ON THE MOVE SYSTEMS CORP.
Form 10-Q
July 16, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE QUARTERLY PERIOD ENDED MAY 31, 2018

OR

[_] **TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM _______________ TO _______________

COMMISSION FILE NUMBER: 0-55079

ON THE MOVE SYSTEMS CORP.

(Exact name of registrant as specified in its charter)

Nevada	**27-2343603**
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)

701 North Green Valley Parkway, Suite 200	
Henderson, Nevada	**89074**
(Address of principal executive offices)	(Zip code)

(702) 990-3271

(Registrant's telephone number, including area code)

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 [X] No [_]

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

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

Large accelerated filer	[_]	Accelerated filer	[_]
Non-accelerated filer	[_]	Smaller reporting company	[X]
		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 complying 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 [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 185,105,917 shares of common stock were issued and outstanding as of July 13, 2018.

PART 1 – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ON THE MOVE SYSTEMS CORP.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

		May 31, 2018		February 28, 2018
ASSETS				
Current assets:				
Cash	$	135,350	$	24,773
Accounts receivable		16,759		28,000
Device parts inventory		309,935		316,113
Prepaid expenses and deposits		60,494		83,103
Note receivable		40,000		40,000
Total current assets		562,538		491,989
Revenue earning devices, net		116,367		—
Fixed assets, net		143,193		158,205
Intangible asset, net		52,616		56,248
Security deposit		30,216		30,141
Total assets	$	904,930	$	736,583
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable and accrued expenses	$	844,079	$	487,243
Advances payable		1,594		1,594
Balance due on acquisition of WeSecure		25,000		25,000
Customer deposits		10,000		10,000
Current portion of convertible notes payable, net		2,979,919		2,117,946
Loan payable - related party		353,451		316,142
Vehicle loan - current portion		17,830		17,830
Current portion of accrued interest payable		898,929		694,592
Derivative liability		13,910,995		31,113,844
Total current liabilities		19,041,797		34,784,191
Convertible notes payable, net		131,447		95,060
Accrued interest payable		61,679		55,917
Vehicle loan		59,897		64,332
Total liabilities		19,294,820		34,999,500

Commitments and contingencies				
Shareholders' deficit:				
Preferred Stock, undesignated; 15,645,650 shares authorized; no shares issued and outstanding at August 31, 2017 and February 28, 2017, respectively		—		—
Series E Preferred Stock, $0.001 par value; 4,350,000 shares authorized; 4,350,000 and 4,350,000 shares issued and outstanding, respectively		4,350		4,350
Series F Convertible Preferred Stock, $1.00 par value; 4,350 shares authorized; 3,450 and 3,450 shares issued and outstanding, respectively		3,450		3,450
Common Stock, $0.001 par value; 480,000,000 shares authorized 157,260,897 and 125,004,554 shares issued and outstanding, respectively		157,260		125,004
Additional paid-in capital		2,370,058		1,108,308
Preferred stock to be issued		174,070		—
Accumulated deficit		(21,099,078)		(35,504,029)
Total shareholders' deficit		(18,389,890)		(34,262,917)
Total liabilities and shareholders' deficit	$	904,930	$	736,583

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

ON THE MOVE SYSTEMS CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended May 31, 2018	Three Months Ended May 31, 2017
Revenues	$ 16,666	$ —
Cost of Goods Sold	4,259	—
Gross Profit	12,407	—
Operating expenses:		
Research and development	168,630	17,317
General and administrative	1,383,927	308,091
Depreciation and amortization	21,853	14,219
Total operating expenses	1,574,410	339,627
Loss from operations	(1,562,003)	(339,627)
Other income (expense), net:		
Change in fair value of derivative liabilities	17,851,893	—
Interest expense	(2,153,084)	(12,348)
Gain on settlement of debt	268,145	—
Other income	—	—
Total other income (expense), net	15,966,954	(12,348)
Net income (loss)	$ 14,404,951	$ (351,975)
Net income (loss) per share - basic	$ 0.11	NA
Net income (loss) per share - diluted	$ 0.01	$ —
Weighted average common shares outstanding - basic	133,105,889	NA
Weighted average common shares outstanding - diluted (1)	2,458,323,728	60,916,122

(1) For the three months ended May 31, 2017, the weighted average number of common shares outstanding was computed by multiplying the number of common shares of OMVS outstanding as of February 28, 2017 by 3.45 based on the terms listed under the amended Certificate of Designation for OMVS's Series F Convertible Preferred Stock.

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

ON THE MOVE SYSTEMS CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended May 31, 2018	Three Months Ended May 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 14,404,951	$ (351,975)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	21,853	14,219
Stock-based compensation	474,712	—
Change in fair value of derivative liabilities	(17,851,893)	—
Interest expense related to penalties from debt defaults	185,790	—
Interest expense related to derivative liability in excess of face value of debt	599,842	—
Amortization of debt discount	1,133,763	—
Gain on settlement of debt	(268,145)	—
Changes in operating assets and liabilities:		
Accounts receivable	11,241	7,778
Deposits on robots	—	(26,500)
Prepaid expenses	22,609	—
Device parts inventory	6,178	—
Accounts payable and accrued expenses	358,336	3,040
Accrued interest payable	223,439	10,900
Net cash used in operating activities	(677,324)	(342,538)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(119,576)	(80,383)
Cash paid for security deposit	(75)	(25,747)
Net cash used in investing activities	(119,651)	(106,130)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from convertible notes payable, net	700,608	200,000
Net borrowings on loan payable - related party	37,309	59,715
Loan from OMVS to RAD prior to the reverse recapitalization	—	150,000
Repayment of vehicle loan	(4,435)	(1,945)
Proceeds from sale of preferred stock	174,070	—
Net cash provided by financing activities	907,552	407,770
Net change in cash	110,577	(40,898)
Cash, beginning of period	24,773	56,907

Cash, end of period	$	135,350	$	16,009
Supplemental disclosure of cash and non-cash transactions:				
Cash paid for interest	$	1,650	$	—
Cash paid for taxes	$	—	$	—
Noncash investing and financing activities:				
Debt discount from derivative liabilities	$	800,608	$	—
Conversion of convertible notes and interest to shares of common stock	$	819,294	$	—
Settlement and exchange of convertible notes payable	$	267,245	$	—
Capitalization of accrued interest to convertible notes payable	$	10,040	$	—

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

ON THE MOVE SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. GENERAL INFORMATION

On the Move Systems Corp. (“OMVS” or the “Company”) was incorporated in Florida on March 25, 2010 and reincorporated in Nevada on February 17, 2015.

Robotic Assistance Devices, LLC (“RAD”), was incorporated in the State of Nevada on July 26, 2016 as a LLC. On July 25, 2017, Robotic Assistance Devices LLC converted to a C Corporation, Robotic Assistance Devices, Inc. through the issuance of 10,000 common shares to its sole shareholder.

On August 28, 2017, OMVS completed the acquisition of RAD (the “Acquisition”), whereby OMVS acquired all the ownership and equity interest in RAD for 3,350,000 shares of OMVS Series E Preferred Stock and 2,450 shares of Series F Convertible Preferred Stock. OMVS’s prior business focus was transportation services, and OMVS was exploring the on-demand logistics market by developing a network of logistics partnerships. As a result of the closing of the Acquisition, OMVS has succeeded to the business of RAD, in which OMVS purchased all of the outstanding shares of capital stock of RAD. As a result, OMVS’s business going forward will consist of one segment activity which is the delivery of artificial intelligence and robotic solutions for operational, security and monitoring needs.

