company's hardware.

b. For the three-month and six-month periods ended September 30, 2018 and 2017,

	<u>Three Months Ended September 30,</u>		<u>Six Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Consulting expense paid to Louis Giordimanina	\$ -	\$ -	\$ 87,275	\$ -
Legal expense paid to WISD	9,387	-	10,779	-
Rental expense charged by Daniel Shih	3,922	30,690	7,930	34,335
Rental expense charged by WWI	14,706	1,800	16,040	1,800
Interest expense charged by Dmedia	-	-	1,915	-

On May 25, 2018, Mr. Louis Giordimanina was converted from a consultant to a full-time employee and was appointed as Chief Operating Officer – Aviation. The consulting expense paid for the six-month ended September 30, 2018 in the amount of \$87,250 represents the consulting services provided prior to the conversion.

Aircom Japan entered into a lease agreement with Daniel Shih, between August 1, 2014 and July 31, 2016, which was renewed on July 31, 2018. Pursuant to the terms of this lease agreement, Aircom Japan pays Daniel Shih a rental fee of approximately \$1,200 per month.

Aircom engaged WISD to handle its filing of patent and trademark applications.

The Company has a lease agreement with WWI with monthly rental cost of \$450. The lease term is from June 1, 2017 to May 31, 2018 and the lease was not renewed.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 13 – 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 provides for the granting of incentive stock options and non-statutory stock options to employees, consultants and outside directors of Aircom. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the Administrator at the time of grant of an Option. 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 5,444,407 shares to Aircom's stock option holders.

One-third of Aircom 2014 Plan 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 Plan became effective upon its adoption by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aircom 2014 Plan.

On May 5, 2017, the Board of Directors of Aerkomm adopted the Aerkomm Inc. 2017 Equity Incentive Plan (the "Aerkomm 2017 Plan") and the reservation of 5,000,000 shares of the Company's common stock for issuance under the Aerkomm 2017 Plan. On June 23, 2017, the Board of Directors voted to increase the number of shares of the Company's common stock reserved for issuance under the Aerkomm 2017 Plan to 10,000,000 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. Options granted under the Aerkomm 2017 Plan may be Incentive Stock Options or Nonstatutory Stock Options, as determined by the administrator at the time of grant of an option. On June 23, 2017, the Board of Directors agreed to issue options for an aggregate of 1,455,000 shares under the Aerkomm 2017 Plan to certain officers and directors of the Company.

The option agreements granted on June 23, 2017 are classified into three types of vesting schedule, which includes, 1) 1/6 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/60 for the next 60 months on the same day of the month as the vesting start date; 2) 1/4 of the shares subject to the option shall vest commencing on the vesting start date and the remaining shares shall vest at the rate of 1/36 for the next 36 months on the same day of the month as the vesting start date; 3) 1/3 of the shares subject to the option shall vest commencing on the first anniversary of vesting start date and the remaining shares shall vest at the rate of 50% each year for the next two years on the same day of the month as the vesting start date.

On July 31, 2017, the Board of Directors approved to issue options for an aggregate of 545,000 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 60,000 shares under the Aerkomm 2017 Plan to three of the Company's independent directors, 20,000 shares each. All of these options were vested immediately upon issuance.

On June 19, 2018, the Board of Directors approved to issue options for 160,000 and 150,000 shares under the Aerkomm 2017 Plan to two of the Company executives. One-fourth of the 160,000 shares subject to the option shall vest on May 1, 2019, May 1, 2020, May 1, 2021 and May 1, 2020, respectively. One-third of the 150,000 shares subject to the option shall vest on 5/29/2019, 5/29/2020 and 5/29/2021, respectively.

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

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 13 – Stock Based Compensation – Continued

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 \$402,876 and \$343,835 for the three months ended September 30, 2018 and 2017, respectively, and \$786,334 and \$1,127,835 for the six months ended September 30, 2018 and 2017, respectively, related to such employee stock options.

Determining Fair Value

Valuation and amortization method

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

Expected term

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

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 Aircom 2014 Plan and Aerkomm 2017 Plan.

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 Aircom 2014 Plan and Aerkomm 2017 Plan.

