

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Brekford Corp.

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2009**

or

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

For the transition period from: _____ to _____

Commission File Number: **000-52719**

Brekford International Corp.

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction
of Incorporation)

20-4086662

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

7020 Dorsey Road, Suite C, Hanover, Maryland 21076

(Address of Principal Executive Office) (Zip Code)

(443) 557-0200

(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 ☒ 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 ☐ 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.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date. The issuer had 57,815,513 shares of Common Stock, par value \$0.0001 per share ("Common Stock") issued and outstanding as of November 2, 2009.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Brekford International Corp. and Subsidiary Condensed Consolidated Balance Sheets

	September 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,057,480	\$ 436,451
Restricted cash	—	331,823
Accounts receivable, net	1,974,894	2,230,479
Prepaid expenses	29,245	28,139
Work in process	239,721	275,925
Total Current Assets	3,301,340	3,302,817
Property and equipment, net	434,746	541,454
Other assets	393,104	464,228
TOTAL ASSETS	\$ 4,129,190	\$ 4,308,499
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 1,037,105	\$ 1,778,347
Accrued payroll and related expenses	73,706	50,345
Customer deposits	27,060	—
Equipment notes payable - current portion	62,595	45,704
Deferred rent - current portion	24,910	20,778
Total Current Liabilities	1,225,376	1,895,174
Equipment notes payable, net of current portion	23,665	53,371
Deferred rent, net of current portion	235,149	265,989
TOTAL LIABILITIES	1,484,190	2,214,534
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value \$0.0001 per share; 20,000,000 shares authorized; none issued and outstanding	—	—
Common stock, par value \$0.0001 per share; 150,000,000 shares authorized; 57,815,513 and 59,626,565 shares issued and 57,815,513 and 63,435,674 shares outstanding at September 30, 2009 and December 31, 2008, respectively	5,782	5,963
Additional paid-in capital	10,267,390	10,494,892
Treasury stock, at cost; 1,904,025 shares at December 31, 2008	—	(227,683)
Accumulated deficit	(7,628,172)	(8,179,207)
TOTAL STOCKHOLDERS' EQUITY	2,645,000	2,093,965
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,129,190	\$ 4,308,499

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

Brekford International Corp. and Subsidiary
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
NET SALES	\$ 3,889,774	\$ 3,237,103	\$ 10,906,963	\$ 9,405,530
COST OF SALES	3,209,186	2,600,914	9,072,900	8,001,379
GROSS PROFIT	680,588	636,189	1,834,063	1,404,151
OPERATING EXPENSES				
Salaries and related expenses	237,046	554,826	657,846	1,676,627
Selling, general and administrative expenses	239,416	435,609	631,770	1,759,310
TOTAL OPERATING EXPENSES	476,462	990,435	1,289,616	3,435,937
INCOME (LOSS) FROM OPERATIONS	204,126	(354,246)	544,447	(2,031,786)
OTHER INCOME (EXPENSE)				
Interest expense	(1,872)	(2,898)	(5,268)	(9,411)
Interest income	5,496	8,041	11,856	36,627
TOTAL OTHER INCOME	3,624	5,143	6,588	27,216
NET INCOME (LOSS)	\$ 207,750	\$ (349,103)	\$ 551,035	\$ (2,004,570)
NET INCOME (LOSS) PER SHARE – BASIC AND DILUTED	\$ —	\$ (0.01)	\$ 0.01	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED	57,815,513	63,926,969	58,479,614	63,837,461

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

Brekford International Corp. and Subsidiary
*Condensed Consolidated Statement of Stockholders' Equity for the
Nine Months Ended September 30, 2009 (Unaudited)*

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Treasury Stock</u>		<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Par Value</u>	<u>Shares</u>	<u>Par Value</u>		<u>Shares</u>	<u>Cost</u>		
BALANCE - December 31, 2008	—	—	59,626,565	\$ 5,963	\$ 10,494,892	(1,904,025)	\$ (227,683)	\$ (8,179,207)	\$ 2,093,965
Cancellation of treasury shares	—	—	(1,811,052)	(181)	(227,502)	1,904,025	227,683	—	—
Net Income	—	—	—	—	—	—	—	551,035	551,035
BALANCE - September 30, 2009 (Unaudited)	—	\$ —	57,815,513	\$ 5,782	\$ 10,267,390	—	\$ —	\$ (7,628,172)	\$ 2,645,000

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

Brekford International Corp. and Subsidiary
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2009	2008
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Net Income (Loss)	\$ 551,035	\$ (2,004,570)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	87,678	89,572
Stock-based compensation, net of treasury stock and forfeiture	—	187,016
Bad debt expense	—	149,118
Deferred rent	(26,708)	(22,703)
Loss on sale of property and equipment	454	—
Changes in operating assets and liabilities:		
Accounts receivable	255,585	(675,487)
Prepaid expenses	(1,106)	(76,542)
Work in process	36,204	(510,221)
Other assets	71,124	87,500
Accounts payable and accrued expenses	(741,242)	1,009,933
Accrued payroll and related expenses	23,361	(30,988)
Customer deposits and deferred revenue	27,060	107,530
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	283,445	(1,689,842)
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchases of property and equipment	(1,424)	(62,163)
Proceeds from sale of property and equipment	20,000	
Purchase of held-to-maturity investments		(342,700)
Restricted cash	331,823	347,346
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	350,399	(57,517)
CASH FLOWS USED IN FINANCING ACTIVITIES		
Principal payments on equipment note payable	(12,815)	(31,002)
NET CASH USED IN FINANCING ACTIVITIES	(12,815)	(31,002)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	621,029	(1,778,361)
CASH AND CASH EQUIVALENTS – Beginning of period	436,451	2,092,951
CASH AND CASH EQUIVALENTS – End of period	\$ 1,057,480	\$ 314,590
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 6,408	\$ 9,411

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

Brekford International Corp. and Subsidiary
Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF THE BUSINESS

Brekford International Corp. is a leading provider of fully integrated vehicle installation and rugged technology solutions geared towards mission critical operations. For more than a decade, the company has provided services to branches of the U.S. military, various federal entities and numerous security and public safety agencies throughout the Mid-Atlantic region. Brekford provides these agencies with an end-to-end suite of superior products and services designed to streamline procurement processes and offer maximum functionality to their day to day operations.

Brekford provides end-to-end mobile communications, information technology and vehicle upfitting solutions including:

- Ruggedized mobile computing, video and communications products and services for homeland security and public safety environments;
- Information technology products in support of homeland security and public safety back-office operations; and,
- Bumper-to-bumper vehicle modification products and services, including specialized lights, sirens, prisoner cages and ballistics protection for homeland security, law enforcement, fire and emergency medical vehicles.

The Company's customers principally include municipal police departments, state and municipal public safety agencies and, from time to time, public utilities, Fortune 500 companies and government integrators.

Unless the context indicates otherwise, use of the term, the "Company," refers to Brekford and its wholly-owned subsidiary.

NOTE 2 – LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$2,075,964 at September 30, 2009. The Company's primary sources of liquidity through September 30, 2009 have been the cash flows it has generated from its operations and funds received in a private placement transaction completed during the year ended December 31, 2007.

The Company reported net income of \$551,035 for the nine months ended September 30, 2009 and its accumulated deficit amounted to \$7,628,172 at September 30, 2009. Cash flows provided by operations for the nine months ended September 30, 2009 was \$283,445.

Management believes that the Company's current level of working capital combined with funds that it expects to generate in its operations during the next twelve months will be sufficient to sustain the business through at least October 1, 2010. While the Company has taken certain measures to conserve its liquidity as it continues the effort to pursue its business initiatives, there can be no assurance that the Company will be successful in its efforts to expand its operations or that the expansion of its operations will improve its operating results. The Company also cannot provide any assurance that unforeseen circumstances, such as the current economic crisis, will not have a material adverse effect on the business that could require it to raise additional capital or take other measures to sustain operations in the event that outside sources of capital are not available. Although the Company has no specific indication that its business will be affected by the current economic crisis or at a level beyond management's ability to manage this risk, this matter is an uncertainty that is under continuous review by management. The current economic crisis could also have an effect on the Company's ability to obtain external funding if needed. If the Company encounters unforeseen circumstances it may need to curtail certain of its operations. Although management believes the Company has access to capital resources, it has not secured any commitments for new financing at this time nor can it provide any assurance that new capital will be available to it on acceptable terms, if at all.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Basis of Presentation

The condensed consolidated financial statements of the Company include the accounts of Brekford and its wholly-owned subsidiary. Intercompany transactions and balances have been eliminated in consolidation.

The consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, the accompanying consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position and the results of operations for the periods presented.

This Form 10-Q should be read in conjunction with the Company's financial statements for the year ended December 31, 2008 contained in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 23, 2009.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, the reported amounts of revenues and expenses during the reporting period and related disclosures. The Company's consolidated financial statements include amounts that are based on management's best estimates and judgments. Management's estimates include the allowance for doubtful accounts, stock based compensation, deferred tax asset valuation allowance and the estimated life of property and equipment. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid securities purchased with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company maintains checking and money market accounts with major financial institutions. Accounts at each bank are insured by the Federal Deposit Insurance Corporation ("FDIC"). From time to time amounts deposited may exceed the FDIC limits. The Company has not experienced any losses on these accounts.

Accounts Receivable, net

Accounts receivable are carried at estimated net realizable value. The Company has a policy of reserving for uncollectable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The allowance for doubtful accounts was \$181,402 at December 31, 2008 and \$0 at September 30, 2009.

Revenue Recognition

The Company applies the revenue recognition principles set forth under SEC Staff Accounting Bulletin (SAB) 104 with respect to all of its revenue. The Company adheres strictly to the criteria outlined in SAB 104, which provides for revenue to be recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery or installation has been completed, (iii) the customer accepts and verifies receipt, and (iv) collectability is reasonably assured.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Company earns revenue from ruggedized mobile computing, video and communications products and services for homeland security and public safety environments, and bumper-to-bumper vehicle modification products and services, including specialized lights, sirens, prisoner cages and ballistics protection for homeland security, law enforcement, fire and emergency medical vehicles. Under these arrangements, the Company provides its customers with (i) audiovisual signaling equipment and other public safety vehicle products, (ii) notebook computers, (iii) customized mounting equipment designed for use in first responder vehicles, (iv) customized audio and visual signaling equipment, (v) audio and video evidence collection equipment, and (vi) installation services. The Company requires all of its product sales to be supported by evidence of a sale transaction that clearly indicates the selling price to the customer, shipping terms, payment terms (generally 30 days) and refund policy, if any. The Company generally configures such notebook computers, mounting systems and other public safety equipment to conform to customer specifications defined at the time in which the contract or sale is negotiated, which sales are made at fixed prices. The Company, from time to time, may also install computer software on laptops that it resells to its customers on a time and materials basis.

The Company considers delivery to its customers to have occurred at the time in which products are delivered and/or installation work is completed and the customer acknowledges its acceptance of the work.

The Company provides its customers with a warranty against defects in the installation of its vehicle upfitting solutions for one year from the date of installation. The Company accounts for warranty liabilities in accordance with the provisions provided by Financial Accounting Standards Board Accounting Standards ("ASC"). Warranty claims were insignificant during the nine months ended September 30, 2009 and 2008.

The Company also performs warranty repair services on behalf of the manufacturers of the equipment it sells. The Company does not currently offer separately priced extended warranty and product maintenance contracts, nor does the Company reduce its prices in anticipation of selling extended warranties offered by the manufacturers of the equipment it sells. Revenues from warranty services were insignificant during the nine months ended September 30, 2009 and 2008.

Net Income (Loss) Per Share

In accordance with ASC, basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of Common Stock outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of Common Stock, Common Stock equivalents and potentially dilutive securities outstanding during each period. Diluted income per share for the three and nine months ended September 30, 2009 excludes warrants in the computation because their effect would be anti-dilutive.

The Company's computation of net income (loss) per share includes 437,500 options exercisable at \$0.01 per share at September 30, 2008, and none at September 30, 2009. Additionally, as of September 30, 2009, 14,595,000 Common Stock purchase warrants issued were excluded from the determination of net income (loss) per share as the exercise prices were greater than the average fair value of the Company's Common Stock for the three and nine months ended and 16,595,000 Common Stock purchase warrants issued as of September 30, 2008, respectively, were excluded from the determination of net income (loss) per share as their effect is anti-dilutive.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Implemented Accounting Guidance

The FASB, in June 2009, issued new accounting guidance that established the FASB Accounting Standards Codification, ("Codification" or "ASC") as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. This new guidance became effective for interim and annual periods ending after September 15, 2009. Other than the manner in which new accounting guidance is referenced, the adoption of these changes did not have a material effect on the Company's consolidated financial statements.

In December 2007, the FASB issued new accounting guidance, under ASC Topic 805 on business combinations, which established principles and requirements as to how acquirers recognize and measure in these financial statements the identifiable assets acquired, the liabilities assumed, noncontrolling interests and goodwill acquired in the business combination or a gain from a bargain purchase. This guidance is effective for business combinations with an acquisition date on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This guidance will have an impact on the Company's accounting for any future business acquisitions.

In December 2007, the FASB issued new accounting guidance, under ASC Topic 810 on consolidations, which establishes the accounting for noncontrolling interests in a subsidiary and the deconsolidation of a subsidiary. This guidance requires (a) the ownership interest in the subsidiary held by parties other than the parent to be clearly identified and presented in the consolidated balance sheet within equity, but separate from the parent's equity, (b) the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and (c) changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary to be accounted for consistently. Entities must provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. This guidance will have an impact on the Company's accounting for any future business acquisitions.

In April 2008, the FASB issued new accounting guidance, under ASC Topic 350 on intangibles, which outlines the requirements for determining the useful life of an intangible asset. The new guidance is intended to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset when the underlying arrangement includes renewal or extension of terms that would require substantial costs or result in a material modification to the asset upon renewal or extension. Companies estimating the useful life of a recognized intangible asset must now consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, must consider assumptions that market participants would use about renewal or extension as adjusted for entity-specific factors. This guidance is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company expects the new guidance to have an impact on the accounting for any future business acquisitions.

In June 2008, the FASB issued new accounting guidance, under ASC Topic 260 on earnings per share, related to the determination of whether instruments granted in share-based payment transactions are participating securities. This guidance clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This guidance is effective for financial statements issued for fiscal years beginning on or after

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Implemented Accounting Guidance (Continued)

December 15, 2008, and interim periods within those fiscal years. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In June 2008, the FASB issued new accounting guidance, under ASC Topic 815 on derivatives and hedging, as to how an entity should determine whether an instrument (or an embedded feature) is indexed to an entity's own stock. This guidance provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

In November 2008, the FASB issued new accounting guidance, under ASC Topic 323 on investments-- equity method and joint ventures, relating to the accounting for equity method investments. This guidance addresses how the initial carrying value of an equity method investment should be determined, how it should be tested for impairment, and how changes in classification from equity method to cost method should be treated. This guidance is effective on a prospective basis in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company expects this guidance to have an impact on its accounting for any future business acquisitions.

In May 2009, the FASB issued new accounting guidance, under ASC Topic 855 on subsequent events, which sets forth: 1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; 2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and 3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for interim and annual periods ending after June 15, 2009. The adoption of this guidance did not have a material effect on the Company's consolidated financial statements.

The FASB has published FASB Accounting Standards Update 2009-14, *Software (Topic 985)-Certain Revenue Arrangements that Include Software Elements* and changes the accounting model for revenue arrangements that include both tangible products and software elements. Under this guidance, tangible products containing software components and nonsoftware components that function together to deliver the tangible product's essential functionality are excluded from the software revenue guidance in Subtopic 985-605, *Software-Revenue Recognition*. In addition, hardware components of a tangible product containing software components are always excluded from the software revenue guidance. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

The FASB has published FASB Accounting Standards Update 2009-13, *Revenue Recognition (Topic 605)-Multiple Deliverable Revenue Arrangements* which addresses the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than as a combined unit. Specifically, this guidance amends the criteria in Subtopic 605-25, *Revenue Recognition-Multiple-Element Arrangements*, for separating consideration in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, which is based on: (a) vendor-specific objective evidence; (b) third-party evidence; or (c) estimates. This guidance also eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and also requires expanded disclosures. FASB Accounting Standards Update 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

NOTE 4 – COMMITMENTS AND CONTINGENCIES

Brekford International Corp. v. Woot, Inc.

On or about January 16, 2009, the Company filed suit against Woot, Inc., a Texas corporation (“Woot”) in the United States District Court of the Southern District of Florida, Miami Division, Case No. 09-20143-Civ-Seitz/O’Sullivan. The Company alleges that on or about July 29, 2008, the Company agreed to purchase from Woot, and Woot agreed to sell to the Company ten thousand (10,000) Lexmark printers and digital camera bundles (the “Goods”) for the purchase price of \$370,000 (the “Contract Price”). The Company paid Woot the Contract Price and instructed Woot to ship the Goods to a third party. Woot breached the contract by failing to deliver the Goods to the third party as directed. The Company demanded Woot return the full Contract Price; however, Woot refunded \$50,000 to the Company. As a result of Woot’s breaches, the Company is seeking damages in the amount of \$320,000, plus pre-judgment interest and costs. On March 9, 2009, Woot filed a motion to dismiss for lack of personal jurisdiction and an alternative motion to transfer venue. On April 14, 2009, an order was entered granting the defendant’s request for a change in venue and transferring the case to the United States District Court of the Eastern District of Texas. Although the Company believes it has a strong position and is entitled to a full refund, a possible range of loss or timing of a resolution cannot be predicted at this time. Accordingly, the deposit on this contract is classified in non-current assets in the accompanying balance sheet at September 30, 2009 and December 31, 2008. On May 5, 2009, Woot filed an answer denying liability to the Company, and on May 11, 2009, Woot filed third party complaints against the parties Chiragnee, Inc. and Zenith Distributors, Inc. On June 26, 2009 and August 13, 2009, the defendants Zenith Distributors, Inc. and Chiragnee Inc., respectively, filed motions to dismiss for lack of jurisdiction. A final pretrial conference and trial scheduling is scheduled for June 7, 2010.

Richard A. Sajac v. Brekford International Corp.

On or about June 19, 2009, Richard A. Sajac, a former employee and former officer of the company, filed suit against the Company in Anne Arundel County Circuit Court of Maryland, Case No. 02-C-09-141795. The complaint alleges that the Company breached its obligations under an employment agreement and stock option agreement. The plaintiff seeks treble damages in the amount of \$382,500, plus 1,062,500 stock options and reasonable attorney’s fees, costs and unreimbursed expenses. On July 17, 2009, the Company filed a notice removing the case from state court to federal court in the United States District Court for the District Of Maryland (Northern Division). The new case number is 1:09-cv-01888(CCB). On July 24, 2009, the Company filed an answer in federal court denying the allegations contained in the complaint. The case is in the discovery phase. No trial date has been set. Although management believes that the Company has strong defenses available to it in the case, there can be no assurance that the outcome of this matter will not have a material effect on the Company’s financial condition or results of operations.