The Acquisition was treated as a reverse recapitalization effected by a share exchange for financial accounting and reporting purposes since substantially all of OMVS’s operations were disposed of as part of the consummation of the transaction. Therefore, no goodwill or other intangible assets were recorded by OMVS as a result of the Acquisition. RAD is treated as the accounting acquirer as its stockholders control the Company after the Acquisition, even though OMVS was the legal acquirer. As a result, the assets and liabilities and the historical operations that are reflected in these financial statements are those of RAD as if RAD had always been the reporting company.

On April 18, 2018, OMVS’ board of directors approved a name change to Artificial Intelligence Solutions Inc. As of the filing date of these financial statements, this change is not yet effective.

2. GOING CONCERN

The accompanying unaudited consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the possible inability of the Company to continue as a going concern.

For the three months ended May 31, 2018, the Company had negative cash flow from operating activities of $677,324. As of May 31, 2018, the Company has an accumulated deficit of $21,099,078 and negative working capital of $18,479,259. Management does not anticipate having positive cash flow from operations in the near future. These factors raise a substantial doubt about the Company’s ability to continue as a going concern for the twelve months following the issuance of these financial statements.

The Company does not have the resources at this time to repay its credit and debt obligations, make any payments in the form of dividends to its shareholders or fully implement its business plan. Without additional capital, the Company will not be able to remain in business.

Management has plans to address the Company’s financial situation as follows:

In the near term, management plans to continue to focus on raising the funds necessary to implement the Company’s business plan. Management will continue to seek out debt financing to obtain the capital required to meet the Company’s financial obligations. There is no assurance, however, that lenders will continue to advance capital to the Company or that the new business operations will be profitable. The possibility of failure in obtaining additional funding and the potential inability to achieve profitability raises doubts about the Company’s ability to continue as a going concern.

ON THE MOVE SYSTEMS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. ACCOUNTING POLICIES

Principles of Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and in conformity with the instructions on Form 10-Q and Rule 8-03 of Regulation S-X and the related rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Robotic Assistance Devices, Inc., On the Move Experience, LLC and OMV Transports, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation. The unaudited consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of such statements. The results of operations for the three months ended May 31, 2018 are not necessarily indicative of the results that may be expected for the entire year.

Cash

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on deposit with banks and money market instruments. The Company places its cash and cash equivalents with high-quality, U.S. financial institutions and, to date has not experienced losses on any of its balances.

Accounts Receivable

Accounts receivable are comprised of balances due from customers, net of estimated allowances for uncollectible accounts. In determining collectability, historical trends are evaluated, and specific customer issues are reviewed on a periodic basis to arrive at appropriate allowances.

Device Parts Inventory

Device parts inventory is stated at the lower of cost or market using the weighted average cost method. The Company records a valuation reserve for obsolete and slow-moving inventory, relying principally on specific identification of such inventory. The Company uses these device parts in the assembly of revenue earning devices (and demo devices) as well as research and development. Depending on use, the Company will transfer the parts to the corresponding asset or expense if used in research and development. A charge to income is taken when factors that would result in a need for an increase in the valuation, such as excess or obsolete inventory, are noted.

Revenue Earning Devices

Revenue earning devices are stated at cost. Depreciation is provided on a straight-line basis over the estimated useful life of 48 months. The Company continually evaluates revenue earning devices to determine whether events or changes in circumstances have occurred that may warrant revision of the estimated useful life or whether the devices should be evaluated for possible impairment. The Company uses a combination of the undiscounted cash flows and market approaches in assessing whether an asset has been impaired. The Company measures impairment losses based upon the amount by which the carrying amount of the asset exceeds the fair value.

Fixed Assets

Fixed assets are stated at cost. Depreciation is provided on the straight-line method based on the estimated useful lives of the respective assets which range from three to five years. Major repairs or improvements are capitalized. Minor replacements and maintenance and repairs which do not improve or extend asset lives are expensed currently.

Demo Devices	4 years
Vehicles	3 years
Computer equipment	3 years
Office equipment	4 years
Leasehold improvements	5 years, the life of the lease

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The Company periodically evaluates the fair value of fixed assets whenever events or changes in circumstances indicate that its carrying amounts may not be recoverable. Upon retirement or other disposition of fixed assets, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss, if any, is recognized in income.

Intangible Assets

The Company's intangible assets are stated at cost and amortized on a straight-line basis over their five year expected useful life. The Company periodically determines if there is any impairment in value every year.

Research and Development

Research and development costs are expensed in the period they are incurred in accordance with ASC 730, *Research and Development* unless they meet specific criteria related to technical, market and financial feasibility, as determined by Management, including but not limited to the establishment of a clearly defined future market for the product, and the availability of adequate resources to complete the project. If all criteria are met, the costs are deferred and amortized over the expected useful life or written off if a product is abandoned. At May 31, 2018 and February 28, 2018, the Company had no deferred development costs.

Contingencies

Occasionally, the Company may be involved in claims and legal proceedings arising from the ordinary course of its business. The Company records a provision for a liability when it believes that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. If these estimates and assumptions change or prove to be incorrect, it could have a material impact on the Company's condensed consolidated financial statements. Contingencies are inherently unpredictable, and the assessments of the value can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions.

Revenue Recognition

ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*, supersedes the revenue recognition requirements and industry specific guidance under *Revenue Recognition (Topic 605).* Topic 606 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. The Company adopted Topic 606 on March 1, 2018, using the modified retrospective method applied to contracts that were not completed as of March 1, 2018. Under the modified retrospective method, prior period financial positions and results will not be adjusted. The cumulative effect adjustment recognized in the opening balances included no significant changes as a result of this adoption. While the Company does not expect fiscal year 2019 net earnings to be materially impacted by revenue recognition timing changes, Topic 606 requires certain changes to the presentation of revenues and related expenses beginning March 1, 2018. Refer to Note 4 – Revenue from Contracts with Customers for additional information.

Income Taxes

On July 25, 2017, Robotic Assistance Devices LLC converted to a C Corporation, Robotic Assistance Devices, Inc., through the issuance of 10,000 common shares to its sole shareholder. Prior to the conversion on July 25, 2017, income taxes are not provided in the financial statements as presented as RAD was an LLC and the income or loss flowed through to the shareholder for the two months ended February 28, 2017.Thereafter, income taxes will be accounted for under the asset and liability method from that date forward. Deferred income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and net operating loss and other tax credit carry-forwards. These items are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. RAD will record a valuation allowance to reduce the deferred income tax assets to the amount that is more likely than not to be realized.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Leases

Lease agreements are evaluated to determine if they are capital leases meeting any of the following criteria at inception: (a) transfer of ownership; (b) bargain purchase option; (c) the lease term is equal to 75 percent or more of the estimated economic life of the leased property; or (d) the present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at lease inception over any related investment tax credit retained by the lessor and expected to be realized by the lessor.

If at its inception, a lease meets any of the four lease criteria above, the lease is classified by the Company as a capital lease; and if none of the four criteria are met, the lease is classified by the Company as an operating lease.

Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term, whereby an equal amount of rent expense is attributed to each period during the term of the lease, regardless of when actual payments are made. This generally results in rent expense in excess of cash payments during the early years of a lease and rent expense less than cash payments in the later years. The difference between rent expense recognized and actual rental payments is recorded as deferred rent and included in liabilities.

Distinguishing Liabilities from Equity

The Company relies on the guidance provided by ASC Topic 480, *Distinguishing Liabilities from Equity*, to classify certain redeemable and/or convertible instruments. The Company first determines whether a financial instrument should be classified as a liability. The Company will determine the liability classification if the financial instrument is mandatorily redeemable, or if the financial instrument, other than outstanding shares, embodies a conditional obligation that the Company must or may settle by issuing a variable number of its equity shares.

Once the Company determines that a financial instrument should not be classified as a liability, the Company determines whether the financial instrument should be presented between the liability section and the equity section of the balance sheet (“temporary equity”). The Company will determine temporary equity classification if the redemption of the financial instrument is outside the control of the Company (i.e. at the option of the holder). Otherwise, the Company accounts for the financial instrument as permanent equity.

Initial Measurement

The Company records its financial instruments classified as liability, temporary equity or permanent equity at issuance at the fair value, or cash received.

Subsequent Measurement – Financial Instruments Classified as Liabilities

The Company records the fair value of its financial instruments classified as liabilities at each subsequent measurement date. The changes in fair value of its financial instruments classified as liabilities are recorded as other income (expenses).

Fair Value of Financial Instruments

ASC Topic 820, *Fair Value Measurements and Disclosures* (“ASC Topic 820”) provides a framework for measuring fair value in accordance with generally accepted accounting principles.

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity’s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs).

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The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable for the asset or liability.

Measured on a Recurring Basis

The following table presents information about our liabilities measured at fair value on a recurring basis, aggregated by the level in the fair value hierarchy within which those measurements fell:

		Fair Value Measurement Using		
	Amount at Fair Value	**Level 1**	**Level 2**	**Level 3**
May 31, 2018				
Liabilities				
Derivative liability – conversion features pursuant to convertible notes payable	$ 13,910,995	$ —	$ —	$ 13,910,995
February 28, 2018				
Liabilities				
Derivative liability – conversion features pursuant to convertible notes payable	$ 31,113,844	$ —	$ —	$ 31,113,844

See Note 13, for specific inputs used in determining fair value.

The carrying amounts of the Company's financial assets and liabilities, such as cash, accounts receivable, prepaid expenses and advances, accounts payable and accrued expenses, approximate their fair values because of the short maturity of these instruments.

Earnings (Loss) per Share

Basic earnings (loss) per share ("EPS") is computed by dividing net income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS give effect to all dilutive potential common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used to determine the number of shares assumed to be purchased from the exercise of stock options and/or warrants. Diluted EPS excluded all dilutive potential shares if their effect is anti-dilutive

Basic net loss per share is based on the weighted average number of common and common-equivalent shares outstanding. For the three-month period ended May 31, 2017, there were no common shares outstanding. Potential common shares includable in the computation of fully-diluted per share results are not presented in the consolidated financial statements for the three-month period ended May 31, 2017 as their effect would be anti-dilutive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The anti-dilutive shares of common stock outstanding for the three months ended May 31, 2018 and 2017 were as follows:

	For the Three Months Ended May 31, 2018		2017	
Numerator:				
Net income (loss) available to common shareholders	$	14,404,951	$	(351,975)
Effect of common stock equivalents				
Add: interest expense on convertible debt		223,818		—
Less: tax effect of decrease in interest expense		(47,002)		—
Net income (loss) adjusted for common stock equivalents		14,581,767		(351,975)
Denominator:				
Weighted average shares – basic		133,105,889		—
Net income (loss) per share – basic	$	0.11		NA
Dilutive effect of common stock equivalents:				
Warrants	$	1,357,411	$	—
Convertible debt		1,781,310,333		—
Preferred stock		542,550,095		60,916,122
Denominator:				
Weighted average shares – diluted		2,458,323,728		60,916,122
Net income (loss) per share – diluted (1)	$	0.01	$	(0.01)

(1) For May 31, 2017, the weighted average number of common shares outstanding was computed by multiplying the number of common shares of OMVS outstanding as of February 28, 2017 by 3.45 based on the terms listed under the amended Certificate of Designation for OMVS's Series F Convertible Preferred Stock.

Recently Adopted Accounting Pronouncements

See discussion of the adoption of ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)"*, above.

In August 2016, the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-15, *"Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments"* ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The Company adopted this standard on March 1, 2018, on a retrospective basis. There was no impact of the standard on the Company's consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *"Statement of Cash Flows (Topic 230)"*, requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017, with early adoption permitted. The Company adopted this standard on March 1, 2018, on a retrospective basis. There was no impact of the standard on the Company's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Modification Accounting for Share-Based Payment Arrangements*. The standard amends the scope of modification accounting for share-based payment arrangements and provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. The new standard is effective for fiscal years beginning after December 15, 2017. There was no impact on the financial statements of adopting this new standard on March 1, 2018.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is effective for public entities for annual reporting periods beginning after December 15, 2018. Under ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company is currently evaluating the effects of ASU 2016-02 on its unaudited condensed financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480) and Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features; II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*. Part I of this update addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. Part II of this update addresses the difficulty of navigating *Topic 480, Distinguishing Liabilities from Equity*, because of the existence of extensive pending content in the FASB Accounting Standards Codification. This pending content is the result of the indefinite deferral of accounting requirements about mandatorily redeemable financial instruments of certain nonpublic entities and certain mandatorily redeemable noncontrolling interests. The amendments in Part II of this update do not have an accounting effect. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018. The Company is currently assessing the potential impact of adopting ASU 2017-11 on its unaudited condensed consolidated financial statements and related disclosures.

In September 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. ASU 2016-13 was issued to provide more decision-useful information about the expected credit losses on financial instruments and changes the loss impairment methodology. ASU 2016-13 is effective for reporting periods beginning after December 15, 2019 using a modified retrospective adoption method. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The Company is currently assessing the impact this accounting standard will have on its financial statements and related disclosures.

Subsequent Events

The Company has evaluated all transactions through the date the consolidated financial statements were issued for subsequent event disclosure.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue is earned primarily from two sources: 1) direct sales of goods or services and 2) short-term rentals.

As disclosed in the revenue recognition section of Note 3 – Accounting Polices, the Company adopted Topic 606 in accordance with the effective date on March 1, 2018. Note 3 includes disclosures regarding the Company’s method of adoption and the impact on the Company’s financial statements. Upon adoption of Topic 842, also referred to above in Note 3, the Company plans to account for revenue earned from rental activities where an identified asset is transferred to the customer and the customer has the ability to control that asset, will be accounted for under this topic. Until the Company adopts Topic 842, revenues from rental activities are recognized in accordance with Topic 606.

Revenue is recognized on direct sales of goods or services when persuasive evidence of an arrangement exists, goods are delivered and/or services are rendered, sales price is determinable, and collection is reasonably assured. The Company recognizes revenue from its device rental activities when persuasive evidence of a contract exists, the performance obligations have been satisfied, the transaction price is fixed or determinable and collection is reasonably assured. Performance obligations associated with device rental transactions are satisfied over the rental period. Rental periods are short-term in nature. Therefore, the Company has elected to apply the practical expedient which eliminates the requirement to disclose information about remaining performance obligations. Payments are due from customers at the completion of the rental, except for customers with negotiated payment terms, generally net 30 days or less, which are invoiced and remain as accounts receivable until collected.