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 2018 and 2017 under Aircom 2014 Plan and Aerkomm 2017 Plan as follows:

Assumptions

Expected term	3 - 5 years
Expected volatility	40.11% - 59.94%
Expected dividends	0%
Risk-free interest rate	0.71 - 2.99%
Forfeiture rate	0% - 5%

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 13 – Stock Based Compensation - Continued

Aircom 2014 Plan

A summary of the number of shares, weighted average exercise price and estimated fair value of options for Aircom 2014 Plan as of September 30, 2018 and March 31, 2018 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at April 1, 2017	5,444,407	\$ 0.1617	\$ 0.0508
Granted	-	-	-
Exercised	(19,681)	0.0013	0.0004
Forfeited/Cancelled	(763,418)	0.6550	0.2059
Options outstanding at March 31, 2018	<u>4,661,307</u>	0.0816	0.0256
Granted	-	-	-
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at September 30, 2018	<u><u>4,661,307</u></u>	0.0816	0.0256
Options exercisable at March 31, 2018	<u>3,407,933</u>	0.0440	0.0138
Options exercisable at September 30, 2018	<u><u>3,956,932</u></u>	0.0704	0.0221

A summary of the status of nonvested shares under Aircom 2014 Plan as of September 30, 2018 and March 31, 2018 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options nonvested at April 1, 2017	2,843,138	\$ 0.2870
Granted	-	-
Vested	(826,346)	0.1043
Forfeited/Cancelled	(763,418)	0.6550
Options nonvested at March 31, 2018	<u>1,253,374</u>	0.1838
Granted	-	-
Vested	(548,999)	0.1150
Forfeited/Cancelled	-	-
Options nonvested at September 30, 2018	<u><u>704,375</u></u>	<u><u>0.1340</u></u>

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 13 – Stock Based Compensation - Continued

Aerkomm 2017 Plan

A summary of the number of shares, weighted average exercise price and estimated fair value of options under Aerkomm 2017 Plan as of September 30, 2018 and March 31, 2018 were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at April 1, 2017	-	\$ -	\$ -
Granted	2,060,000	5.9154	3.2397
Exercised	(1,035,000)	5.5000	3.2922
Forfeited/Cancelled	-	-	-
Options outstanding at March 31, 2018	1,025,000	6.3349	3.7904
Granted	330,000	4.1600	2.0416
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at September 30, 2018	<u>1,355,000</u>	5.8052	3.3645
Options exercisable at March 31, 2018	<u>204,375</u>	5.6468	3.5168
Options exercisable at September 30, 2018	<u>549,514</u>	6.0367	3.5622

A summary of the status of nonvested shares under Aerkomm 2017 Plan as of September 30, 2018 and March 31, 2018 were as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Options nonvested at April 1, 2017	-	\$ -
Granted	2,060,000	5.9154
Vested	(444,375)	5.5675
Forfeited/Cancelled	(795,000)	5.5000
Options nonvested at March 31, 2018	820,625	6.5062
Granted	330,000	4.1600
Vested	(345,139)	6.2676
Forfeited/Cancelled	-	-
Options nonvested at September 30, 2018	<u>805,486</u>	5.6473

As of September 30, 2018 and March 31, 2018, there were approximately \$2,397,000 and \$1,756,000, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under Aircom 2014 Plan and Aerkomm 2017 Plan. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures. The Company expects to recognize that cost over a weighted average period of 1 - 5 years.

AERKOMM INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 14 – Commitments and Contingency

As of September 30, 2018, the Company's significant commitments with non-related parties and contingency are summarized as follows:

