

AERKOMM INC.

FORM 10-Q (Quarterly Report)

Filed 11/20/17 for the Period Ending 09/30/17

Address	44043 FREMONT BLVD. FREMONT, CA, 94538
Telephone	877-742-3094
CIK	0001590496
Symbol	AKOM
SIC Code	4899 - Communications Services, Not Elsewhere Classified
Industry	Apparel & Accessories Retailers
Sector	Consumer Cyclical
Fiscal Year	12/31

**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, 2017

☐ **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: 333-192093

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 ☐ (Do not check if a smaller reporting company)

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, 2017, there were 41,076,330 shares of common stock of the registrant issued and outstanding.

AERKOMM INC.

Quarterly Report on Form 10-Q
Period Ended September 30, 2017

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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

AERKOMM INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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AERKOMM INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets

	September 30, 2017 (unaudited)	December 31, 2016
<u>Assets</u>		
Current Assets		
Cash	\$ 6,566	\$ 312,173
Inventories	208,674	209,729
Prepaid expenses	482,390	11,784
Other receivable	440,223	891
Total Current Assets	<u>1,137,853</u>	<u>534,577</u>
Prepaid investment	460,000	-
Property and Equipment, Net	3,572,422	3,745,092
Intangible asset, net	4,001,250	4,372,500
Goodwill	1,105,942	1,105,942
Other assets	126,497	806,371
Total Assets	<u>\$ 10,403,964</u>	<u>\$ 10,564,482</u>
<u>Liabilities and Equity</u>		
Current Liabilities		
Short-term bank loan	\$ 10,000	\$ -
Accrued expenses	498,106	71,978
Other payable - related parties	899,268	2,955,575
Other payable - others	2,286,068	1,671,269
Total Current Liabilities	<u>3,693,442</u>	<u>4,698,822</u>
Restricted stock deposit liability	453	3,342
Total Liabilities	<u>3,693,895</u>	<u>4,702,164</u>
Commitments and Contingency		
Stockholders' Equity		
Preferred stock, \$0.001 par value Authorized - 50,000,000 shares Issued and outstanding - none	-	-
Common stock, \$0.001 par value Authorized - 450,000,000 shares Issued and outstanding – 40,758,328 (excluding unvested restricted stock of 337,683) shares as of September 30, 2017	40,758	-
Common stock, no par value Authorized – 210,000,000 shares Issued and outstanding - 98,720,060 (excluding unvested restricted stock of 6,683,340 shares) shares as of December 31, 2016 (See Note 1)	-	4,470,839
Additional paid in capital	10,860,030	80,000
Subscribed capital	544,913	1,862,643
Accumulated deficits	(4,732,026)	(551,204)
Accumulated other comprehensive loss	(3,606)	(10)
Total Stockholders' Equity	<u>6,710,069</u>	<u>5,862,268</u>
Non-controlling interest in subsidiary	-	50
Total Equity	<u>6,710,069</u>	<u>5,862,318</u>
Total Liabilities and Equity	<u>\$ 10,403,964</u>	<u>\$ 10,564,482</u>

See accompanying notes to the condensed consolidated financial statements.

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

	Three-Month Period Ended September 30,		Nine-Month Period Ended September 30,	
	2017	2016	2017	2016
Net Sales	\$ -	\$ -	\$ -	\$ -
Operating expenses	1,398,590	680,836	4,735,979	3,255,855
Loss from Operations	(1,398,590)	(680,836)	(4,735,979)	(3,255,855)
Net Non-Operating Income (Loss)	(998)	-	25,166	(89,557)
Loss before Income Taxes	(1,399,588)	(680,836)	(4,710,813)	(3,345,412)
Income Tax Expense (Benefit)	4,453	(249,000)	9,889	(816,000)
Net Loss	(1,404,041)	(431,836)	(4,720,702)	(2,529,412)
Less: Loss Attributed to Non-Controlling Interest	-	-	-	-
Net Loss Attributable to the Company	(1,404,041)	(431,836)	(4,720,702)	(2,529,412)
Other Comprehensive Loss	-	-	-	-
Change in foreign currency translation adjustments	(242)	-	(3,596)	-
Total Comprehensive Loss	<u>\$ (1,404,283)</u>	<u>\$ (431,836)</u>	<u>\$ (4,724,298)</u>	<u>\$ (2,529,412)</u>
Net Loss Per Common Share:				
Basic	<u>\$ (0.0342)</u>	<u>\$ (0.0110)</u>	<u>\$ (0.1167)</u>	<u>\$ (0.0644)</u>
Diluted	<u>\$ (0.0342)</u>	<u>\$ (0.0110)</u>	<u>\$ (0.1167)</u>	<u>\$ (0.0644)</u>
Weighted Average Shares Outstanding - Basic	<u>41,096,011</u>	<u>39,335,796</u>	<u>40,439,237</u>	<u>39,305,412</u>
Weighted Average Shares Outstanding - Diluted	<u>41,096,011</u>	<u>39,335,796</u>	<u>40,439,237</u>	<u>39,305,412</u>

See accompanying notes to the condensed consolidated financial statements.

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

	Nine-Month Period Ended September 30,	
	2017	2016
Cash Flows from Operating Activities		
Net loss	\$ (4,720,702)	\$ (2,529,412)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	413,888	387,666
Stock-based compensation	1,136,835	22,600
Issuance of stock warrant	60,000	20,000
Changes in operating assets and liabilities:		
Accounts receivable – related parties	-	3,478,900
Inventories	1,055	(97,674)
Prepaid expenses	(470,606)	116,327
Prepaid investment	(460,000)	-
Other receivable – related parties	-	(425)
Other receivable – others	(29,332)	66,180
Deposits	679,874	(387,500)
Accrued expenses	439,606	(25,888)
Other payable - related parties	(42,385)	(2,382,397)
Other payable - others	614,799	664,092
Net Cash Used for Operating Activities	(2,376,968)	(667,531)
Cash Flows from Investing Activity		
Purchase of property and equipment	(279,968)	(3,677,337)
Net Cash Used for Investing Activity	(279,968)	(3,677,337)
Cash Flows from Financing Activity		
Proceed from short-term bank loan	10,000	-
Proceeds from issuance of common stock	1,800,022	3,599,729
Proceeds from subscribed capital	544,913	750,000
Net Cash Provided by Financing Activity	2,354,935	4,349,729
Net Increase (Decrease) in Cash	(302,001)	4,861
Cash, Beginning of Period	312,173	19,498
Foreign currency translation effect on cash	(3,606)	-
Cash, End of Period	\$ 6,566	\$ 24,359
Supplemental Disclosures of Cash Flow Information:		
Non-cash operating and financing activities:		
Restricted stock deposit liability transferred to common stock	\$ 2,890	\$ 3,979
Other payable to related parties transferred to common stock	\$ 2,027,400	\$ -

See accompanying notes to the condensed consolidated financial statements.