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The following table presents revenues from contracts with customers disaggregated by product/service:

		Three Months Ended May 31, 2018
Device rental activities	$	16,256
Direct sales of goods and services		410
Total revenue from contracts with customers	$	16,666

5. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits on device parts expected to be received within one year were comprised of the following:

		May 31, 2018		February 28, 2018
Deposits on device parts	$	8,150	$	—
Prepaid insurance		32,634		22,076
Prepaid travel		—		10,488
Prepaid trade show expenses		19,710		50,539
	$	60,494	$	83,103

6. REVENUE EARNING DEVICES:

Revenue earning devices consisted of the following:

		May 31, 2018		February 28, 2018
Revenue earning devices	$	119,576	$	—
Less: Accumulated depreciation		(3,209)		—
	$	116,367	$	—

During the three months ended May 31, 2018, the Company made total additions to revenue earning devices of $119,576.

Due to all the revenue earning devices (robots) becoming non-operational through February 28, 2018, the Company wrote down revenue earning devices (robots) with a net book value of $414,746 to $0 as loss on impairment of fixed assets. There were no such write-downs during the three months ended May 31, 2018.

Depreciation expense was $3,209 for the three months ended May 31, 2018, and $6,033 for the three months ended May 31, 2017.

7. FIXED ASSETS

Fixed assets consisted of the following:

		May 31, 2018		**February 28, 2018**
Automobile	$	136,318	$	136,318
Computer equipment		17,361		17,361
Office equipment		11,829		11,829
Leasehold improvements		29,329		29,329
		194,837		194,837
Less: Accumulated depreciation		(51,644)		(36,632)
	$	143,193	$	158,205

During the three months ended May 31, 2018, the Company made no additions to fixed assets.

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Due to all the demo devices (robots) becoming non-operational through February 28, 2018, the Company wrote down fixed assets with a net book value of $148,810 to $0 as loss on impairment of fixed assets. There were no such write-downs during the three months ended May 31, 2018.

Depreciation expense was $15,012 for the three months ended May 31, 2018, and $8,186 for the three months ended May 31, 2017.

8. INTANGIBLE ASSETS

Intangible assets consisted of the following:

	May 31, 2018		February 28, 2018	
Intangible asset	$	61,901	$	61,901
Less: Accumulated amortization		(9,285)		(5,653)
	$	52,616	$	56,248

On October 2, 2017, the Company acquired goods and other intangibles through an asset purchase agreement with WeSecure Robotics, Inc. ("WeSecure") in exchange for $125,000 payable in 5 monthly $25,000 installments commencing in October 2017 and ending February 2018. The intangible asset primarily consisted of customer relationships and lists acquired as a part of the asset purchase agreement. The Company is treating this transaction as a business combination under ASU 2017-01 – *Business Combinations: Clarifying the Definition of a Business*.

Under the asset purchase agreement, the two principals of WeSecure were also hired on at will basis: one as a sales director for a salary of $8,000 per month and the other as a consultant at $1,000 per month. The salary has been committed to until September 1, 2019, regardless of employment within the Company, In addition, the two principals will receive collectively a commission of $500/month for each SMP robot rented by an identified customer for one year, as long as the customer stays with the Company for two years and an additional year of commission if the two principals remain employed with the Company through September 1, 2020. They will also receive a commission of 5% of net revenues on sales to identified customers for non-SMP robots for 2 years. In addition, the Company agreed to issue 450,000 options to the two principals to purchase shares its common stock at an exercise price of $0.05 per share that vest on October 2, 2021.

The Company acquired the following net assets and liabilities as a part of this transaction:

Assets Acquired:		
Cash	$	17,000
Robots, parts, and equipment		46,099
Intangible assets		61,901
Total assets acquired	$	125,000
Liabilities Assumed:		
Acquisition cost	$	125,000
Total liabilities assumed	$	125,000

Amortization expense was $3,632 for the three months ended May 31, 2018, and $0 for the three months ended May 31, 2017.

At both May 31, 2018 and February 28, 2018, the balance due on acquisition to WeSecure was $25,000. The acquisition was to be fully paid by February 28, 2018 per the agreement, however no notices have been sent.

9. NOTE RECEIVABLE

On March 13, 2017, the Company loaned $40,000 to a third party. The note bore interest at 18% per annum and was payable on April 13, 2017. The note was not repaid by the due date. The note was subsequently amended to bear interest of 2% per month plus a $10,000 fee. The note was payable on December 31, 2017 and is secured in senior rank on all assets of the borrower. The Company evaluated the note receivable to determine whether its lending activities create a variable interest entity that would require consolidation and determined that it does not create a variable interest entity.

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10. CONVERTIBLE NOTES PAYABLE

Convertible notes payable consisted of the following:

Issued	Maturity	Interest Rate	Conversion Rate per Share	Balance May 31, 2018	Balance February 28, 2018
February 28, 2011	February 26, 2013 *	7%	$0.015	$ 32,600	$ 32,600
January 31, 2013	February 28, 2017 *	10%	$0.010	119,091	119,091
May 31, 2013	November 30, 2016 *	10%	$0.010	261,595	261,595
August 31, 2014	November 30, 2016 *	10%	$0.002	355,653	355,652
November 30, 2014	November 30, 2016 *	10%	$0.002	103,950	103,950
February 28, 2015	February 28, 2017 *	10%	$0.001	63,357	63,357
May 31, 2015	August 31, 2017*	10%	$1.000	65,383	65,383
August 31, 2015	August 31, 2017*	10%	$0.300	91,629	91,629
November 30, 2015	November 30, 2018	10%	$0.300	269,791	269,791
February 29, 2016	February 28, 2019	10%	60% discount	95,245	95,245
May 31, 2016	May 31, 2019	10%	$0.003	35,100	35,100
July 18, 2016	July 18, 2017	10%	$0.003	3,500	3,500
December 31, 2016	December 31, 2020	8%	35% discount(2)	65,000	65,000
January 15, 2017	January 15, 2021	8%	35% discount(2)	50,000	50,000
January 15, 2017	January 15, 2021	8%	35% discount(2)	100,000	100,000
January 16, 2017	January 16, 2021	8%	35% discount(2)	150,000	150,000