Commitments

- 1) The Company's lease for its office in Fremont, California expires in May 2020. Rental expense for the three-month periods ended September 30, 2018 and 2017 were \$19,338 and \$19,338, respectively, and were \$37,401 and \$36,196 for the six-month periods ended September 30, 2018 and 2017, respectively. As of September 30, 2018, future minimum lease payment is \$77,352 for the next twelve-month period ending September 30, 2019.
- 2) The Company has another lease for its Japan office expiring June 2020. Rental expense for the three-month periods ended September 30, 2018 and 2017 were \$8,597 and \$8,256, respectively, and were \$17,194 and \$17,335 for the six-month periods ended September 30, 2018 and 2017, respectively. As of September 30, 2018, future minimum lease payment obligation is \$34,387, including the 8% Japan consumption tax, for the next twelve-month period ending September 30, 2019.
- 3) The Company assumed a lease for its Taiwan office expiring October 31, 2018 as a result of the acquisition of Aircom Taiwan. Rental expense was approximately \$22,160 and \$0 for the three-month periods ended September 30, 2018 and 2017, respectively, and were \$45,160 and \$0 for the six-month periods ended September 30, 2018 and 2017, respectively. Aircom Taiwan is currently negotiating the renewal contract. As of September 30, 2018, future minimum lease payment obligation is estimated to be approximately \$30,000 for the next twelve-month period ending September 30, 2019.
- 4) On June 20, 2018, the Company entered into a Cooperation Framework Agreement (the "Yihe Framework Agreement") with Shenzhen Yihe Culture Media Co., Ltd. ("Yihe"), the authorized agent of Guangdong Tengen Internet, pursuant to which Yihe will promote the development of strategic cooperation between the Company and Guangdong Tengen Internet. Specifically, Yihe agreed to assist the Company with public relations and advertising, such as market and brand promotion, as well as brand recognition in China (excluding Hong Kong, Macao and Taiwan), including but not limited to news dissemination, creative planning and support of campaigns, financial public relations and internet advertising. More specifically, Yihe will help the Company develop a working application of the WeChat Pay payment solution as well as WeChat applets applicable for Chinese users and relating to cell phone and WiFi connectivity on airplanes, and Yihe will assist the Company in integrating other Tencent internet-based original product offerings. As compensation, the Company agreed to pay Yihe RMB 8 million (approximately US\$1.2 million), with RMB 2,000,000 (approximately US\$309,000) paid on June 29, 2018 and the remaining RMB 6,000,000 (approximately US\$927,000) to be paid by August 15, 2018. However, the Company is currently working with Yihe to postpone the project as well as the remaining payment.
- 5) On July 10, 2018, concurrent with the execution of the real estate sales contract as disclosed in Note 5 above, the Company and Aerkomm Taiwan entered into a separate binding letter of commitment with Metro Investment Group Limited ("MIGL"), pursuant to which the Company and Aerkomm Taiwan have agreed to pay MIGL an agent commission of four percent (4%) of the full purchase price, equivalent to NT\$42,252,900, or approximately US\$1,387,160 at the current exchange rate, for MIGL's services provided with respect to the acquisition pursuant to such sales contract. This commission must be paid to MIGL no later than 90 days following the signing of the sales contract and payment in full of the purchase price. If there is a delay in payment of this commission, the Company and Aerkomm Taiwan shall be responsible to MIGL 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, this commission is due and payable upon signing of the commitment letter even if the sales contract is cancelled for any reason and the acquisition is not completed.

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

Use of Terms

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

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 company's future results, performance, liquidity, financial condition, prospects and opportunities and are based upon information currently available to our company and our management 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;
- 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 offerings and bring them to market in a timely manner;
- 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 company's 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 Registration Statement on Form S-1, as amended and supplemented to date (file no. 333-222208), 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 company's 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

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

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

To complement and facilitate our planned IFEC service offerings, we intend to build satellite ground stations and related data centers within the geographic regions where we expect to be providing IFEC airline services. Initially, we are planning to build our first ground station and data center in the Asia region, subject to the availability of sufficient capital and an appropriate ground location.

Principal Factors Affecting Financial Performance

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

- 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 number of aircraft in service in our markets, including consolidation of the airline industry or changes in fleet size by one or more of our commercial airline partners;
- the economic environment and other trends that affect both business and leisure travel;
- continued demand for connectivity and proliferation of Wi-Fi enabled devices, including smartphones, tablets and laptops;
- our ability to obtain required telecommunications, aviation and other licenses and approvals necessary for our operations; and
- changes in laws, regulations and interpretations affecting telecommunications services and aviation, including, in particular, changes that impact the design of our equipment and our ability to obtain required certifications for our equipment.