NOTE 5 – LINE OF CREDIT AND LETTER OF CREDIT

On July 27, 2009, the Company entered into a \$500,000 Standby Letter of Credit and a \$250,000 Line of Credit with a bank. Borrowings under the Standby Letter of Credit are repayable plus accrued interest at a rate equal to the greater of (i) the fluctuating annual rate of interest equal to the prime rate plus 1.00 percentage point, adjusted daily, or (ii) 6.00 per annum. Borrowings under the Line of Credit are repayable over one year plus accrued interest calculated at prime plus 5% per annum and cannot exceed the lesser of \$250,000 or 75% of eligible receivables, as defined in the agreement. The Standby Letter of Credit expires in July 2010 and the Line of Credit matures in August 2010. The Standby Letter of Credit and Line of Credit are collateralized by all assets of the Company and are personally guaranteed by officers of the Company. At September 30, 2009, there were no borrowings under the Line of Credit.

NOTE 6 – MAJOR CUSTOMERS AND VENDORS

Major Customers

The Company is required to disclose sales to individual customers that represent greater than 10% of net sales.

During the nine months ended September 30, 2009, sales to two customers which are agencies of state or local governments represented 13% and 10% respectively, of net sales. Accounts receivable due from three customers amounted to 41%, 16% and 11% of total accounts receivable at September 30, 2009.

During the nine months ended September 30, 2008, sales to one customer which is an agency of a state or local governments represented 14% of net sales. Accounts receivable due from two customers amounted to 27% and 18% of total accounts receivable at September 30, 2008.

Major Vendors

The Company purchased substantially all laptop computers that it resold during the periods presented from a single distributor. Revenues from laptop computers, amounted to 63% and 61% of total revenues for the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009 and 2008, accounts payable due to this distributor amounted to 68% and 46% of total accounts payable, respectively.

While the Company believes that alternative sources of these products are available, it has yet to identify sources other than this vendor that have the ability to deliver these products to the Company within the time frames and specifications that it currently demands. The loss of this vendor could result in a temporary disruption of the Company's operations.

NOTE 7 – SUBSEQUENT EVENTS

On September 29, 2009, the Company's board of directors authorized management to repurchase 18,910,000 shares of the Company's Common Stock and 10,000,000 common stock purchase warrants exercisable at \$.39 per share that are in the custody of a receiver of a stockholder in liquidation. The Company has presented an offer to the receiver in which it has proposed to repurchase these securities at an aggregate purchase price of \$700,000. The Company contemplates financing this transaction, if consummated, from the proceeds of convertible notes it would issue to two officers/stockholders and a director of the Company. Such notes would be convertible into Common Stock at \$.07 per share, bear 12% interest per annum, have maturity date of no more than two years from the date of issuance and would feature standard anti-dilution protection for stock splits, stock dividends and similar types of recapitalization events. The receiver is waiting for court approval prior to accepting the Company's offer to repurchase these securities. The Company is currently unable to determine whether the proposed repurchase will be completed according to the terms offered to the receiver, if at all.

Management has evaluated all subsequent events after the balance sheet date and through the financial statement issuance date of November 2, 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents a review of the condensed consolidated operating results of Brekford International Corp. and its wholly-owned subsidiary (Brekford and its subsidiary are referred to together as the "Company") for the nine months ended September 30, 2009 and 2008, respectively, and the financial condition of the Company at September 30, 2009. The discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes included herein, as well as the Company's financial statements for the year ended December 31, 2008 filed with its Annual Report on Form 10-K on March 23, 2009.

Forward-Looking Statements

Statements included in this Quarterly Report filed on Form 10-Q ("Form 10-Q") that do not relate to present or historical conditions are "forward-looking statements." Such forward-looking statements involve risks and uncertainties that could cause results or outcomes to differ materially from those expressed in the forward-looking statements. Forward-looking statements may include, without limitation, statements relating to our plans, strategies, objectives, expectations and intentions and are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Words such as "believes," "forecasts," "intends," "possible," "estimates," "anticipates," and "plans" and similar expressions are intended to identify forward-looking statements. Our ability to predict projected results or the effect of events on our operating results is inherently uncertain. Forward-looking statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those discussed in this document. Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or management's good faith belief with respect to future events, and is subject to risks and uncertainties that could cause our growth and actual performance or results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to: (i) industry competition, conditions, performance and consolidation, (ii) legislative and/or regulatory developments, (iii) the effects of adverse general economic conditions, both within the United States and globally, (iv) any adverse economic or operational repercussions from terrorist activities, war or other armed conflicts, and (v) the availability of debt and equity financing in view of the current economic crisis.

Forward-looking statements speak only as of the date the statements are made. The Company assumes no obligation to update forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information except to the extent required by applicable securities laws. If the Company updates one or more forward-looking statements, no inference should be drawn that it will make additional updates with respect thereto or with respect to other forward-looking statements.

Overview

As a result of the events of September 11, 2001, the homeland security industry saw significant growth, from approximately \$10 billion in 2000 to over \$59 billion in 2006 (Source: Homeland Security Research Corporation). This growth is expected to continue, with worldwide government and business spending predicted to reach \$178 billion annually by 2015 (Source: WAM (United Arab Emirates News Agency), December 2007). Operating within the broader homeland security industry, the majority of the revenue we have earned and cash we have generated since 2004 has been as the result of appropriations and grants by the U.S. federal government to state and local agencies for the development of more robust computing and interoperable communications platforms.

The products and services from which we have earned revenue include:

- Rugged and non-rugged mobile communications equipment and integration services for public safety and government customers (police, fire and emergency medical services);
- Vehicle upfitting services provided to local and federal law enforcement agencies and departments, such as, installation of light bars sirens and mobile data equipment; and
- IT and office electronics products and services to federal, state agency and commercial customers.

Although we do not believe we have yet experienced a significant adverse effect from the economic recession occurring in the United States, the information technology industry overall is affected by general economic conditions including the effects of inflation, recession, unemployment, trends in national and global economies and other factors beyond our control. An economic recession or a delayed economic recovery over a prolonged period of time in our primary market area could cause a decrease in the level of spending by our primary customers, local and municipal governments, and thereby cause operating losses, impairment of liquidity and erosion of capital. We cannot assure you that adverse changes in the economy would not have a material effect on our future consolidated financial condition, results of operations and cash flows.

The primary products and services from which we have earned revenue and anticipate we will continue to earn revenue, include rugged notebook computers, mounting systems, wireless data services including wireless Internet access and global positioning systems (GPS), mobile audio and video recording systems, and installation services of all the above components in first responder and commercial fleet vehicles. The majority of our sales occur in the Mid-Atlantic region, which is comprised of the states of Maryland, Virginia, Delaware, New Jersey and Pennsylvania. Primarily, we sell our products to state and local government and commercial customers, but have also sold mobile data systems to federal law enforcement agencies as well. Although we operate in an industry that has experienced substantial growth in recent years, it is also characterized by extensive fragmentation and intense competition. As such, larger competitors may have greater buying power and therefore may be able to offer better pricing, which is a key factor in determining whether a contract will be awarded by local, state and federal agencies with limited budgets. In addition, although the majority of our sales are to government agencies and other government contractors with historically stable operating budgets, the significant economic downturn and recession has had and will most likely continue to have a detrimental effect on our rate of growth and, if long-term, an adverse effect on our financial condition and operating results.

To address these competitive pressures and industry trends, we intend to grow our revenues by:

- Offering an expanded platform of products and higher-end technical services to our existing customers;
- Increasing our customer base by expanding our offerings into additional regions;
- Offering municipal lease/financing options on full vehicle build-outs through a third-party financial services company;
- Using the recently granted placement on the General Services Administration ("GSA") Schedule 84, a preferred, pre-negotiated contract that provides significant revenue opportunities from federal, state and local governments, which, along with the passage of the Local Preparedness Acquisition Act, management believes will benefit our upfitting group by opening up our products and services to federal, state and local governments with which we have not done business before;
- Targeting new industry verticals, such as utility; and
- Launching our private label products such as our Slick-Ticket electronic ticketing system.

Satisfaction of our cash obligations for the next 12 months

We are pursuing the above opportunities in the public safety vehicle upfitting market. Accordingly, our cash obligations are anticipated to increase over the next 12 months. The cash would be utilized to fund the hiring of sales and technical employees, and business development and marketing expenses associated with our expected new products and services.

We believe our cash flows from operations, after giving effect to various certain restructuring and cost control measures we have implemented during the quarter are sufficient to sustain our operations through October 1, 2010. However, we anticipate that we will need additional funding to pursue our long-term strategy to further develop our upfitting business by (i) offering higher gross margin products and services, (ii) expanding our upfitting operations throughout the Mid-Atlantic region, (iii) acquiring technical and sales personnel and, (iv) acquiring the resources necessary for our performance under local, state and federal government contracts we believe may be awarded to us. While we have various plans to secure such financing, there can be no assurance that any such plans will be successful.

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2009 and 2008 Compared

The following tables summarize selected items from the statement of operations for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008.

	Nine Months Ended September 30,		Increase	
	2009	2008	\$	%
Revenues	\$ 10,906,963	\$ 9,405,530	\$ 1,501,433	16%
Cost of Sales	9,072,900	8,001,379	1,071,521	13%
Gross Profit	\$ 1,834,063	\$ 1,404,151	\$ 429,912	31%
Gross Profit Percentage of Revenue	17%	15%		

Revenues

Consolidated revenues for the nine months ended September 30, 2009 amounted to \$10,906,963 as compared to revenues of \$9,405,530 for the nine months ended September 30, 2008, an increase of \$1,501,433 or 16%, primarily due to an increase in sales of laptops, modems and installation services during the nine months ended September 30, 2009.

Cost of Sales

Cost of sales for the nine months ended September 30, 2009 amounted to \$9,072,900 as compared to \$8,001,379 for the nine months ended September 30, 2008, an increase of \$1,071,521 or 13%, primarily due to the increase in sales of laptops and installations and an increase in vehicle upfitting services with higher gross profit margin compared to the sales of lower gross profit margin of office electronics during the nine months ended September 30, 2008.

Expenses

	Nine Months Ended September 30,		Increase / (Decrease)	
	2009	2008	\$	%
OPERATING EXPENSES				
Salaries paid in cash plus related expenses	\$ 657,846	\$ 1,489,611	\$ (831,765)	(56)%
Stock-based compensation expense		187,016	(187,016)	(100)%
Selling, general and administrative expenses	631,770	1,759,310	(1,127,540)	(64)%
Total operating expenses	1,289,616	3,435,937	(2,146,321)	(62)%
Income (loss) from operations	544,447	(2,031,786)	2,576,233	(127)%
OTHER INCOME (EXPENSE)				
Interest expense	(5,268)	(9,411)	4,143	(44)%
Interest income	11,856	36,627	(24,771)	(68)%
Net income (loss)	\$ 551,035	\$ (2,004,570)	\$ 2,555,605	(127)%

Salaries and related expenses

Salaries and wages paid in cash for the nine months ended September 30, 2009 amounted to \$657,846 as compared to \$1,489,611 for the nine months ended September 30, 2008, a decrease of \$(831,765) or (56)%. The decrease is primarily due to elimination of the salaries and expenses of three executive officers and various other employees during the fourth quarter of 2008.

The decrease in stock-based compensation expense is due primarily to the amortization of restricted stock, warrants and Common Stock issued to non-employees for services that that were fully amortized as of December 31, 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2009 amounted to \$631,770 as compared to \$1,759,310 for the nine months ended September 30, 2008, a decrease of \$(1,127,540) or (64)%. The decrease is primarily due to the Company no longer seeking opportunities for the Tactical Solution Options marketing division due to the sale of this division during the fourth quarter of 2008 and the controlled spending and certain cost cutting measures implemented during the nine months ended September 30, 2009.

Results of Operations for the Three Months Ended September 30, 2009 and 2008 Compared

The following tables summarize selected items from the statement of operations for the three months ended September 30, 2009 compared to the three months ended September 30, 2008.

	Three Months Ended September 30,		Increase	
	2009	2008	\$	%
Revenues	\$ 3,889,774	\$ 3,237,103	\$ 652,671	20%
Cost of Sales	3,209,186	2,600,914	608,272	23%
Gross Profit	\$ 680,588	\$ 636,189	\$ 44,399	7%
Gross Profit Percentage of Revenue	17%	20%		

Revenues

Consolidated revenues for the three months ended September 30, 2009 amounted to \$3,889,774 as compared to revenues of \$3,237,103 for the three months ended September 30, 2008, an increase of \$652,671 or 20%, primarily due to an increase in sales of laptops, modems and installation services during the three months ended September 30, 2009.

Cost of Sales

Cost of sales for the three months ended September 30, 2009 amounted to \$3,209,186 as compared to \$2,600,914 for the three months ended September 30, 2008, an increase of \$608,272 or 23%, primarily due to the increase in sales of laptops and installations and an increase in vehicle upfitting services. Gross Profit percentage of revenue for the three months ended September 30, 2009 was 17% compared to 20% for the three months ended September 30, 2008 due to higher margin training services offered in 2008 prior to the sale of the Tactical Solution Options division in the fourth quarter of 2008.

Expenses

	Three Months Ended September 30,		Increase / (Decrease)	
	2009	2008	\$	%
OPERATING EXPENSES				
Salaries paid in cash plus related expenses	\$ 237,046	\$ 480,924	\$ (243,878)	(51)%
Stock-based compensation expense	—	73,902	(73,902)	(100)%
Selling, general and administrative expenses	239,416	435,609	(196,193)	(45)%
Total operating expenses	476,462	990,435	(513,973)	(52)%
Income (loss) from operations	204,126	(354,246)	558,372	(158)%
OTHER INCOME (EXPENSE)				
Interest expense	(1,872)	(2,898)	1,026	(35)%
Interest income	5,496	8,041	(2,545)	(32)%
Net income (loss)	\$ 207,750	\$ (349,103)	\$ 556,853	(160)%

Salaries and related expenses

Salaries and wages paid in cash for the three months ended September 30, 2009 amounted to \$237,046 as compared to \$ 480,924 for the three months ended September 30, 2008, a decrease of \$(243,878) or (51)%. The decrease is primarily due to elimination of the salaries and expenses of three executive officers and various other employees during the fourth quarter of 2008.

The decrease in stock-based compensation expense is due primarily to the amortization of restricted stock, warrants and Common Stock issued to non-employees for services that that were fully amortized as of December 31, 2008.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended September 30, 2009 amounted to \$239,416 as compared to \$435,609 for the three months ended September 30, 2008, a decrease of \$(196,193) or (45)%. The decrease is primarily due to the Company no longer seeking opportunities for the Tactical Solution Options marketing division due to the sale of this division during the fourth quarter of 2008 and the controlled spending and certain cost cutting measures implemented during 2009.

Liquidity and Capital Resources

The Company had working capital of \$2,075,964 at September 30, 2009. The Company's primary sources of liquidity through September 30, 2009 have been the cash flows it has generated from its operations and funds received in a private placement transaction completed during the year ended December 31, 2007.

The Company reported net income of \$551,035 for the nine months ended September 30, 2009 and its accumulated deficit amounted to \$7,628,172 at September 30, 2009. Cash flows provided by operations for the nine months ended September 30, 2009 was \$ 283,445 .

Management believes that the Company's current level of working capital combined with funds that it expects to generate in its operations during the next twelve months will be sufficient to sustain the business through at least October 1, 2010. While the Company has taken certain measures to conserve its liquidity as it continues the effort to pursue its business initiatives, there can be no assurance that the Company will be successful in its efforts to expand its operations or that the expansion of its operations will improve its operating results. The Company also cannot provide any assurance that unforeseen circumstances, such as the current economic crisis, will not have a material adverse effect on the business that could require it to raise additional capital or take other measures to sustain operations in the event that outside sources of capital are not available. Although the Company has no specific indication that its business will be affected by the current economic crisis or at a level beyond management's ability to manage this risk, this matter is an uncertainty that is under continuous review by management. The current economic crisis could also have an effect on the Company's ability to obtain external funding if needed. If the Company encounters unforeseen circumstances it may need to curtail certain of its operations. Although management believes the Company has access to capital resources, it has not secured any commitments for new financing at this time nor can it provide any assurance that new capital will be available to it on acceptable terms, if at all.

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, capital expenditures or capital resources that is material to investors.

Application of Critical Accounting Policies and Pronouncements

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments affecting the reporting amounts of assets and liabilities, expenses and related disclosures. We base our estimates on historical experience, our knowledge of economic and market factors and various other assumptions we believe to be reasonable under the circumstances. We may also engage third party specialists to assist us in formulating estimates when considered necessary. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable and depend upon, among other things, many factors outside of our control, such as demand for our

products and economic conditions. Accordingly, our estimates and judgments may prove to be different from actual amounts that may only be determined upon the outcome of one or more confirming events and actual results may differ, perhaps significantly, from these estimates under different estimates, assumptions or conditions. We believe the critical accounting policies below are affected by estimates, assumptions and judgments used in the preparation of our financial statements.

Accounts Receivable Allowance

We currently record an allowance against our gross accounts receivable based upon our best estimate of the amount of probable credit losses. Historically, our customers have primarily consisted of agencies of federal, state and local law enforcement agencies, and we have not experienced any material credit losses to date. We continually review credit rating reports of customers as well as length of time receivables are past due and collection experience with the customer to determine or modify credit limits. For the nine months ended September 30, 2009, we reviewed specific historical collection experience with several accounts to determine no allowance was necessary. We will continue to evaluate the financial conditions and payment history of our customers to determine if we need to record an allowance in the future.

Revenue Recognition

We apply the revenue recognition principles set forth under SEC Staff Accounting Bulletin (SAB) 104 with respect to all of our revenue. We adhere strictly to the criteria outlined in SAB 104, which provides for revenue to be recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery and installation has been completed, (iii) the customer accepts and verifies receipt, and (iv) collectability is reasonably assured.

Lease Accounting

We apply the lease accounting principles set forth under guidance provided by Financial Accounting Standards Board Accounting Standards ("ASC") in classifying and accounting for leases, including recording operating lease expenses on a straight-line basis over the term of the lease regardless of whether lease payments are made on straight-line basis over the term of the lease. For the purposes of determining the term of leases, we apply the principles, which prescribes that lease terms commence on the date that the lessee is granted access to the leased property, regardless of the date of commencement provided for in the lease agreement.

Share-Based Payments

We accounted for stock-based compensation under accounting guidance provided by ASC which requires that such equity instruments are recorded at their fair value on the measurement date, which is typically the date the services are performed.

ASC addresses all forms of share-based payment awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under ASC, share-based payment awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest and will result in a charge to operations for stock-based compensation expense. Accounting for share-based compensation is based on the grant-date fair-value. Prior to January 1, 2006, we did not issue any share-based compensation to employees or services providers.