March 8, 2017	March 8, 2020	10%	40% discount(2)	100,000	100,000
March 9, 2017	March 9, 2021	8%	35% discount(2)	50,000	50,000
March 21, 2017	March 21, 2018*	8%	40% discount(2)	8,818	30,000
April 4, 2017	December 4, 2017**	10%	40% discount(2)	—	12,066
April 19, 2017	April 19, 2018*	15%	50% discount(2)	96,250	96,250
April 20, 2017	January 30, 2018*	8%	40% discount(1)	—	28,000
April 26, 2017	April 26, 2018**	0%	$0.001	67	67
May 1, 2017	May 1, 2021	8%	35% discount(2)	50,000	50,000
May 4, 2017	May 4, 2018*	8%	40% discount(2)	150,000	150,000
May 15, 2017	May 15, 2018**	0%	$0.001	1,280	1,280
May 17, 2017	May 17, 2020	10%	40% discount(1)	85,000	85,000
June 7, 2017	June 7, 2018	8%	40% discount(2)	200,000	200,000
June 16, 2017	June 16, 2018	0%	$0.001	750	750
July 8, 2017	July 8, 2018	8%	40% discount(2)	200,000	200,000
August 8, 2017	August 8, 2018	8%	40% discount(2)	125,000	125,000
July 28, 2017	July 28, 2018	15%	50% discount(2)	116,875	116,875
August 29, 2017	August 29, 2018	15%	50% discount(2)	147,500	247,500
September 1 ,2017	September 1, 2018	0%	lower of 50% discount/$0.005(2)	187,000	187,000
September 12, 2017	September 12, 2018	8%	40% discount(2)	—	128,000
September 25, 2017	September 25, 2018	15%	50% discount(2)	266,590	398,750
October 4, 2017	May 4, 2018*	8%	40% discount(2)	150,000	150,000
October 16, 2017	October 16, 2018	15%	50% discount(2)	345,000	345,000
November 22, 2017	November 22, 2018	15%	50% discount(2)	500,250	500,250
December 28, 2017	December 28, 2017	10%	40% discount(2)	60,500	60,500
December 29, 2017	December 29, 2018	15%	50% discount(2)	330,000	330,000
January 9, 2018	January 9, 2019	8%	40% discount(2)	82,500	82,500
January 30, 2018	January 30, 2019	15%	50% discount(2)	300,000	300,000
February 21, 2018	February 21, 2019	15%	50% discount(2)	300,000	300,000
March 14, 2018	March 14, 2019	10%	40% discount(2)	50,000	—
March 16, 2018	March 16, 2019	15%	50% discount(2)	95,000	—
June 7, 2017	June 7, 2018	8%	40% discount(2)	200,000	—

April 9, 2018	April 9, 2019	15%	50% discount(2)	55,000	—
March 21, 2017	March 21, 2018*	8%	40% discount(2)	40,000	—
March 21, 2017	March 21, 2018*	8%	40% discount(2)	40,000	—
April 17, 2018	April 17, 2019	8%	45% discount(2)	93,304	—
April 20, 2018	April 20, 2019	8%	40% discount(2)	115,040	—
May 2, 2018	December 2, 2018	10%	40% discount(2)	77,000	—
May 4, 2018	May 4, 2019	12%	50% discount(2)	82,500	—
May 14, 2018	December 14, 2018	10%	50% discount(2)	78,925	—
May 23, 2018	May 23, 2019	10%	50% discount(2)	110,000	—
				6,752,043	6,136,681
Less: current portion of convertible notes payable				(6,187,044)	(5,536,582)
Less: discount on noncurrent convertible notes payable				(433,552)	(505,039)
Noncurrent convertible notes payable, net of discount				$ 131,447	$ 95,060
Current portion of convertible notes payable				$ 6,187,044	$ 5,536,582
Less: discount on current portion of convertible notes payable				(3,207,125)	(3,418,637)
Current portion of convertible notes payable, net of discount				$ 2,979,919	$ 2,117,946

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* The indicated notes were in default and bear default interest of between 18% and 25% per annum.
** The indicated notes were in default with no default interest due.
(1) The note is convertible beginning six months after the date of issuance.
(2) The notes are accounted for and evaluated under ASC 480 as discussed in Note 3.

During the three months ended May 31, 2018 and 2017, the Company incurred original issue discounts of $48,893 and $0, respectively, and derivative discounts of $800,608 and $0, respectively, related to new convertible notes payable. These amounts are included in discounts on convertible notes payable and are being amortized to interest expense over the life of the convertible notes payable. During the three months ended May 31, 2018 and 2017, the Company recognized interest expense related to the amortization of debt discount of $1,133,763 and $0, respectively.

All the notes above are unsecured. As of May 31, 2018, the Company had total accrued interest payable of $960,608, of which $898,929 is classified as current and $61,679 is classified as noncurrent.

Convertible notes issued

On January 5, 2018, the Company issued an additional convertible promissory note to an investor with an aggregate principal amount of $250,000, due on January 5, 2019 for cash proceeds of $225,000 payable in tranches, with an original issue discount of $25,000. Each tranche matures one year after disbursement. The promissory note is convertible into common shares of the Company and a conversion price equal to 60% of the lowest trading price of the Company's common stock for the last 25 trading days prior to conversion, and has a 10% per annum interest rate commencing on January 5, 2018. On March 14, 2018, this note was amended to include the issuance of warrants to purchase 333,333 shares of the Company's common stock with an exercise price of $0.15 with a 3-year maturity, and to change the date of the note to March 14, 2018, coinciding with the payment of the first tranche of $50,000 including cash proceeds of $43,000, fees of $2,000 and an original issue discount of $5,000.

On March 1, 2018, the Company issued a convertible redeemable note to an investor with an aggregate principal amount of $95,000, due on March 1, 2019 for cash proceeds of $95,000. The promissory note is convertible into units of the Company comprised of one share of common stock and one warrant to purchase a share of common stock with a three-year maturity and a conversion price equal to 50% of the lowest bid price of the Company's common stock for the last 40 trading days prior to conversion, and has a 15% per annum interest rate commencing on March 1, 2018.

In March 2018 and April 2018, $200,000 was paid on the June 7, 2017 back end note for $200,000 from an investor maturing June 7, 2018. The note is convertible into common shares of the Company and a conversion price equal to 60% of the lowest trading price of the Company's common stock for the last 20 trading days prior to conversion, and has an 8% per annum interest rate.

On April 9, 2018, the Company issued a convertible redeemable note to an investor with an aggregate principal amount of $55,000, due on April 9, 2019 for cash proceeds of $55,000. The promissory note is convertible into units of the Company comprised of one share of common stock and one warrant to purchase a share of common stock with a three-year maturity and a conversion price equal to 50% of the lowest bid price of the Company's common stock for the last 40 trading days prior to conversion, and has a 15% per annum interest rate commencing on April 9, 2018.

In April 2018, the Company received $76,000 of proceeds from an investor for two back-end notes with a total principal amount of $80,000, including original issue discounts of $4,000 and a one-year maturity. The back-end notes are convertible into common shares of the Company at a conversion price equal to 60% of the lowest trading price of the Company's common stock for the last 20 trading days prior to conversion, and have an 8% per annum interest rate.

On May 2, 2018, the Company received $70,000 of proceeds from an investor for a promissory note with a principal amount of $77,000, including an original issue discounts of $7,000 and an eight-month maturity. The promissory note is convertible into common shares of the Company at a conversion price equal to 60% of the lowest trading price of the Company's common stock for the last 20 trading days prior to conversion, and has a 10% per annum interest rate commencing on May 2, 2018.

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On May 4, 2018, the Company received $71,500 of proceeds from an investor for a promissory note with a principal amount of $82,500, including an original issue discounts of $19,892 and a one-year maturity. The promissory note is convertible into common shares of the Company at a conversion price equal to 50% of the lowest trading price of the Company's common stock for the last 20 trading days prior to conversion, and has a 12% per annum interest rate commencing on May 4, 2018.