Emerging Growth Company

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

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

- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO's compensation to median employee compensation.

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

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

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

Recent Developments

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. During the three-month period ended September 30, 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, during the three-month period ended September 30, 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.

Results of Operations

Comparison of Three Months Ended September 30, 2018 and 2017

The following table sets forth key components of our results of operations during the three-month periods ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Change	
	2018	2017	\$	%
Sales	\$ 1,745,000	\$ -	\$ 1,745,000	100.0%
Cost of sales	1,650,000	-	1,650,000	100.0%
Operating expenses	2,594,500	1,398,590	1,195,910	85.5%
Loss from operations	(2,499,500)	(1,398,590)	(1,100,910)	78.7%
Net non-operating income (loss)	1,427	(998)	2,425	(243.0)%
Loss before income taxes	(2,498,073)	(1,399,588)	(1,098,485)	78.5%
Income tax expense	-	4,453	(4,453)	(100.0)%
Net Loss	(2,498,073)	(1,404,041)	(1,093,032)	77.9%
Other comprehensive gain (loss)	2,474	(242)	2,716	1,122.3%
Total comprehensive loss	\$ (2,495,599)	\$ (1,404,283)	\$ (1,091,316)	77.7%

Sales. Our sales were \$1,745,000 and \$0 for the three-month periods ended September 30, 2018 and 2017. The Sales for the 3-month ended September 30, 2018 represents sales of ground-based satellite connectivity server terminal in the amount of \$1,730,000 and remote island resort ground antenna connectivity service income in the amount of \$15,000 from our wholly own subsidiary Aircom Taiwan.

Cost of sales. Our cost of sales was \$1,650,000 and \$0 for the three-month periods ended September 30, 2018 and 2017. The cost of sales for the three-month ended September 30, 2018 represents the cost of computer server module sold by our subsidiary Aircom Taiwan.

Operating expenses. Our operating expenses increased by \$1,195,910 to \$2,594,500 for the three-month period ended September 30, 2018, from \$1,398,590 for the three-month period ended September 30, 2017. Such increase was mainly due to the increase in consulting fees, payroll and related expenses and R&D expense of \$373,396, \$168,183 and \$333,270, respectively. The increase in consulting fee was mainly related to the ongoing public offering.

Net non-operating income (loss). We had \$1,427 in net non-operating income for the three-month period ended September 30, 2018, as compared to net non-operating loss of \$998 for the three-month period ended September 30, 2017. Net non-operating income in the three-month period ended September 30, 2018 represents gain on foreign exchange of \$1,427, while net non-operating income in the three-month period ended September 30, 2017 includes a foreign exchange translation gain of \$929.

Loss before income taxes. Our loss before income taxes increased by \$1,098,485 to \$2,498,073 for the three-month period ended September 30, 2018, from a loss of \$1,399,588 for the three-month period ended September 30, 2017, as a result of the factors described above.

Income tax expense. Income tax expense was \$0 for the three-month period ended September 30, 2018, as compared to an income taxes expense of \$4,453 for the three-month period ended September 30, 2017. The income tax expense for the three-month period ended September 30, 2017 was mainly due to foreign subsidiary's income tax expenses.

Total comprehensive loss. As a result of the cumulative effect of the factors described above, our total comprehensive loss increased by \$1,091,316 to \$2,495,599 for the three-month period ended September 30, 2018, from a total comprehensive loss of \$1,404,283 for the three-month period ended September 30, 2017.

Comparison of Six Months Ended September 30, 2018 and 2017

The following table sets forth key components of our results of operations during the six-month periods ended September 30, 2018 and 2017.

