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SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Brekford Traffic Safety, Inc.

Form: 10-Q

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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 June 30, 2017
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 Traffic Safety, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-4086662**
(State or Other Jurisdiction of Incorporation)	(I.R.S. Employer Identification No.)

7020 Dorsey Road, Hanover, Maryland 21076
(Address of Principal Executive Office) (Zip Code)

(410) 762-0800
(Registrant's telephone number, including area code)
Brekford Corp.
(Former name, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (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 ☑
Emerging growth company ☑

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

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

The registrant had 49,311,264 shares of common stock, par value $0.0001 per share outstanding as of August 14, 2017.

Brekford Traffic Safety, Inc.
Form 10-Q

Index

PART I – FINANCIAL INFORMATION		**Page**
Item 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016 (Unaudited)	1
	Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three and Six Months Ended June 30, 2017 and 2016 (Unaudited)	2
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016 (Unaudited)	3
	Notes to Unaudited Condensed Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 4.	Controls and Procedures	28
PART II – OTHER INFORMATION		
Item 1.	Legal Proceedings	30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 5.	Other Information	30
Item 6.	Exhibits	30
SIGNATURES		31

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Brekford Traffic Safety, Inc.

Condensed Consolidated Balance Sheets (Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash	$ 1,853,215	$ 591,618
Accounts receivable, net of allowance $0 at June 30, 2017 and December 31, 2016, respectively	225,554	115,106
Unbilled receivables	373,799	314,262
Prepaid expenses	28,317	53,211
Note receivable - current, including accrued interest of $20,055 at June 30, 2017	320,055	—
Inventory	215,254	221,186
Current assets - discontinued operations	—	1,069,511
Total current assets	3,016,194	2,364,894
Property and equipment, net	292,877	208,310
Other non-current assets	—	9,877
Investment in GPS	262,140	—
Note receivable - non-current	1,700,000	—
Non-current assets - discontinued operations	—	40,387
TOTAL ASSETS	$ 5,271,211	$ 2,623,468
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 963,412	$ 721,880
Accrued payroll and related expenses	54,714	17,062
Obligations under other notes payable – current portion	—	20,150
Derivative liability	18,228	24,360
Other liabilities	70,000	55,408
Current liabilities - discontinued operations	—	971,466
Total current liabilities	1,106,354	1,810,326
LONG - TERM LIABILITIES		
Deferred rent, net of current portion	—	6,520
Convertible promissory notes, net of debt discounts of $40,853 at December 31, 2016	—	299,147
Long term liabilities - discontinued operations	—	989,520
Total long-term liabilities	—	1,295,187
TOTAL LIABILITIES	1,106,354	3,105,513
STOCKHOLDERS' EQUITY (DEFICIT)		
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; 49,311,264 issued and outstanding, at June 30, 2017 and 2016	4,931	4,931
Additional paid-in capital	11,531,575	11,515,472
Treasury stock, at cost 10,600 shares at June 30, 2017 and December 31, 2016	(5,890)	(5,890)
Accumulated deficit	(7,365,984)	(11,996,783)
Other comprehensive income	225	225
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	4,164,857	(482,045)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 5,271,211	$ 2,623,468

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

Brekford Traffic Safety, Inc.

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET REVENUE	$ 835,822	$ 607,252	$ 1,583,990	$ 1,220,197
COST OF REVENUE	292,716	242,763	587,902	426,893
GROSS PROFIT	543,106	364,489	996,088	793,304
OPERATING EXPENSES				
Salaries and related expenses	403,222	430,203	830,185	832,383
Selling, general and administrative expenses	302,043	275,608	654,516	577,254
TOTAL OPERATING EXPENSES	705,265	705,811	1,484,701	1,409,637
LOSS FROM OPERATIONS	(162,159)	(341,322)	(488,613)	(616,333)
OTHER (EXPENSE) INCOME:				
Interest income	14,981	—	20,077	—
Interest expense	—	(105,524)	(248,351)	(213,110)
Change in fair value of derivative liability	(756)	71,148	6,132	70,308
Loss on extinguishment of debt	—	(38,923)	—	(161,395)
TOTAL OTHER INCOME (EXPENSE)	14,225	(73,299)	(222,142)	(304,197)
Loss before income taxes	(147,934)	(414,621)	(710,755)	(920,530)
Income tax benefit	—	152,700	2,068,132	152,700
Net (loss) income from continuing operations	(147,934)	(261,921)	1,357,377	(767,830)
Net income from discontinued operations	—	282,762	3,273,422	234,387
NET (LOSS) INCOME	(147,934)	20,841	4,630,799	(533,443)
OTHER COMPREHENSIVE LOSS – foreign currency translation	—	(1,437)	—	(1,437)
Comprehensive (loss) income	$ (147,934)	$ 19,404	$ 4,630,799	$ (534,880)
Net income (loss) per share from continuing operations – basic	$ (0.00)	$ (0.01)	$ 0.03	$ (0.02)
Net income per share from discontinued operations – basic	$ —	$ 0.01	$ 0.07	$ 0.01
Net income (loss) per share – basic	$ (0.00)	$ 0.00	$ 0.10	$ (0.01)
Net income (loss) per share from continuing operations – diluted	$ (0.00)	$ (0.01)	$ 0.03	$ (0.02)
Net income per share from discontinued operations – diluted	$ —	$ 0.01	$ 0.07	$ 0.01
Net income (loss) per share – diluted	$ (0.00)	$ 0.00	$ 0.10	(0.01)
Weighted average shares outstanding used in computing per share amounts:				
Basic	49,311,264	46,454,266	49,311,264	45,876,068
Diluted	49,311,264	54,148,048	49,311,264	53,569,850

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

Brekford Traffic Safety, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30	
	2017	2016
Cash flows from operating activities:		
Net income (loss)	$ 4,630,799	$ (533,443)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	60,528	46,218
Share-based compensation	16,103	47,074
Amortization of debt discount and warrant features	35,349	162,559
Amortization of financing cost	—	34,447
Change in fair value of derivative liability	(6,132)	(70,308)
Loss on extinguishment of debt	—	161,394
Gain on sale of discontinued operations	(5,700,446)	—
Changes in operating assets and liabilities including assets and liabilities held for sale:		
Accounts receivable	(110,448)	(7,578)
Interest receivable	(20,055)	—
Unbilled receivables	(59,537)	(156,790)
Prepaid expenses and other non-current assets	24,894	2,669
Inventory	5,934	9,200
Accounts payable and accrued expenses	241,532	199,862
Accrued payroll and related expenses	37,652	778
Other assets	9,877	—
Customer deposits	—	13,573
Accrued tax liability	14,592	—
Deferred rent	(6,520)	(78)
Other liabilities	4,557	—
Net cash used in operating activities from continuing operations	(821,321)	(90,423)
Net cash provided by (used in) operating activities from discontinued operations	3,758,157	(586,592)
Net cash provided by (used in) operating activities	2,936,836	(677,015)
Cash flows from investing activities including non-current assets held for sale:		
Purchases of property and equipment	(165,310)	—
Net cash used in investing activities from continuing operations	(165,310)	—
Net cash used in investing activities from discontinued operations	—	(24,500)
Net cash used in investing activities	(165,310)	(24,500)
Cash flows from financing activities:		
Payments on other notes payable	(20,150)	(24,817)
Repayments on term notes	(334,496)	(24,808)
Net change in line of credit	—	209,324
Net cash (used in) provided by financing activities from continuing operations	(354,646)	159,699
Net cash (used in) provided by discontinued operations financing activities	(1,155,283)	407,835
Net cash (used in) provided by financing activities	(1,509,929)	567,534
Effect of foreign currency translation	—	25
Net change in cash	1,261,597	(133,956)
Cash – beginning of year	591,618	580,400
Cash – end of year	$ 1,853,215	$ 446,444
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 33,341	$ 121,980
Conversion of notes payable in exchange for common stock	$ —	$ 150,000
Note receivable attained in sale of discontinued operations	$ 2,000,000	$ —

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

NOTE 1 – DESCRIPTION OF THE BUSINESS

Brekford Traffic Safety, Inc. (the "Company" or "Brekford") (OTCQX:BFDI), headquartered in Hanover, Maryland, is a leading public safety technology service provider of fully integrated automated traffic safety enforcement ("ATSE") solutions, including speed, red light, and distracted driving camera systems. The Company's core values of integrity, accountability, respect, and teamwork drive our employees to achieve excellence and deliver industry leading technology and services, thereby enabling a superior level of reliability to our clients.