On May 23, 2018, the Company received $90,108 of proceeds from an investor for a promissory note with a principal amount of $110,000, including an original issue discounts of $19,892 and an eight-month maturity. The promissory note is convertible into common shares of the Company at a conversion price equal to 50% of the lowest trading price of the Company's common stock for the last 40 trading days prior to conversion, and has a 10% per annum interest rate commencing on May 23, 2018.

During the three months ended May 31, 2018, a debt holder transferred debt of $344,040, including accrued interest to third parties, who exchanged it for new convertible notes totaling $344,040; $100,000 with a one-year maturity, maturing on April 17, 2019, and bearing interest at 8% per annum; $144,404, with a one-year maturity, maturing on April 20, 2019, and bearing interest at 8% per annum; and $100,000 with an eight-month maturity, maturing on December 14, 2018, bearing interest at 10% per annum. A gain on settlement of debt of $268,145 was recorded that includes the amount of associated derivative liability that was written off.

Conversions to common stock

During the three months ended May 31, 2018, holders of certain convertible notes payable elected to convert principal and accrued interest in the amounts shown below into shares of common stock. No gain or loss was recognized on conversions as they occurred within the terms of the agreement that provided for conversion.

Conversion Date	Principal Converted	Interest Converted	Fees Converted	Total Amount Converted	Shares Converted
April 16, 2018	$ 132,160	$ —	$ —	$ 132,160	6,400,000
April 26, 2018	14,500	—	500	15,000	1,428,572
May 1, 2018	26,250	—	—	26,250	2,500,000
May 3, 2018	5,000	—	—	5,000	476,190

May 7, 2018	27,900	—	—	27,900	3,000,000
May 10, 2018	32,400	—	—	32,400	4,000,000
May 11, 2018	14,500	—	500	15,000	1,851,852
May 15, 2018	7,060	—	500	7,560	1,600,000
May 15, 2018	8,000	—	—	8,000	987,654
May 21, 2018	20,250	—	—	20,250	2,500,000
May 22, 2018	6,075	—	—	6,075	900,000
May 24, 2018	13,056	3,300	—	16,356	2,096,923
May 30, 2018	8,182	—	—	8,182	1,515,152
May 30, 2018	15,000	—	—	15,000	3,000,000
	$ 330,333	$ 3,300	$ 1,500	$ 335,133	32,256,343

11. RELATED PARTY TRANSACTIONS

For the three months ended May 31, 2018, the Company received net advances of $37,309 from its loan payable with a related party. At May 31, 2018, the balance due to the related party was $353,451, and $316,142 at February 28, 2018.

During the three months ended May 31, 2018, the Company paid $135,340 in consulting fees for research and development to a company owned by a principal shareholder.

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12. OTHER DEBT – VEHICLE LOANS

In December 2016, RAD entered into a vehicle loan for $47,704 secured by the vehicle. The loan is repayable over 5 years maturing November 9, 2021 and repayable at $1,019 per month including interest and principal. In November 2017, the Company entered into another vehicle loan secured by the vehicle for $47,704. The loan is repayable over 5 years, maturing October 24, 2022 and repayable at $923 per month including interest and principal. The principal repayments were $4,435 and $1,945 for the three months ended May 31, 2018 and 2017, respectively. The balances of the amounts owed on the vehicle loan were $77,727 and $82,162 as of May 31, 2018 and February 28, 2018, respectively, of which $17,830 and $17,830 were classified as current and $59,897 and $64,332 as long-term, respectively.

13. DERIVATIVE LIABILITES

As of May 31, 2018, the Company revalued the fair value of all of the Company's derivative liabilities associated with the conversion features on the convertible notes payable and determined that it had total derivative liabilities of $13,910,995.

The Company estimated the fair value of the derivative liabilities using the Monte-Carlo model using the following key assumptions during the three months ended May 31, 2018:

Strike price	$1.00 - $0.001
Fair value of Company common stock	$0.0739 - $0.0110
Dividend yield	0.00%
Expected volatility	258% - 116%
Risk free interest rate	1.20% - 2.32%
Expected term (years)	0.00 - 3.66

During the three months ended May 31, 2018, the Company released $685,130 and $0, respectively, of the Company's derivative liability to equity due to the conversions of principal and interest on the associated notes.

The changes in the derivative liabilities (Level 3 financial instruments) measured at fair value on a recurring basis for the nine months ended May 31, 2018 were as follows:

Balance as of February 28, 2018	$	31,113,844
Release of derivative liability on conversion of convertible notes payable to equity		(484,161)
Debt discount due to derivative liabilities		800,608
Derivative liability in excess of face value of debt recorded to interest expense		599,842
Reduction in derivative liability due to debt settlement		(267,245)
Change in fair value of derivative liabilities		(17,851,893)
Balance as of May 31, 2018	$	13,910,995

14. SHAREHOLDERS' DEFICIT

Summary of Preferred Stock Activity

During the three months ended May 31, 2018, the Company received $174,070 for the sale of 65 Series F preferred shares. As of the reporting date these shares have not been issued and are included in preferred stock to be issued on the balance sheet.

Summary of Common Stock Activity

During the three months ended May 31, 2018, the Company issued 32,256,343 shares of its common stock for the conversion of debt and related interest and fees totaling $335,133, including $330,333 for of principal, $3,300 interest and $1,500 in fees in connection with debt converted during the period.

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Summary of Stock Option Activity

As part of the asset purchase agreement described in Note 7, the Company issued 450,000 options to purchase shares at an exercise price of $0.05 per share that vest on October 2, 2021.

The options have a fair value of $27,843, based on the Black-Scholes Option Pricing model with the following assumptions:

Strike price	$0.05
Fair value of Company’s common stock	$0.06
Dividend yield	0.00%
Expected volatility	303.81%
Risk free interest rate	1.94%
Expected term (years)	4.00

The Company will amortize the $27,843 over the four-year term on a straight-line basis as stock-based compensation. For the three-month period ended May 31, 2018, the Company amortized $1,753 to stock-based compensation with a corresponding adjustment to additional paid-in capital. At May 31, 2018, the unamortized expense was $23,250 and the intrinsic value was $0.

On April 16, 2018, the Company issued warrants to purchase 6,400,000 shares of the Company’s common stock in connection with its issuance of 6,400,000 shares of the Company’s common stock to an investor as a part of a debt conversion (see Note 10). The warrants have an exercise price of $0.02 per share and a three-year term.

The warrants have a fair value of $472,960, based on the Black-Scholes Option Pricing model with the following assumptions:

Strike price	$0.02

Fair value of Company’s common stock	$0.07
Dividend yield	0.00%
Expected volatility	305.71%
Risk free interest rate	2.52%
Expected term (years)	5.00

The Company recorded $472,960 to stock-based compensation with a corresponding adjustment to additional paid-in capital.

15. COMMITMENTS AND CONTINGENCIES

Litigation

Occasionally, the Company may be involved in claims and legal proceedings arising from the ordinary course of its business. The Company records a provision for a liability when it believes that is both probable that a liability has been incurred, and the amount can be reasonably estimated. If these estimates and assumptions change or prove to be incorrect, it could have a material impact on the Company’s condensed consolidated financial statements. Contingencies are inherently unpredictable, and the assessments of the value can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions.