Warrants and Other Derivative Financial Instruments

We apply the provisions of the ASC to all issuances of Common Stock purchase warrants and other free standing derivative financial instruments. Under these provisions, we classify any contracts that require physical settlement or net-share settlement, or provide us the option net-cash settlement or net-share settlement as equity. We classify as equity or liabilities any contracts that require net-cash settlement, including a requirement to net-cash settle the contract if an event occurs that is outside our control, or gives the counterparty to the contract a choice of net-cash settlement or net-share settlement. We evaluate the classification of free standing derivative instruments at each reporting date to determine if a change in classification between equity and liabilities is necessary. All of our free standing derivatives, which principally consist of warrants to purchase Common Stock, at September 30, 2009, satisfy the criteria for classification as equity instruments.

Income Taxes

We apply the provisions of the ASC in determining our effective tax rate, provision for tax expense, deferred tax assets and liabilities and the related valuation allowance, all of which involves significant judgments and estimates. Deferred income taxes result from temporary differences between the tax basis of assets and liabilities and the basis reported in our consolidated financial statements. Deferred tax liabilities and assets are determined based on the difference between financial statement and tax basis of assets and liabilities using enacted rates expected to be in effect during the year in which the differences reverse. Valuation allowances are provided against assets, including net operating losses, if it is anticipated that the asset is not more likely than not to be realized through future taxable earnings or implementation of tax planning strategies. We have a valuation allowance against the full amount of our net deferred tax assets, because in the opinion of management, it is not more likely than not that these deferred tax assets will be realized. Our effective tax rate in a given period could be affected if we determine the allowance is or is not required, or if we were required to pay amounts in excess of established reserves.

We continue to evaluate under guidance provided by the ASC, the accounting for uncertainty in tax positions, the guidance requires companies to recognize in their financial statements the impact of a tax position if the position is more likely than not of being sustained on audit. The position ascertained inherently requires judgment and estimates by management. For the nine months ended September 30, 2009 and 2008, we do not believe we have any material uncertain tax positions that would require us to measure and reflect the potential lack of sustainability of a position on audit in our financial statements. We will continue to evaluate our tax positions in future periods to determine if measurement and recognition in our financial statements is required.

Item 4T. Controls and Procedures

Disclosure Controls and Internal Controls

As required by Rule 13a-15(b) under the Exchange Act, management carried out an evaluation, with the participation of the Company's Principal Financial Officer and Principal Executive Officer, of the effectiveness of the Company's disclosure controls and procedures, as of September 30, 2009. Based on the evaluation as of September 30, 2009, the Principal Executive Officer and Principal Financial Officer of the Company have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in rules and forms of the SEC.

Disclosure controls and procedures are controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures are also designed with the objective of ensuring that such information 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. Internal controls are procedures which are designed with the objective of providing reasonable assurance that our transactions are properly authorized, recorded and reported and our assets are safeguarded against unauthorized or improper use, to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

In designing disclosure controls and procedures, our management necessarily is required to apply its judgment in evaluating the costs-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events. Accordingly, internal controls, however well conceived, provide reasonable but not absolute assurance in that their design will succeed in achieving their stated goals under all potential future conditions.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our quarter ended September 30, 2009 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Brekford International Corp. v. Woot, Inc.

On or about January 16, 2009, we filed suit against Woot, Inc., a Texas corporation (“Woot”) in the United States District Court of the Southern District of Florida, Miami Division, Case No. 09-20143-Civ-Seitz/O’Sullivan. The complaint alleges that on or about July 29, 2008, we agreed to purchase from Woot, and Woot agreed to sell to us, ten thousand (10,000) Lexmark printers and digital camera bundles (the “Goods”) for the purchase price of \$370,000.00 (the “Contract Price”). We paid Woot the Contract Price and instructed Woot to ship the Goods to a third party. The complaint further alleges Woot breached the contract by failing to deliver the Goods to the third party as directed. We demanded Woot return the full Contract Price to us but Woot has failed and refused to do so. As a result of Woot’s alleged breaches, we are seeking damages in the amount of \$320,000, plus pre-judgment interest and costs. On March 9, 2009, Woot filed a motion to dismiss for lack of personal jurisdiction and an alternative motion to transfer venue. On April 14, 2009, an order was entered granting the defendant’s request for a change of venue and transferring the case to the United States District Court of the Eastern District of Texas. On May 5, 2009, Woot filed an answer denying liability to the Company, and on May 11, 2009, Woot filed third party complaints against the parties Chiragnee, Inc. and Zenith Distributors, Inc. On June 26, 2009 and August 13, 2009, the defendants Zenith Distributors, Inc. and Chiragnee Inc., respectively, filed motions to dismiss for lack of jurisdiction. A final pretrial conference and trial scheduling is scheduled for June 7, 2010.

Item 5. Other Information

On July 27, 2009, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) and a Standby Letter of Credit Agreement (the “Letter of Credit”) with American Bank (the “Bank”). Pursuant to the Loan Agreement, the Bank agreed to extend to the Company a \$250,000 revolving line of credit (“Revolving Credit Facility”) and a \$500,000 letter of credit facility (the “Letter of Credit Facility”) (both facilities referred to as the “Financing”).

The terms of the Loan Agreement provide that in no event, may the outstanding principal balance of the Revolving Credit Facility exceed the lesser of (x) \$250,000, or (y) 75% of eligible receivables as defined in the Loan Agreement. Any indebtedness under the Revolving Credit Facility bears interest at a rate equal to the greater of (i) the fluctuating annual rate of interest equal to the prime rate plus 1.00 percentage point, adjusted daily, or (ii) 6.00% per annum. Any indebtedness under the Letter of Credit Facility accrues interest at an annual rate equal to 5% above the prime rate of interest. The Revolving Credit Facility matures on August 1, 2010 and the Letter of Credit Facility expires on or before July 27, 2010. The promissory note (the “Promissory Note”) for the Revolving Credit Facility provides that the Company may prepay the Promissory Note in whole or in part at any time or from time to time without premium or additional interest.

The Company’s indebtedness under the Financing is guaranteed by executive officers of the Company, C.B. Brechin, Scott Rutherford, and Mr. Rutherford’s spouse, and secured by the sum of \$250,000 deposited in an account (the “Collateral”) maintained by the Company with the Bank and the Company’s assets pursuant to a Pledge and Security Agreement (the “Pledge and Security Agreement”). Until all of the Financing obligations are paid in full, the Bank will have sole access to the Collateral and the Company is not permitted to withdraw Collateral from the account. Additionally, the Letter of Credit requires as collateral and security for the obligations under the Letter of Credit that the Company deliver funds into a deposit account in the amount of \$500,000 held with Bank and grant the Bank a first lien on all business assets described in the Loan Agreement. The Company had not borrowed any amounts under the Revolving Credit Facility or the Letter of Credit Facility as of September 30, 2009.

The foregoing description of the Financing set forth herein is only a summary and is qualified in its entirety by the full text of the Letter of Credit, the Loan Agreement, the Pledge and Security Agreement, and the Promissory Note, copies of which are attached hereto as Exhibits 10.1, 10.2, 10.3, and 10.4, and which are incorporated herein by reference.

Item 6. Exhibits

Exhibit Number	Description
<u>10.1</u>	Standby Letter of Credit Agreement, dated July 27, 2009, by and between Brekford International Corp. and American Bank
<u>10.2</u>	Loan and Security Agreement, dated July 27, 2009, by and between Brekford International Corp. and American Bank
<u>10.3</u>	Pledge and Security Agreement, dated July 27, 2009, by Brekford International Corp., in favor of American Bank
<u>10.4</u>	Promissory Note, dated July 27, 2009, in the principal amount of \$250,000 in favor of American Bank
<u>31.1</u>	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Brekford International Corp.

Date: November 2, 2009

By: /s/ C.B. BRECHIN

Chandra (C.B.) Brechin
Chief Executive Officer, Treasurer and
Director
(Principal Executive Officer)

Date: November 2, 2009

By: /s/ TIN KHIN

Tin Khin
Chief Financial Officer
(Principal Financial Officer)

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<u>10.3</u>	Pledge and Security Agreement, dated July 27, 2009, by Brekford International Corp., in favor of American Bank
<u>10.4</u>	Promissory Note, dated July 27, 2009, in the principal amount of \$250,000 in favor of American Bank
<u>31.1</u>	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>31.2</u>	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
<u>32.1</u>	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
<u>32.2</u>	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

STANDBY LETTER OF CREDIT AGREEMENT

THIS STANDBY LETTER OF CREDIT AGREEMENT (the "Agreement"), dated the 27th day of July 2009 by and between Brekford International Corp. (the "Applicant") and **AMERICAN BANK** (the "Bank") having its principal office at 9001 Edmonston Road, Suite 100, Greenbelt, Maryland 20770.

WHEREAS, the Applicant has applied or may from time to time apply for Standby Letters of Credit and the Bank has issued or has agreed to issue Standby Letters of Credit, provided that the aggregate amount of all outstanding Standby Letters of Credit issued hereunder shall not exceed the amount of FIVE HUNDRED THOUSAND and NO/100 DOLLARS (\$500,000.00) at any one time, upon the terms and conditions contained herein, which Standby Letters of Credit are hereinafter collectively referred to as the "Credit";

In order to induce the Bank to issue the Credit, the Applicant unconditionally covenants and agrees as follows:

1. AUTHORIZATION TO PAY DRAWS. The Applicant instructs the Bank to pay any draft or acceptance complying with the terms of the Credit, irrespective of any instruction's which may hereafter be given by the Applicants to the contrary. The Applicant further authorizes the Bank to receive, accept and pay, as complying with the terms of the Credit, any drafts, acceptances and other documents issued or purported to be issued under the Credit which are otherwise in order but are signed by, or issued to, an Administrator, Executor, Assignee for the Benefit of Creditors, Trustee in Bankruptcy or Receiver, if such Administrator, Executor, Assignee, Trustee or Receiver shall then be acting on behalf of, or in the name of, the Beneficiary, or on behalf, or in the name of, any other party in whose name the Credit provides that any drafts, acceptances or other documents thereunder should or may be drawn.

2. PROMISE TO PAY.

(a) For value received, the Applicant promises to pay the Bank, on demand, without offset, in currency of the United States of America, at 9001 Edmonston Road, Suite 100, Greenbelt, Maryland 20770 or at such place as may be designated by the Bank, the amount of each draft or payment request drawn under the Credit, to provide the Bank, immediately upon the giving of notice by the Bank of payment thereof, with funds sufficient to cover the amount of such draft or payment request in the form of actual funds in United States Currency at the place of payment.

(b) The Applicant further promises to pay interest on any and all amounts drawn under the Credit and remaining unpaid at an annual rate equal to five percent (5.0%) above the prime rate of interest. As used herein, the expression "prime rate of interest" shall be defined as the prime rate of interest from time to time published by Dow Jones & Company, Inc. in its publication, The Wall Street Journal (hereinafter referred to as the "Index"). The "prime rate of interest" published in The Wall Street Journal is usually published in a section called "MONEY RATES" and is described therein as "PRIME RATE". In the event that more than one Prime Rate is published or a range of Prime Rates is published on any day on which the published Prime Rate is pertinent to this transaction, then the highest published Prime Rate or the highest of the range of Prime Rates shall control. The rate of interest provided for herein shall be adjusted monthly as of the first day of each calendar month following the date hereof and the "prime rate of interest", published as of the last publication day of each calendar month shall control the rate of interest for the following month. In the event that any Index provided for herein becomes unavailable or is no longer published, then Lender shall choose, in its sole discretion, a different index for the prime rate of interest which shall then control.

(c) The Applicant further promises to pay to the Bank, on demand, without offset, its usual commissions and all expenses and sundry charges which may now or hereafter be assessed by the Bank in connection with the Credit, including but not limited to, the annual fee described in Section 35 of this Agreement.

3. TERM. Letters of Credit shall be issued hereunder on or before July 27, 2009, with an expiry date not more than twelve (12) months from the date of issuance, unless otherwise approved by the Bank.

4. APPLICANT'S OBLIGATIONS. All of the Applicant's indebtedness, obligations and liabilities to the Bank, of every kind and nature whatsoever under the provisions of this Agreement and in connection with the Credit, and such other indebtedness, obligations and liabilities of the Applicant to the Bank which are direct, indirect, contingent, due, to become due, future advances, now existing or owing, hereafter existing or owing, fees, commissions, interest, costs and expenses, are collectively called in this Agreement the "Obligations".

5. SECURITY INTEREST. As collateral and security for the Obligations, the Applicant shall execute and deliver:

Deposit Account held with American Bank in the amount of \$500,000.00, account no. 6000314366, and Guaranty Agreement's executed by Scott Rutherford, Anne Rutherford and Chandra B Brechin dated July 27, 2009.

This Standby Letter of Credit is also secured by First Lien on All Business Assets described in a Loan and Security Agreement dated July 27, 2009.

In addition to the Standby Letter of Credit, this Agreement secures the following

described additional indebtedness any obligations of the Borrower with Lender, including but not limited to Promissory Note # 6000314358.

6. EVENTS OF DEFAULT. The occurrence of any one or more of the following events shall constitute an event of default hereunder: (a) the failure to make any payment when due and such failure continues for a period of ten (10) days after written notice is sent from the Bank to the Applicant; (b) (i) the failure to observe or perform any covenant, condition or agreement on the part of the Applicant pursuant to the terms of this Agreement and such default shall continue for a period of twenty (20) days after written notice is sent from the Bank to the Applicant or (ii) the failure to observe or perform any covenant, condition or agreement on the part of the Applicant pursuant to the terms of any documents executed in connection with this Agreement (including, but not limited to, any application, request for letter of credit, commitment, note, loan agreement, loan and security agreement, guaranty, deed of trust, indemnity deed of trust, or any other agreement executed by the Applicant and to which the Bank is a party or a beneficiary) and the expiration of any applicable cure periods; (c) the failure to make any payment of principal or interest when due on any promissory note or other obligation payable by the Applicant to the Bank and the expiration of any applicable cure periods; (d) if any representation or warranty made herein, or if any report, opinion, schedule or certificate herewith or hereafter submitted to the Bank shall, in the opinion of the Bank, be false, misleading or incorrect in any material respect; (e) if the Bank determines in good faith that a material adverse change in the condition or affairs (financial or otherwise) of the Applicant has occurred; (f) the insolvency of the Applicant; (g) the filing of any insolvency proceedings by or against the Applicant pursuant to any Federal or state law, or the appointment of a receiver with respect to the Applicant or with respect to the assets of the Applicant which proceeding is not discharged within sixty (60) days from the date such proceeding is filed; (h) the filing of formal charges against the Applicant under any federal or state law for which forfeiture is a potential penalty; (i) the issuance of any attachment or garnishment against the Applicant, if the Applicant is the debtor and such attachment or garnishment is not released within thirty (30) days from the date of such attachment or garnishment; or (j) any default occurs under any mortgage, deed of trust or security agreement covering all or any part of the secured property, whether or not such document secures the Bank, without hereby imputing or implying the consent of the Bank to any such document.

7. ACCELERATION; SET-OFF. Upon the happening of any event of default hereunder, (a) an amount up to the sum of the outstanding Credit shall be disbursed by the Bank from an escrow account pledged to the Bank pursuant to the Assignment, which shall be available to be used to pay any draws presented in connection with the Credit; and (b) all amounts owed by the Applicant to the Bank shall, at the sole option of the Bank, become immediately due and payable without notice to or demand on the Applicant. The Bank shall have the right, immediately and without notice to the Applicant or further action by it, to set-off the amount owed by the Applicant against all obligations for money or money's worth owed by the Bank in any capacity to the Applicant, whether or not then due. The Bank shall be deemed to have exercised such right of set-off and to have made a charge against any such

obligations immediately upon the occurrence of any event of default hereunder, even if such charge is subsequently made or entered on the books of the Bank.

8. CONFESSION OF JUDGMENT; WAIVER OF JURY TRIAL.

IN THE EVENT (A) BANK CALLS IMMEDIATELY DUE AND PAYABLE THE SUMS DUE UNDER PARAGRAPH 2 OF THIS AGREEMENT AND APPLICANT FAILS TO PAY IN FULL ALL SUMS SO DEMANDED ON THE DATE SUCH SUMS ARE DUE, APPLICANT AUTHORIZES ANY CLERK OF ANY COURT OF RECORD IN THE UNITED STATES TO CONFESS JUDGMENT AGAINST APPLICANT IN THE FULL AMOUNT DEMANDED PLUS REASONABLE ATTORNEYS' FEES. APPLICANT CONSENTS TO THE JURISDICTION OF AND AGREES THAT VENUE SHALL BE PROPER IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MARYLAND AND/OR IN THE CIRCUIT COURT OF ANY COUNTY OF THE STATE OF MARYLAND OR OF BALTIMORE CITY, MARYLAND. APPLICANT WAIVES THE BENEFIT OF ANY AND EVERY STATUTE, ORDINANCE, OR RULE OF COURT WHICH MAY BE LAWFULLY WAIVED CONFERRING UPON APPLICANT ANY RIGHT OF PRIVILEGE OF EXEMPTION, STAY OF EXECUTION, OR SUPPLEMENTARY PROCEEDING, OR OTHER RELIEF FROM THE ENFORCEMENT OR IMMEDIATE ENFORCEMENT OF A JUDGMENT OR RELATED PROCEEDINGS ON A JUDGMENT. THE AUTHORITY AND POWER TO APPEAR FOR AND ENTER JUDGMENT AGAINST APPLICANT SHALL NOT BE EXHAUSTED BY ONE OR MORE EXERCISES HEREOF OR BY ANY IMPERFECT EXERCISE THEREOF, AND SHALL NOT BE EXTINGUISHED BY ANY JUDGMENT ENTERED PURSUANT THERETO; SUCH AUTHORITY AND POWER MAY BE EXERCISED ON ONE OR MORE OCCASIONS FROM TIME TO TIME, IN THE SAME OR DIFFERENT JURISDICTIONS, AS OFTEN AS BANK SHALL DEEM NECESSARY OR ADVISABLE.

WAIVER OF TRIAL BY JURY. APPLICANT HEREBY WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR IN ANY WAY PERTAINING TO THIS AGREEMENT AND/OR ANY OF THE OTHER DOCUMENTS EVIDENCING OR SECURING THE TRANSACTION EVIDENCED HEREBY. THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY APPLICANT, AND APPLICANT HEREBY REPRESENTS THAT NO ORAL OR WRITTEN STATEMENTS HAVE BEEN MADE BY ANY PARTY TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS STATED EFFECT. APPLICANT FURTHER REPRESENTS THAT IT HAS BEEN REPRESENTED BY INDEPENDENT COUNSEL, SELECTED OF ITS OWN FREE WILL, IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH SUCH COUNSEL.