Prior to March 1, 2017, part of Brekford's business included sales of products and services focusing on law enforcement vehicles. These products and services included rugged information technology solutions, mobile data, digital video, electronic ticketing, and vehicle upfitting. Rugged information technology solutions included both ruggedized laptops and in-car video solutions, among other technology offerings, in addition to vehicle mounting systems, docking stations, and custom-built packages. Vehicle upfitting solutions included the turnkey installation of various components including rugged technology, as well as sirens, lights, radios, gun racks, and decals.

On February 7, 2017, the Company entered into a Contribution and Unit Purchase Agreement (the "Agreement") with LB&B Associates Inc. (the "Purchaser") and Global Public Safety, LLC ("GPS"). The closing for the transaction set forth in the Agreement occurred on February 28, 2017 (the "Closing") and on such date the Company contributed substantially all of the assets and certain liabilities related to its vehicle services business (the "Business") to GPS. On the Closing, GPS sold units representing 80.1% of the units of GPS to the Purchaser, and Brekford continues to own 19.9% of the units of GPS. (See Note 4).

As used in these notes, the terms "Brekford", "the Company", "we", "our", and "us" refer to Brekford Traffic Safety, Inc. and, unless the context clearly indicates otherwise, its consolidated subsidiary.

NOTE 2 – LIQUIDITY

For the six months ended June 30, 2017, the Company generated net income of $4,630,799, used $821,321 of cash for continuing operations, and provided cash from discontinued operations of $3,758,157. Additionally, at June 30, 2017 the company had cash available of $1,853,215 and a working capital surplus of $1,909,840.

On February 10, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") to combine the businesses of Brekford and KeyStone Solutions, Inc. ("KeyStone"). Upon closing of the merger, Brekford will become a wholly-owned subsidiary of Novume Solutions, Inc., a Delaware corporation ("Novume"). For additional detail regarding this transaction, refer to Subsequent Events (Note 15).

On February 28, 2017, as presented elsewhere in this Quarterly Report, the Company completed a transaction to sell substantially all assets and certain liabilities related to its vehicle services business. The sale resulted in approximately $4.0 million in cash proceeds, which was used to retire all outstanding debts, including the Loan Agreement, the Investor Note, and the notes payable to two of its directors, Messrs. C.B. Brechin and Scott Rutherford.

Management believes that the Company's current level of cash combined with cash that it expects to generate in its operations during the next 12 months including anticipated new customer contracts will be sufficient to sustain the Company's business initiatives through at least August 2018, but there can be no assurance that these measures will be successful or adequate. In the event that the Company's cash reserves and cash flow from operations are not sufficient to fund the Company's future operations, the Company may need to obtain additional capital.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Principles of Consolidation and Basis of Presentation

The Company's consolidated financial statements include the accounts of Brekford Traffic Safety, Inc. and its wholly owned subsidiary, Municipal Recovery Agency, LLC ("MRA"). Intercompany transactions and balances are eliminated in consolidation. MRA was dissolved in August 2016.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. In the accompanying unaudited condensed consolidated financial statements, estimates are used for, but not limited to, stock-based compensation, allowance for doubtful accounts, sales returns, allowance for inventory obsolescence, fair value of long-lived assets, deferred taxes and valuation allowance, and the depreciable lives of fixed assets. Actual results could differ from those estimates.

Reclassifications

Certain amounts in prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Concentration of Credit Risk

The Company maintains cash accounts with major financial institutions. From time to time, amounts deposited may exceed the FDIC insured limits.

Accounts Receivable

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 Company calculates the allowance based on a specific analysis of past due balances. Past due status for a particular customer is based on how recently payments have been received from that customer. Historically, the Company’s actual collection experience has not differed significantly from its estimates, due primarily to credit and collections practices and the financial strength of its customers.

Inventory

Inventory principally consists of hardware and third-party packaged software that is modified to conform to customer specifications and held temporarily until the completion of a contract. Inventory is valued at the lower of cost or market value. The cost is determined by the lower of first-in, first-out (“FIFO”) method, while market value is determined by replacement cost for raw materials and parts and net realizable value for work-in-process.

Property and Equipment

Property and equipment is stated at cost. Depreciation of furniture, vehicles, computer equipment and software and phone equipment is calculated using the straight-line method over the estimated useful lives (two to ten years), and leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lease term (which is three to five years).

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Revenue Recognition

For automated traffic safety enforcement revenue, the Company recognizes the revenue when the required collection efforts, from citizens, are completed and posted to the municipality’s account. The respective municipality is then billed depending on the terms of the respective contract, typically 15 days after the preceding month while collections are reconciled.

For contracts where the Company receives a percentage of collected fines, revenue is calculated based upon the posted payments from citizens multiplied by the Company’s contractual percentage. For contracts where the Company receives a specific fixed monthly fee regardless of citations issued or collected, revenue is recorded once the amount collected from citizens exceeds the monthly fee per camera. Our fixed fee contracts typically have a revenue neutral provision whereby the municipality’s payment to the Company cannot exceed amounts collected from citizens within a given month.

Share-Based Compensation

The Company complies with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718, *Compensation-Stock Compensation*, in measuring and disclosing stock based compensation cost. The measurement objective in ASC Paragraph 718-10-30-6 requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost is recognized in expense over the period in which an employee is required to provide service in exchange for the award (the vesting period). Performance-based awards are expensed ratably from the date that the likelihood of meeting the performance measures is probable through the end of the vesting period.

Treasury Stock

The Company accounts for treasury stock using the cost method. As of June 30, 2017 and December 31, 2016, 10,600 shares of our common stock were held in treasury at an aggregate cost of $5,890.

Income Taxes

The Company uses the liability method to account for income taxes. Income tax expense includes income taxes currently payable and deferred taxes arising from temporary differences between financial reporting and income tax bases of assets and liabilities. Deferred income taxes are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense, if any, consists of the taxes payable for the current period. Valuation allowances are established when the realization of deferred tax assets are not considered more likely than not. Due to the Company's continued losses, 100% valuation allowance has been established on all deferred tax assets.

The Company files income tax returns with the U.S. Internal Revenue Service and with the revenue services of various states. The Company's policy is to recognize interest related to unrecognized tax benefits as income tax expense. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

In the six months ended June 30, 2017 and 2016, we reported financial results for both operations and discontinued operations. ASC 740-20-45 sets down the general rule for allocating income tax expense or benefit between operations and discontinued operations. The general rule requires the computation of tax expense or benefit by entity taking into consideration all items of income, expense, and tax credits. Next, a computation is made taking into consideration only those items related to continuing operations. Any difference is allocated to items other than continuing operations e.g. discontinued operations. Under these general rules, no tax expense or benefit would be allocated to discontinued operations.

An exception to these rules apply under ASC 740-20-45-7 where an entity has 1) a loss from continuing operations and income related to other items such as discontinued operations and 2) the entity would not otherwise recognize a benefit for the loss from continuing operations under the approach described in ASC 740-20-45. This fact pattern applies for the six months ended June 30, 2017 and 2016. Application of this rule exception results in the allocation of tax expense to discontinued operations with an offsetting amount of tax benefit reported by the continuing operations.

Overall, we allocated $2,132,725 and $152,700 of tax expense to net income from discontinued operations and an offsetting tax benefit to net loss from continuing operations in the six months ended June 30, 2017 and 2016, respectively.

Income (Loss) per Share

Basic income (loss) per share is calculated by dividing net loss available to common stockholders by the weighted-average number of common shares outstanding and does not include the effect of any potentially dilutive common stock equivalents. Diluted income (loss) per share is calculated by dividing net loss by the weighted-average number of shares outstanding, adjusted for the effect of any potentially dilutive common stock equivalents. There is no dilutive effect on the loss per share during loss periods. See Note 13 for the calculation of basic and diluted income (loss) earnings per share.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate their fair values based on the short-term maturity of these instruments. The carrying amount of the Company's promissory note obligations approximate fair value, as the terms of these notes are consistent with terms available in the market for instruments with similar risk.