In February 2016, OMVS received notice that it had been sued in the Clark County District Court of Nevada. The plaintiff alleges that OMVS obtained certain trade secrets through a third party also named in the suit. OMVS believes the suit is without merit and intend to vigorously defend it. An arbitration was conducted on May 9, 2017, and the Plaintiff filed a Notice of Trial de Novo, seeking a review of the merit dismissal. It is counsel’s opinion this Trial de Novo is without merit and OMVS should prevail.

Operating Lease

The Company’s principal facility is located in Orange County, California. The lease agreement includes, escalating lease payments, renewal provisions and other provisions. The lease began in April 2017 and expires in March 2022. Rent expense is recorded over the lease terms on a straight-line basis. The security deposit of $25,747 was recorded as a long-term asset as of August 31, 2017.

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(UNAUDITED)

The Company also leases premises in northern California. The lease began in August 2017 and expires in August 2020. The security deposit of $5,126 was paid on September 1, 2017. The Company shares premises with a supplier, who is the co-lessee. Through agreement with the supplier, the Company agreed to pay 75% of the lease costs and the supplier agreed to pay 25%.

On February 1, 2018, the Company entered into an additional lease for premises for a robotic control center. The lease runs from February 1, 2018 to January 31, 2021 for $550 per month.

The Company's leases are accounted for as operating leases. Rent expense is recorded over the lease terms on a straight-line basis. Rent expense was $29,605 for the three months ended May 31, 2018. Rent expense was $11,229 for the three months ended May 31, 2017.

At May 31, 2018, the Company's future minimum payments are as follows:

Twelve Months Ended		**Amount**
May 31, 2019	$	117,425
May 31, 2020		120,576
May 31, 2021		77,439
May 31, 2022		48,298
	$	**363,738**

16. SUBSEQUENT EVENTS

Subsequent to May 31, 2018, convertible note holders converted $116,570 of principal and $1,000 in fees into 29,445,020 shares of the Company's common stock.

Additionally, 1,600,000 shares of the Company's common stock were cancelled by a convertible note holder. The Company added back the $7,060 of principal that was converted to the convertible note as a result of this cancellation.

On June 6, 2018, a note holder transferred debt of $299,200, including accrued interest, to a related party to the note holder who exchanged it for a new convertible note for the same value under the same terms and conditions.

On June 11, 2018, the Company entered into a promissory note for cash proceeds of $48,000. The note bears interest at 25% per annum on the unpaid principal portion. The principal and a portion of the interest is payable in twelve equal monthly instalments of $4,562.12. An additional 2% per annum penalty per day is incurred if the Company is in default of the note. The note is secured by specific fixed assets of the Company. In addition as part of the note, the Company issued warrants to purchase 250,000 shares of the Company's common stock with an exercise price of $0.03 per share, a three-year maturity and a grant date fair value of $3,225 based on the Black-Scholes Option Pricing model.

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

Forward-Looking Statements

The following discussion of our financial condition and results of operations for the three months ended May 31, 2018 and 2017 should be read in conjunction with our unaudited consolidated financial statements and the notes to those statements that are included elsewhere in this report. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under Item 1A. Risk Factors appearing in our Annual Report on Form 10-K/A for the year ended February 28, 2018, as filed on June 22, 2018 with the SEC as well as Form 8-K as filed with the SEC on August 31, 2017. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms “OMVS”, the “Company”, “we”, “us”, and “our” refer t On the Move Systems Corp.

Overview

On the Move Systems Corp. was incorporated in Florida on March 25, 2010 and reincorporated in Nevada on February 17, 2015.

Robotic Assistance Devices, LLC (“RAD”), was incorporated in the State of Nevada on July 26, 2016 as a LLC. On July 25, 2017, Robotic Assistance Devices LLC converted to a C Corporation, Robotic Assistance Devices, Inc. through the issuance of its 10,000 authorized common shares to its sole shareholder.

On August 28, 2017, OMVS completed the acquisition of RAD (the “Acquisition”), whereby OMVS acquired all the ownership and equity interest in RAD for 3,350,000 shares of OMVS Series E Preferred Stock and 2,450 shares of Series F Convertible Preferred Stock. OMVS’s prior business focus was transportation services, and OMVS was exploring the on-demand logistics market by developing a network of logistics partnerships. As a result of the closing of the Acquisition, OMVS has succeeded to the business of RAD, in which OMVS purchased all of the outstanding shares of capital stock of RAD. As a result, OMVS’s business going forward will consist of one segment activity which is the delivery of artificial intelligence and robotic solutions for operational, security and monitoring needs.

The Acquisition was treated as a reverse recapitalization effected by a share exchange for financial accounting and reporting purposes since substantially all of OMVS's operations were disposed of as part of the consummation of the transaction. Therefore, no goodwill or other intangible assets were recorded by OMVS as a result of the Acquisition. RAD is treated as the accounting acquirer as its stockholders control the Company after the Acquisition, even though OMVS was the legal acquirer. As a result, the assets and liabilities and the historical operations that are reflected in these financial statements are those of RAD as if RAD had always been the reporting company. Therefore, it should be noted that the comparative Statement of Operations and Statement of Cash Flows for the three months ended May 31, 2017 are the results of only RAD.

Results of Operations for the Three Months Ended May 31, 2018 and 2017

The following table shows our results of operations for the three months ended May 31, 2018 and 2017. The historical results presented below are not necessarily indicative of the results that may be expected for any future period.

	Period		Change	
	Three Months Ended May 31, 2018	Three Months Ended May 31, 2017	Dollars	Percentage
Revenues	$ 16,666	$ —	$ 16,666	100%
Gross profit	12,407	—	12,407	100%
Operating expenses	1,574,410	339,627	1,234,783	364%
Loss from operations	(1,562,003)	(339,627)	(1,222,376)	360%
Other income (expense), net	15,966,954	(12,348)	15,979,302	(129,408%)
Net income (loss)	$ 14,404,951	$ (351,975)	$ 14,756,926	(4,193%)

Revenue

Total revenue for the three-month period ended May 31, 2018 was $16,666, which represented an increase of $16,666, compared to total revenue of $0 for the three months ended May 31, 2017. The increase resulted from commencing the leasing of revenue earning devices.

Gross profit

Total gross profit for the three-month period ended May 31, 2018 was $12,407, which represented an increase of $12,407, compared to total revenue of $0 for the three months ended May 31, 2017. The increase resulted from commencing the leasing of revenue earning devices less the device parts inventory reserve.

Operating Expenses

Our operating expenses were comprised of general and administrative expenses, research and development costs, and depreciation. General and administrative expenses consisted primarily of professional services, automobile expenses, advertising, salaries and wages, travel expenses and rent. Our operating expenses during the three-month period ended May 31, 2018 and 2017 were $1,574,410 and $339,627, respectively. The overall increase of $1,234,783 in operating expenses was primarily attributable to the following increases in operating expenses:

	Period		Change	
	Three Months Ended May 31, 2018	**Three Months Ended May 31, 2017**	**Dollars**	**Percentage**
Research and development	$ 168,630	$ 17,317	$ 151,313	874%
General and administrative	1,383,927	308,091	1,075,836	349%
Depreciation and amortization	21,853	14,219	7,634	54%
Operating expenses	$ 1,574,410	$ 339,627	$ 1,234,783	364%

These increases in expenses are the result of the start of RAD and OMVS's combined operations in 2018 versus only RAD's operations that were starting up in 2017.