AERCOMM INC. AND SUBSIDIARIES
Notes to Condensed 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. 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 operation. 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 operate within the territory of Japan.

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 and its subsidiaries (“the Company”) have not generated significant revenues, excluding non-recurring revenues from affiliates in 2015, and will incur additional expenses as a result of being a public reporting company. If the Company is unable to obtain additional working capital, the Company’s business may fail. As of September 30, 2017, the Company generated a net loss of \$4,724,298 and had working capital deficiency of \$2,555,589, which raises substantial doubt about its ability to continue as a going concern. Currently, the Company has taken measures that management believes will improve its financial position by financing activities, short-term borrowings and equity contributions.

AERKOMM INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements - Continued (Unaudited)

NOTE 2 – Summary of Significant Accounting Policies

Unaudited Interim Financial Information

The accompanying condensed consolidated balance sheet as of September 30, 2017, the condensed consolidated statements of operations and comprehensive loss and cash flows for the nine-month periods ended September 30, 2016 and 2017 and the consolidated statement of changes in equity for the nine-month periods ended September 30, 2017 are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2017 and results of operations and cash flows for the nine-month periods ended September 30, 2016 and 2017. The financial data and the other information disclosed in these notes to the condensed consolidated financial statements related to these nine-month periods are unaudited. The results of the nine-month periods ended September 30, 2016 and 2017 are not necessarily indicative of the results to be expected for the fiscal year ending December 31, 2017 or for any other interim period or other future year.

Reverse Acquisition

On February 13, 2017, Aerkomm completed the reverse acquisition of Aircom pursuant to the Exchange Agreement. As a result of the reverse acquisition, Aircom became Aerkomm's wholly-owned subsidiary. For accounting purposes, the share exchange transaction with Aircom was treated as a reverse acquisition, with Aircom as the acquirer and Aerkomm as the acquired party. Unless the context suggests otherwise, "the Company" referred to for the periods prior to the consummation of the reverse acquisition is Aircom and its consolidated subsidiaries.

Principle of Consolidation

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

All of the entities in these condensed consolidated financial statements have adopted fiscal year end of December 31.

Reclassifications of Prior Year Presentation

Certain prior year 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 condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the condensed 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 and accounts receivable. As of September 30, 2017 and December 31, 2016, the total balances of cash in banks were insured by the Federal Deposit Insurance Corporation (FDIC) and foreign financial institution deposits insurance.

Inventories

Inventories are recorded at the lower of weighted-average cost or market. 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.

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

NOTE 2 – Summary of Significant Accounting Policies - Continued

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 and satellite equipment – 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 non-operating income in the period of sale or disposal.

The Company reviews the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. It determined that there was no impairment loss for the nine-month periods ended September 30, 2017 and 2016.

Goodwill and Purchased Intangible Assets

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

Purchased intangible assets with finite life are amortized on the straight-line basis over the estimated useful lives of respective assets. Purchased intangible assets with indefinite life are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. As of September 30, 2017 and December 31, 2016, 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.

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

NOTE 2 – Summary of Significant Accounting Policies - Continued

Research and Development Costs

Research and development costs are charged to operating expenses as incurred. For the nine-month periods ended September 30, 2017 and 2016, the Company incurred approximately \$0 and \$1,579,000 in 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.

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 condensed financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported under other comprehensive income as a separate component of stockholder's equity.

Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share (EPS) are computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted 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 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. Basic and diluted earnings (loss) per common share presented for the nine-month period ended September 30, 2016 has taken into account the stock split in June 2016 and share exchange for reverse acquisition on February 13, 2017 (see Note 1).

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

NOTE 3 – Recent Accounting Pronouncements

Financial Instruments

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”), which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for fiscal years beginning after March 15, 2017, including interim periods within those fiscal years and for the Company in its first quarter of 2018. The Company is currently evaluating the impact of adopting ASU 2016-01 on its consolidated financial statements.

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 March 15, 2020, including interim periods within those fiscal years and for the Company in its first quarter of 2021, and early adoption is permitted. 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 March 15, 2019, and interim periods within annual periods beginning after March 15, 2020, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2017-04 on its consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation” (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. ASU 2016-09 will be effective for annual periods beginning after March 15, 2017, and interim periods within annual periods beginning after March 15, 2018 and for the Company in its first quarter of 2019, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2016-09 on its consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606) (“ASU 2014-09”), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for annual periods beginning after March 15, 2017, and interim periods within annual periods beginning after March 15, 2018 and for the Company in its first quarter of 2019, and early adoption is permitted.

Subsequently, the FASB issued the following standards related to ASU 2014-09: ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations” (“ASU 2016-08”); ASU No. 2016-10, “Revenue from Contracts with Customers” (Topic 606): Identifying “Performance Obligations and Licensing” (“ASU 2016-10”); and ASU No. 2016-12, “Revenue from Contracts with Customers” (Topic 606): “Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”).

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company currently expects to adopt the new revenue standards in its first quarter of 2019 utilizing the full retrospective transition method. The Company is currently evaluating the impact of adopting the new revenue standards on its consolidated financial statements.

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

NOTE 3 – Recent Accounting Pronouncements – Continued

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 March 15, 2018, including interim periods within those fiscal years and for the Company in its first quarter of 2019, 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 Taxes

In October 2016, FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other than Inventory” (“ASU 2016-16”), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-06 will be effective for annual reporting periods beginning after March 15, 2017 and for the Company in its first quarter of 2018. The Company is currently evaluating the impact of adopting ASU 2016-16 on its consolidated financial statements.

Business Combinations

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations” (Topic 805): Clarifying the Definition of a Business, which a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. ASU 2017-01 will be effective for annual periods beginning after March 15, 2017, and interim periods within annual periods beginning after March 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2017-01 on its consolidated financial statements.