We account for our derivative financial instruments, consisting solely of certain stock purchase warrants that contain non-standard anti-dilutions provisions and/or cash settlement features, and certain conversion options embedded in our convertible instruments, at fair value using Level 3 inputs, which are discussed in Note 8 to these condensed consolidated financial statements. We determine the fair value of these derivative liabilities using the Black-Scholes option-pricing model when appropriate, and in certain circumstances using binomial lattice models or other accepted valuation practices.

When determining the fair value of our financial assets and liabilities using the Black-Scholes option-pricing model, we are required to use various estimates and unobservable inputs, including, among other things, contractual terms of the instruments, expected volatility of our stock price, expected dividends, and the risk-free interest rate. Changes in any of the assumptions related to the unobservable inputs identified above may change the fair value of the instrument. Increases in expected term, anticipated volatility and expected dividends generally result in increases in fair value, while decreases in the unobservable inputs generally result in decreases in fair value.

Foreign Currency Transactions

The Company has certain revenue and expense transactions with a functional currency in Mexican pesos and the Company's reporting currency is the U.S. dollar. Assets and liabilities are translated from the functional currency to the reporting currency at the exchange rate in effect at the balance sheet date and equity at the historical exchange rates. Revenue and expenses are translated at rates in effect at the time of the transactions. Resulting translation gains and losses are accumulated in a separate component of stockholders' equity - other comprehensive income (loss). Realized foreign currency transaction gains and losses are credited or charged directly to operations.

Segment Reporting

FASB ASC Topic 280, *Segment Reporting*, requires that an enterprise report selected information about operating segments in its financial reports issued to its stockholders. Based on its current analysis, management has determined that the Company has only one operating segment, which is Traffic Safety Solutions. The chief operating decision-makers use combined results to make operating and strategic decisions, and, therefore, the Company believes its entire operation is covered under a single segment.

Recent Accounting Pronouncements

In May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (May 2014). The topic of revenue recognition had become broad with several other regulatory agencies issuing standards, which lacked cohesion. The new guidance established a “comprehensive framework” and “reduces the number of requirements to which an entity must consider in recognizing revenue” and yet provides improved disclosures to assist stakeholders reviewing financial statements. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017. Early adoption is not permitted. The Company will adopt the methodologies prescribed by this ASU by the date required. Adoption of the ASU is not expected to have a significant effect on the Company’s consolidated financial statements.

The FASB has issued ASU No. 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. Under Generally Accepted Accounting Principles (GAAP), financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. Financial reporting under this presumption is commonly referred to as the going concern basis of accounting. The going concern basis of accounting is critical to financial reporting because it established the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management’s responsibility to evaluate whether there is substantial doubt the organization’s ability to continue as a going concern or to provide footnote disclosures. The ASU provides guidance to an organization’s management, with principles and definition that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The amendments in this update are effective for the annual period ending after December 31, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company has the adopted the methodologies prescribed by this ASU by the date required and there is no material impact on the Company’s consolidated financial statements.

In February 2016, FASB issued ASU-2016-02, "Leases (Topic 842)." The guidance requires that a lessee recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right of use asset representing its right to use the underlying asset for the lease term. For finance leases: the right-of-use asset and a lease liability will be initially measured at the present value of the lease payments, in the statement of financial position; interest on the lease liability will be recognized separately from amortization of the right-of-use asset in the statement of comprehensive income; and repayments of the principal portion of the lease liability will be classified within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases: the right-of-use asset and a lease liability will be initially measured at the present value of the lease payments, in the statement of financial position; a single lease cost will be recognized, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and all cash payments will be classified within operating activities in the statement of cash flows. Under Topic 842 the accounting applied by a lessor is largely unchanged from that applied under previous GAAP. The amendments in Topic 842 are effective for the Company beginning January 1, 2019, including interim periods within that fiscal year. We are currently evaluating the impact of adopting the new guidance of the consolidated financial statements.

In January 2016, the Financial Accounting Standards Board ("FASB"), issued Accounting Standards Update ("ASU") 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which amends the guidance in U.S. generally accepted accounting principles on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and are to be adopted by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adopting this standard.

In November 2015, the FASB issued ASU 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This ASU is effective for financial statements issued for annual periods beginning after December 16, 2016, and interim periods within those annual periods. The adoption of this standard did not have any material impact on the Company's financial position, results of operations and disclosures.

In July 2015, FASB issued ASU 2015-11, Simplifying the Measurement of Inventory (“ASU 2015-11”), to simplify the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first out or the retail inventory method. Under the new standard, inventory should be at the lower of cost and net realizable value. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. The adoption of this standard did not have any material impact on the Company's financial position, results of operations and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The adoption of this standard will not have any impact on the Company's financial position, results of operations and disclosures.

NOTE 4 - DISCONTINUED OPERATIONS

On February 6, 2017, the Company entered into a Contribution and Unit Purchase Agreement (the “Agreement”) with LB&B Associates Inc. (the “Purchaser”) and Global Public Safety, LLC (“GPS”).

The closing for the transaction set forth in the Agreement occurred on February 28, 2017 (the “Closing”) and on such date the Company contributed substantially all of the assets and certain liabilities related to its vehicle services business (the “Business”) to GPS. After the Closing, the Company continues to own and run other business operations that are not related to the Business.

On the Closing, GPS sold units representing 80.1% of the units of GPS to the Purchaser for $6,048,394, after certain purchase price adjustments of prepaid expenses and unbilled customer deposits. $4,048,394 was paid in cash, including a $250,000 deposit that was paid on February 6, 2017, and $2,000,000 was paid by Purchaser issuing the Company a promissory note (the “Promissory Note”). After the Closing, the Company continues to own 19.9% of the units of GPS.

The Promissory Note is subordinated to the Purchaser’s senior lender and accrues interest at a rate of 3% per annum. The maturity date of the Promissory Note is March 31, 2022. The Promissory Note is to be repaid as follows: (a) $75,000 plus all accrued interest on each of September 30, 2017; December 31, 2017; March 31, 2018, June 30, 2018 and September 30, 2018 (or, in the event any such date is not a business day, the first business day after such date), (b) $100,000 plus all accrued interest on each of December 31, 2018; March 31, 2019; June 30, 2019 and September 30, 2019 (or, in the event any such date is not a business day, the first business day after such date) (c) $125,000 plus all accrued interest on each of December 31, 2019; March 31, 2020; June 30, 2020; September 30, 2020, December 31, 2020; March 31, 2021, June 31, 2021; September 30, 2021; and December 31, 2021 (or, in the event any such date is not a business day, the first business day after such date), and (d) $100,000 on March 31, 2022.

ASC 360-10-45-9 requires that a long-lived asset (disposal group) to be sold shall be classified as held for sale in the period in which a set of criteria have been met, including criteria that the sale of the asset (disposal group) is probable and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. This criteria was achieved on December 21, 2016 as the Company entered into a letter of intent with the purchaser. Additionally, the discontinued operations are comprised of the entirety of the vehicle services business, excluding corporate services expenses. Lastly, for comparability purposes certain prior period line items relating to the assets held for sale have been reclassified and presented as discontinued operations for all periods presented in the accompanying consolidated statements of operations, consolidated statements of cash flows, and the consolidated balance sheets.

In accordance with ASC 205-20-S99, "Allocation of Interest to Discontinued Operations", the Company elected to not allocate consolidated interest expense to discontinued operations where the debt is not directly attributable to or related to discontinued operations.