9. ADDITIONAL WAIVERS BY APPLICANT. The Applicant expressly waives presentment, demand, protest and notice of dishonor, and agrees that any extension or extensions of the time of payment under this Agreement or any note executed in connection with this Agreement or the Credit may be made before, at, or after maturity for periods in excess of the original term by agreement with the Applicant without notice to and without releasing the liability of the Applicant; agrees that the Bank may adjust the interest rate payable under this Agreement, or any note executed in connection with this Agreement or the Credit, by agreement with Applicant, without notice to and without releasing the liability of any other party; waives the benefit of all homestead and similar exemptions as to this debt; waives any right which they may have to require the Bank to proceed against any other party or person or any property securing the Credit or this Agreement, and agrees that its liability hereunder shall not be affected or impaired by any failure, neglect or omission of the Bank to exercise any remedies of set-off or otherwise that it may have or by any determination that any security interest or lien taken by the Bank to secure this Agreement or any note executed in connection with this Agreement or the Credit is invalid or unperfected; agree to pay all expenses incurred under this Agreement or any note executed in connection with this Agreement or the Credit, or in preserving or disposing of any property securing it, if, after an event of default, this Agreement or any note executed in connection with this Agreement or the Credit is placed in the hands of an attorney for collection, or if the Bank finds it desirable to secure the services or advice of an attorney with regard to collection or the preservation or disposition of any property securing the Credit or this Agreement.

10. INCREASED COSTS. If (a) the Bank acquiesces in the determination by a court or administrative or governmental authority that the Credit is a deposit insured by the Federal Deposit Insurance Corporation, or (b) any change in any law or regulation or in the interpretation thereof by any court or administrative or governmental authority charged with the administration thereof shall either (i) impose, modify or deem applicable any insurance (including, without limitation, FDIC), reserve, cable any insurance (including, without limitation, FDIC), reserve, special deposit or similar requirement against the Credit issued by, or assets held by, or deposits in or for the account of, the Bank, or (ii) impose on the Bank any other condition (including, without limitation, the amount of capital that the Bank is required to maintain) regarding the Credit or this Application, and if the result of any event referred to in clause (a) (b) above shall be to increase the costs the Bank of issuing or maintaining the Credit (which increase in cost shall be the result of the Bank's reasonable allocation of the aggregate of such cost increases resulting from such events), then, upon demand of the Bank, the Applicant shall immediately pay to the Bank all additional actual amounts which are necessary to compensate the Bank for such increased cost incurred by the Bank. All payments of increased cost shall be accompanied by interest thereon from the date of such demand until payment in full thereof at the above stated rate of interest. A statement as to such actual increased cost incurred by the Bank as a result of any event referred to in clause (a) or (b) above shall be submitted by the Bank to the Applicant.

11. APPROVAL OF VARIATIONS FROM CREDIT. If, at the request of any one or more of the persons included within the term "applicant", with or without the consent or

notification to any other person included within the term "applicant", the Applicant consents to any overdrafts under said Credit, or authorizes payment under the Credit with irregular accompanying documents, or authorizes or consents to any departure from the terms of the Credit, this Agreement shall nonetheless be fully binding upon the Applicant with respect to such overdrafts, irregularities or both, and the Bank's rights shall be fully binding upon the Applicant with respect to such overdrafts, irregularities or both, and the Bank's rights shall be, in every respect, the same as if this Agreement and said Credit expressly provided for such overdraft or Agreement and said Credit expressly provided for such overdraft or irregularity or both. If, at the request of any one or more of the persons included within the term "Applicant", with or without the consent or notification to any other person included within the term "Applicant", there is any extension of time for presentation of any payment request or of any document under the Credit, or in the event of any other modification of the terms of the Credit or of any transaction under the Credit, this Agreement shall nonetheless be fully binding upon the Applicant with regard to any action taken under such modified terms and with regard to any payment request and documents presented within such extended time.

12. RISK OF LOSS.

(a) The Bank and its branches, affiliates and correspondents shall not be liable or responsible in any respect for the form, sufficiency, accuracy, genuineness or legal effect of any drafts, acceptances or other documents issued or purported to be issued under the Credit, even if such drafts, acceptances or other documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged, unless such defect is readily apparent upon the face of the document.

(b) The Bank and its branches, affiliates and correspondents shall not be liable or responsible in any respect for any laws, customs or regulations which may be effective in countries (other than the United States of America) where drafts or acceptances issued or purported to be issued under the Credit may be paid.

(c) The Bank and its branches, affiliates and correspondents shall not be liable or responsible in any respect for any error, omission, interruption, or delay in transmission or dispatch or delivery, of any one or more messages or advices in connection with the Credit, whether such messages or advices are transmitted by cable, by mail, by telephone, by telex, by any electronic transmission system or otherwise, and despite any cipher or code which may be employed.

(d) The Bank and its branches, affiliates and correspondents shall not be liable or responsible in any respect for any action, inaction or omission which may be taken or suffered by it or by them in good faith or through inadvertence in identifying or failing to identify any Beneficiary or other party in connection with the Credit, and any and all such actions, inaction and omissions shall be binding upon the Applicant.

13. WAIVER.

(a) The Bank, in its sole discretion, may waive any and all of the following provisions, if contained in the Credit, and the Bank and its branches, affiliates and correspondents shall not be liable or responsible in any respect for any noncompliance with, nor waiver of, any such provisions: (i) any requirement that drafts or acceptances issued or purported to be issued under the Credit bear a reference to, or otherwise identify, the Credit; (ii) any requirement that the amount of any drafts or acceptances issued or purported to be issued under the Credit be noted on the Credit; (iii) any requirement that documents accompany any draft or acceptance when presented; (iv) any requirement that any party forward any documents apart from a draft or acceptance; and (v) any requirement that the Beneficiary or any other user of the Credit surrender the Credit for any reason whatsoever.

(b) The Bank and its branches and affiliates shall not be liable or responsible in any respect for any error, neglect, default or breach by any of the Banks correspondents in connection with the Credit.

(c) None of the above waivers shall affect, impair or constitute a defense to the enforceability of any right, power or remedy of the Bank hereunder.

14. INDEMNITY. The Applicant assumes all risks of the acts and omissions of the Beneficiary and any other user of the Credit, all of whom shall be deemed to be the agents of the Applicant for all purposes relative to the Credit. The Bank, and its branches, affiliates and correspondents, shall not be responsible for, and the Applicant shall indemnify and hold it and them harmless from and against, all liability, loss and reasonable expense (including reasonable attorneys' fees and costs) incurred by the Bank and its branches, affiliates and correspondents relative to and as a consequence of: (a) any failure by the Applicant to perform the Applicant's agreements hereunder; (b) this Agreement; (c) the Credit; (d) any draft or acceptance issued or purported to be issued under the Credit; (e) any action taken or omitted by the Bank or by its branches, affiliates and correspondents at the request of the Applicant; (f) any failure or inability to perform in accordance with the terms of the Credit by reason of any control or restriction rightfully or wrongfully exercised by any de facto or de jure government, or by any group or individual asserting or exercising governmental or paramount powers; (g) any consequences arising from causes beyond the control of the Bank and its branches, affiliates and correspondents; and (h) the Bank's payment or failure to pay any draw under the Credit.

15. CANCELLATION OF CREDIT, FEES FOR TRANSFER/RENEWAL. The Credit can be canceled by the Beneficiary only after receipt by the Bank's Real Estate Lending Department, or upon such other conditions as the Bank may prescribe. In the event of any early cancellation, there will be no refund of fees. If the Credit is expressly designated as "transferable", and if such transfer is requested, all fees of the Bank in connection with such request shall be paid by the Applicant. The Applicant shall pay to the Bank such annual fee for issuance of the Credit, together with such other fees and charges as the Bank may from time to time determine.

16. NON-WAIVER OF BANK'S RIGHTS. No failure or delay by the Bank to exercise any right hereunder shall be construed as a waiver of the right to exercise the same or any other rights at any time.

17. FINANCIAL INFORMATION ON APPLICANT.

(a) The Applicant shall at all times maintain a system of accounting reasonably satisfactory to the Bank, and shall furnish to the Bank:

At no expense to the Bank, within 90 days following the close of each of its fiscal years, Applicant shall deliver to the Bank its financial statement containing a balance sheet, statement of profit and loss, statement of Applicant's cash flow and projected cash flow and a statement containing in reasonable detail an analysis of the kind and amount of other credit then available to Applicant, whether on a secured or an unsecured basis. All such financial statements shall be prepared internally by the Applicant in a form historically provided to the Bank by Applicant's affiliates and related entities, certified by the Applicant with an original signature and date, and are acceptable to the Bank in its sole discretion. The Applicant shall also deliver to the Bank within forty-five (45) days of the end of each of its fiscal years, annual financial statements prepared by Applicant in accordance with generally accepted accounting principles consistently applied, or other generally accepted comprehensive methods, acceptable to the Bank in its sole discretion.

Each guarantor of the Credit who is an individual shall deliver to the Bank within 90 days of the end of each calendar year, at no expense to the Bank, personal financial statements which shall be certified by such Guarantor with an original signature and date. Such personal financial statements must contain the following disclosures and certifications: (a) assets and liabilities, (b) amount and sources of contingent liabilities, (c) sources of income, (d) uses of income, and (e) certification in the form provided by the Bank. Each guarantor of the Credit shall also provide to Bank semi-annual financial statements within forty-five (45) days from the end of the second calendar quarter.

In addition, if requested by the Bank, within forty-five (45) days following the close of each calendar quarter, each guarantor of the Credit shall deliver to the Bank verification of that guarantor's liquidity, (which may include bank statements and brokerage house statements), and which verification shall be satisfactory to the Bank in its sole and absolute discretion.

The term "financial statement" and "personal financial statements" shall include, unless waived by the Bank, income tax returns including all schedules and K-1's (including all supporting statements), consolidated statements of related companies, interim statements, statements of contingent liabilities, detailed cash flow statements and operating statements for the Property and each project in which the Applicant and the Guarantor have an interest, and supporting schedules and documentation. Detailed cash flow statements shall include, as applicable, product name, location, percentage of Applicant's and/or each guarantor's

ownership interest, leasing status, net operating income, current loan operating deficit, amount of and beneficiary of any cash distributions, and the amount of cash invested in or received from that enterprise. Detailed cash flow statements shall include such statements for the next fiscal year (twelve month period) for each project and/or entity. All statements shall bear an authorized signature attesting to the accuracy thereof.

(b) The financial statements of the Applicant and other related information furnished to the Bank are and will continue to be true, complete and correct in all material respects, and do and will fairly represent the financial condition of the Applicant and the results of the Applicant's operations and transactions as of the dates and for the periods of such statements. The Applicant will promptly provide the Banks such information regarding the operation, business, affairs and financial condition of the Applicant as the Bank may from time to time reasonably request. The Applicant will, at all reasonable times, permit the Bank (and any person designated by the Bank) to examine, audit and make extracts from and photocopies of, the books, records and other dates of the Applicant and upon giving Applicant twenty-four (24) hours prior notice.

18. EFFECTIVE DATE. This Agreement shall become effective upon its receipt and acceptance by the Bank.

19. GOVERNING LAW. This Agreement shall be governed by the laws of the State of Maryland (but not including the choice of laws rules thereof) in all respects, including without limitation, matters of title, construction, validity, performance and discharge. This Agreement shall be binding upon the Applicant and upon the Applicant's successors, assigns, heirs and personal representatives. If at any time any provision of this Agreement shall be determined to be illegal, invalid or unenforceable, the legality, validity and enforceability of all other provisions of this Agreement shall not be affected thereby.

20. MODIFICATION OF THE TERMS OF THE CREDIT.

(a) Any amendment, modification or revocation of the Credit shall only become effective upon the Bank's receipt of a written consent and request for such amendment, modification or revocation from the Applicant and the Beneficiary (and any transferee of the original Beneficiary), and then only upon such terms and conditions as the Bank may prescribe. If so indicated on the face of this Agreement, the Credit is transferable, subject to the requirements of Paragraph 21 hereof.

(b) In the event of (i) the extension of the expiration date of the Credit; (ii) the extension of the time for drawing, negotiating, accepting, presenting or the maturity of any drafts, acceptances or other documents issued or purported to be issued under the Credit; (iii) an increase in the amount of the Credit; or (iv) any other modification of the terms of the Credit of any nature whatsoever, then in any of such events, the Agreement shall be binding upon the Applicant with regard to the Credit so extended, increased or otherwise modified, and

with regard to any and all actions, inaction and omissions of the Bank, its branches, affiliates and correspondents taken in connection therewith.

21. TRANSFERABILITY AND ASSIGNMENT. The Applicant may not assign or transfer this Agreement, not any rights hereunder, without the prior written consent of the Bank.

22. JURISDICTION AND VENUE IN SUITS. The Applicant irrevocably submits to the nonexclusive jurisdiction of any state or Federal court sitting in the State of Maryland with respect to any action or proceeding arising out of or relating to this Agreement or the Credit, and irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such state or Federal court. The Applicant irrevocably waives any objection that such Applicant may have to the laying of venue of any such action or proceeding in any such courts, or any claim that it may have that any such action or proceeding has been brought in an inconvenient forum. The Applicant agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect the right of the Bank to bring any action or proceeding against Applicant's property in the courts of any other jurisdiction or jurisdictions, nor shall the bringing of any action or proceeding in any one or more jurisdictions preclude the bringing of any action or proceeding in any one or more other jurisdictions.

23. JOINT AND SEVERAL LIABILITY. If this Agreement is signed by two or more parties as "Applicant", each of such parties shall be jointly and severally liable and responsible for the obligations hereunder. Whenever used herein, the word "Applicant" shall refer to each and all of such parties, both jointly and severally.

24. RESERVATION OF RIGHTS. The liabilities and obligations of the Applicant shall not be released, lessened or impaired by reason of the release or revocation by the Bank, in whole or in part, of the liabilities and obligations hereunder of any individual or entity who may comprise the Applicant. The Bank may release, settle with, surrender or exchange all or any part of any security or collateral for the Obligations given at any time pursuant to the provisions of this Agreement without in any manner affecting, lessening or releasing the obligations and liabilities of the Applicant. If this Agreement is terminated or revoked by operation of law as to the Applicant, the Applicant shall indemnify and hold the Bank and its branches, affiliates and correspondents harmless from any loss or liability which may be suffered or incurred by the Bank or by its branches, affiliates and correspondents in acting hereunder prior to the receipt by the Bank of notice in writing of such termination or revocation.

25. APPLICANT'S CORPORATE EXISTENCE. If the Applicant is a corporation, the Applicant is and will remain duly organized and validly existing, has the power and authority to own its property and to carry on its business as currently conducted, is and will remain duly qualified to do business, is and will remain in good standing in each and every

jurisdiction in which the transaction of its business makes such qualification necessary, and has no subsidiaries not previously disclosed in writing to the Bank.

26. APPLICANT'S PARTNERSHIP OR LIMITED LIABILITY COMPANY EXISTENCE. If the Applicant is a partnership or limited liability company, the Applicant has disclosed the identity of all partners or members to the Bank in writing. All general partners of the partnership shall be jointly and severally liable for the repayment of the Obligations, both individually and as partners. Further, the Applicant is and will remain duly organized and validly existing, has the power and authority to own its property and to carry on its business as currently conducted, is and will remain duly qualified to do business, is and will remain in good standing in each and every jurisdiction in which the transaction of its business makes such qualification necessary.

27. APPLICANT'S AUTHORITY TO ENTER INTO AGREEMENT. The execution, delivery and performance of this Agreement have been duly and validly authorized by all necessary corporate, partnership, or limited liability company actions on the part of the Applicant (all of which actions are in full force and effect), do not and will not require any consent or approval of any stockholders or any non-signatory partner or member of the Applicant, and will not violate or cause a default under any governmental regulation or any agreement, deed of trust, note, or other instrument to which the Applicant may be a party, or by which it or any of its property is bound. The execution, delivery and performance of this Agreement will not result in a breach or, nor constitute a default under, any governmental regulation or any agreement, deed of trust, note or other instrument of which the Applicant may be a party, or by which it or any of its property is bound, nor result in the reaction or imposition of any lien (other than that created in favor of the Bank) upon any of the Applicant's property or assets, nor result in or require the acceleration of any of the undersigned's indebtedness.

28. FILING OF APPLICANT'S TAX RETURNS. The Applicant has filed or caused to be filed, and will continue to file or cause to be filed in a timely manner, all Federal, state and local income, excise, property and other tax returns which are required to be filed. All such returns are and will be true and correct, and the Applicant represents that it has paid or caused to be paid, and will continue to pay or cause to be paid, all taxes as shown on such returns or on any assessment received by the Applicant to the extent that such taxes have become due, including, but not limited to, all F.I.C.A. payments and withholding taxes.

29. APPLICANT'S TITLE TO PROPERTY. The Applicant has and will continue to have good, valid, insurable and marketable title to all of its property and assets (whether real, personal or mixed, and whether tangible or intangible) reflected on the financial statements referred to in **paragraph 17** hereof. All such property and assets are free and clear of all liens except as disclosed in such financial statements.

30. PENDENCY OF LEGAL PROCEEDINGS. Except as disclosed in writing to the Bank, there are no actions, claims, suits or proceedings pending, and to the knowledge of

the Applicant there are no actions, claims, suits or proceedings threatened or reasonably anticipated gains or affecting the Applicant, a law or in equity, or before or by any governmental authority. To the Applicant's knowledge, there is no possibility of any judgment, liability or award which may reasonably be expected to result in any material adverse change in the business, operations, property, assets or condition (financial or otherwise) of the Applicant. The requirements or any judgment, order, writ, injunction, decree, rule, award or regulation of any governmental authority. The Applicant shall give the Bank prompt notice of any such action, claim, suit or proceeding.

31. DISCLOSURE OF CREDIT INFORMATION. The Bank will disclose information to third parties about the Credit or any transaction thereon in certain circumstances, including, but not limited to, situations where it is necessary for completing any transaction, for complying with governmental agency or court orders, or for verifying the existence or conditions of the Credit for a third party such as a credit bureau or merchant. The Applicant expressly authorizes the Bank to disclose the financial record of the Applicant to any subsidiary or affiliate of the Bank, and to any other fiduciary institution. The terms "financial record" and "fiduciary institution", as used in the preceding sentence, have the meanings ascribed to them in the Public General Laws of the State of Maryland.

32. CREDIT SUBJECT TO ISP. Except as otherwise expressly stated herein or in the Credit, this Agreement and the Credit are and shall be subject to the International Standby Practices (ISP98 - 1998), Internal Chamber of Commerce Publication No. 590 ("Standby Practices"). This Agreement and the Credit shall be, as to matters not governed by the Standby Practices, construed in accordance with the laws of the State of Maryland (but not including the choice of law rules thereof).

33. WARRANTIES OF APPLICANT. The Applicant warrants to the Bank that this request and Application do not contravene any law or regulation of the government of the United States or of any state thereof. Any changes made by the Bank to the terminology used by the Applicant in this Application may be modified to conform such terminology to the Bank's standard terminology. The signature and seal of the Applicant is subscribed to this Agreement the day and year written above, with the intent that this be a sealed instrument.