NOTE 4 – Inventories

As of September 30, 2017 and December 31, 2016, inventories consisted of the following:

	September 30, 2017	December 31, 2016
Satellite equipment for sale under construction	\$ 197,645	\$ 197,645
Parts	15,953	11,029
Supplies	722	6,437
	214,320	215,111
Allowance for inventory loss	(5,646)	(5,382)
Net	<u>\$ 208,674</u>	<u>\$ 209,729</u>

NOTE 5 – Prepaid Investment

As of September 30, 2017, the Company had paid \$460,000 to Aircom Telecom, LLC (Aircom Taiwan), a Taiwan company not affiliated with the Company, as the pre-payment of subscribed capital. As of November 10, 2017, the investment transaction has not been finalized as it is subject to the approval of Taiwan government, which approval may not be granted.

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

NOTE 6 – Property and Equipment, Net

As of September 30, 2017 and December 31, 2016, the balances of property and equipment were as follows:

	September 30, 2017	December 31, 2016
Computer software and equipment	\$ 123,667	\$ 125,524
Furniture and fixture	10,001	3,393
Satellite equipment	275,410	-
	409,078	128,917
Accumulated depreciation	(86,656)	(43,825)
Net	322,422	85,092
Construction in progress	3,250,000	3,660,000
Net	<u>\$ 3,572,422</u>	<u>\$ 3,745,092</u>

NOTE 7 – Intangible Asset, Net

As of September 30, 2017 and December 31, 2016, the cost and accumulated amortization for intangible asset were as follows:

	September 30, 2017	December 31, 2016
Satellite system software	\$ 4,950,000	\$ 4,950,000
Accumulated amortization	(948,750)	(577,500)
Net	<u>\$ 4,001,250</u>	<u>\$ 4,372,500</u>

NOTE 8 – Short-term Bank Loan

The Company has an unsecured short-term bank credit line of \$10,000 from a local bank with an annual interest rate of 4.25% as of September 30, 2017.

NOTE 9 – Income Taxes

Income tax expense (benefit) for the three-month and nine-month periods ended September 30, 2017 and 2016 consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Current:				
Federal	\$ -	\$ (249,000)	\$ 3,033	\$ (816,000)
State	-	-	800	-
Foreign	4,453	-	6,056	-
Total	<u>\$ 4,453</u>	<u>\$ (249,000)</u>	<u>\$ 9,889</u>	<u>\$ (816,000)</u>

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 nine-month periods ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Tax benefit at statutory rate	\$ (472,974)	\$ (181,000)	\$ (1,541,054)	\$ (651,000)
Net operating loss carryforwards (NOLs)	385,320	-	1,255,500	(345,000)
Stock-based compensation expense	116,900	8,000	386,500	8,000
Amortization expense	4,500	(70,000)	(8,400)	(182,000)
Prepayment from related parties	-	-	-	383,000
Others	(29,293)	(6,000)	(82,657)	(29,000)
Tax at effective tax rate	<u>\$ 4,453</u>	<u>\$ (249,000)</u>	<u>\$ 9,889</u>	<u>\$ (816,000)</u>

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

NOTE 9 – Income Taxes – Continued

Deferred tax assets (liability) as of September 30, 2017 and December 31, 2016 consist of:

	September 30, 2017	December 31, 2016
Net operating loss carryforwards (NOLs)	\$ 2,079,000	\$ 519,000
R&D expenses	359,000	63,000
Stock-based compensation expense	387,000	8,000
Excess of tax amortization over book amortization	(926,000)	(230,000)
Others	233,000	35,000
	<u>2,132,000</u>	<u>395,000</u>
Valuation allowance	(2,132,000)	(395,000)
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. As of September 30, 2017 and December 31, 2016, the Company had federal NOLs of approximately \$4,926,000 and \$843,000, respectively, available to reduce future federal taxable income, expiring in 2037. As of September 30, 2017 and December 31, 2016, the Company had State NOLs of approximately \$5,121,000 and \$1,836,000, respectively, available to reduce future State taxable income, expiring in 2037. As of September 30, 2017, the Company has Japan NOLs of approximately \$340,000 available to reduce future Japan taxable income, expiring in 2019.

As of September 30, 2017 and December 31, 2016, the Company had approximately \$37,000 and \$37,000, of federal research and development tax credit, respectively, available to offset future federal income tax. The credit begins to expire in 2034 if not utilized. As of September 30, 2017 and December 31, 2016, the Company had approximately \$39,000 and \$39,000 of California state research and development tax credit, respectively, available to offset future California state income tax. The credit can be carried forward indefinitely.

NOTE 10 – 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, 2017, there were no preferred stock shares outstanding.

Board of Directors has the authority to issue preferred stock in one or more series, and in connection with the creation of any such series, by resolutions providing for the issuance of the shares thereof, to determine dividends, voting rights, conversion rights, redemption privileges and liquidation preferences.

2) Common Stock:

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

Aircom had restricted stock purchase agreements with certain employees or consultants with 2,890,000 shares granted on February 2, 2015. The restricted shares were issued at fair values determined by the board of directors at the grant date. According to the agreements, in the event of the voluntary termination of purchaser's continuous service status, Aircom shall have the exclusive option to repurchase all or any portion of the unvested shares held by purchaser at the original purchase price per share and the vested shares held by purchaser at the fair market value per share as of the termination date. In February and June 2016, Aircom purchased back 133,333 unvested shares of restricted stock at \$0.005 per share from terminated employees before the stock split. In June 2016, the restricted stock was split to 27,566,670 shares. On February 13, 2017, all of Aircom's restricted stock of 27,566,670 shares were converted to Aerkomm's restricted stock of 10,279,738 shares at the ratio of 2.68165 to 1, pursuant to the Exchange Agreement (see Note 1).

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

NOTE 10 – Capital Stock – Continued

As of September 30, 2017 and December 31, 2016, the restricted stock shares (after share exchange) consisted of the following:

	September 30, 2017	December 31, 2016
Restricted stock - vested	9,942,050	7,787,490
Restricted stock - unvested	337,688	2,492,248
Total restricted stock	<u>10,279,738</u>	<u>10,279,738</u>

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

On March 31, 2017, the Company completed its private placement offering of 500,000 common shares at a price of \$3 per share for the aggregate amount of \$1,500,000.