The following information presents the major classes of line item of assets and liabilities included as part of discontinued operations in the consolidated balance sheet:

	December 31, 2016
Current assets - discontinued operations:	
Accounts receivable	$ 776,715
Inventory	272,679
Other current assets	20,117
Total current assets - discontinued operations	$ 1,069,511
Noncurrent assets - discontinued operations:	
Property and equipment, net	$ 27,362
Other non-current assets	13,025
Total noncurrent assets - discontinued operations	$ 40,387
Current liabilities - discontinued operations:	
Accounts payable and accrued liabilities	$ 664,569
Accrued payroll	15,386
Customer deposits	34,219
Deferred revenue	54,581
Line of credit	202,711
Total current liabilities - discontinued operations:	$ 971,466
Long term liabilities - discontinued operations:	
Note payable - long term portion	$ 452,572
Deferred rent	36,948
Notes payable - related parties, long term portion	500,000
Total long term liabilities - discontinued operations	$ 989,520

The following information presents the major classes of line items constituting the after-tax loss from discontinued operations in the consolidated statements of operations for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$ —	$ 4,024,475	$ 425,269	$ 6,492,655
Cost of goods sold	—	3,331,404	535,376	5,616,146
Gross margin	—	693,071	(110,107)	876,509
Salaries and related expenses	—	94,465	86,327	172,145
Selling, general and administrative expenses	—	99,719	73,077	209,413
Total operating expenses	—	194,184	159,404	381,558
Operating income (loss)	—	498,887	(269,511)	494,951
Other income (expense):				
Gain on sale of discontinued operations	—	—	5,700,446	—
Interest expense, net	—	(63,425)	(24,788)	(107,864)
Total other income (expense)	—	(63,425)	5,675,658	(107,864)
Income from discontinued operations before tax	—	435,462	5,406,147	387,087
Income tax expense	—	152,700	2,132,725	152,700
Income from discontinued operations, net of tax	$ —	$ 282,762	$ 3,273,422	$ 234,387

The following information presents the major classes of line items constituting significant operating and investing cash flow activities in the unaudited consolidated statements of cash flows relating to discontinued operations:

	Six Months Ended June 30	
	2017	2016
Cash flows from operating activities of discontinued operations:		
Adjustments to reconcile net loss to net cash used in operating activities of discontinued operations:		
Gain on sale of discontinued operations, net of fees	$ 5,700,446	$ —
Note receivable	(2,000,000)	—
Depreciation and amortization	6,032	7,266
Changes in operating assets and liabilities including assets and liabilities held for sale:		
Accounts receivable	522,400	909,180
Unbilled receivable	—	(355,488)
Prepaid expenses and other noncurrent assets	(1,580)	11,062
Inventory	(131,017)	6,738
Other assets	—	82,705
Accounts payable and accrued expenses	(352,056)	(1,213,445)
Deferred revenue	(54,581)	1,900
Other liabilities	68,513	(36,510)
Net cash provided by (used in) operating activities from discontinued operations	3,758,157	(586,592)
Cash flows from investing activities in discontinued operations:		
Purchases of property and equipment	—	(24,500)
Net cash used in investing activities in discontinued operations	—	(24,500)
Cash flows from financing activities in discontinued operations:		
Net change in line of credit	(202,712)	536,136
Repayment of related party notes	(500,000)	—
Borrowings (repayments) on term notes	(452,571)	51,889
Deferred financing cost	—	(13,523)
Payments on term notes	—	(166,667)
Net cash provided by (used in) financing activities in discontinued operations	$ (1,155,283)	$ 407,835

NOTE 5 – LINE OF CREDIT AND OTHER NOTES PAYABLE

Line of Credit

On July 12, 2016 (the “Closing Date”), the Company entered into a loan and security agreement (the “Loan Agreement”) with Fundamental Funding LLC (the “Lender”). The Loan Agreement provided for a multi-draw loan to the Company for (i) the Company’s accounts receivable, the lesser of (y) $2,500,000 or (z) 85% of the Company’s eligible accounts and (ii) the Company’s inventory advances, the lesser of (y) $500,000 or (z) 50% of the eligible inventory (the “Revolving Loans”). The maximum amount available to the Company under the Loan Agreement for the Revolving Loans was $3,500,000 (the “Credit Limit”). In addition, the Lender agreed to provide the Company with an accommodation loan in an amount not to exceed $500,000, which was to be repaid in thirty-six (36) equal monthly installments of principal and interest (the “Accommodation Loan” and together with the Revolving Loans, the “Loans”).

On the Closing Date, the Lender advanced the Company $533,670. The amounts advanced under the Loan Agreement were due and payable on the three (3) year anniversary of the Closing Date (the “Maturity Date”), and thereafter, the Maturity Date was to be automatically extended for successive periods of one year unless the Company shall give lender written notice of termination not less than ninety (90) days prior to the end of such term or renewal term, as applicable. Lender could have terminated the Loan Agreement at any time in its sole discretion by giving the Company ninety (90) days prior written notice, provided that upon an Event of Default (as defined in the Loan Agreement), Lender could terminate the Loan Agreement without notice to the Company, effective immediately. Upon termination by the Lender, the Company would have been required to pay certain termination fees based on a percentage of the Credit Limit as set forth in the Loan Agreement.

The outstanding principal balance under the Note for the Revolving Loans bore interest at a rate per annum equal to the “prime rate” published from time to time in the *Wall Street Journal* (the “Prime Rate”), plus 1.75% per annum, accruing daily and payable monthly. The outstanding principal balance under the Accommodation Loan bore interest at a rate per annum equal to the Prime Rate in effect from time to time, plus 12.75% per annum, accruing daily and payable monthly. Notwithstanding any other provision in the Loan Agreement, interest on Loans was calculated on the higher of: (i) the actual average monthly balance of all Loans from the prior month, or (ii) $1,350,000. In addition the Company was subject to certain monthly or annual fees on the Loans as set forth in the Loan Agreement.

The remaining portion of the Credit Limit could be advanced to the Company upon written notice provided to the Lender during the period beginning from the Closing Date through the Maturity Date provided no default had occurred under the Loan Agreement. The Company could prepay any portion of the Accommodation Loan, in whole or in part, to Lender on or prior to the Maturity Date.

Initial borrowings under the Loan Agreement were subject to, among other things, the substantially concurrent repayment by the Company of all amounts due and owing under the Company's credit facility, dated May 24, 2014, with Rosenthal & Rosenthal, Inc. and the satisfaction and termination of such borrowing and all liens thereunder (collectively, the "Rosenthal Loan"). All amounts owed under the Rosenthal Loan, which were $2,253,617, were satisfied and terminated by the Company on the Closing Date.

In addition, on the Closing Date, the Company entered into a subordination agreement with each of C.B. Brechin and Scott Rutherford, each a Company director, as well as with the Investor described in Note 6 pursuant to which each of the parties agreed to subordinate all present and future indebtedness held by each of them to the obligations of the Lender.

On the Closing Date, as part of the Loan Agreement and to secure the payment and performance of all of the obligations owed to Lender under the Loan Agreement when due, the Company granted to Lender a security interest in all right, title and interest to all assets of the Borrower, whether now owned or hereafter arising or acquired and wherever located.

The Loan Agreement contained customary affirmative and negative covenants for loan agreements of its type, including but not limited to, limiting the Company's ability to pay dividends or make any distributions, incur additional indebtedness, grant additional liens, engage in any other lime of business, make investments, merge, consolidate or sell all or substantially all of its assets and enter into transactions with related parties. The Loan Agreement also contained certain financial covenants, including, but not limited to, a debt service coverage ratio.

The Loan Agreement included customary events of default, including but not limited to, failure to pay principal, interest or fees when due, failure to comply with covenants, default under certain other indebtedness, certain insolvency or bankruptcy events, the occurrence of certain material judgments the institution of any proceeding by a government agency or a change of control of the Company.

All borrowings under the Loan Agreement were due upon a default under the terms of the Loan Agreement. The Company's obligations under the Loan Agreement were guaranteed by C.B. Brechin, a Company director, pursuant to the terms of a surety agreement.

At December 31, 2016, the Company had $274,795 in indebtedness under the Revolving Facility, excluding the finance cost of $72,084, and $452,571 in outstanding indebtedness under the Term Loan, and the Company could have borrowed up to an additional $2,725,205 under the Revolving Facility. As of December 31, 2016, we were out of compliance with one of the financial covenants contained in the Credit Facility as a result of the loss recorded for the year ended December 31, 2016. The Company did not request a waiver for the year ended December 31, 2016 and the Revolving Facility and Term Loan were repaid in full on February 28, 2017.