	Six Months Ended		Change	
	September 30,		\$	%
	2018	2017		
Sales	\$ 1,745,000	\$ -	\$ 1,745,000	100.0%
Cost of sales	1,650,000	-	1,650,000	100.0%
Operating expenses	4,730,085	3,821,775	908,310	23.8%
Loss from operations	(4,635,085)	(3,821,775)	(813,310)	21.3%
Net non-operating income (loss)	6,881	(363)	7,244	1,995.6%
Loss before income taxes	(4,628,204)	(3,822,138)	(806,066)	21.1%
Income tax expense	-	7,504	(7,504)	(100.0)%
Net Loss	(4,628,204)	(3,829,642)	(798,562)	20.9%
Other comprehensive loss	(4,142)	(249)	(3,893)	1,563.5%
Total comprehensive loss	<u>\$ (4,632,346)</u>	<u>\$ (3,829,891)</u>	<u>\$ (802,455)</u>	<u>21.0%</u>

Sales. Our sales were \$1,745,000 and \$0 for the six-month periods ended September 30, 2018 and 2017. The Sales for the 6-month ended September 30, 2018 represents sales of ground-based satellite connectivity server terminal in the amount of \$1,730,000 and remote island resort ground antenna connectivity service income in the amount of \$15,000 from our wholly own subsidiary Aircom Taiwan.

Cost of sales. Our cost of sales was \$1,650,000 and \$0 for the six-month periods ended September 30, 2018 and 2017. The cost of sales for the three-month ended September 30, 2018 represents the cost of computer server module sold by our subsidiary Aircom Taiwan.

Operating expenses. Our operating expenses increased by \$908,310 to \$4,730,085 for the six-month period ended September 30, 2018, from \$3,821,775 for the six-month period ended September 30, 2017. Such increase was mainly due to the increase in consulting fees, investor relation fees and payroll and related expenses of \$834,809, \$289,950 and \$196,250, respectively, which was offset by the decrease in accounting fees and stock-based compensation expense of \$226,868 and \$341,501, respectively.

Net non-operating income (loss). We had \$6,881 in net non-operating income for the six-month period ended September 30, 2018, as compared to net non-operating loss of \$363 for the six-month period ended September 30, 2017. Net non-operating income in the six-month period ended September 30, 2018 represents interest expense of \$2,038 and gain on foreign exchange of \$8,869, while net non-operating income in the six-month period ended September 30, 2017 represents loss on foreign exchange of \$1,256 and other income of \$918.

Loss before income taxes. Our loss before income taxes increased by \$806,066 to \$4,628,204 for the six-month period ended September 30, 2018, from a loss of \$3,822,138 for the six-month period ended September 30, 2017, as a result of the factors described above.

Income tax expense. Income tax expense was \$0 for the six-month period ended September 30, 2018, as compared to an income taxes expense of \$7,504 for the six-month period ended September 30, 2017. The income tax expense for the six-month period ended September 30, 2017 was mainly due to California franchise tax and foreign subsidiary's income tax expenses.

Total comprehensive loss. As a result of the cumulative effect of the factors described above, our total comprehensive loss increased by \$802,455 to \$4,632,346 for the six-month period ended September 30, 2018, from a total comprehensive loss of \$3,829,891 for the six-month period ended September 30, 2017.

Liquidity and Capital Resources

As of September 30, 2018, we had cash and cash equivalents of \$876,773. To date, we have financed our operations primarily through cash proceeds from financing activities, short-term borrowings and equity contributions by our stockholders.

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

Cash Flow

	Six Months Ended	
	September 30,	
	2018	2017
Net cash used for operating activities	\$ (6,617,750)	\$ (988,992)
Net cash used for investing activity	(34,346,931)	(379,968)
Net cash provided by financing activity	41,807,359	884,935
Net increase (decrease) in cash and cash equivalents	842,678	(484,025)
Cash at beginning of period	58,237	490,840
Foreign currency translation effect on cash	(4,142)	(249)
Cash at end of period	\$ 896,773	\$ 6,566

Operating Activities

Net cash used for operating activities was \$6,617,750 for the six months ended September 30, 2018, as compared to \$988,992 for the six months ended September 30, 2017. In addition to the net loss of \$4,628,204, the increase in net cash used for operating activities during the six-month period ended September 30, 2018 was mainly due to increase in accounts receivable, prepaid expenses, decrease in accrued expenses, other payable – related parties, and other payable of \$1,745,000, \$1,205,700, \$725,302, \$431,499 and \$1,174,533, respectively, offset by the increase in accounts payable of \$1,650,000. In addition to the net loss of \$3,829,642, the increase in net cash used for operating activities during the six-month period ended September 30, 2017 was mainly due to increase in prepaid expenses of \$211,535 and offset by the decrease in deposits - others, increase in accrued expenses and other payable – others of \$679,874, \$383,203 and \$439,445, respectively.