On June 6, 2017, the Company completed its private placement offering 60,000 common shares at a price of \$5.00 per share for the aggregate amount of \$300,000. Additionally, on June 6, 2017, pursuant to a settlement and release agreement with Priceplay Taiwan Inc. (“PPTW”) dated March 31, 2017, among the Company, PPTW and Aircom, the Company issued 163,860 shares of its common stock to PPTW in settlement of an outstanding \$819,300 obligation of Aircom to PPTW. Additionally, pursuant to a similar settlement and release agreement with Priceplay.com, Inc. (“PPUS”) dated March 31, 2017, the Company issued 147,400 shares of its common stock to PPUS in settlement of an outstanding \$737,000 obligation of Aircom to PPUS, and pursuant to a third similar settlement and release agreement with Aircom and dMobile System Co. Ltd. (“dMobile”), it issued 94,220 shares of its common stock to dMobile in settlement of an outstanding \$471,100 obligation of Aircom to dMobile. In the aggregate, the Company has issued 405,480 of shares to the three settlement recipients at a price of \$5.00 per share for a total value of \$2,027,400. Including the 60,000 Shares sold to individuals in the Offering, the Company issued 465,480 shares in total for an aggregate value of \$2,327,400.

On July 5, 2017, the Company completed its first closing of a private placement offering in which it sold 5,000 shares of its common stock to Daniel Shih, the Company’s founder, at a price of \$5.50 per share for a total of \$27,500. The Company conducted additional closings for a total of \$1,424,973. The Company is offering a total of 461,819 shares of its common stock at a price of \$5.50 per share in this offering for the aggregate amount of \$2,540,000 and may conduct additional closings up to that aggregate amount.

3) Stock Warrant:

As of December 31, 2016, Aircom had issued stock warrants exercisable for \$60,000 in value of its common stock to a service provider as payment for services. The stock warrants allow the service provider to purchase a number of shares of Aircom common stock equal to \$60,000 divided by 85% of the of the share price paid by investors for Aircom’s common stock in the first subsequent qualifying equity financing event, at an exercise price of \$0.01 per share. On February 13, 2017, these stock warrants were converted to Aerkomm’s stock warrants pursuant to the Exchange Agreement (see Note 1). For the nine-month period ended on September 30, 2017, Aerkomm issued additional stock warrants exercisable for \$60,000 in value of Aerkomm common stock to the service provider as payment for additional services. As of September 30, 2017, the Company cumulatively recorded \$120,000 as additional paid-in capital in total with respect to these warrants.

NOTE 11 – Related Party Transactions

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

Related Party	Relationship
Daniel Shih (“Daniel”)	Founder/promoter and shareholder; Aircom’s CEO and Director between February 13, 2017 and April 27, 2017; CFO of Aircom between February 13, 2017 and May 5, 2017
Bummy Wu	Shareholder
Giretsu Shih	President of Aircom Japan
dMobile System Co. Ltd. (“dMobile”)	Daniel is the Chairman
Klingon Aerospace, Inc. (“Klingon”)	Daniel was the Chairman from February 2015 to February 2016
Law Office of Jan Yung Lin	100% owned by Jan
Priceplay.com, Inc. (“PPUS”)	Daniel is the Chairman
Priceplay Taiwan Inc. (“PPTW”)	Parent company of PPUS
Wealth Wide International Ltd. (“WWI”)	Bummy Wu is the Chairman

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

NOTE 11 – Related Party Transactions - Continued

B. Significant related party transactions:

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

a. As of September 30, 2017 and December 31, 2016

	September 30, 2017	December 31, 2016
Rental deposit to Daniel	\$ 2,397	\$ 4,966
Other payable to:		
PPTW	\$ -	\$ 819,300
Klingon	762,000	762,000
dMobile	-	471,100
PPUS	-	737,000
Giretsu Shih	2,131	69,385
Daniel	79,602	49,500
Bummy Wu	-	32,149
W W I	1,800	-
Others	53,735	15,141
Total	\$ 899,268	\$ 2,955,575

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Legal expense paid to Law Office of Jan-Yung Lin	\$ -	\$ 10,000	\$ -	\$ 10,000
Rent expense charged by Daniel	\$ 30,690	-	\$ 37,901	-
Rent expense charged by WWI	\$ 1,800	\$ -	\$ 1,800	\$ -

Aircom Japan entered into a lease agreement with Daniel between August 1, 2014 and July 31, 2016, which was renewed to expire on July 31, 2018. Pursuant to the terms of this lease agreement, Aircom Japan pays Daniel a rental fee of approximately \$1,215 per month.

NOTE 12 – Stock Based Compensation

In March 2014, Aircom’s Board of Directors adopted the 2014 Stock Option Plan (the “Aircom 2014 Plan”), which provided 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 the total 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 has been adopted by the Board and shall continue in effect for a term of 10 years unless sooner terminated under the terms of Aircom 2014 Plan.

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

NOTE 12 – Stock Based Compensation - Continued

On May 5, 2017, the Board of Directors of Aerkomm adopted the Aerkomm Inc. 2017 Equity Incentive Plan (the “Aerkomm 2017 Plan” or, the “Plan”) and the reservation of 5,000,000 shares of the Company’s common stock for issuance under the 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 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 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 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 Aerkomm.

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. Option price is determined by the Board of Directors. The 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 Plan has not yet been approved by Aerkomm’s stockholders.

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 \$343,835 and \$22,600 for the three-month periods ended September 30, 2017 and 2016, respectively, and \$1,136,835 and \$22,600 for the nine-month periods ended September 30, 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, the Company used the calculated value method, which utilizes the historical volatility of a publicly listed company in the same industry as the expected volatility for the Company, in calculating 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.

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

NOTE 12 – Stock Based Compensation - Continued

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 2015 and 2016 under Aircom 2014 Plan and Aerkomm 2017 Plan as follows:

Assumptions

Expected term	3 - 5 years
Expected volatility	40.11 - 59.18%
Expected dividends	0%
Risk-free interest rate	0.71 - 2.30%
Forfeiture rate	0 - 5%

Aircom 2014 Plan

A summary of the number of shares, weighted average exercise price and estimated fair value of options granted under the Aircom 2014 Plan as of September 30, 2017 and December 31, 2016 was as follows:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2016	4,139,241	\$ 0.0013	\$ 0.0004
Granted	1,305,166	0.6704	0.2108
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at December 31, 2016	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 September 30, 2017	4,661,307	0.0816	0.0256