Other Notes Payable

The Company financed certain vehicles and equipment under finance agreements. The agreements are due to mature at various dates through December 2017. Principal maturities in 2017 were $20,150. The agreements required various monthly payments of principal and interest until maturity. As of June 30, 2017 and December 31, 2016, financed assets of $0 and $19,475, respectively, net of accumulated amortization of $0 and $122,441, respectively, are included in property and equipment on the balance sheets. The weighted average interest rate was 3.75% at June 30, 2017 and December 31, 2016. All notes were repaid in full on February 28, 2017.

NOTE 6 – CONVERTIBLE NOTES PAYABLE – STOCKHOLDERS

Brekford financed the repurchase of shares of its common stock and warrants from the proceeds of convertible promissory notes that were issued by Brekford on November 9, 2009 in favor of a lender group that included two of its directors, Messrs. C.B. Brechin and Scott Rutherford, in the principal amounts of $250,000 each (each, a "Promissory Note" and together, the "Promissory Notes"). Each Promissory Note bore interest at the rate of 12% per annum and at the time of issuance was to be convertible into shares of Brekford Traffic Safety, Inc. common stock, at the option of the holder, at an original conversion price of $.07 per share. At the time of issuance, Brekford agreed to pay the unpaid principal balance of the Promissory Notes and all accrued but unpaid interest on the date that was the earlier of (i) two years from the issuance date or (ii) 10 business days after the date on which Brekford Traffic Safety, Inc. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On April 1, 2010, Brekford Traffic Safety, Inc. and each member of the lender group executed a First Amendment to the Unsecured Promissory Note, which amended the Promissory Notes as follows:

- Revise the conversion price in the provision that allows the holder of the Promissory Note to elect to convert any outstanding and unpaid principal portion of the Promissory Note and any accrued but unpaid interest into shares of the common stock at a price of fourteen cents ($0.14) per share, and

- Each Promissory Note's maturity date was extended to the earlier of (i) four years from the issuance date or (ii) 10 business days after the date on which Brekford closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On November 8, 2013, Brekford Traffic Safety, Inc. and each member of the lender group agreed to extend the maturity dates of the Promissory Notes to the earlier of (i) November 9, 2014 or (ii) 10 business days after the date on which Brekford Traffic Safety, Inc. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On November 4, 2014, Brekford Traffic Safety, Inc. and each member of the lender group agreed to further extend the maturity dates of the Promissory Notes to the earlier of (i) November 9, 2015 or (ii) 10 business days after the date on which Brekford Traffic Safety, Inc. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On November 9, 2015, the maturity dates of the Stockholder Notes were extended to the earlier of (i) November 9, 2016 or (ii) 10 business days from the date on which Brekford Traffic Safety, Inc. closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000. Mr. Brechin and Mr. Rutherford indicated that they would not exercise their right of repayment prior to June 30, 2017.

On November 4, 2016, the maturity dates of the Promissory Notes were extended to the earlier of (i) November 9, 2017 or (ii) 10 business days from the date on which Brekford closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000. Mr. Brechin and Mr. Rutherford have indicated that they will not exercise their right of repayment prior to September 30, 2017.

The Company anticipated that the maturity date of the Stockholder Notes would continue to be extended for the foreseeable future; thus, they were classified as long-term liabilities. As of December 31, 2016, the amounts outstanding under the Stockholder Notes totaled $500,000. On March 1, 2017, the balance was repaid in full.

NOTE 7 – CONVERTIBLE PROMISSORY NOTES PAYABLE - INVESTOR

On March 17, 2015, the Company entered into a note and warrant purchase agreement (the "Agreement") with an accredited investor (the "Investor") pursuant to which the Investor purchased an aggregate principal amount of $715,000 of a 6% convertible promissory note issued by the Company for an aggregate purchase price of $650,000 (the "Investor Note"). The Investor Note bore interest at a rate of 6% per annum and the principal amount is due on March 17, 2017. Any interest that accrued under the Investor Note was payable either upon maturity or upon any principal being converted on any voluntary conversion date (as to that principal amount then being converted). The Investor Note was convertible at the option of the Investor at any time into shares of Common Stock at a conversion price equal to the lesser of (i) $0.25 per share and (ii) 70% of the average of the lowest three volume weighted average prices for the twelve (12) trading days prior to such conversion (the "Conversion Price"). In no event could the Conversion Price have been less than $0.10; provided, however, that if on or after the date of the Agreement the Company sold any Common Stock or Common Stock Equivalents (as defined in the Agreement) at an effective price per share that was less than $0.10 per share, then the Conversion Price would be equal to the par value of the Common Stock then in effect. In connection with the Agreement, the Investor received a warrant to purchase 780,000 shares of Common Stock (the "Warrant"). The Warrant is exercisable for a period of five years from the date of issuance at an exercise price of $0.50 per share, subject to adjustment (the "Exercise Price").

On October 23, 2015, the Investor converted $25,000 of principal and $904 of accrued interest due under the Investor Note into 169,530 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $19,869.

On December 2, 2015, the Investor converted $50,000 of principal and $2,129 of accrued interest due under the Investor Note into 349,155 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $35,160.

On February 26, 2016, the Investor converted $50,000 of principal and $2,844 of accrued interest due under the Investor Note into 476,500 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $49,525.

On March 31, 2016, the Investor converted $50,000 of principal and $3,123 of accrued interest due under the Investor Note into 510,310 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $72,947.

On May 31, 2016, the Investor converted $50,000 of principal and $3,627 of accrued interest due under the Investor Note into 605,928 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $38,923.

On July 1, 2016, the Investor converted $50,000 of principal and $3,880 of accrued interest due under the Investor Note into 699,733 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $40,875.

On July 27, 2016, the Investor converted $50,000 of principal and $4,093 of accrued interest due under the Investor Note into 758,670 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $45,024.

On August 31, 2016, the Investor converted $50,000 of principal and $4,381 of accrued interest due under the Investor Note into 776,869 shares of Common Stock and the Company recognized a loss on extinguishment of debt of $44,617.

The following table provides information relating to the Investor Note at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Convertible promissory note payable	$ —	$ 340,000
Original issuance discount, net of amortization of the $65,000 and $61,786 as of June 30, 2017 and December 31, 2016	—	(3,214)
Beneficial conversion feature, net of amortization of $557,921 and $530,338 as of June 30, 2017 and December 31, 2016	—	(27,583)
Warrant feature, net of amortization of the $92,079 and $87,527 as of June 30, 2017 and December 31, 2016	—	(4,552)
Original issuance cost, net of amortization of $52,500 and $46,996 as of June 30, 2017 and December 31, 2016	—	(5,504)
Convertible promissory note payable, net	$ —	$ 299,147

We evaluated the financing transactions in accordance with ASC Topic 470, Debt with Conversion and Other Options, and determined that the conversion feature of the Investor Note was afforded the exemption for conventional convertible instruments due to its fixed conversion rate. The Investor Note had an explicit limit on the number of shares issuable so it did meet the conditions set forth in current accounting standards for equity classification. The debt was issued with non-detachable conversion options that were beneficial to the investors at inception, because the conversion option had an effective strike price that was less than the market price of the underlying stock at the commitment date. The accounting for the beneficial conversion feature requires that the beneficial conversion feature be recognized by allocating the intrinsic value of the conversion option to additional paid-in-capital, resulting in a discount on the convertible notes, which would be amortized and recognized as interest expense.

Accordingly, a portion of the proceeds was allocated to the Warrant based on its relative fair value, which totaled $92,079 using the Black Scholes option-pricing model. Further, the Company attributed a beneficial conversion feature of $557,921 to the shares of Common Stock issuable under the Investor Note based upon the difference between the effective Conversion Price and the closing price of the Common Stock on the date on which the Investor Note was issued. The assumptions used in the Black-Scholes model are as follows: (i) dividend yield of 0%; (ii) expected volatility of 80.5%, (iii) weighted average risk-free interest rate of 1.56%, (iv) expected life of five years, and (v) estimated fair value of the Common Stock of $0.26 per share. The expected term of the Warrant represents the estimated period of time until exercise and is based on historical experience of similar awards giving consideration to the contractual terms. The Company recorded amortization of the beneficial conversion feature and warrant feature of the Investor Note in other expense in the amount of $27,583 and $4,552 during the six months ended June 30, 2017 and $60,514 and $9,987, during the six months ended June 30, 2016, respectively.