Investing Activities

Net cash used for investing activities for the six months ended September 30, 2018 was \$34,346,931 as compared to \$379,968 for the six months ended September 30, 2017. The net cash used for investing activities for the six months ended September 30, 2018 was mainly due to the \$33.85 million prepayment toward the purchase of a parcel of land to build our first satellite ground station and data center. We also used \$496,931 for the purchase of property and equipment. The net cash used for investing activities for the six months ended September 30, 2017 was mainly due to the prepaid investment and acquisition of property and equipment of \$100,000 and 279,968, respectively.

Financing Activities

Net cash provided by financing activities for the six months ended September 30, 2018 and 2017 was \$41,807,359 and \$884,935, respectively. These net cash amounts provided by financing activities were mainly attributable to proceeds from the issuance of our common stock and stock warrants through the ongoing public offering in the amount of \$41,262,899 and 879,500, respectively, which was offset by the repayment of short-term bank loan and short-term loans from affiliates in the amount \$10,000 and \$325,040, respectively, for the six months ended September 30, 2018 and issuance of our common stock and proceeds from subscribed capital in the amount of \$300,022 and \$544,913 for the six months ended September 30, 2017.

On May 14, 2018, we entered into an underwriting agreement with Boustead Securities, LLC in connection with the public offering, issuance and sale of up to 7,058,823 shares of our common stock on a best efforts basis, with a minimum requirement of 588,235 shares, at the public offering price of \$8.50 per share, less underwriting discounts, for minimum gross proceeds \$5,000,000 and up to a maximum of \$60,000,000. We also granted Boustead Securities, LLC an over-subscription option, exercisable on or prior to the offering termination date to extend the offering for an additional 45 days, pursuant to which we may sell up to 1,058,823 additional shares of the common stock at the public offering price, less underwriting discounts. The material terms of this offering are described in the prospectus, dated May 14, 2018, filed by us with the Securities and Exchange Commission, or the SEC, on May 14, 2018 pursuant to Rule 424(b) under the Securities Act of 1933, as amended, or the Securities Act. This offering is registered with the SEC pursuant to a Registration Statement on Form S-1, as amended and supplemented to date (File No. 333-222208), initially filed by us on December 20, 2017.

As of September 30, 2018, we held 11 closings of this offering, pursuant to which we issued and sold an aggregate of 5,124,811 shares of common stock for gross proceeds of approximately \$43.6 million, or net proceeds of approximately \$39.8 million after underwriting discounts, commissions and offering expenses payable by us. Additional closings of this offering may be held from time to time until the offering's current termination date, January 4, 2019.

Currently available working capital will not be adequate to sustain our operations at our current levels for the next twelve months. We expect to satisfy our working capital requirements over the next twelve months through the sale of equity or debt securities. However, we do not have any commitment from any third-party to invest in our company or otherwise acquire any of our equity or debt securities and there can be no assurances that we will be able to secure any such commitments. Furthermore, even if we successfully raise sufficient capital to satisfy our needs over the next twelve months, in the future, we will require additional cash resources due to changed business conditions, implementation of our strategy to expand our business or other investments or acquisitions we may decide to pursue. If our own financial resources are insufficient to satisfy our capital requirements, we may 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.

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 six months ended September 30, 2018 and 2017 were \$35,022,101 and \$193, respectively.

We anticipate an increase in capital spending in our fiscal year ended March 31, 2019 and estimate that capital expenditures will range from \$6 million to \$60 million as we begin airborne equipment installations and continue to execute our expansion strategy.

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:

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 six-month periods ended September 30, 2018 and 2017, we incurred approximately \$675,000 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 method 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 six months ended September 30, 2018 and 2017.

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

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

Leases. In February 2016, the FASB issued ASU No. 2016-02, "Leases" (Topic 842), or 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 under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the timing of its adoption and the impact of adopting ASU 2016-02 on our consolidated financial statements.