A summary of the status of nonvested shares under Aircom 2014 Plan as of September 30, 2017 and December 31, 2016 was as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Options nonvested at January 1, 2016	4,139,241	\$ 0.0004
Granted	1,305,166	0.2108
Vested	(2,066,858)	0.0004
Forfeited/Cancelled	-	-
Options nonvested at December 31, 2016	3,377,549	0.0817
Granted	-	-
Vested	(920,522)	0.0537
Forfeited/Cancelled	(763,418)	0.2059
Options nonvested at September 30, 2017	1,693,609	0.0409

Aerkomm 2017 Plan

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

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Fair Value Per Share
Options outstanding at January 1, 2017	-	\$ -	\$ -
Granted	2,000,000	5.9129	3.5246
Exercised	-	-	-
Forfeited/Cancelled	-	-	-
Options outstanding at September 30, 2017	2,000,000	\$ 5.9129	\$ 3.5246

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

NOTE 12 – Stock Based Compensation – Continued

A summary of the status of nonvested shares under Aerkomm 2017 Plan as of September 30, 2017 was as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Options nonvested at January 1, 2017	-	
Granted	2,000,000	\$ 3.5246
Vested	(303,125)	\$ 3.2922
Forfeited/Cancelled	-	-
Options nonvested at September 30, 2017	<u>1,696,875</u>	<u>\$ 3.5661</u>

As of September 30, 2017 and December 31, 2016, there were approximately \$3,630,000 and \$94,000, respectively, of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Aircom 2014 Plan and the 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.

NOTE 13 – Commitments and Contingency

As of September 30, 2017, the Company's significant commitments and contingency are summarized as follows:

Commitments

- 1) The Company has one lease for its Fremont, California office expired in May 2017 and renewed to expire in May 2020. Rental expense for the three-month and nine-month periods ended September 30, 2017 and 2016 were \$19,338 and \$51,814, \$15,618 and \$46,854, respectively. As of September 30, 2017, future minimum lease payment is \$77,352 for the next twelve-month period ending September 30, 2018.
- 2) The company has another lease for its Japan office expiring July 2018. Rental expenses were approximately \$8,658 and \$25,974 for the three-month and nine-month period ended September 30, 2017, respectively. As of September 30, 2017, future minimum lease payment obligation is \$37,400, including the 8% Japan consumption tax, for the next twelve-month ending September 30, 2018.
- 3) In March 2017, the Company entered into a satellites service agreement with a Japanese company (Company J). The agreement is effective on March 15, 2017 and will be expired on September 30, 2018. According to the agreement, the Company prepaid a total amount of \$285,300 and the deposit of \$95,100 in April 2017. The prepayment of \$285,300 shall be applied to monthly service charge by Company J based on the term defined in the agreement.

Contingency

The Company entered into a 3-year digital transmission service agreement with Asia Satellite Telecommunication Company Limited ("Asia Sat") on July 25, 2015. As of March 31, 2017, Asia Sat stipulates that the Company is in debt of \$8,013,495 to Asia Sat, which includes unpaid service fees, a default payment in the form of liquidated sum and interest. The default payment includes total future payments of \$7,411,616 due through March 31, 2018, subtracting the deposit of \$775,000 made to Asia Sat. The Company disagreed with the payable balance of \$8,013,495 and had recorded \$1,376,879 payable to Asia Sat as of March 31, 2017. On July 25, 2016, Asia Sat commenced arbitration against the Company. On November 21, 2016, the Hong Kong International Arbitration Centre appointed a sole arbitrator to hear the dispute. On January 12, 2017, the Company introduced a counterclaim for misrepresentations made to induce entry into the Agreement. Aircom and AsiaSat reached a settlement with respect to the Agreement as of July 25, 2017, with an effective date of July 20, 2017. As of September 30, 2017, the Company has accrued the settlement liability and accounted for the net impact of the settlement.

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

Use of Terms

Except as otherwise indicated by the context, 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;
- “Aircom” are to Aircom Pacific, Inc., a California corporation and wholly-owned subsidiary of our company;
- “Aircom Seychelles” are to Aircom Pacific Ltd., a Republic of Seychelles company and wholly-owned subsidiary of Aircom;
- “Aircom HK” are to Aircom Pacific Inc. Limited, a Hong Kong company and wholly-owned subsidiary of Aircom;
- “Aircom Japan” are to Aircom Japan, Inc., a Japanese company and wholly-owned subsidiary of Aircom;
- “SEC” are to the U.S. Securities and Exchange Commission;
- “Exchange Act” are to the Securities Exchange Act of 1934, as amended; and
- “Securities Act” are to the Securities Act of 1933, as amended.

On January 10, 2017, we completed a 1-for-10 reverse split of our issued and outstanding common stock. All share and per share information in this report has been adjusted to give retroactive effect to such reverse split.

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 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;
- our ability to implement our technology and upgrades on a timely basis;
- 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;
- our ability to manage 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;
- the 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.

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 (file no. 333-218995), 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

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

We plan to partner with airlines and offer airline passengers free IFEC services. We expect to generate revenues through advertising and in-flight transactions.

Recent Events

As of June 30, 2017, we had advanced a total of \$425,000 (the “Prepayment”) to Aircom Telecom, LLC, a Taiwan limited liability company that is not currently affiliated with us (“Aircom Taiwan”), for working capital, as part of a planned \$1,500,000 aggregate equity investment (the “Equity Investment”) in Aircom Taiwan. It is proposed that Aircom Taiwan will act as our agent and operating company in Taiwan. Before Aircom Taiwan can issue equity to us, because we are a “foreign national” under Taiwan law, the Equity Investment must be approved by the Investment Review Committee of the Ministry of Economic Affairs of Taiwan (the “Committee”). We entered into an Equity Pre-Subscription Agreement with Aircom Taiwan dated as of August 13, 2017, to memorialize the terms of the Equity Investment. Subsequent to June 30, 2017, we advanced an additional \$35,000 (the “Additional Prepayment” and together with the Initial Prepayment, the “Prepayments”) to Aircom Taiwan for working capital purposes. If the Committee approves Aircom Taiwan’s application to accept the Equity Investment, Aircom Taiwan will be authorized to issue equity to us and we will become the controlling member of Aircom Taiwan. If the Committee rejects Aircom Taiwan’s application, Aircom Taiwan will not be allowed to issue equity to us in exchange for the Prepayments, and, in this case, Aircom Taiwan, most likely, will not be able repay or return the Prepayments to us.

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.