The Company recorded an original issue discount of $65,000 to be amortized over the term of the Agreement as interest expense. The Company recognized $3,214 and $19,336 of interest expense as a result of the amortization during the six months ended June 30, 2017 and 2016 respectively, which also includes the unamortized original issue discount attributable to the $150,000 principal converted to equity for six months ended June 30, 2016.

On February 28, 2017, the Company repaid the remaining balance in full and retired the note.

NOTE 8 – WARRANT DERIVATIVE LIABILITY

On March 17, 2015, in conjunction with the issuance of the Investor Note (see Note 7), the Company issued the Warrant, which permits the Investor to purchase 840,000 shares of Common Stock, including 60,000 shares related to the financing costs, with an exercise price of $0.50 per share and a life of five years.

The Exercise Price is subject to anti-dilution adjustments that allow for its reduction in the event the Company subsequently issues equity securities, including shares of Common Stock or any security convertible or exchangeable for shares of Common Stock, for no consideration or for consideration less than $0.50 a share. The Company accounted for the conversion option of the Warrant in accordance with ASC Topic 815. Accordingly, the conversion option is not considered to be solely indexed to the Company's own stock and, as such, is recorded as a liability. The derivative liability associated with the Warrant has been measured at fair value at June 30, 2017 and December 31, 2016 using the Black Scholes option-pricing model. The assumptions used in the Black-Scholes model are as follows: (i) dividend yield of 0%; (ii) expected volatility of 80.5% - 105.1%; (iii) weighted average risk-free interest rate of 1.14-1.93%; (iv) expected life of five years; and (v) estimated fair value of the Common Stock of $0.10-$0.26 per share.

At June 30, 2017 and December 31, 2016, the outstanding fair value of the derivative liability was $18,228 and $24,360, respectively. There were no warrants issued during the six months ended June 30, 2017.

NOTE 9 – LEASES

The Company rents office space under separate non-cancelable operating leases. Rent expense under our main headquarters lease, due to expire on April 30, 2020, amounted to $42,540 and $85,622 for the six months ended June 30, 2017 and 2016, respectively. On February 28, 2017, the headquarters lease was assumed by Global Public Safety, and the Company signed a month-to-month sub-lease with Global Public Safety payable at 15% of the original lease.

The Company also leases approximately 2,500 square feet of office space from a related party under a non-cancelable operating lease expiring on December 31, 2017. Rent expense under this lease amounted $24,600 for the six months ended June 30, 2017 and 2016, respectively.

NOTE 10 – MAJOR CUSTOMERS AND VENDORS

Major Customers

The Company has several ATSE contracts with government agencies, of which net revenue from four customers during the six months ended June 30, 2017 represented 60% of the total net revenue. Three customers accounted for 81% of total accounts receivable as of June 30, 2017, which was subsequently collected.

Net revenue from five customers during the six months ended June 30, 2016 represented 76% of the total net revenue. Accounts receivable due from four customers at December 31, 2016 amounted to 88% of total accounts receivable at that date.

Major Vendors

The Company purchased products and services for fulfillment of ATSE contracts from several vendors. As of June 30, 2017 and December 31, 2016, accounts payable due to these vendors amounted to 38% and 47% of total accounts payable, respectively.

NOTE 11 – SHARE-BASED COMPENSATION

The Company has issued shares of restricted common stock and warrants to purchase shares of common stock and has granted non-qualified stock options to certain employees and non-employees. On April 25, 2008, the Company's stockholders approved the 2008 Stock Incentive Plan (the "2008 Incentive Plan").

Stock Options

The Company recorded $16,103 and $7,474 in stock option compensation expense during in the period ending June 30, 2017 and 2016, respectively, related to the stock option grants. There were no options granted during the six months ended June 30, 2017.

Summary of the option activity for six months ended June 30, 2017 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2017	550,000	$ 0.20	3.00	$ 0.00
Granted	—	—	—	—
Forfeited or expired	(75,000)	0.12	—	0.00
Exercised	—	—	—	
Outstanding at June 30, 2017	475,000	$ 0.19	2.50	$ 0.00
Exercisable at June 30, 2017	475,000	$ 0.19	2.50	$ 0.00
Vested and expected to vest	475,000	$ 0.19	2.50	$ 0.00

Restricted Stock Grants

There were no stock grants during the six months ended June 30, 2017 and 2016.

NOTE 12 – INVENTORY

As of June 30, 2017 and December 31, 2016 inventory consisted entirely of raw materials of $215,254 and $221,186, respectively.

NOTE 13 –INCOME (LOSS) PER SHARE

The following table provides information relating to the calculation of loss earnings per common share for continuing operations:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Basic income (loss) earnings per share				
Net income (loss) from continuing operations	$ (147,934)	$ (261,921)	$ 1,357,377	$ (767,830)
Weighted average common shares outstanding - basic	49,311,264	46,454,266	49,311,264	45,876,068
Basic income (loss) per share	$ (0.00)	$ (0.01)	$ 0.03	$ (0.02)
Diluted loss per share				
Net income (loss) from continuing operations	$ (147,934)	$ (261,921)	$ 1,357,377	$ (767,830)
Weighted average common shares outstanding	49,311,264	46,454,266	49,311,264	45,876,068
Potential dilutive securities	—	—	—	—
Weighted average common shares outstanding – diluted	49,311,264	46,454,266	49,311,264	45,876,068
Diluted income (loss) per share	$ (0.00)	$ (0.01)	$ 0.03	$ (0.02)
Common stock equivalents excluded due to anti-dilutive effect	840,000	7,693,782	840,000	7,693,782

The following table provides information relating to the calculation of net income per common share for discontinued operations:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Basic net income per share				
Net income from discontinued operations	$ —	$ 282,762	$ 3,273,422	$ 234,387
Weighted average common shares outstanding - basic	49,311,264	46,454,266	49,311,264	45,876,068
Basic income per share	$ 0.00	$ 0.01	$ 0.07	$ 0.01
Diluted net income per share				
Net income from discontinued operations	$ —	$ 282,762	$ 3,273,422	$ 234,387
Weighted average common shares outstanding	49,311,264	46,454,266	49,311,264	45,876,068
Potential dilutive securities	—	7,693,782	—	7,693,782
Weighted average common shares outstanding – diluted	49,311,264	54,148,048	49,311,264	53,569,850
Diluted income per share	$ 0.00	$ 0.01	$ 0.07	$ 0.00
Common stock equivalents excluded due to anti-dilutive effect	840,000	—	840,000	—

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Disclosures about fair value of financial instruments require disclosure of the fair value information, whether or not recognized in the balance sheet, where it is practicable to estimate that value. As of June 30, 2017, the amounts reported for cash, accrued interest and other expenses, notes payables, and derivative liability approximate their fair values because of their short maturities.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

- Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;
- Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and
- Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We measure certain financial instruments at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows at June 30, 2017:

	Total	(Level 1)	(Level 2)	(Level 3)
Liabilities				
Derivative liability	—	—	—	18,228
Total liabilities measured at fair value	$ —	$ —	$ —	$ 18,228

The following is a reconciliation of the derivative liability for which Level 3 inputs were used in determining the approximate fair value:

Beginning balance as of December 31, 2016	$ 24,360
Fair value of derivative liabilities issued	—
Gain on change in derivative liability	(6,132)
Ending balance as of June 30, 2017	$ 18,228

NOTE 15 – MERGER SUMMARY

Merger Agreement

On July 12, 2017, the Company entered into a Second Amended and Restated Agreement and Plan of Merger being the second amended and restated version of the agreement originally dated February 10, 2017 (the “Merger Agreement”) to combine the businesses of Brekford and KeyStone Solutions, Inc., a Delaware corporation (“KeyStone”). The Merger Agreement provides that Brekford and KeyStone will each engage in merger transactions (the “Mergers”) with separate wholly-owned subsidiaries of a newly-formed company, Novume Solutions, Inc., a Delaware corporation (“Novume”). Under one merger transaction (the “Brekford Merger”), one wholly-owned subsidiary of Novume will merge with and into Brekford, leaving Brekford as a wholly-owned subsidiary of Novume. Under a separate merger transaction (the “KeyStone Merger”), KeyStone will merge with and into another wholly-owned subsidiary of Novume (“KeyStone Merger Sub”), with KeyStone Merger Sub surviving such merger. The time at which the Mergers are completed in accordance with the Merger Agreement is referred to as the “Effective Time”. As stipulated within the Merger Agreement, Brekford changed its name to Brekford Traffic Safety, Inc. on June 8, 2017.