34. FEES. The Bank's obligation to issue any Letters of Credit shall be contingent upon the Applicant's payment to the Bank of an annual non-refundable Letter of Credit fee of \$5,000.00, which fee shall be due and payable in full upon issuance of the Letter of Credit, and each year thereafter on or before the anniversary of the issuance of any Letter of Credit, which the Bank has been requested to extend and agrees, in its sole discretion to extend.

35. NOTICE. Any notice to the Bank shall be deemed given only if in writing and received by the Bank's Real Estate Lending Department. Any notice from the Bank to the Applicant shall be deemed given when mailed, postage prepaid, addressed to the Applicant at the address as it appears on the Bank's records, or at such other place as either party may designate in writing.

36. ENFORCEMENT. This Agreement shall inure to the benefit of and be enforceable by the Bank, its successors and assigns.



37. APPLICATION FOR LETTER OF CREDIT. Either one of the Applicants shall complete and execute an Application for Letter of Credit at the time such Applicant requests the Bank to issue each Letter of Credit hereunder. The form of the Application for Letter of Credit shall be determined by the Bank.

IN WITNESS WHEREOF, the Applicant and the Bank have executed and delivered these presents or caused these presents to be executed and delivered as of the year and day first above written.

APPLICANT:

WITNESS/ATTEST:

Brekford International Corp.


_____
_____(SEAL)
Scott Rutherford, President of Brekford
International Corp.

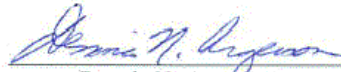
The Address of the Applicant is:

7020 Dorsey Road, Suite C
Hanover, Maryland 21076

BANK:

WITNESS/ATTEST:

AMERICAN BANK


_____
_____(SEAL)
Dennis N. Argerson
Chief Lending Officer

The Address of the Bank is:

9001 Edmonston Road, Suite 100
Greenbelt, Maryland 20770

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT is made as of July 27, 2009 by and between **BREKFORD INTERNATIONAL CORP.**, a Delaware corporation that was formerly known as Tactical Solution Partners, Inc. ("Borrower"), and **AMERICAN BANK** ("Lender").

Recitals

Borrower has requested Lender to extend to Borrower a revolving line of credit and a letter of credit facility, and Lender has agreed to do so in accordance with this Agreement.

Agreements

NOW, THEREFORE, in consideration of these premises, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Borrower and Lender agree as follows:

1. DEFINITIONS AND GENERAL RULES OF CONSTRUCTION

1.1. Definitions. In this Agreement, all defined terms are capitalized and have the meaning given on Exhibit A attached hereto and made a part hereof.

1.2. Accounting Terms. All accounting terms not specifically defined herein shall have the meanings assigned to them as determined by generally accepted accounting principles, consistently applied.

1.3. UCC Terms. All terms used in this Agreement that are defined in the *Maryland Uniform Commercial Code* shall have the meanings ascribed to them therein, unless specifically defined otherwise in this Agreement.

1.4. Tense; Gender; Section Headings. In this Agreement, the singular includes the plural and *vice versa*. Each reference to any gender also applies to any other gender. The Section headings are for convenience only and are not part of this Agreement.

2. TERMS OF LOAN AND LETTERS OF CREDIT

2.1. Agreement to Lend. Subject to and in accordance with the terms, conditions and provisions of this Agreement, Lender agrees to advance to Borrower from time to time, as proceeds of the Loan, such principal amounts as are requested by Borrower, provided that the outstanding principal balance of the Loan shall never exceed the lesser of (a) \$250,000 or (b) 75% of Eligible Receivables. "Eligible Receivables" means a Receivable of Borrower that conforms and continues to conform to the following criteria to the satisfaction of Lender in its reasonable discretion:

(a) the Receivable arises from a *bona fide* outright sale or lease by Borrower of goods or from services performed by Borrower in the ordinary course of Borrower's business and the delivery or performance has been completed and unconditionally accepted by the account debtor;

(b) Borrower has possession of, or has delivered to Lender, receipts or other satisfactory documentation evidencing delivery and acceptance;

(c) the Receivable is based upon an enforceable order or contract, written or oral, for goods delivered or for services performed and the same were shipped, held, or performed in accordance with such order or contract;

(d) the Receivable is not subject to any Lien except in favor of Lender, and Borrower has the full and unqualified power to assign and grant a security interest in the Receivable to Lender as security and collateral for the payment of the Liabilities;

- (e) Lender in its sole discretion has not deemed the Receivable ineligible because of uncertainty as to the creditworthiness of the account debtor or because Lender otherwise considers the collateral value thereof to be impaired or Lender's ability to realize such value therefrom to be insecure;
- (f) the amount shown on the books of Borrower and on any invoice, certificate, schedule or statement delivered to Lender is owing to Borrower and no partial payment has been received unless reflected in such submission;
- (g) the Receivable is not subject to any claim of reduction, counterclaim, setoff, recoupment, or other defense in law or in equity, or any claim for credits, allowances, or adjustments by the account debtor because of returned, inferior, or damaged goods or unsatisfactory services, or for any other reason;
- (h) the Receivable does not arise from any transaction with any Subsidiary or affiliated entity or Person of Borrower or any employee of Borrower;
- (i) the Receivable is not payable from any account debtor located outside of the United States unless the transaction giving rise to the Receivable is supported by a letter of credit, acceptance or other credit enhancement acceptable to Lender;
- (j) the Receivable does not arise from any sale on approval or consignment, and is not otherwise subject to any repurchase or return agreement;
- (k) if the account debtor is the United States, or any instrumentality thereof, Borrower has assigned its rights to receive payment to Lender in compliance with the *Federal Assignment of Claims Act of 1940*, as amended, and any other applicable laws and regulations, and such assignment is in form and substance satisfactory to Lender;
- (l) the Receivable is not owing by any account debtor for which Lender has deemed 50% or more of such account debtor's other Receivables (or any portion thereof) due to Borrower to be non-Eligible Receivables;
- (m) the Receivable does not arise out of a contract with, or order from, an account debtor that, by its terms, forbids or makes void or unenforceable the assignment by Borrower to Lender of such Receivable;
- (n) the account debtor has not returned or refused to retain, or otherwise notified Borrower of any dispute concerning, or claimed nonconformity of, any of the goods or services from the sale or lease of which the Receivable arose;
- (o) no more than 90 days have elapsed from the invoice date and no more than 60 days have elapsed from the due date of invoice;
- (p) the Receivable is not payable by an account debtor with respect to which 50% or more of the dollar amount of that account debtor's Receivables to Borrower are more than 90 days due from the date of invoice or more than 60 days due from the due date of invoice;
- (q) the Receivable is not evidenced by chattel paper or instruments unless Lender has agreed in writing that it may be deemed eligible and all originals of such chattel paper or instruments have been endorsed and delivered to Lender;
- (r) the Receivable is not subject to any offset and is not payable by any account debtor who is owed any sum by Borrower; and
- (s) the Receivable complies with any additional criteria set forth from time to time by Lender.

"Receivable" means any right to the payment of money, including but not limited to any right arising from or evidenced by an account, an instrument, a general intangible or chattel paper.

2.2. Letters of Credit; Fees. Upon written request by Borrower from time to time, Lender in its sole discretion may issue Letters of Credit for the account of Borrower for such purposes as may be approved by Lender; provided, however, that the aggregate amount of issued and outstanding Letters of Credit shall never exceed \$500,000. Borrower shall execute and deliver a Reimbursement Agreement for each Letter of Credit requested, and Lender shall issue the Letters of Credit in accordance with the terms of the Reimbursement Agreements. Upon the demand of the holder of the Note for payment in full of all sums due under the Note, Borrower immediately shall return all Letters of Credit to Lender. Borrower shall pay to Lender a non-refundable annual fee for each Letter of Credit equal to 1.00% of the amount of the Letter of Credit. The fee for the first year shall be due and payable on the date the Letter of Credit is issued, and the fee for each subsequent year shall be due and payable on each anniversary of that date, for so long as the Letter of Credit remains outstanding. Upon payment, each letter of credit fee shall be deemed earned by the Lender and shall be the absolute property of the Lender, even if the Letter of Credit for which the fees are paid is released before its expiration date or no draft is made thereon.

2.3. Advance Procedure. Each advance shall be made by Lender to Borrower within 2 business days after Lender's receipt of a request from Borrower setting forth the amount of the advance and the business day on which Borrower desires the advance. Each request for an advance of Loan proceeds shall be in writing and shall be accompanied by a borrowing base certificate, a receivables report and aging, and such other supporting documents and materials as Lender may require, all of which shall be in form and substance acceptable to Lender. Each advance shall be accomplished by crediting the principal amount to a banking account of Borrower with Lender. In connection with advances of Loan proceeds, Borrower irrevocably authorizes Lender to accept, rely upon, act upon, and comply with any oral or written instructions, requests, confirmations, and orders of any employee or representative of Borrower. Borrower acknowledges that the transmission between Borrower and Lender of any such instructions, requests, confirmations, and orders involves the possibility of errors, omissions, mistakes, and discrepancies and agree to adopt such internal measures and operational procedures to protect Borrower's interests. Borrower assumes all risk of loss and responsibility for, releases and discharges Lender from any and all responsibility or liability for, and agrees to indemnify Lender for and hold Lender harmless from, any and all claims, actions, damages, losses, liability, and expenses by reason of, arising out of or in any way connected with or related to (a) Lender's accepting, relying and acting upon, complying with, or observing any such instructions, requests, confirmations, or orders, and (b) any such errors, omissions, mistakes, and discrepancies.

2.4. Funding Restrictions. Borrower shall not request and Lender shall have no obligation to make any advance of Loan proceeds that would cause the outstanding principal balance of the Loan to exceed \$250,000; and Borrower shall not request and Lender shall have no obligation to issue any Letter of Credit that would cause the aggregate face amount of all issued and outstanding Letters of Credit to exceed \$500,000.

2.5. Purpose. The proceeds of the Loan shall be used to finance Borrower's working capital needs. The Letters of Credit shall be used solely for such purposes as are approved by Lender from time to time.

2.6. Terms of Repayment. The Loan shall be evidenced by and repaid with interest in accordance with the terms of the Note, which are incorporated herein by reference.

2.7. Commitment Fee. Borrower shall pay to Lender on or before the date hereof a non-refundable and unconditional commitment fee of \$2,500. The commitment fee shall not be considered to be a payment of any of Lender's costs and expenses incurred in connection with the Loan, and shall be paid independent of the amount of Loan proceeds ultimately advanced to Borrower, even if that amount is less than the amount described in this Agreement.

2.8. Cross-Collateralization. Notwithstanding anything to the contrary contained herein, in addition to the Loan and the Liabilities, the security interest granted by this Agreement secures the principal of and

interest on and all other payments, premiums and other amounts due or that may become due under any now existing or hereafter incurred indebtedness of Borrower or any Obligor to Lender.

2.9. Loan Account. Lender shall establish and maintain one or more accounts on the books of Lender evidencing the Liabilities, to which account or accounts: (a) each advance made by Lender shall be debited as of the date made; (b) each payment made by Borrower shall be credited as of the date payment is received by Lender; (c) all interest that accrues on the Loan shall be debited as it accrues; (d) all Expense Payments shall be debited as of the date paid by Lender; (e) all Liquidation Costs shall be debited as of the date incurred by Lender; and (f) all other fees, charges, interest, and expenses chargeable by Lender to Borrower under this Agreement or any other Loan Document shall be debited as of the date such charges, interest, and expenses are incurred. All credit entries to such accounts are conditional and shall be readjusted as of the date made if final payment is not received by Lender. The entries made by Lender to such accounts shall constitute *prima facie* evidence of the existence and amounts of the Liabilities.

3. SECURITY

3.1. Grant of Security Interest. To secure the payment of the Liabilities and the payment and performance of all of Borrower's other obligations under the Loan Documents, Borrower hereby grants to Lender a security interest in the Collateral.

3.2. Future Advances. The security interest granted by this Agreement secures future advances.

3.3. Perfection of Security Interest. Borrower authorizes Lender to file financing statements, financing statement addenda, continuation statements and financing statement amendments in such form and in such filing offices as Lender may require to perfect or to preserve, maintain or continue the perfection of the security interest in the Collateral and its priority. Borrower further agrees to execute and deliver to Lender, or to cooperate with Lender in obtaining from any third party, upon Lender's request, any control agreement, acknowledgment of bailment, or other document Lender may request in order to perfect or to preserve, maintain, or continue the perfection of Lender's security interest in the Collateral and its priority. Borrower shall pay the costs of filing any financing statement, financing statement addendum, continuation statement or termination statement as well as any recordation or transfer tax required by law to be paid in connection with the filing or recording of any such document. A carbon, photographic, or other reproduction of this Agreement is sufficient as a financing statement. Borrower shall not file any amendments, correction statements or termination statements concerning the Collateral without the prior written consent of Lender.

3.4. Requests of Other Secured Parties; Power of Attorney. Borrower authorizes Lender to request other secured parties of Borrower to provide such accountings, confirmations of collateral and confirmations of statements of account concerning Borrower as Lender may require. Borrower hereby appoints Lender or any officer of Lender as Borrower's attorney in fact for purposes of endorsing Borrower's name on any such requests to be delivered to other secured parties of Borrower, which power of attorney is coupled with an interest and irrevocable.

4. REPRESENTATIONS AND WARRANTIES

4.1. Representations and Warranties. Borrower, and each Person acting on behalf of Borrower in executing this Agreement, represents and warrants to Lender as follows:

a. Organization and Authority. Borrower is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware and is duly qualified to transact business as a foreign corporation and is in good standing under the laws of the State of Maryland. Borrower has the power and authority to consummate the transactions contemplated hereby, and has taken all necessary action to authorize the execution, delivery, and performance of this Agreement and the other Loan Documents executed and delivered by it.

b. Title to Collateral. Borrower is the owner of the Collateral and has good and marketable title to the Collateral free and clear of all liens, security interests, and other encumbrances except for those in favor of Lender and those previously disclosed in writing to Lender.

c. Licenses and Permits. Borrower has all licenses, permits and authorizations, in good standing and without undue restrictions, necessary for it to conduct lawfully its business and affairs.

d. Binding Agreement. This Agreement, the Note, the Reimbursement Agreements and the other Loan Documents constitute the valid and legally binding obligations of Borrower and all Obligor, as the case may be, enforceable in accordance with their respective terms.

e. Financial Statements. The financial statements of Borrower delivered to Lender prior to the date of this Agreement are true and correct in all material respects, have been prepared in accordance with generally accepted accounting principles consistently applied, and fairly present the financial condition of Borrower as of the respective dates thereof. No material adverse change has occurred in the financial condition of Borrower since the date of the most recent such financial statement.

f. Information. All information contained in any financial statement, application, schedule, report, certificate, opinion, or any other document given by Borrower or by any other Person in connection with the Loan, the Letters of Credit or with any of the Loan Documents is in all respects true and accurate, and Borrower or such other Person has not omitted to state any material fact or any fact necessary to make such information not misleading.

g. Assets and Properties. Borrower has good and marketable title to all of its assets and properties, and there is no Lien outstanding against any of Borrower's assets or properties other than those Liens permitted by this Agreement and disclosed to Lender in writing.

h. No Litigation. There are no actions, suits, or proceedings pending or, to the knowledge of Borrower, threatened against Borrower at law or in equity or before or by any governmental authority. Borrower is not in default with respect to any order, writ, injunction, decree, or demand of any court or any governmental authority.

i. No Breach of Other Agreements. The consummation of the transactions contemplated by this Agreement and the performance of this Agreement and the other Loan Documents will not result in any breach of, or constitute a default under, any mortgage, deed of trust, lease, loan or credit agreement, or any other instrument to which Borrower is a party or by which Borrower may be bound or affected.

j. Taxes. All Taxes have been paid and discharged prior to the date when any interest or penalty would accrue for the nonpayment thereof.

k. ERISA. Any Plan established and maintained by Borrower or any Commonly Controlled Entity is a qualifying plan under the applicable requirements of ERISA, and there is no current matter which would adversely affect the qualified tax exempt status of any Plan. Neither Borrower nor any Commonly Controlled Entity has engaged in or is engaging in any Prohibited Transaction or has incurred any Accumulated Funding Deficiency in connection with any such Plan, whether or not waived, and no Reportable Event has occurred with respect to any Plan subject to the minimum funding requirements of Section 412 of the Code. No Multiemployer Plan has "terminated," as that term is defined in ERISA, and neither Borrower nor any Commonly Controlled Entity has "withdrawn" or "partially withdrawn" from any Multiemployer Plan. No Multiemployer Plan is in "reorganization," as that term is defined in ERISA, nor has notice been received from the administrator of any Multiemployer Plan that any such Plan will be placed in "reorganization."

l. Margin Stock. Borrower is not in the business of purchasing or selling margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System, as amended). No portion of the proceeds of the Loan will be used to acquire or carry any margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System, as amended).

m. No Violation of Laws. Neither the consummation of the Loan, nor the issuance of the Letters of Credit, nor the use, directly or indirectly, of all or any portion of the proceeds of the Loan or of the Letters of Credit in accordance with this Agreement will violate or result in a violation of any provision of any applicable federal, state or local law, statute, rule or regulation, or any order of any court or other governmental authority having jurisdiction, or any authorized official, board, department, instrumentality, or agency thereof.

n. Environmental Compliance. To the best of Borrower's knowledge after due inquiry, Borrower, the Collateral and all of Borrower's properties are in compliance with all environmental laws, regulations and restrictions.

o. Name; Location of Places of Business; Other Information Relevant to Perfection. Borrower's correct legal name is as specified on the signature lines of this Agreement, and each legal or trade name of Borrower for the previous 5 years (if different from Borrower's current legal name) is as specified on Exhibit B of this Agreement. Borrower's state of formation, federal tax identification number and organizational identification number (if any), and the address of Borrower's chief executive office and the address of each other place of business of Borrower are as specified on Exhibit B of this Agreement. Except for mobile equipment and motor vehicles, the Collateral and all books and records pertaining to the Collateral are located at Borrower's chief executive office specified on Exhibit B or at any other place of business which may be specified on Exhibit B.

p. Subsidiaries. As of the date of this Agreement, Borrower has no Subsidiaries.

q. USA Patriot Act. Neither Borrower, nor any Obligor, nor any affiliate of Borrower or any Obligor is identified in any Blocked Persons List.

4.2. Continuing Nature of Representations and Warranties. Borrower hereby represents, warrants, covenants and agrees that the representations and warranties made by Borrower in Section 4.1 shall remain true and accurate in all respects throughout the term of the Loan and the Letters of Credit. Each request by Borrower for an advance of Loan proceeds and each request by Borrower for the issuance of a Letter of Credit shall constitute a reaffirmation of all representations and warranties made by Borrower in Section 4.1.

5. AFFIRMATIVE COVENANTS

Until payment in full of all of the Liabilities:

5.1. Payment and Performance. Borrower shall pay the Liabilities as and when due and payable and shall perform, comply with, and observe all of the terms and conditions of the Loan Documents.