Going Concern Opinion

Our auditors have issued a going concern opinion. This means that our auditors believe there is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital to pay our bills. This is because we have not generated significant revenues and will incur additional expenses as a result of being a public reporting company. If we are unable to obtain additional working capital, our business may fail. Accordingly, we must raise cash from sources other than operations. To date, we have financed our operations primarily through cash flow from limited operations, augmented by cash proceeds from financing activities, short-term borrowings and equity contributions by our stockholders. We must raise cash to implement our projected plan of operations.

Results of Operations

Comparison of Three Months Ended September 30, 2017 and 2017

The following table sets forth key components of our results of operations during the three-month periods ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Change	
	2017	2016	\$	%
Sales	\$ -	\$ -	\$ -	-
Cost of sales	-	-	-	-
Operating expenses	1,398,590	680,836	717,754	105.4%
Loss from operations	(1,398,590)	(680,836)	(717,754)	105.4%
Net non-operating income (loss)	(998)	-	(998)	100.0%
Loss before income taxes	(1,399,588)	(680,836)	(718,752)	105.6%
Income tax expense (benefit)	4,453	(249,000)	244,547	(98.2%)
Net Loss	(1,404,041)	(431,836)	(972,205)	225.1%
Other comprehensive loss	(242)	-	(242)	100.0%
Total comprehensive loss	\$ (1,404,283)	\$ (431,836)	\$ (972,447)	225.2%

Sales . Our sales were \$0 for both the three-month periods ended September 30, 2017 and 2016 as we are still developing our core business in in-flight entertainment and connectivity and there was no non-recurring sale of equipment to related parties during the periods.

Cost of sales . Our cost of sales includes the direct costs of our raw materials and component parts, as well as the cost of labor and overhead. Our cost of sales was \$0 for both the three-month period ended September 30, 2017 and 2016 as we did not have any sales during the periods.

Operating expenses . Our operating expenses consist primarily of compensation and benefits, professional advisor fees, cost of promotion, business development, business travel, transportation costs, and other expenses incurred in connection with general operations. Our operating expenses increased by \$718,752 to \$1,399,588 for the three-month period ended September 30, 2017, from \$680,836 for the three-month period ended September 30, 2016. Such increase was mainly due to increase stock based compensation, payroll and related expenses, consulting fees, go-public expense and satellite service fee of \$321,325, \$44,877, \$107,378, \$50,198 and \$152,821, respectively, which was offset by the decrease in outsourcing expenses of \$129,391.

Net non-operating income (expense) . We had \$998 in net non-operating income for the three-month period ended September 30, 2017, as compared to net non-operating expense of \$0 for the three-month period ended September 30, 2016. 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 \$718,752 to \$1,399,588 for the three-month period ended September 30, 2017, from a loss of \$680,836 for the three-month period ended September 30, 2016, as a result of the factors described above.

Income tax expense . Income tax expense increased to \$4,453 for the three-month period ended September 30, 2017, from the income taxes benefit of \$249,000 for the three-month period ended September 30, 2016. The income tax expense for the three-month period ended September 30, 2017 was mainly due to foreign subsidiary's income tax expenses. The income tax benefit for the three-month period ended September 30, 2016 was because the operating loss reduced the taxable income carried over from December 31, 2015.

Total comprehensive loss . As a result of the cumulative effect of the factors described above, our total comprehensive loss increased by \$972,447 to \$1,404,283 for the three-month period ended September 30, 2017, from a total comprehensive loss of \$431,836 for the three-month period ended September 30, 2016.

Comparison of Nine Months Ended September 30, 2017 and 2017

The following table sets forth key components of our results of operations during the nine-month periods ended September 30, 2017 and 2016.

	Nine Months Ended September 30,		Change	
	2017	2016	\$	%
Sales	\$ -	\$ -	\$ -	-
Cost of sales	-	-	-	-
Operating expenses	4,735,979	3,255,855	1,480,124	45.5%
Loss from operations	(4,735,979)	(3,255,855)	(1,480,124)	45.5%
Net non-operating income (loss)	25,166	(89,557)	114,723	(128.1%)
Loss before income taxes	(4,710,813)	(3,345,412)	(1,365,401)	(40.8%)
Income tax expense (benefit)	9,889	(816,000)	806,111	(98.8%)
Net Loss	(4,720,702)	(2,529,412)	(2,191,290)	86.6%
Other comprehensive loss	(3,596)	-	(3,596)	100.0%
Total comprehensive loss	<u>\$ (4,724,298)</u>	<u>\$ (2,529,412)</u>	<u>\$ (2,194,886)</u>	<u>86.8%</u>

Sales . Our sales were \$0 for both the nine-month periods ended September 30, 2017 and 2016 as we are still developing our core business in in-flight entertainment and connectivity and there was no non-recurring sale of equipment to related parties during the periods.

Cost of sales . Our cost of sales was \$0 for both the nine-month period ended September 30, 2017 and 2016 as we did not have any sales during the periods.

Operating expenses . Our operating expenses increased by \$1,480,124 to \$4,736,779 for the nine-month period ended September 30, 2017, from \$3,255,855 for the nine-month period ended September 30, 2016. Such increase was mainly due to the increase in stock based compensation, satellite service fees, payroll and related expenses, legal expense, accounting fees, travel expenses and consulting fee of \$1,114,235, \$651,168, \$350,800, \$275,743, \$304,025, \$163,015 and \$225,840, respectively, which was offset by the decrease in R&D and outsourcing expenses of \$1,578,659 and \$190,000, respectively.

Net non-operating income (expense) . We had \$25,166 in net non-operating income for the nine-month period ended September 30, 2017, as compared to net non-operating expense of \$89,557 for the nine-month period ended September 30, 2016. Net non-operating income (loss) in the nine-month period ended September 30, 2017 represents the cancellation of debt from a related party of \$26,213, while net non-operating expense in the nine-month period ended September 30, 2016 consisted of \$89,559 interest expense.

Loss before income taxes . Our loss before income taxes increased by \$1,365,401 to \$4,710,813 for the nine-month period ended September 30, 2017, from a loss of \$3,345,412 for the nine-month period ended September 30, 2016, as a result of the factors described above.

Income tax expense . Income tax expense increased to \$9,889 for the nine-month period ended September 30, 2017, from the income taxes benefit of \$816,000 for the nine-month period ended September 30, 2016. The income tax expense for the nine-month period ended September 30, 2017 was mainly due to California franchise tax and foreign subsidiary's income tax expenses. The income tax benefit for the nine-month period ended September 30, 2016 was because the operating loss reduced the taxable income carried over from December 31, 2015.