Other Income (Expense)

Other income (expense) consisted of the change of fair value of derivative instruments, gain on settlement of debt, and interest expense, amortization of debt issuance costs and discounts. Other income (expense) during the three months ended May 31, 2018 and 2017 were $15,966,964 and ($12,348), respectively. The increase of $15,979,302 in other income was primarily attributable to the change in the fair value of the derivative liabilities and the gain on settlement of debt, partially offset by the interest expense and amortization of debt issuance costs and discounts. The change in the fair value of the derivative liabilities was the result of a decline in the Company’s stock price during the current period.

Net Income (Loss)

We had a net income of $14,404,951 for the three months ended May 31, 2018, compared to a net loss of $351,975 for the three months ended May 31, 2017. The change is primarily the result of the change in the fair value of the derivative liabilities and other items discussed above.

Liquidity, Capital Resources and Cash Flows

Going Concern

Management believes that we will continue to incur losses for the immediate future. Therefore, we will need additional equity or debt financing until we can achieve profitability and positive cash flows from operating activities, if ever. These conditions raise substantial doubt about our ability to continue as a going concern. Our unaudited condensed consolidated financial statements do not include and adjustments relating to the recovery of assets or the classification of liabilities that may be necessary should we be unable to continue as a going concern. For the three months ended May 31, 2018, we have generated revenue and are trying to achieve positive cash flows from operations.

As of May 31, 2018, we had a cash balance of $135,350, accounts receivable of $16,759 and $19,041,797 in current liabilities. At the current cash consumption rate, we may need to consider additional funding sources going forward. We are taking proactive measures to reduce operating expenses and drive growth in revenue.

The successful outcome of future activities cannot be determined at this time and there is no assurance that, if achieved, we will have sufficient funds to execute our intended business plan or generate positive operating results.

Capital Resources

The following table summarizes total current assets, liabilities and working capital (deficit) for the periods indicated:

		May 31, 2018		February 28, 2018
Current assets	$	562,538	$	491,989
Current liabilities (1)		19,041,797		34,784,191
Working capital (deficit)	$	(18,479,259)	$	(34,292,202)

(1) As of May 31, 2018 and February 28, 2018, current liabilities included approximately $13.9 million and $31.1 million, respectively, of derivative liabilities that are expected to be settled in shares of the Company in accordance with the various conversion terms.

As of May 31, 2018 and February 28, 2018, we had a cash balance of $135,350 and $24,773, respectively.

Summary of Cash Flows.

		Three Months Ended May 31, 2018		Three Months Ended May 31, 2017
Net cash used in operating activities	$	(677,324)	$	(342,537)
Net cash used in investing activities		(119,651)		(106,131)
Net cash provided by financing activities		907,552		407,769
Total increase (decrease) in cash	$	110,577	$	(40,898)

Net cash used in operating activities.

Net cash used in operating activities for the three months ended May 31, 2018 was $677,324, which included non-cash items such as change in fair value of derivative liabilities of $17,851,893, gain on settlement of debt of $268,145 and a change in operating assets of $621,803. These losses are offset by net income of $14,404,951, non-cash items including interest expense related to derivative liabilities in excess of face value of debt of $599,842, amortization of debt discount of $1,133,763, penalties from debt defaults of $185,790, stock-based compensation of $474,712 and depreciation and amortization of $21,853 to derive the uses of cash in operations.

Net cash used in investing activities.

Net cash used in investing activities for the three months ended May 31, 2018 was $119,651. This consisted primarily of the purchase of fixed assets of $119,576.

Net cash provided by financing activities.

Net cash provided by financing activities was $907,552 for the three months ended May 31, 2018. This consisted of proceeds from convertible notes payable of $700,608, net borrowings from loan payable – related party of $37,309, and proceeds from the sale of preferred stock of $174,070, offset by payments of vehicle loans of $4,435.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are further discussed in our Annual Report on Form 10-K/A for the year ended February 28, 2018 filed with the SEC on June 22, 2018 and should be read in conjunction with the Original filing on Form 10-K filed with the SEC on June 14, 2018.

Related Party Transactions

For the three months ended May 31, 2018, the Company received net advances of $37,309 from its loan payable with a related party. At May 31, 2018, the balance due to the related party was $353,451, and $316,142 at February 28, 2018.

During the three months ended May 31, 2018, the Company paid $135,340 in consulting fees for research and development to a company owned by a principal shareholder.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable for a smaller reporting company.

ITEM 4. CONTROLS AND PROCEDURES

Management's Report on Internal Control over Financial Reporting

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of May 31, 2018. Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of May 31, 2018, our disclosure controls and procedures were not effective to ensure that information required to be disclosed in reports filed by us under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

1. As of May 31, 2018, we did not maintain effective controls over the control environment. Specifically, we have not developed and effectively communicated to our employees our accounting policies and procedures. This has resulted in inconsistent practices. Further, the Board of Directors does not currently have any independent members and no director qualifies as an audit committee financial expert as defined in Item 407(d)(5)(ii) of Regulation S-K. Since these entity level programs have a pervasive effect across the organization, management has determined that these circumstances constitute a material weakness.

2. As of May 31, 2018, we did not maintain effective controls over financial statement disclosure. Specifically, controls were not designed and in place to ensure that all disclosures required were originally addressed in our financial statements. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Our management, including our principal executive officer and principal financial officer, who is the same person, does not expect that our disclosure controls and procedures or our internal controls will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Change in Internal Controls Over Financial Reporting

There was no change in our internal controls over financial reporting that occurred during the period covered by this report, which has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In February 2016, OMVS received notice that it had been sued in the Clark County District Court of Nevada. The plaintiff alleges that OMVS obtained certain trade secrets through a third party also named in the suit. OMVS believes the suit is without merit and intend to vigorously defend it. An arbitration was conducted on May 9, 2017, and the Plaintiff filed a Notice of Trial de Novo, seeking a review of the merit dismissal. It is counsel's opinion this Trial de Novo is without merit and OMVS should prevail.

ITEM 1A. RISK FACTORS

This item is not applicable to smaller reporting companies.

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

Each issuance of securities was issued without registration in reliance of the exemption from registration Section 3(a)9 of the Securities Act of 1933.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company has not defaulted upon senior securities.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to the Company.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

3.1	Articles of Incorporation (1)
3.2	Bylaws (2)
14	Code of Ethics (2)
21	Subsidiaries of the Registrant (3)
31.1	Rule 13(a)-14(a)/15(d)-14(a) Certification of principal executive officer and principal financial and accounting officer. (3)
32.1	Section 1350 Certification of principal executive officer and principal financial accounting officer. (3)
101	XBRL data files of Financial Statement and Notes contained in this Quarterly Report on Form 10-Q. (3)(4)

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(1) Incorporated by reference to our Form 10-KT file with the Securities and Exchange Commission on March 12, 2018.

(2) Incorporated by reference to our Form S-1 filed with the Securities and Exchange Commission on August 4, 2010.

(3) Filed or furnished herewith.

(4) In accordance with Regulation S-T, the Interactive Data Files in Exhibit 101 to the Quarterly Report on Form 10-Q shall be deemed “furnished” and not “filed.”

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.

On the Move Systems Corp.

Date: July 16, 2018

BY: /s/ Garett Parsons
Garett Parsons
President, Chief Executive Officer, Chief Financial Officer,

Principal Accounting Officer, Treasurer and Director