Merger Consideration

If the Mergers are completed: (1) each share of the common stock, par value $0.0001 per share, of the Company ("Brekford Common Stock") issued and outstanding immediately prior to the Effective Time and all rights in respect thereof, shall, without any action on the part of any holder thereof, cease to exist and be converted into and become exchangeable for the right to receive $1/15^{th}$ of a share (the "Brekford Exchange Ratio") of the common stock, par value $0.0001 per share, of Novume ("Novume Common Stock"), (2) each share of the common stock, par value $0.0001 per share, of KeyStone ("KeyStone Common Stock") issued and outstanding immediately prior to the Effective Time and all rights in respect thereof, shall, without any action on the part of any holder thereof, cease to exist and be converted into and become exchangeable for, 1.9399449 (for convenience and readability, this ratio is referred to as 1.9399 hereinafter, but all calculations based on the ratio were completed using the actual ratio of 1.9399449) shares of Novume Common Stock (the "KeyStone Common Exchange Ratio"), and (3) each share of Series A Cumulative Convertible Redeemable Preferred Stock, par value $0.0001 per share, of KeyStone (" KeyStone Preferred Stock") and all rights in respect thereof, shall, without any action on the part of any holder thereof, cease to exist and be converted into and become exchangeable for 1 share of the Series A Cumulative Convertible Redeemable Preferred Stock, par value $0.0001 per share, of Novume ("Novume Preferred Stock" and such 1 for 1 ratio, the " KeyStone Preferred Exchange Ratio"). The Brekford Exchange Ratio, the KeyStone Common Exchange Ratio and the KeyStone Preferred Exchange Ratio (collectively the "Exchange Ratios") have been determined with the intent that immediately after the Mergers, the pre-merger stockholders of Brekford will own that portion of the capital stock of Novume as shall be equal to approximately 20% of the issued and outstanding Novume Common Stock, on a fully-diluted basis, and the pre-merger stockholders of KeyStone will own that portion of the capital stock of Novume as is equal to approximately 80% of the issued and outstanding Novume Common Stock, on a fully-diluted basis.

Pursuant to the Merger Agreemen each of the Company and KeyStone may terminate the Merger Agreement if closing of the transactions contemplated under the Merger Agreement did not occur by July 31, 2017.

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 operating results of Brekford Traffic Safety, Inc. ("Brekford" or the "Company") for the three and six months ended June 30, 2017 and 2016 and the financial condition of Brekford Traffic Safety, Inc. at June 30, 2017. 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 audited financial statements for the year ended December 31, 2016 filed with its Annual Report on Form 10-K on March 28, 2017.

Forward-Looking Statements

This Quarterly Report on Form 10-Q ("Quarterly Report") may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including those that include the words "anticipate", "estimate", "should", "will", "expect", "believe", "intend", and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which we operate, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this Quarterly Report; general economic, market, or business conditions and their effects; industry competition, conditions, performance and consolidation; changes in applicable laws or regulations; changes in the budgets and/or public safety priorities of our customers; economic or operational repercussions from terrorist activities, war or other armed conflicts; the availability of debt and equity financing; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations.

Forward-looking statements speak only as of the date the statements are made. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. If we update one or more forward-looking statements, then no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

As used in this Quarterly Report, the terms "Brekford", "the Company", "we", "our", and "us" refer to Brekford Traffic Safety, Inc. and, unless the context clearly indicates otherwise, its consolidated subsidiary.

Our History

The Company (formerly California Cyber Design, Inc. ("CCDI")) was incorporated in Delaware on May 27, 1998 and changed its name to American Financial Holdings, Inc. ("AFHI") on August 11, 2004. AFHI, a publicly-traded corporation with no operations, announced the completion of its share exchange transaction with Pelican Mobile Computers, Inc., a Maryland corporation ("Pelican Mobile"), on January 6, 2006. Pelican Mobile exchanged each issued and outstanding share of Pelican Mobile Computers (1,000 shares issued and outstanding at the time of the share exchange) for 25,000 shares of AFHI on a post-split basis (the "Share Exchange") with an aggregate of 25,000,000 shares of common stock of AFHI issued to the former stockholders of Pelican Mobile. At the time of the Share Exchange, the existing stockholders of AFHI retained 5,512,103 shares of AFHI's outstanding common stock after the cancellation of approximately 2,549,000 shares of common stock. As a result, the former stockholders of Pelican Mobile became the majority stockholders of AFHI. Under the terms of the Share Exchange, the Company changed its name to Tactical Solution Partners, Inc. On April 25, 2008, the Company's stockholders approved a proposal to change its name from Tactical Solution Partners, Inc. to Brekford International Corp. to better reflect our business strategy. Subsequently, on July 9, 2010, the Company's stockholders approved a proposal to change our name from Brekford International Corp. to Brekford Traffic Safety, Inc. On October 27, 2010, the Company's Board of Directors approved the merger of Pelican Mobile with Brekford Traffic Safety, Inc. pursuant to Section 253 of the General Corporation Law of the State of Delaware, with Brekford Traffic Safety, Inc. as the surviving corporation. The merger became effective upon the filing of a Certificate of Ownership and Merger with the State of Delaware (and the appropriate Articles of Merger with the State of Maryland), pursuant to the terms of an Agreement and Plan of Merger. The merger documents were filed with the States of Delaware and Maryland on October 28, 2010. Effective upon the completion of the merger, the Company's corporate name of the Company remained as Brekford Traffic Safety, Inc. The operations of Pelican Mobile were continued by the Company without interruption following the merger.

On February 7, 2017, the Company entered into a Contribution and Unit Purchase Agreement (the "Agreement") with LB&B Associates Inc. (the "Purchaser") and Global Public Safety, LLC ("GPS"). The closing for the transaction set forth in the Agreement occurred on February 28, 2017 (the "Closing") and on such date the Company contributed substantially all of the assets and certain liabilities related to its vehicle services business (the "Business") to GPS. On the Closing, GPS sold units representing 80.1% of the units of GPS to the Purchaser, and Brekford continues to own 19.9% of the units of GPS. After the Closing, Brekford will continue to own and run other business operations that are not related to the Business. For additional detail regarding this transaction, refer to Note 4 (Notes to Consolidated Financial Statements) elsewhere in this Quarterly Report.

On July 12, 2017, the Company entered into a Second Amended and Restated Agreement and Plan of Merger being the second amended and restated version of the agreement originally dated , February 10, 2017, (the "Merger Agreement") to combine the businesses of Brekford and KeyStone Solutions, Inc., a Delaware corporation ("KeyStone"). Upon closing of the merger, Brekford will become a wholly-owned subsidiary of Novume Solutions, Inc., a Delaware corporation ("Novume"). For additional detail regarding this transaction, refer to the Subsequent Event footnote **-** Note 15 (Notes to Consolidated Financial Statements) elsewhere in this Quarterly Report.

Overview

The Company, headquartered in Hanover, Maryland, is a leading public safety technology service provider of fully integrated automated traffic safety enforcement ("ATSE") solutions, including speed, red light, and distracted driving camera systems. The Company's core values of integrity, accountability, respect, and teamwork drive our employees to achieve excellence and deliver industry leading technology and services, thereby enabling a superior level of reliability to our clients.

Products and Services

Automated Traffic Safety Enforcement– Red Light and Speed Camera Systems

Public safety is a major concern for most communities – especially as populations grow, and yet there is continual pressure on public safety budgets. One way to help make streets safer while reducing workload is a well-run photo red light or speed enforcement program. The objective of photo enforcement is to help curtail aggressive driving through voluntary compliance. Revenue generated from fines routinely goes directly back into supporting other public safety initiatives.