Total comprehensive loss . As a result of the cumulative effect of the factors described above, our total comprehensive loss increased by \$2,194,886 to \$4,724,298 for the nine-month period ended September 30, 2017, from a total comprehensive loss of \$2,509,412 for the nine-month period ended September 30, 2016.

Liquidity and Capital Resources

As of September 30, 2017, we had cash and cash equivalents of \$6,566. To date, we have financed our operations primarily through cash flow from operations, augmented by 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 for all financial statement periods presented in this report:

	Cash Flow	
	Nine Months Ended September 30,	
	2017	2016
Net cash used for operating activities	\$ (2,376,968)	\$ (667,531)
Net cash used for investing activity	(279,968)	(3,677,337)
Net cash provided by financing activity	2,354,935	4,349,729
Net increase (decrease) in cash and cash equivalents	(302,001)	4,861
Cash at beginning of period	312,173	19,498
Foreign currency translation effect on cash	(3,606)	-
Cash at end of period	\$ 6,566	\$ 24,359

Operating Activities

Net cash used for operating activities was \$2,376,968 for the nine-month period ended September 30, 2017, as compared to \$667,531 for the nine-month period ended September 30, 2016. The increase in net cash used for operating activities was mainly due to net operating loss, increase in prepaid expenses, prepaid investment, other receivable and decrease in other payable related parties of \$4,720,702, \$470,606, \$460,000, \$29,332 and \$42,385, respectively, offset by the decrease in deposits, accrued expenses, and other payable of \$679,874, \$439,606, and \$614,799, respectively.

Investing Activities

Net cash used for investing activities for the nine-month period ended September 30, 2017 was \$279,968, as compared to \$3,677,337 for the nine-month period ended September 30, 2016. The decrease was mainly attributable to purchase of property and equipment during the nine-month period ended September 30, 2016.

Financing Activities

Net cash provided by financing activities for the nine-month period ended September 30, 2017 was \$2,354,935, as compared to \$4,349,729 for the nine-month period ended September 30, 2016. The increase was mainly attributable to more proceeds from the issuance of our common stock during the nine-month period ended September 30, 2017.

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. 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. 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 airline partners, which correlates directly to the roll out and/or upgrade of service to our airline partners' fleets. Capital spending is also associated with the expansion of our network, ground stations and data centers and includes design, permitting, network equipment and installation costs.

Capital expenditures for the three-month periods ended September 30, 2017 and 2016 were \$193 and \$1,704 respectively. The decrease in capital expenditures was mainly due to construction in progress during the three-month ended September 30, 2016.

We anticipate an increase in capital spending in fiscal year 2017 and estimate capital expenditures for the year ending December 31, 2017 will range from \$6 million to \$20 million as we increase the number of 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:

Revenue Recognition . We recognize sales when the earning process is completed, as evidenced by an arrangement with the customer, transfer of title and acceptance, if applicable, has occurred, as well as the price is fixed or determinable, and collection is reasonably assured. Sales are recorded net of returns, discounts and allowances.

Inventories . Inventories are recorded at the lower of weighted-average cost or market. 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 both of the three-month periods ended September 30, 2017 and 2016, we did not incur any research and development costs.

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 over the following estimated service lives: computer equipment – 5 years and furniture and fixtures – 5 years. Construction costs for on-flight entertainment equipment not yet in service are recorded to 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 non-operating income in the period of sale or disposal. We review the carrying amount of property and equipment for impairment when events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We determined that there was no impairment loss for the three-month periods ended September 30, 2017 and 2016.

Intangible Asset . Intangible asset consists of satellite system software and is amortized on the straight-line basis 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.

Foreign Currency Translation . The accompanying consolidated financial statements are reported in U.S. dollars. The financial position and results of operations of our subsidiaries in the PRC are measured using the Renminbi, which is the local and functional currency of these entities. Assets and liabilities of the subsidiaries are translated at the prevailing exchange rate in effect at each period end. Revenues and expenses are translated at the average rate of exchange during the period. Translation adjustments are included in other comprehensive income (loss).

Recent Accounting Pronouncements

Going Concern . In August 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014-15 - “Presentation of Financial Statements - Going Concern Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern,” or ASU 2014-15, requiring management to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. ASU 2014-15 is effective for annual periods, and interim periods within those annual periods, ending after December 15, 2016 and will apply to our first quarter after October 1, 2016.

Income Taxes . In October 2016, FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other than Inventory,” or ASU 2016-16, which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. ASU 2016-06 will be effective for annual reporting periods beginning after December 15, 2017 and for us in our first quarter of 2018. We are currently evaluating the impact of adopting ASU 2016-16 on our consolidated financial statements.

Financial Instruments . In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities,” or ASU 2016-01, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and for us in our first quarter of 2018. We do not believe the adoption of ASU 2016-01 will have a material impact on our consolidated financial statements.

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, 2020, including interim periods within those fiscal years and for us in our first quarter of 2021, and early adoption is permitted. We do not believe the adoption of ASU 2016-13 will have a material impact on our 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 for us in our first quarter of 2019, 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.

Stock Compensation . In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation” (Topic 718): Improvements to Employee Share-Based Payment Accounting, or ASU 2016-09, which simplifies certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. ASU 2016-09 will be effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 and for us in our first quarter of 2019, and early adoption is permitted. We are currently evaluating the impact of adopting ASU 2016-09 on our consolidated financial statements.

Revenue Recognition . In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (Topic 606), or ASU 2014-09, which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU 2014-09 will be effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018 and for us in our first quarter of 2019, and early adoption is permitted.

Subsequently, the FASB issued the following standards related to ASU 2014- 09: ASU No. 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations,” or ASU 2016-08; ASU No. 2016-10, “Revenue from Contracts with Customers” (Topic 606): Identifying “Performance Obligations and Licensing,” or ASU 2016-10; and ASU No. 2016-12, “Revenue from Contracts with Customers” (Topic 606): “Narrow-Scope Improvements and Practical Expedients,” or ASU 2016-12. We must adopt ASU 2016- 08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively referred to as the new revenue standards).

The new revenue standards may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. We currently expect to adopt the new revenue standards in our first quarter of 2019 utilizing the full retrospective transition method. We do not expect adoption of the new revenue standards to have a material impact on its consolidated financial statements.