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(e) of the Exchange Act, our management has carried out an evaluation, with the participation and under the supervision of our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as of September 30, 2018.

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 Transition Report on Form 10-KT filed on April 30, 2018 for the transition period from January 1, 2018 through March 31, 2018 and further referenced below, which we are still in the process of remediating as of September 30, 2018, our disclosure controls and procedures were not effective.

Changes in Internal Control Over Financial Reporting

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

During its evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2018, 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.

As disclosed in our Transition Report on Form 10-KT filed on April 30, 2018, our management has identified the steps necessary to address the material weaknesses, and in the quarter ended September 30, 2018, we continued to implement the following remedial procedures:

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

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

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

Other than in connection with the implementation of the remedial measures described above, there were no changes in our internal controls over financial reporting during quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There were no material developments during the quarter ended September 30, 2018 to the legal proceedings previously disclosed in Item 3 “Legal Proceedings” of our Transition Report on Form 10-KT filed on April 30, 2018.

ITEM 1A. RISK FACTORS.

For information regarding risk factors, please refer to our prospectus dated May 14, 2018 contained in our Post-Effective Amendment No. 1 to our Registration Statement on Form S-1, filed with the SEC on May 3, 2018, and our Quarterly Report on Form 10-Q for the period ended June 30, 2018 filed with the SEC on August 14, 2018.

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

We have not sold any equity securities during the quarter ended September 30, 2018 that were not previously disclosed in a current report on Form 8-K that was filed during the quarter.

During the three-month period ended September 30, 2018, we did not repurchase any shares of our common stock.

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 quarter ended September 30, 2018 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 the Company and Maple Tree Kids LLC (incorporated by reference to Exhibit 2.1 to the Company’s Registration Statement on Form S-1 filed on November 5, 2013)
2.2	Form of Share Exchange Agreement, dated February 13, 2017, among the Registrant, Aircom Pacific, Inc. and the shareholders of Aircom Pacific, Inc. (incorporated by reference to Exhibit 2.2 to the Company’s Current Report on Form 8-K filed on February 14, 2017)
3.1	Restated Articles of Incorporation of the Company (incorporated by reference to Exhibit 2.2 to the Company’s Current Report on Form 8-K filed on May 4, 2017)
3.2	Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company’s Form 8A-12G filed on April 19, 2018)
10.1	Amendment No.2 to Underwriting Agreement, dated November 5, 2018, between Aerkomm Inc. and Boustead Securities, LLC (incorporated by reference to Exhibit 1.3 to the Company’s Current Report on Form 8-K filed on November 5, 2018)
10.2	Amendment No. 3, dated November 2, 2018, to Real Estate Sales Contract dated July 10, 2018 by and between the Registrant and Tsai Ming-Yin (Official Chinese Version) (incorporated by reference to Exhibit 10.7 to the Company’s Current Report on Form 8-K filed on November 5, 2018)
10.3	Amendment No. 3, dated November 2, 2018, to Real Estate Sales Contract dated July 10, 2018 by and between the Registrant and Tsai Ming-Yin (Unofficial English Translation) (incorporated by reference to Exhibit 10.8 to the Company’s Current Report on Form 8-K filed on November 5, 2018)
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2018

AERKOMM INC.

/s/ Jeffrey Wun

Name: Jeffrey Wun
Title: Chief Executive Officer
(Principal Executive Officer)

/s/ Y. Tristan Kuo

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

CERTIFICATIONS

I, Jeffrey Wun, certify that:

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

Date: November 14, 2018

/s/ Jeffrey Wun

Jeffrey Wun

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS

I, Y. Tristan Kuo, certify that:

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

Date: November 14, 2018

/s/ Y. Tristan Kuo

Y. Tristan Kuo

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

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

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (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 14th day of November, 2018

/s/ Jeffrey Wun

Name: Jeffrey Wun

Title: 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.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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

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

1. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (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 14th day of November, 2018.

/s/ Y. Tristan Kuo

Name: Y. Tristan Kuo

Title: 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.

The forgoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.