5.2. Costs of Transaction. Borrower shall pay all costs and expenses incident to the making of the Loan and the issuance of the Letters of Credit and the perfection of Lender's security interests under the Loan Documents, including but not limited to reasonable attorneys' fees, recordation costs and taxes incident to filing of financing statements and continuation statements in respect thereof, and any charges in connection with record searches regarding Borrower or any Obligor.

5.3. Use of Loan Proceeds and Letters of Credit. Borrower shall use the proceeds of the Loan and the Letters of Credit only for the purposes described in Section 2.5 of this Agreement.

5.4. Title to Collateral. Borrower shall defend its title to the Collateral against all Persons and, upon request of Lender, shall furnish such further assurances of title as may be required by Lender.

5.5. Reporting Requirements. Borrower shall submit each of the following items to Lender:

a. Annual Financial Statements. Borrower shall submit to Lender, as soon as available but in no event more than 120 days after the end of each fiscal year of Borrower, consolidated and consolidating annual financial statements of Borrower prepared in accordance with generally accepted accounting principles, including a balance sheet, income statement, statement of shareholders' equity and statement of changes in financial position, fully certified by independent certified public accountants satisfactory to Lender. In addition, Borrower shall submit to Lender at the same time Borrower submits its annual audited financial statements, a statement of contingent liabilities and a cash flow analysis.

b. Tax Returns. Borrower shall submit to Lender, within 30 days after filing, copies of Borrower's federal and state income tax returns.

c. Monthly Financial Statements. Borrower shall submit to Lender, as soon as available but in no event more than 15 days after the end of each calendar month, monthly financial statements of Borrower in form and substance acceptable to Lender.

d. Receivables and Payables Reports; Borrowing Base Certificates. Borrower shall submit to Lender (i) on the first business day of each week and with each request for an advance of Loan proceeds, a receivables report and aging, (ii) on the first business day of each month and at such other times as Lender may require, an accounts payable report and aging, and (iii) with request for an advance of Loan proceeds and at such other times as Lender may require, a borrowing base certificate, all of which shall be in form and substance acceptable to Lender.

e. Reports to SEC and to Stockholders. Borrower shall submit to Lender, promptly upon the filing or making thereof, at least one copy of all financial statements, reports, notices, and proxy statements sent by it to its stockholders, and all regular and other reports filed by it with any securities exchange or with the Securities and Exchange Commission.

f. Other Information. Borrower shall furnish to Lender, promptly from time to time, such other information concerning the operations, business, affairs, and financial condition of Borrower as Lender may reasonably request.

5.6. Books, Records, and Inspections. Borrower: (a) at all times shall maintain, in accordance with generally accepted accounting principles, accurate and complete books and records pertaining to the operation, business, and financial condition of Borrower and pertaining to the Collateral and any contracts and collections relating to the Collateral; (b) at all reasonable times and without hindrance or delay, shall permit Lender or any Person designated by Lender to enter any place of business of Borrower or any other premises where any books, records, and other data concerning Borrower or the Collateral may be kept and to examine, audit, inspect, and make extracts from and photocopies of any such books, records, and other data; (c) shall furnish to Lender promptly upon request and in the form and content specified by Lender lists of purchasers of inventory, aging of accounts, aggregate cost or wholesale market value of inventory, schedules of equipment, and other data concerning the Collateral as Lender may from time to time specify; and (d) shall mark its books and records in a manner satisfactory to Lender so that Lender's rights in and to the Collateral will be shown.

5.7. Notice of Litigation. Borrower shall notify Lender promptly of any litigation instituted or threatened against Borrower and of the entry of any judgment or Lien against any of Borrower's assets or properties.

5.8. Care of Collateral. Borrower shall maintain the Collateral in good condition and shall not do or permit anything to be done to the Collateral that may impair its value or that may violate the terms of any insurance covering the Collateral or any part thereof. Lender shall have no duty to preserve any of the Collateral or to collect or enforce any account, chattel paper or payment intangible or to preserve rights against other parties to the Collateral, and Borrower hereby releases Lender from all claims for loss or damage caused by Lender's failure to do so.

5.9. Preservation of Properties. Borrower at all times: (a) shall maintain its properties, whether owned or leased, in good operating condition, and from time to time shall make all repairs, renewals, replacements, additions, and improvements thereto needed to maintain such properties in good operating condition; (b) shall comply with the provisions of all leases to which Borrower is a party or under which Borrower occupies property so as to prevent any loss or forfeiture thereof or thereunder; and (c) shall comply with all laws, rules, regulations, and orders applicable to Borrower's properties or any part thereof.

5.10. Property Insurance.

a. Special Form Policy. Borrower shall keep such of the Collateral as specified by Lender insured with a special form policy of property insurance in such amounts as may from time to time be required by Lender, without reduction for depreciation or co-insurance. Borrower shall not take out any separate or additional insurance which is contributing in the event of loss unless it is properly endorsed and otherwise satisfactory to Lender in all respects.

b. Business Income Insurance. Borrower shall maintain business income insurance at all times in such amounts as are required by Lender.

c. Claims and Proceeds. In the event of loss, Borrower shall give immediate written notice to the insurance carrier and to Lender. Borrower hereby authorizes and empowers Lender as attorney-in-fact for Borrower to make proof of loss, to adjust and compromise any claim under the insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom Lender's expenses incurred in the collection of such proceeds; provided, however, that nothing contained in this Section shall require Lender to incur any expense or take any action. Borrower further authorizes Lender, at Lender's option: (i) to hold the balance of such proceeds to be used to reimburse Borrower for the cost of repair or replacement of the Collateral, upon such terms as Lender may determine in its sole discretion; or (ii) to apply the balance of such proceeds to the payment of the Liabilities, whether or not then due, in the same manner and order as the proceeds of sale or other disposition of the Collateral are to be applied pursuant to Section 7.2 of this Agreement.

d. General Insurance Requirements. All insurance policies required pursuant to this Section shall: (i) be endorsed to name Lender as loss payee, with losses payable solely to Lender, without contribution, as its interests may appear; (ii) provide that they shall not be invalidated by a waiver of the right of subrogation by any insured, that the insurance carrier shall have no right of subrogation, and that the policies may not be canceled, terminated or changed without 30 calendar days prior written notice to Lender; and (iii) be fully paid for; (iv) be on forms and contain provisions and expiration dates which are approved by Lender; (v) be issued by insurance companies which (A) are licensed to do business in the state where the insured Collateral is located, (B) have a Best's Key Rating of at least A-, (C) have a Best's Key Rating Class of at least IX, and (D) otherwise are reasonably satisfactory to Lender in all respects. Borrower shall deliver all original policies to Lender together with the endorsements thereto required hereunder, or acceptable certificates evidencing the existence of such policies. Not less than 10 calendar days prior to the expiration dates of each policy required pursuant to this Section, Borrower shall deliver to Lender a renewal policy or policies, or an acceptable certificate evidencing the existence of such renewal policy or policies, accompanied by evidence satisfactory to Lender that the premium for such policy or policies has been paid for at least a 1 year period.

5.11. Liability and Worker's Compensation Insurance. Borrower shall maintain commercial general liability insurance (for both personal injuries and property damage) in such amounts as Lender requires from time to time. Each liability policy: (a) shall be endorsed to name Lender as additional insured; (b) shall provide that it may not be canceled or modified without 30 calendar days advance notice to Lender; (c) shall be fully paid for; (d) shall be on a form and contain provisions and expiration dates which are approved by Lender; (e) shall be issued by an insurance company which (i) is licensed to do business in the state in which Borrower is located, (ii) has a Best's Key Rating of at least A-, (iii) has a Best's Key Rating Class of at least IX, and (iv) otherwise is reasonably satisfactory to Lender in all respects.

Borrower shall deliver a certified copy of each liability policy to Lender together with endorsements thereto required hereunder, or an acceptable certificate evidencing the existence of each such policy. Borrower also shall maintain worker's compensation insurance in such amounts as are required by applicable law. Not less than 10 calendar days prior to the expiration dates of each policy required pursuant to this Section, Borrower shall deliver to Lender a renewal policy or policies, or an acceptable certificate evidencing the existence of such renewal policy or policies, accompanied by evidence satisfactory to Lender that the premium for such policy or policies has been paid for at least a 1 year period.

5.12. Taxes. Borrower shall pay and discharge all Taxes prior to the date when any interest or penalty would accrue for the nonpayment thereof.

5.13. Maintain Existence. Borrower at all times shall maintain in full force and effect its corporate existence, rights, privileges, and franchises and shall qualify and remain qualified in all jurisdictions where qualification is required.

5.14. Payment of Indebtedness to Others. Borrower shall pay when and as due all indebtedness due to third Persons.

5.15. Changes in Location. Borrower shall advise Lender immediately in writing of (a) any change in the location of Borrower's chief executive office; (b) the opening of any new place of business; (c) any change in the location of the places where all or any part of the Collateral or the books and records concerning all or any part of the Collateral are kept; (d) any change in Borrower's legal name, or the addition of or any change in any name under which Borrower conducts business; (e) any change in Borrower's state of formation; (f) any change in Borrower's federal tax identification number; or (g) Borrower's receipt of, or any change in, Borrower's organizational identification number.

5.16. Compliance with Laws. Borrower at all times shall comply with all applicable federal, state, and local laws, statutes, rules, and regulations, and orders of any court or other governmental authority having jurisdiction, and all authorized officials, boards, departments, instrumentalities and agencies thereof.

5.17. Maintenance of Licenses and Permits. Borrower shall maintain in good standing and in full force and effect all licenses, permits and authorizations necessary for it to conduct lawfully its business and affairs.

5.18. Environmental Matters. Borrower shall notify Lender immediately if Borrower becomes aware of: (a) the presence of any Hazardous Substance in, on or near any property owned or leased by Borrower; (b) the commencement or threat of any environmental investigation or clean-up proceeding by any Person in connection with any property owned or leased by Borrower; and (c) any citation, notification, complaint, or violation which Borrower receives from any Person which relates or pertains to the making, storing, handling, treating, disposing, generating, transporting or release of any Hazardous Substance. Borrower shall comply fully with and assist any environmental investigation or clean-up proceeding, and shall execute and complete promptly any remedial action necessary to ensure that no environmental liens or encumbrances are levied against or exist with respect to any property owned or leased by Borrower. Promptly upon the written request of Lender at any time Lender believes in good faith that there may be Hazardous Substances in or on any property owned or leased by Borrower in violation of applicable law, Borrower shall submit to Lender an environmental site assessment or report, in form and substance reasonably satisfactory to Lender, with respect to such property of Borrower as is specified by Lender. Borrower shall indemnify and hold harmless Lender from all loss, liability, damage, cost, and expense, including but not limited to reasonable legal fees, fines, or other penalties or payments, for failure of any property of Borrower on which Lender has a Lien to comply in all respects with all environmental laws and requirements. The indemnification provisions of the preceding sentence of this Section shall survive payoff, release, foreclosure, or other disposition of this Agreement, the Collateral or any other security for the Loan.

5.19. *Specific Assignments.* Promptly upon request by Lender, Borrower shall execute and deliver to Lender written assignments, endorsements, or schedules, in form and content satisfactory to Lender, of specific accounts, chattel paper or payment intangibles or groups of accounts, chattel paper or payment intangibles, but the security interest granted to Lender by this Agreement shall not be limited in any way by such assignments. Such accounts, chattel paper and payment intangibles are to secure payment of the Liabilities and payment and performance of Borrower's other obligations under the Loan Documents and are not sold to Lender whether or not any assignment thereof which is separate from this Agreement is in form absolute.

5.20. *Delivery of Chattel Paper.* Promptly upon request by Lender, Borrower shall deliver and endorse to Lender all chattel paper and all other documents held by Borrower in connection therewith.

5.21. *Government Contracts.* If any account, chattel paper or payment intangible arises out of a contract or contracts with the United States of America or any department, agency, or instrumentality thereof or any state or local governmental or quasi-governmental authority or any department, agency, or instrumentality thereof, Borrower immediately shall notify Lender thereof in writing and execute any instruments or take any steps required by Lender in order that all moneys due or to become due under such contract or contracts shall be assigned to Lender and notice thereof given under the *Federal Assignment of Claims Act of 1940*, as amended, or any other applicable federal or state statute or common law. No account, chattel paper or payment intangible that arises out of a contract or contracts with the United States of America or any department, agency, or instrumentality thereof or any state or local governmental or quasi-governmental authority or any department, agency, or instrumentality thereof shall be considered an "Eligible Receivable" until Lender, in Lender's sole discretion, determines that Borrower has complied with all applicable laws.

5.22. *Accounts, Inventory, Chattel Paper and Payment Intangibles.* Borrower shall make no material change to the terms of any sale or lease of inventory or of any account, chattel paper or payment intangible without the prior written permission of Lender. Upon demand by Lender, Borrower shall make available in form acceptable to Lender shipping documents and delivery receipts evidencing the shipment of goods which gave rise to the sale or lease of inventory or of an account, chattel paper or payment intangible, completion certificates, or other proof of the satisfactory performance of services which gave rise to an account or chattel paper, copies of the invoices arising out of the sale or lease of inventory or for an account, and Borrower's copy of any written contract or order from which the sale or lease of inventory, an account, chattel paper or a payment intangible arose. When requested, Borrower shall advise Lender regularly whenever an account debtor returns or refuses to retain any goods, the sale or lease of which gave rise to an account or chattel paper, and of any delay in delivery or performance, or claims made, in regard to any sale or lease of inventory, account, or chattel paper, and will comply with any instructions which Lender may give regarding the sale or other disposition of such returns.

5.23. *Collateral Account.* If all or any part of the Collateral at any time consists of inventory, accounts, chattel paper or payment intangibles, Borrower, upon the request of Lender at any time and from time to time both prior to and after the occurrence of an Event of Default, shall deposit or cause to be deposited to a bank account designated by Lender and from which Lender alone has power of access and withdrawal ("Collateral Account") all Items of Payment. Borrower shall deposit the Items of Payment for credit to the Collateral Account within 2 business days of the receipt thereof, and in precisely the form received, except for the endorsement of Borrower where necessary to permit the collection of the Items of Payment, which endorsement Borrower hereby agrees to make. Pending such deposit, Borrower shall not commingle any of the Items of Payment with any of its other funds or property, but shall hold them separate and apart. At least once a week, Lender shall apply the whole or any part of the collected funds credited to the Collateral Account against the Indebtedness or shall credit such collected funds to a banking account of Borrower with Lender, the order and method of such application or credit to be in the sole discretion of Lender.

5.24. *Lender's Collection Rights.* If all or any part of the Collateral at any time consists of inventory, accounts, chattel paper or payment intangibles, Lender may at any time and from time to time after the occurrence of an Event of Default or the occurrence of an event which, with the passage of time or the

giving of notice or both would constitute an Event of Default, and Borrower hereby irrevocably appoints Lender as its attorney in fact (which appointment is coupled with an interest), with power of substitution, in the name of Lender or in the name of Borrower or otherwise, for the use and benefit of Lender, but at the cost and expense of Borrower and without notice to Borrower, to: (a) notify the account debtors obligated on any of the Collateral to make payments thereon directly to Lender, and to take control of the cash and non cash proceeds of any such Collateral; (b) charge to any banking account of Borrower with Lender any Item of Payment credited to the Collateral Account which is dishonored by the drawee or maker thereof; (c) compromise, extend, or renew any of the Collateral or deal with the same as it may deem advisable; (d) release, make exchanges or substitutions for, or surrender all or any part of the Collateral; (e) remove from Borrower's place of business all books, records, ledger sheets, correspondence, invoices, and documents relating to or evidencing any of the Collateral or, without cost or expense to Lender, make such use of Borrower's places of business as may be reasonably necessary to administer, control, and collect the Collateral; (f) repair, alter, or supply goods, if any, necessary to fulfill in whole or in part the purchase order of any account debtor; (g) demand, collect, receipt for, and give renewals, extensions, discharges, and releases of any of the Collateral; (h) institute and prosecute legal and equitable proceedings to enforce collection of, or realize upon, any of the Collateral; (i) settle, renew, extend, compromise, compound, exchange, or adjust claims with respect to any of the Collateral or any legal proceedings brought with respect thereto; (j) endorse the name of Borrower upon any Items of Payment relating to the Collateral or upon any proof of claim in bankruptcy against an account debtor; (k) receive and open all mail addressed to Borrower and, if an Event of Default exists, notify postal authorities to change the address for the delivery of mail to Borrower to such address as Lender may designate; and (l) exercise all other rights of Borrower against its account debtors.

5.25. Further Assurances and Corrective Instruments. Borrower, upon request by Lender from time to time, shall execute and deliver, or cause to be executed and delivered, such supplements hereto and such further instruments as may be required by Lender for carrying out the intention of the parties to, or facilitating the performance of, this Agreement. If Borrower fails to execute any such document within 10 calendar days after a request by Lender, Borrower hereby appoints Lender or any officer of Lender as Borrower's attorney in fact for purposes of executing such document in Borrower's name, which power of attorney is coupled with an interest and irrevocable.

5.26. Estoppel Certificates. Borrower, within 10 calendar days after request by Lender from time to time, shall execute, acknowledge and deliver to Lender or any Person designated by Lender a statement in writing, certifying: (a) that this Agreement is unmodified and in full force and effect and the payments required by this Agreement to be paid by Borrower have been paid; (b) the then unpaid principal balance of the Note; (c) the amount of all issued and outstanding Letters of Credit; and (d) whether to the knowledge of the signer of such certificate any party to any of the Loan Documents is in default in the performance of any covenant, agreement, or condition contained therein and, if so, specifying each such default of which the signer may have knowledge.

5.27. Expense Payments. If Borrower shall fail to make any payment or otherwise fail to perform, observe, or comply with any of the conditions, covenants, terms, stipulations, or agreements contained in this Agreement, Lender without notice to or demand upon Borrower and without waiving or releasing any obligation or any Event of Default may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Borrower, and may enter upon any premises of Borrower for that purpose and take all such action thereon as Lender may consider necessary or appropriate for such purpose. All sums so paid or advanced by Lender ("Expense Payments"), together with interest thereon from the date paid, advanced, or incurred until repaid in full at a per annum rate of interest equal at all times to the default rate of interest described in the Note, shall be paid by Borrower to Lender upon demand by Lender.

5.28. USA Patriot Act. Borrower shall immediately notify Lender in writing if Borrower becomes aware that Borrower or any Obligor or any affiliate of Borrower or any Obligor is identified in any Blocked Persons List.

5.29. Pledged Account. Borrower shall maintain in an account with Lender ("Pledged Account") funds in an amount not less than \$250,000. The Pledged Account shall be pledged and assigned to Lender as additional security for the Loan and the Letters of Credit. Until the Liabilities are repaid in full, Lender shall have sole access to the Pledged Account and any funds on deposit therein and Borrower may not withdraw any funds from the Pledged Account without Lender's express written approval.