Business Combinations . In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations” (Topic 805): Clarifying the Definition of a Business, which a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs, or other economic benefits directly to investors or other owners, members, or participants. ASU 2017-01 will be effective for annual periods beginning after March 15, 2017, and interim periods within annual periods beginning after March 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2017-01 on its 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, 2017.

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 Part I, Item 4 “Controls and Procedures” of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2017 and further referenced below, which we are still in the process of remediating as of September 30, 2017, 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, 2017, 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.

Our management has identified the steps necessary to address the material weaknesses, and in the third quarter of fiscal 2017, we continued to implement the following remedial procedures:

- In April 2017, we retained Mr. Y. Tristan Kuo as our Chief Financial Officer, who will oversee the improvement of our disclosure controls and procedures, as well as internal control over financial reporting.
- In addition, we will look to hire additional personnel with technical accounting expertise to further support our current accounting personnel. As necessary, we will continue to engage consultants or outside accounting firms in order to ensure proper accounting for our consolidated financial statements.

We intend to complete the remediation of the material weaknesses 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 weaknesses 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.

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 the third quarter of fiscal 2017 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.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise, in the ordinary course of business. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business. Except as set forth below, we are currently not aware of any such legal proceedings or claims that we believe will have a material adverse effect on our business, financial condition or operating results.

On or about July 27, 2016, AsiaSat initiated an arbitration proceeding in the Hong Kong International Arbitration Centre against Aircom, claiming a breach under the Digital Transmission Service Agreement dated July 25, 2015 between AsiaSat and Aircom. AsiaSat claims that Aircom owes it approximately \$8.1 million in unpaid service fees, default payments and liquidated damages. Aircom disagrees with the payable balance and believes that it owes AsiaSat approximately \$1.3 million in services fees. Aircom has paid AsiaSat \$875,000 as security deposit. Aircom further alleges misrepresentation from AsiaSat in entering into the agreement and is actively defending the matter. On November 21, 2016, the Hong Kong International Arbitration Centre appointed a sole arbitrator to hear the dispute. On January 12, 2017, Aircom asserted a counterclaim against AsiaSat for misrepresentations made to induce entry into the agreement. Aircom and AsiaSat reached a settlement with respect to the Agreement as of July 25, 2017, with an effective date of July 20, 2017. As of September 30, 2017, we have accrued the settlement liability and accounted for the net impact of the settlement.

ITEM 1A. RISK FACTORS.

One of our suppliers has failed to deliver a key component of our IFEC System and we have terminated our satellite services agreement with another. We cannot be sure that we will be able to find alternative source for this component or for the required satellite services and, as a result, we may not be able to implement our business plan.

The implementation of the Hong Kong Airlines project is conditioned upon VSTC approval from the HKCAD. We and our equipment supplier have submitted the VSTC application to HKCAD but the application process is presently on hold due to the supplier's failure to deliver a key component of the IFEC system. We do not expect this supplier to be able to deliver this key component and we are actively seeking alternative options to implement the Hong Kong Airline project, including developing necessary equipment or components thereof with other strategic partners. Because we cannot be sure when and if we will be able to obtain the IFEC component for the VSTC approval, we cannot be sure when we will receive approval for the Hong Kong Airlines project, if at all. If we are not able to source this necessary IFEC component, our current agreement with Hong Kong Airlines will not become executable and we will not be able to implement our business plan as currently envisioned.

Additionally, our satellite services agreement with AsiaSat was recently terminated. If we are not able to find a replacement satellite services provider, we will not be able to deliver our service offerings to Hong Kong Airlines even once we receive the VSTC approval from HKCAD. Such a failure would have a negative impact on our business prospects.

For additional information regarding risk factors, please refer to our Registration Statement on Form S-1 filed with the SEC on June 27, 2017, which may be accessed via EDGAR through the Internet at www.sec.gov.

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

On July 5, 2017, we entered into a subscription agreement with Daniel Shih, the founder and an affiliate of the Company, who agreed to purchase an aggregate of 5,000 shares of our common stock, \$0.001 par value per share, at a price of \$5.50 per share, for an aggregate purchase of \$27,500. During the quarter ended September 30, 2017, we entered into additional subscription agreements with shareholders who agreed to purchase an aggregate of 254,086 shares of our common stock at a price of \$5.50 per share, for an aggregate purchase of \$1,424,973, or \$1,452,473 including Mr. Shih's purchase. These shares were sold in a private placement offering of our common stock, which terminated on October 31, 2017.

The sales of the shares in this offering were exempt from the registration requirements of the Securities Act of 1933 by virtue of Section 4(a)(2) thereof and Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering. The purchasers of the securities in this offering represented their intention to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate restrictive legends were affixed to the certificates evidencing the shares issued in this offering. All purchasers of the securities represented and warranted, among other things, that they were "accredited investors" within the meaning of Rule 501 of Regulation D, that they had the knowledge and experience in financial and business matters necessary to evaluate the merits and risks of an investment in the Company, that they had the ability to bear the economic risks of the investment, and that they had adequate access to information about the Company.

During the three-month period ended September 30, 2017, we did not repurchase any 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 the third quarter of fiscal year 2017, 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.

The list of exhibits in the Exhibit Index to this report is incorporated herein by reference.

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 20, 2017

AERKOMM INC.

/s/ Peter Chiou

Name: Peter Chiou

Title: Chief Executive Officer

(Principal Executive Officer)

/s/ Y. Tristan Kuo

Name: Y. Tristan Kuo

Title: Chief Financial Officer

(Principal Financial and Accounting Officer)

EXHIBIT INDEX

Exhibit No.	Description
2.1	<u>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 with the SEC on February 14, 2017)</u>
3.1	<u>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 with the SEC on May 4, 2017)</u>
3.2	<u>Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed with the SEC on November 5, 2013)</u>
10.1	<u>Form of Common Stock Subscription Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2017)</u>
31.1	<u>Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1/32.2	<u>Certification furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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

CERTIFICATIONS

I, Peter Chiou, 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 20, 2017

/s/ Peter Chiou

Peter Chiou

Chief Executive Officer

(Principal Executive Officer)

CERTIFICATIONS

I, Y. Tristan Kuo, certify that:

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

Date: November 20, 2017

/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**

Each of the undersigned Chief Executive Officer and 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, 2017 (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 20th day of November, 2017.

/s/ Peter Chiou

Name: Peter Chiou

Title: Chief Executive Officer
(Principal Executive Officer)

/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.