5.30. Deposit Accounts. Borrower shall maintain with Lender at all times its primary depository relationships and such deposit accounts (excluding the Pledged Account) shall have average daily balances of at least \$250,000 during each calendar month. Funds on deposit in the Pledged Account shall not be included in Lender's computation of such average daily balances.

5.31. Field Examinations. Lender may conduct field examinations of Borrower during regular business hours and at such intervals as Lender may determine, provided that Lender shall provide Borrower at least 48 hours advance notice of each such field examination, which notice need not be in writing.

6. NEGATIVE COVENANTS

Until the Liabilities are repaid in full:

6.1. No Change of Name, Merger, Etc. Borrower shall not change its name, dissolve, merge, or consolidate with any other Person.

6.2. No Sale or Transfer of Assets. Borrower shall not sell, transfer, lease or otherwise dispose of all or any part of the Collateral, or any material part of its other assets, except that Borrower, in the ordinary course of its business, and in the absence of an Event of Default or a contrary direction by Lender pursuant to this Agreement, may collect its accounts, chattel paper and payment intangibles and may sell its inventory in the ordinary course of its business.

6.3. No Encumbrance of Assets. Borrower shall not mortgage, pledge, grant or permit to exist a Lien upon any of the Collateral or any of its other assets of any kind, now owned or hereafter acquired, except for Liens granted by or otherwise permitted under this Agreement. Lender specifically consents to purchase money Liens granted by Borrower in connection with the acquisition by Borrower of inventory or equipment, provided that such Liens encumber only the specific items of inventory and/or equipment acquired by Borrower with the financing provided by the relevant secured party.

6.4. No Purchase or Redemption of Securities; No Distributions. Borrower shall not: (a) purchase or redeem any shares of the capital stock of Borrower; (b) declare or pay any dividends on the capital stock of Borrower (other than stock dividends); (c) make any distribution to stockholders; (d) set aside any funds for any such redemption, dividend or distribution; or (e) prepay, purchase, or redeem any indebtedness of Borrower other than the Loan.

6.5. No Additional Indebtedness. Borrower shall not incur or permit to exist any indebtedness or liability on account of deposits or advances or for borrowed money or for the deferred purchase price of any property or services, except: (a) the Loan; (b) current debt; (c) current accounts payable arising in the ordinary course of business; (d) other indebtedness outstanding on the date of this Agreement or hereafter incurred in connection with Liens permitted by the Loan Documents; (e) the Subordinated Debt; and (f) indebtedness incurred in connection with the acquisition by Borrower of inventory or equipment, which indebtedness may be secured by a purchase money security interest encumbering the inventory and/or equipment acquired with such indebtedness.

6.6. Compensation. Borrower shall not increase by more than 10% *per annum* the amount of salary, bonus, or other compensation paid to its officers, management, executive personnel, and other key employees from that amount being paid to such Persons as of the date of this Agreement.

6.7. ERISA Compliance. Borrower shall not: (a) restate or amend any Plan established and maintained by Borrower or any Commonly Controlled Entity in a manner designed to disqualify such

Plan under the applicable requirements of the Code; (b) permit management of Borrower or any Commonly Controlled Entity to affect adversely the qualified tax exempt status of any Plan of Borrower or any Commonly Controlled Entity; (c) engage in or permit any Commonly Controlled Entity to engage in a Prohibited Transaction; (d) incur or permit any Commonly Controlled Entity to incur any Accumulated Funding Deficiency, whether or not waived, in connection with any Plan; (e) take or permit any Commonly Controlled Entity to take any action or fail to take any action which causes a termination of any Plan in a manner which could result in the imposition of a Lien on the property of Borrower or any Commonly Controlled Entity pursuant to Section 4068 of ERISA; (f) fail to notify Lender that notice has been received of a termination of any Multiemployer Plan to which Borrower or any Commonly Controlled Entity has an obligation to contribute; (g) incur or permit any Commonly Controlled Entity to incur a complete or partial withdrawal from any Multiemployer Plan to which Borrower or any Commonly Controlled Entity has an obligation to contribute; or (h) fail to notify Lender that notice has been received from the administrator of any Multiemployer Plan to which Borrower or any Commonly Controlled Entity has an obligation to contribute that any such plan will be placed in "reorganization," as that term is defined in ERISA.

7. DEFAULT AND REMEDIES

7.1. Events of Default. The occurrence of any of the following events shall constitute an Event of Default under this Agreement and under the other Loan Documents:

- a. Failure to Pay. Borrower fails to pay when due any of the Liabilities.
 - b. Failure of Representation or Warranty. Any representation or warranty made by Borrower in this Agreement proves to have been incorrect in any material respect.
 - c. Breach of Affirmative Covenant. Borrower fails to perform or observe any of the affirmative covenants set forth in Section 5 of this Agreement.
 - d. Violation of Negative Covenant. Borrower violates any of the negative covenants set forth in Section 6 of this Agreement.
 - e. Default Under Other Loan Documents. An event of default (as defined therein) occurs under any of the other Loan Documents.
 - f. Cross Default. A default occurs with respect to any obligation owed by Borrower or any Obligor to Lender or a default occurs with respect to any obligation the principal amount of which is at least \$50,000 owed by Borrower or any Obligor to any Person other than Lender.
 - g. Judgment. Any final judgment is rendered against Borrower or any Obligor or any attachment or other levy against the property of Borrower or any Obligor with respect to a claim remains unsatisfied and unbonded for a period of 30 calendar days after the date of entry.
 - h. Voluntary Bankruptcy, Etc. Borrower or any Obligor: (i) voluntarily is adjudicated as bankrupt or insolvent, (ii) seeks or consents to the appointment of a receiver or trustee for itself or for all or any part of its property, (iii) files a petition seeking relief under the bankruptcy or similar laws of the United States or any state or any other competent jurisdiction, (iv) makes a general assignment for the benefit of creditors, or (v) admits in writing its inability to pay its debts as they mature.
 - i. Involuntary Bankruptcy, Etc. A court of competent jurisdiction enters an order, judgment or decree appointing, without the consent of Borrower or such Obligor, a receiver or trustee for Borrower or any Obligor for all or any part of its property or approving a petition filed against it or him seeking relief under the bankruptcy or other similar laws of the United States or any state or other competent jurisdiction, and such order, judgment or decree shall remain in force undischarged or unstayed for a period of 30 calendar days.
-

j. Material Adverse Change. Lender determines in good faith that a material adverse change has occurred in the financial condition of Borrower or any Obligor from the financial condition set forth in the most recent financial statement furnished to Lender, or from the financial condition of Borrower, such Obligor most recently disclosed to Lender in any manner.

k. Transfers. The transfer of assets by Borrower for other than reasonably equivalent value.

l. Insecurity of Lender. Lender in good faith deems itself to be insecure.

m. Impairment of Collateral. Any event shall occur which Lender in good faith deems to impair any of the Collateral or any other security for the Loan.

n. Extraordinary Acts. A change of ownership or a sale, dissolution, merger, consolidation, liquidation or reorganization of Borrower.

o. Failure of Perfection. Any security interest granted by this Agreement is unperfected due to any action or omission by Borrower in violation of this Agreement.

7.2. Remedies of Lender. Upon the occurrence of any Event of Default, in addition to all other rights and remedies available to Lender under the Loan Documents and applicable law, Lender shall have the following rights and remedies:

a. Acceleration. Lender may declare the Note and all other Liabilities to be immediately due and payable.

b. No Further Advances. Lender may refuse to make any further advance of Loan proceeds and may apply all funds of Borrower then held by Lender in any capacity to the payment of the principal of and interest on the Note, the Reimbursement Agreements and all other Liabilities which may be or become due and payable under any of the Loan Documents.

c. Restriction on Advances. Lender may restrict advances of Loan proceeds to such amounts and for such purposes as Lender deems appropriate under the circumstances then prevailing.

d. No Further Issuance of Letters of Credit. Lender may refuse to issue any additional Letters of Credit, and may refuse to extend the expiry date of any outstanding Letter of Credit.

e. Sale of Collateral. Lender shall have all of the rights and remedies of a secured party under the *Maryland Uniform Commercial Code* and other applicable laws. Upon demand by Lender, Borrower shall assemble the Collateral and make it available to Lender at a place designated by Lender which is mutually convenient to both parties. Lender or its agents may enter upon Borrower's premises to take possession of the Collateral, to remove it, to render it unusable, or to sell or otherwise dispose of it, all without judicial process or proceedings. Lender shall have no obligation to clean up or otherwise to prepare the Collateral for sale. Any written notice of the sale, disposition, or other intended action by Lender with respect to the Collateral which is required by applicable laws and is sent by certified mail, postage prepaid, to Borrower at the address of Borrower's chief executive office specified below, or such other address of Borrower which may from time to time be shown on Lender's records, at least 10 calendar days prior to such sale, disposition, or other action, shall constitute reasonable notice to Borrower. Lender, without adversely affecting the commercial reasonableness of any sale of the Collateral, (a) may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral, and (b) may refuse to give or may disclaim any warranties of title or the like. Any proceeds of sale or other disposition of the Collateral shall be applied by Lender to the payment of Liquidation Costs and Expense Payments, and any balance of such proceeds will be applied by Lender to the payment of the remaining Liabilities, whether or not then due, in such order and manner of application as Lender may from time to time in its sole discretion determine. If the sale or other disposition of the Collateral fails to satisfy fully the Liabilities, Borrower shall remain liable to Lender for any deficiency. If Lender sells any of the Collateral on credit, Borrower shall be credited only with payments actually

made by the purchaser, received by Lender and applied to the indebtedness of the purchaser. If the purchaser defaults in making payments to Lender, then Lender may resell the Collateral and apply the proceeds of such resale to the Liabilities in accordance with this paragraph.

f. Set-Off. Lender may set off any amounts in any account or represented by any certificate with Lender in the name of Borrower or in which Borrower has an interest.

g. Other Remedies. Lender may pursue such other remedies, including actions for specific performance and damages, or any remedies provided for in the Note, the Reimbursement Agreements and the other Loan Documents or permitted by law, which Lender may deem appropriate, it being specifically understood and agreed that any remedies may be exercised in the alternative or cumulatively in the sole discretion of Lender.

h. Liquidation Costs. Borrower shall reimburse and pay to Lender upon demand all Liquidation Costs, including without limitation attorneys' fees and expenses, advanced, incurred by, or on behalf of Lender in collecting and enforcing the Liabilities and the Loan Documents. All Liquidation Costs shall bear interest payable by Borrower to Lender upon demand from the date advanced or incurred until paid in full at a per annum rate of interest equal the default rate of interest described in the Note.

i. No Waiver, Etc. No failure or delay by Lender to insist upon the strict performance of any term, condition, covenant, or agreement of this Agreement or of any of the other Loan Documents, or to exercise any right, power, or remedy consequent upon a breach thereof, shall constitute a waiver of any such term, condition, covenant, or agreement or of any such breach, or preclude Lender from exercising any such right, power, or remedy at any later time or times. By accepting payment after the due date of any amount payable under this Agreement or under the Note or under any of the other Loan Documents, Lender shall not be deemed to waive the right either to require prompt payment when due of all other amounts payable under this Agreement, the Note, or any of the other Loan Documents, or to declare an Event of Default for failure to effect such prompt payment of any such other amount.

8. MISCELLANEOUS

8.1. Notices. All notices, demands, requests and other communications required under this Agreement shall be in writing and shall be deemed to have been properly given if sent by hand delivery, Federal Express (or similar overnight courier service), or by United States certified mail (return receipt requested), postage prepaid, addressed to the party for whom it is intended at its address hereinafter set forth:

If to Lender:	American Bank 9001 Edmonston Road, Suite 100 Greenbelt, Maryland 20770 Attention: Fawn Bennett Vice President
If to Borrower:	Brekford International Corp. 7020 Dorsey Road, Suite C Hanover, Maryland 21076 Attention: William A. Shafley Chief Executive Officer

Notice shall be deemed given as of the date of hand delivery, as of the date specified for delivery if by overnight courier service or as of 2 days after the date of mailing, as the case may be.

8.2. Liability of Lender. Lender, by the acceptance and performance of this Agreement, does not assume any liability, and Borrower hereby releases Lender and Lender's agents, employees and attorneys from any such liability, and no claim shall be made by Borrower upon Lender or such employees or

agents for or on account of any matter or thing in excess of the balance of the Loan proceeds not yet advanced to Borrower.

8.3. Survival of Agreements. All agreements, covenants, representations, and warranties of Borrower made in this Agreement shall survive the making of the advances under this Agreement.

8.4. Successors. This Agreement shall be binding upon and inure to the benefit of Borrower, its heirs, personal representatives, successors, and those assigns approved in writing by Lender, and upon and to Lender, its successors and assigns.

8.5. Applicable Law. This Agreement is made, executed, and delivered in the State of Maryland, and Maryland law (but excluding Maryland principles of conflicts of laws) shall govern its interpretation, performance, and enforcement.

8.6. Assignment Not Effective. Any attempted assignment or transfer of Borrower's rights under this Agreement without the prior written consent of Lender shall be void.

8.7. Obligations of Borrower. Borrower's obligations and representations under this Agreement shall be in addition to all obligations, covenants, and representations made by or on behalf of Borrower in all other documents delivered in connection with the Loan and the transactions contemplated hereby.

8.8. No Oral Modification. Neither this Agreement nor any term, condition, representation, warranty, covenant, or agreement set forth in this Agreement may be changed, waived, discharged, or terminated orally but only by an instrument in writing by the party against whom such change, waiver, discharge, or termination is sought.

8.9. Integration. This Agreement and the Loan Documents constitute the entire agreement between Lender and Borrower regarding the Loan, and shall completely and fully supersede all other prior agreements, both written and oral, between Borrower and Lender regarding their respective rights, obligations, and responsibilities relating to the Loan.

8.10. Severability. If any provision or part of any provision of this Agreement shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement and this Agreement shall be construed as if such invalid, illegal or unenforceable provision or part thereof had never been contained herein, but only to the extent of its invalidity, illegality, or unenforceability.

8.11. Time. Time is of the essence of all of Borrower's obligations under this Agreement.

9. CONSENTS AND WAIVERS

9.1. Participations; Release of Information. The Loan, the Liabilities, this Agreement and the other Loan Documents may be placed, assigned, serviced or participated out (either in whole or in part) by Lender, its successors and assigns. Borrower grants Lender its unlimited and unconditional consent to the disclosure and dissemination of financial records, including without limitation loan application and account information, statements of deposit and share accounts, negotiable instruments, individual, corporate and partnership financial statements, credit references and histories, property appraisals, surveys, pro forma assumptions, profit and loss statements, resumes, accounting reports, balance sheets, and other financial information provided to Lender by or on behalf of Borrower, for such purposes. Borrower further releases, acquits and forever discharges Lender and its agents from all liability, claims, actions, or causes of action under the Maryland Confidential Financial Records Act, Section 1-301 *et seq.*, Financial Institutions Article, *Annotated Code of Maryland*, or any other applicable federal or state statute or common law for disclosure of confidential financial records made in accordance with this Section.

9.2. Consent to Jurisdiction. Borrower consents to the exclusive jurisdiction of any and all state and federal courts in the State of Maryland with jurisdiction over Borrower and Borrower's assets. Borrower

agrees that such assets shall be used first to satisfy all claims of creditors organized or domiciled in the United States of America, and that no assets of Borrower in the United States of America shall be considered part of any foreign bankruptcy estate. Borrower agrees that any controversy arising under or in relation to the Note, the Reimbursement Agreements, this Agreement or any of the other Loan Documents shall be litigated exclusively in the State of Maryland. The state and federal courts and authorities with jurisdiction in the State of Maryland shall have exclusive jurisdiction over all controversies which may arise under or in relation to the Note, the Reimbursement Agreements and any security for the debt evidenced by the Note or the Reimbursement Agreements including without limitation those controversies relating to the execution, interpretation, breach, enforcement or compliance with the Note, the Reimbursement Agreements, this Agreement or any other issue arising under, related to, or in connection with any of the Loan Documents. Borrower irrevocably consents to service, jurisdiction, and venue of such courts for any litigation arising from the Note, the Reimbursement Agreements, this Agreement or any other Loan Document, and waives any other venue to which it might be entitled by virtue of domicile, habitual residence or otherwise.

9.3. Jury Trial Waiver. Borrower and Lender hereby waive trial by jury in any action or proceeding to which Borrower or Lender may be parties, arising out of or in any way pertaining to this Agreement or any of the other Loan Documents. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Agreement. This waiver is knowingly, willingly and voluntarily made by Borrower, and Borrower hereby represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. Borrower further represents that it has been represented in the signing of this Agreement and in the making of this waiver by independent legal counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel.

IN WITNESS WHEREOF, Borrower and Lender have caused this Agreement to be executed under seal as of the date first above written.

WITNESS/ATTEST:

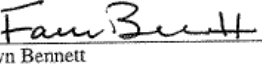
BORROWER:

BREKFORD INTERNATIONAL CORP.
A Delaware Corporation

By:  (SEAL)
Scott Rutherford
President

LENDER:

AMERICAN BANK

By:  (SEAL)
Fawn Bennett
Vice President



Acknowledgments

STATE OF MARYLAND, CITY/COUNTY OF Anne Arundel TO WIT:

I HEREBY CERTIFY that on this 27th day of July, 2009, before me, the subscriber, a Notary Public of the jurisdiction aforesaid, personally appeared Scott Rutherford, and acknowledged himself to be the President of BREKFORD INTERNATIONAL CORP., a Delaware corporation, and acknowledged that he, being authorized so to do, executed the foregoing document for the purposes therein contained, in the aforementioned capacity.

IN WITNESS MY Hand and Notarial Seal.

Jamie Lynn Fridinger (SEAL)
NOTARY PUBLIC
JAMIE LYNN FRIDINGER
NOTARY PUBLIC
BALTIMORE COUNTY
MARYLAND

My Commission Expires:

02/21/2013

My Commission Expires Feb. 21, 2013

STATE OF MARYLAND, CITY/COUNTY OF Anne Arundel TO WIT:

I HEREBY CERTIFY that on this 27th day of July, 2009, before me, the subscriber, a Notary Public of the jurisdiction aforesaid, personally appeared Fawn Bennett, and acknowledged herself to be a Vice President of AMERICAN BANK, and acknowledged that she, being authorized so to do, executed the foregoing document for the purposes therein contained, in the aforementioned capacity.

IN WITNESS MY Hand and Notarial Seal.

Jamie Lynn Fridinger (SEAL)
NOTARY PUBLIC

My Commission Expires:

02/21/2013

JAMIE LYNN FRIDINGER
NOTARY PUBLIC
BALTIMORE COUNTY
MARYLAND
My Commission Expires Feb. 21, 2013

PLEDGE AND SECURITY AGREEMENT

THIS PLEDGE AND SECURITY AGREEMENT ("Agreement") is made as of July 27, 2009 by **BREKFORD INTERNATIONAL CORP.**, a Delaware corporation that was formerly known as Tactical Solution Partners, Inc. ("Pledgor"), in favor of **AMERICAN BANK** ("Lender").

Recitals

Lender has agreed to extend to Pledgor certain credit accommodations, consisting of a loan in the maximum outstanding principal amount of \$250,000 ("Loan"), as evidenced by the Promissory Note of even date herewith in the principal amount of \$250,000 ("Note"), and a letter of credit facility in the maximum aggregate face amount of \$500,000 ("Letters of Credit"), as evidenced by one or more applications and agreements for irrevocable standby letter of credit and other documents (collectively, "Reimbursement Agreements"). The Loan and the Letters of Credit are collectively called the "Financing." The Note, the Reimbursement Agreements and all other documents evidencing or securing all or any portion of the Financing are collectively called the "Loan Documents." As a condition precedent to extending the Financing, Lender has required Pledgor to pledge its interest in a certain deposit account to Lender, in accordance with the terms set forth in this Agreement. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Loan Documents.

Agreements

NOW, THEREFORE, in order to secure the prompt payment and performance of all obligations of Pledgor to Lender under the Loan Documents ("Obligations"), Pledgor hereby pledges, assigns, and grants to Lender a security interest in account number 6000314366 maintained by Pledgor with Lender and all renewals, extensions, or replacements of that account (collectively, "Account"), together with all moneys now or hereafter deposited in the Account, all interest and other income thereon, all certificates evidencing Pledgor's interest in the Account, and all cash and non-cash proceeds of any of the foregoing (all of the foregoing is collectively called the "Collateral").

Pledgor has deposited the sum of \$250,000 in the Account. Until the Obligations are paid in full, Lender shall have sole access to the Account and the Collateral and Pledgor shall not withdraw any of the Collateral from the Account. All interest and other income on the Collateral shall be credited to the Account and shall become part of the Collateral. When all Obligations have been indefeasibly paid in full, Lender shall release the Collateral to Pledgor.

Pledgor shall deliver all written certificates and instruments evidencing Pledgor's interest in the Collateral to Lender, and shall execute and deliver to Lender all assignments, endorsements, powers, hypothecations, and other documents required at any time and from time to time by Lender with respect to the Collateral.

Pledgor shall be responsible for the preservation of the Collateral in Lender's possession and shall take all actions necessary to preserve the rights of Pledgor and of Lender against prior parties to the Collateral. Lender shall be deemed to have exercised reasonable care with respect to any of the Collateral in its possession if Lender takes such action for that purpose as Pledgor shall reasonably request in writing; but no failure to comply with any such request shall, of itself, be deemed a failure to exercise reasonable care, and no failure to do any act not requested by Pledgor shall be deemed a failure to exercise reasonable care.

Upon the occurrence of an Event of Default, Lender may, at its option and without notice to Pledgor or any other party, declare the unpaid balance of the Obligations to be immediately due and payable and proceed to enforce this Agreement, and in connection therewith Lender (a) may offset and apply to the Obligations any or all of the Collateral; and (b) shall have all of the rights and remedies available to Lender pursuant to the provisions of the Loan Documents and all applicable laws. The occurrence or non-occurrence of an Event of Default shall in no manner impair the ability of Lender to demand payment of any portion of Obligations which are payable on demand.

Any written notice of the sale, disposition, or other intended action by Lender with respect to the Collateral which is required by applicable laws and is sent by certified mail, postage prepaid, to Pledgor at Pledgor's address at 7020 Dorsey Road, Suite C, Hanover, Maryland 21076, or such other address of Pledgor

which may from time to time be shown on Lender's records, at least 5 business days prior to such sale, disposition, or action shall constitute reasonable notice to Pledgor.

All costs and expenses, including, without limitation, reasonable attorneys' fees and expenses, incurred by or on behalf of Lender in connection with the taking, holding, preparing for disposition, managing, or otherwise disposing of the Collateral (collectively, the "Liquidation Costs"), together with interest thereon at a per annum rate of interest which is equal to the then highest rate of interest charged on the principal of any of the Obligations, from the date of payment until repaid in full, shall be paid by Pledgor to Lender on demand and shall constitute and become a part of the Obligations secured hereby. Any proceeds of disposition of the Collateral will be applied by Lender to the payment of the Liquidation Costs and the balance of such proceeds (if any) will be applied by Lender toward the payment of the remaining Obligations (whether then due or not), at such time or times and in such order and manner of application as Lender may from time to time in its sole discretion determine.

Each right, power, and remedy of Lender as provided for in this Agreement or in the other Loan Documents or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power, or remedy provided for in this Agreement or in the other Loan Documents or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Lender of any one or more of such rights, powers, or remedies shall not preclude the simultaneous or later exercise by Lender of any or all such other rights, powers, or remedies.

No failure or delay by Lender to insist upon the strict performance of any term, condition, covenant, or agreement of this Agreement or of the other Loan Documents, or to exercise any right, power, or remedy consequent upon a breach thereof, shall constitute a waiver of any such term, condition, covenant, or agreement or of any such breach, or preclude Lender from exercising any such right, power, or remedy at any later time or times.

Lender may from time to time, without notice to Pledgor, and without impairing or affecting the pledge and security interest created by this Agreement: (a) acquire a security interest in any property in addition to the Collateral, or release any such interest so acquired, or permit any substitution or exchange for such property or any part thereof; (b) acquire the primary or secondary liability of any party or parties with respect to all or any Obligations, or release, modify or compromise the same or any thereof; (c) modify, extend or renew for any period any Obligations; (d) waive defaults of any person with respect to any of the Obligations or any collateral security therefor; (e) delay in enforcing, or fail to enforce, any of Lender's rights against any person with respect to any of the Obligations or impair or fail to perfect any security interest in any security for any of the Obligations; (f) fail to obtain validly executed or enforceable instruments pertaining to the Obligations or any security therefor; (g) resort to the Collateral for payment of the Obligations whether or not Lender shall have resorted to any other collateral or proceeded against any other party primarily or secondarily liable on the Obligations or any of them.

Neither this Agreement nor any term, condition, covenant, or agreement hereof may be changed, waived, discharged, or terminated orally, but only by an instrument in writing signed by the party against whom enforcement of the change, waiver, discharge, or termination is sought. This Agreement shall be governed by the laws of the State of Maryland and shall be binding upon the heirs, personal representatives, successors, and assigns of Pledgor and shall inure to the benefit of the successors and assigns of Lender. As used herein, the singular number shall include the plural, the plural the singular, and the use of the masculine, feminine, or neuter gender shall include all genders as the context may require, and the term "person" shall include an individual, a corporation, an association, a partnership, a trust, and an organization.

Pledgor and Lender jointly waive trial by jury in any action or proceeding to which Pledgor and Lender may be parties, arising out of or in any way pertaining to this Agreement or any of the other Loan Documents. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Agreement. This waiver is knowingly, willingly and voluntarily made by Pledgor, and Pledgor hereby represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. Pledgor further represents that it has been represented

in the signing of this Agreement and in the making of this waiver by independent legal counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel.

IN WITNESS WHEREOF, Pledgor has executed this Agreement under seal as of the date first written above.

WITNESS/ATTEST:

PELDGOR:

BREKFORD INTERNATIONAL CORP.
A Delaware Corporation




By:  _____ (SEAL)
Scott Rutherford
President

Acknowledgment

STATE OF MARYLAND, CITY/COUNTY OF Anne Arundel TO WIT:

I HEREBY CERTIFY that on this 27th day of July, 2009, before me, the subscriber, a Notary Public of the jurisdiction aforesaid, personally appeared Scott Rutherford, and acknowledged himself to be the President of BREKFORD INTERNATIONAL CORP., a Delaware corporation, and acknowledged that he, being authorized so to do, executed the foregoing document for the purposes therein contained, in the aforementioned capacity.

IN WITNESS MY Hand and Notarial Seal

 _____ (SEAL)
NOTARY PUBLIC

My Commission Expires:

02/21/2013

JAMIE LYNN FRIDINGER
NOTARY PUBLIC
BALTIMORE COUNTY
MARYLAND
My Commission Expires Feb. 21, 2013

\$250,000.00

Greenbelt, Maryland
July 21 2009**PROMISSORY NOTE**

FOR VALUE RECEIVED, **BREKFORD INTERNATIONAL CORP.**, a Delaware corporation that was formerly known as Tactical Solution Partners, Inc. ("Borrower"), promises to pay to the order of **AMERICAN BANK** ("Lender"), during regular business hours at Lender's office at 9001 Edmonston Road, Suite 100, Greenbelt, Maryland 20770 or such other place as Lender may from time to time designate, the principal sum of Two Hundred Fifty Thousand Dollars (\$250,000.00) ("Loan"), or so much thereof as may be advanced or readvanced to Borrower by Lender under the Loan and Security Agreement of even date herewith between Borrower and Lender ("Loan Agreement"), with interest thereon at the rate or rates specified below until paid in full, and any and all other sums which may be owing to Lender by Borrower pursuant to this Promissory Note ("Note"), in accordance with the provisions set forth herein. This Note evidences a revolving line of credit.

1. PRIMARY BUSINESS TERMS

1.1. Maturity Date. The final and absolute maturity date of this Note ("Maturity Date") shall be August 1, 2010.

1.2. Interest Rate. From the date of this Note until all sums owed on this Note are paid in full, interest shall accrue on the principal balance outstanding under this Note at a rate equal to the greater of (i) the fluctuating annual rate of interest equal the Prime Rate plus 1.00 percentage point, adjusted daily, or (ii) 6.00% *per annum*; provided, however, that Lender, at Lender's option and in addition to all other rights and remedies of Lender under this Note and the other Loan Documents (defined below), upon not less than 10 days prior written notice to Borrower, may increase the rate of interest accruing on the principal balance outstanding under this Note by 1.00% percentage point if Borrower fails to maintain with Lender, during any calendar month, deposit accounts (excluding the Pledged Account (defined in the Loan Agreement)) with aggregate average daily balances of at least \$250,000, as determined by Lender, in Lender's sole discretion. The Prime Rate is the rate published in the "Money Rates" table in *The Wall Street Journal* (Eastern Edition) as the prime rate. If *The Wall Street Journal* prime rate is no longer available, Lender shall choose another similar rate to be the Prime Rate, in accordance with all applicable laws. Lender makes Loan with interest rates at, above and below the Prime Rate. Interest shall be calculated on the basis of a 360 days per year factor applied to the actual days on which there exists a principal balance outstanding under this Note.

1.3. Payment. Borrower shall make a payment to Lender of accrued and unpaid interest only on September 1, 2009, and on the first calendar day of each succeeding month. All sums due under this Note, including principal, interest, charges and fees, are payable immediately in full upon the earlier to occur of (a) the Maturity Date, or (b) the demand of the holder of this Note. Demand for payment in full of all sums due under this Note may be made at any time by the holder of this Note, without prior notice and regardless of whether this Note has matured or an Event of Default has occurred. All payments made under this Note shall be made by such form of check, draft or other instrument as may be approved from time to time by Lender, and shall be payable in lawful money of the United States of America, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment. All payments made under this Note shall be applied first to late charges or other sums owed to Lender, next to accrued interest, and then to principal, or in such other order or proportion as Lender, in Lender's sole discretion, may elect from time to time.

1.4. Late Charge. If any payment due under this Note is not received by Lender within 15 calendar days after its due date, Borrower shall pay a late charge equal to 5% of the amount then due.

1.5. Prepayment. Borrower may prepay this Note in whole or in part at any time or from time to time without premium or additional interest.

2. DEFAULT AND REMEDIES

2.1. Events of Default. Each of the following shall constitute an event of default under this Note ("Event of Default"):

- a. A default in the payment of any sum due under this Note.
- b. A default in the performance of any of the covenants, conditions or terms of the Loan Agreement or any other agreement or document executed by Borrower or any other person for the benefit of Lender or any holder in connection with the Loan (collectively with the Loan Agreement, "Loan Documents").

2.2. Remedies. Upon the occurrence of an Event of Default, in addition to all other rights and remedies available to Lender under the Loan Documents and applicable law, Lender shall have the following rights and remedies:

a. Default Interest Rate. Lender, in Lender's sole discretion and without notice or demand, may raise the rate of interest accruing on the principal balance outstanding under this Note by 4 percentage points above the rate of interest otherwise applicable, independent of whether the holder elects to accelerate the principal balance outstanding under this Note.

b. Confession of Judgment. Borrower authorizes any attorney designated by Lender or any clerk of any court of record to appear for Borrower and confess judgment against Borrower in favor of Lender for the full amount due on this Note (including principal, accrued interest, charges and fees), plus court costs, plus attorneys' fees equal to 15% of the amount due, all without prior notice or opportunity of Borrower for prior hearing, without stay of execution or right of appeal, and expressly waiving the benefit of all exemption laws and any irregularity or error in entering any such judgment. No single exercise of the power to confess judgment granted in this paragraph shall exhaust the power, regardless of whether such exercise is ruled invalid, void or voidable by any court. The power to confess judgment granted in this paragraph may be exercised from time to time as often as the holder of this Note may elect. Notwithstanding Lender's right to obtain a judgment for attorneys' fees in the amount described in this paragraph, Lender shall be entitled to collect only such attorneys' fees as are incurred by Lender in accordance with Section 2.3 of this Note. Notwithstanding Lender's right to obtain a judgment for attorneys' fees in the amount described in this paragraph, Lender shall be entitled to collect only such attorneys' fees as are actually incurred by Lender in accordance with Section 2.3 of this Note.

c. Setoff. Lender may set off any amounts in any account or represented by any certificate with Lender in the name of Borrower or in which Borrower has an interest. As additional security for this Note, Borrower hereby pledges and grants to Lender a lien on and security interest in, and authorizes Lender to offset such obligations of Borrower or any guarantor of the Loan to Lender against, all property of Borrower now or at any time hereafter in the possession of, in transit to, under the control of, or on deposit with Lender, in any capacity whatsoever, including without limitation, any balance of any deposit account and any credits with Lender.

2.3. Expenses of Collection and Attorneys' Fees. If this Note is referred to an attorney for collection, whether or not judgment has been confessed or suit has been filed, Borrower shall pay all of Lender's costs, fees and expenses, including reasonable attorneys' fees, resulting from such referral.

3. MISCELLANEOUS

3.1. Assignability. This Note may be assigned by Lender or any holder at any time or from time to time. This Note shall inure to the benefit of and be enforceable by Lender and Lender's successors and assigns and any other person to whom Lender or any holder may grant an interest in Borrower's

obligations under this Note, and shall be binding and enforceable against Borrower and Borrower's personal representatives, successors and assigns.

3.2. Negotiable Instrument. Borrower agrees that this Note shall be deemed a negotiable instrument even if this Note would not qualify under applicable law, absent this Section, as a negotiable instrument.

3.3. Choice of Law. This Note shall be governed by the laws of the State of Maryland.

3.4. Unconditional Obligations. Borrower's obligations under this Note shall be the absolute and unconditional duty and obligation of Borrower and shall be independent of any rights of set-off, recoupment or counterclaim which Borrower might otherwise have against the holder of this Note, and Borrower shall pay absolutely the payments of principal, interest, fees and expenses required under this Note, free of any deductions and without abatement, diminution or set-off.

3.5. Severability. In the event that any provision of this Note conflicts with applicable law, such conflict shall not affect other provisions of this Note which can be given effect without the conflicting provision, and to this end the provisions of this Note are declared to be severable.

3.6. Tense; Gender; Section Headings. In this Note, the singular includes the plural and *vice versa*; and each reference to any gender also applies to any other gender. The section headings are for convenience only and are not part of this Note.

3.7. Time. Time is of the essence of this Note.

4. CONSENTS AND WAIVERS

4.1. Waiver of Presentment, Etc. Borrower waives presentment, notice of dishonor and protest.

4.2. Consent to Extensions, Etc. From time to time, without affecting any of the obligations of Borrower under this Note, without giving notice to or obtaining the consent of Borrower, and without liability on the part of Lender, Lender may, at Lender's option, extend the maturity of this Note, or any payment due under this Note, reduce the amount of any payments under this Note, release anyone liable on any amount due under this Note, accept a renewal of this Note, modify the terms of payment of any amounts due under this Note, join in any extension or subordination agreement, release any security for the Note, or take or release any other or additional security.

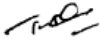
4.3. Jury Trial Waiver. Borrower and Lender (by acceptance of this Note) jointly waive trial by jury in any action or proceeding to which Borrower and any holder of this Note may be parties, arising out of or in any way pertaining to this Note or any of the other Loan Documents. It is agreed and understood that this waiver constitutes a waiver of trial by jury of all claims against all parties to such actions or proceedings, including claims against parties who are not parties to this Note. This waiver is knowingly, willingly and voluntarily made by Borrower, and Borrower hereby represents that no representations of fact or opinion have been made by any individual to induce this waiver of trial by jury or to in any way modify or nullify its effect. Borrower further represents that it has been represented in the signing of this Note and in the making of this waiver by independent legal counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel.

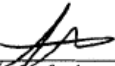
IN WITNESS WHEREOF, Borrower has duly executed this Note under seal as of the date first written above.

WITNESS/ATTEST:

BORROWER:

BREKFORD INTERNATIONAL CORP.
A Delaware Corporation



By:  (SEAL)
Scott Rutherford
President

Acknowledgment

STATE OF MARYLAND, CITY/COUNTY OF Anne Arundel TO WIT:

I HEREBY CERTIFY that on this 27th day of July, 2009, before me, the subscriber, a Notary Public of the jurisdiction aforesaid, personally appeared Scott Rutherford, and acknowledged himself to be the President of BREKFORD INTERNATIONAL CORP., a Delaware corporation, and acknowledged that he, being authorized so to do, executed the foregoing document in the aforesaid capacity for the purposes therein contained.

IN WITNESS MY Hand and Notarial Seal.

 (SEAL)
NOTARY PUBLIC

My Commission Expires:

02/21/2013

JAMIE LYNN FRIDINGER
NOTARY PUBLIC
BALTIMORE COUNTY
MARYLAND
My Commission Expires Feb. 21, 2013

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, C.B. Brechin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brekford International Corp.;
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 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 2, 2009

By: /s/ C.B. Brechin

C.B. Brechin

Principal Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Tin M. Khin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brekford International Corp.;
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 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 2, 2009

By: /s/ Tin M. Khin

Tin M. Khin

Principal Financial Officer

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

In connection with the Quarterly Report of Brekford International Corp. (the "Company") on Form 10-Q for the quarter ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C.B. Brechin, Principal Executive Officer, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ C.B. Brechin

C.B. Brechin

Principal Executive Officer

Date: November 2, 2009

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.

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

In connection with the Quarterly Report of Brekford International Corp. (the "Company") on Form 10-Q for the quarter ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tin M. Khin, Principal Financial Officer, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and,
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

/s/ Tin M. Khin

Tin M. Khin

Principal Financial Officer

Date: November 2, 2009

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.