Although opponents of red light cameras cite the increase in rear-end collisions as cause for disapproval of cameras, a study conducted in February 2011 by the Insurance Institute for Highway Safety (the "IIHS") reported that red-light cameras reduced fatal red light running crashes by 24% in 14 large U.S. cities with populations over 200,000. IIHS concluded that if red light cameras had been operating in all 99 U.S. cities with populations over 200,000 during this study period (five years), a total of 815 deaths could have been avoided. Because the types of crashes prevented by red light cameras tend to be far more severe than rear-end crashes, research has shown there is a net positive benefit. Photo enforcement solutions can reduce collisions, injuries and deaths by providing a useful tool for municipalities and law enforcement agencies, without unduly taxing drivers who do not break the law. Today, nearly 600 communities across the U.S. operate red light or speed camera enforcement programs.

Despite the increased safety effects and prevention of fatalities, there is still a common misconception that automated traffic safety enforcement systems are not supported by the general public. An IIHS survey conducted in November 2012 found that a large majority of people living in Washington, D.C., one of the largest combined red light and speed enforcement programs in the U.S., favor camera enforcement. Of those surveyed, 87% support red light cameras and 76% support speed cameras. Even the majority of violators (59%) agreed that they deserved their most recent citation. In 2012, IIHS reported that 633 people were killed and an estimated 133,000 were injured in crashes that involved red light running. Speeding was a factor in 31% of motor vehicle crash deaths in 2012.

Brekford's ATSE products offer intersection safety (red light), speed, and cell phone enforcement options by way of a complete suite of solution-based products. Our team of industry professionals has extensive experience in this field, we have developed equipment and a full turnkey solution that we believe will ensure the success of any program. We have created and implemented some of the most cutting-edge features into our design while constructing end-to-end systems specifically with our clients' needs in mind.

ATSE systems are one of a wide range of measures that are effective at reducing vehicle speeds and crashes. The ATSE system is an enforcement technique with one or more motor vehicle sensors producing recorded images of motor vehicles traveling at speeds above a defined threshold. Images captured by the ATSE system are processed and reviewed in an office environment and violation notices are mailed to the registered owner of the identified vehicle. ATSE is a technology available to law enforcement as a supplement and not a replacement for traditional enforcement operations. Evaluations of ATSE, both internationally and in the United States have identified some advantages over traditional speed enforcement methods. These include:

- High rate of violation detection. ATSE units can detect and record multiple violations per minute. This can provide a strong deterrent effect by increasing drivers' perceived likelihood of being cited for speeding.

- Physical safety of ATSE operators and motorists. ATSE can operate at locations where roadside traffic stops are dangerous or infeasible, and where traffic conditions are unsafe for police vehicles to enter the traffic stream and stop suspected violators. With ATSE, there is normally no vehicle pursuit or confrontation with motorists. ATSE might also reduce the occurrence of traffic congestion due to driver distraction caused by traffic stops on the roadside.

- Fairness of operation. Violations are recorded for all vehicles traveling in excess of the enforcement speed threshold. Efficient use of resources. ATSE can act as a “force multiplier,” enhancing the influence of limited traffic enforcement staff and resources.

Beyond traditional tax collection on income or property, state agencies and local municipalities rely heavily on fine and fee revenue generated from a multitude of violator-funded sources. For example, jurisdictions generate sizable revenues from court fees, traffic and parking violations, ordinance infractions, and library and utility arrearages. Each of these revenue sources funds public safety and community development initiatives and without the income, the services are curtailed. Brekford offers client-specific solutions to these agencies and municipalities to assist them with collecting unpaid fines, including:

- Notification continuance
- Mail house and printing
- Data purification and verification
- Back office support
- Call center response (inbound & out bound)
- Lock-box & treasury
- Payment processing

Sale of Assets and Investment in Global Public Safety

Vehicle Services

Prior to March 1, 2017, part of Brekford’s business included sales of products and services focusing on law enforcement vehicles. These products and services included rugged information technology solutions, mobile data, digital video, electronic ticketing, and vehicle upfitting. Rugged information technology solutions included both ruggedized laptops and in-car video solutions, among other technology offerings, in addition to vehicle mounting systems, docking stations, and custom-built packages. Vehicle upfitting solutions included the turnkey installation of various components including rugged technology, as well as sirens, lights, radios, gun racks, and decals.

As previously reported on a Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2017, on February 6, 2017, the Company entered into a Contribution and Unit Purchase Agreement (the “Agreement”) with LB&B Associates Inc. (the “Purchaser”) and Global Public Safety, LLC (“GPS”).

The closing for the transaction set forth in the Agreement occurred on February 28, 2017 (the “Closing”) and on such date the Company contributed substantially all of the assets and certain liabilities related to its vehicle services business (the “Business”) to GPS. After the Closing, Brekford will continue to own and run other business operations that are not related to the Business.

On the Closing, GPS sold units representing 80.1% of the units of GPS to the Purchaser for $6,048,394, after certain purchase price adjustments of prepaid expenses and unbilled customer deposits. $4,048,394 was paid in cash, including a $250,000 deposit that was paid on February 6, 2017, and $2,000,000 was paid by Purchaser issuing the Company a promissory note (the “Promissory Note”). After the Closing, Brekford continues to own 19.9% of the units of GPS.

The Promissory Note is subordinated to the Purchaser’s senior lender and accrues interest at a rate of 3% per annum. The maturity date of the Promissory Note is March 31, 2022. The Promissory Note is to be repaid as follows: (a) $75,000 plus all accrued interest on each of September 30, 2017; December 31, 2017; March 31, 2018, June 30, 2018 and September 30, 2018 (or, in the event any such date is not a business day, the first business day after such date), (b) $100,000 plus all accrued interest on each of December 31, 2018; March 31, 2019; June 30, 2019 and September 30, 2019 (or, in the event any such date is not a business day, the first business day after such date) (c) $125,000 plus all accrued interest on each of December 31, 2019; March 31, 2020; June 30, 2020; September 30, 2020, December 31, 2020; March 31, 2021, June 31, 2021; September 30, 2021; and December 31, 2021 (or, in the event any such date is not a business day, the first business day after such date), and (d) $100,000 on March 31, 2022.

The Promissory Note is secured pursuant to the terms of a Pledge Agreement (the “Pledge Agreement”) between the Company and Purchaser. Pursuant to the Pledge Agreement the Purchaser, granted the Company a continuing second priority lien and security interest in the Purchaser’s units of GPS subject to liens of the Purchaser’s senior lender.

Pursuant to the Agreement, the Company and GPS executed a Transition Services Agreement (the “Transition Services Agreement”). Pursuant to the Transition Services Agreement, the Company will perform certain support services to promote the efficient transition of the Business for the fees set forth in the Agreement.

In connection with the Agreement, the Company entered into an Amended and Restated Limited Liability Company Agreement of Global Public Safety, LLC (the “LLC Agreement”). The LLC Agreement provides for the operations of GPS and provides that all limited liability company powers of the Company shall be exercised by and under the authority of the Board of Representatives except as otherwise provided by the LLC Agreement or applicable law. The initial number of representatives constituting the Board of Representatives is three, of which the Company appointed one member and if the number of Board of Representatives is increased the Company shall be able to appoint the number of members required to maintain 1/3 of the seats on the Board of Representatives.

Pursuant to a month-to-month sublease agreement between GPS and the Company, the Company will continue to occupy 3,362 square feet of office space, located at 7020 Dorsey Road, Suite C, Hanover, Maryland 21076.

The Company also entered into a Pre-Novation Agreement with GPS pursuant to which performance under certain contracts being assigned to GPS will be made while these contracts are being assigned to GPS. The Company will also enter into a Novation Agreement, pursuant to which the government contracts being assigned to GPS will be transferred.

With respect to information provided within this Quarterly Report, including management's discussion and analysis of financial condition and operating results, the sale transaction was completed on February 28, 2017. Products and services related to vehicle services have been treated as discontinued operations within this Quarterly Report. The assets and liabilities of our vehicle services business are classified as held for sale on the consolidated balance sheet as of December 31, 2016, and the operating results of the vehicle services business are reflected as discontinued operations in the consolidated statements of earnings for the period of January 1, 2017 through February 28, 2017 and the three and six months ended June 30, 2016.

Purchasing and Order Fulfillment

We work with manufacturers and distributors to secure the lowest cost possible while taking advantage of any available incentives in order to provide competitive pricing and minimize delivery time to our customers while maintaining our product margins. Typically, once we sign an ATSE contract with our customers, we then purchase required components from manufacturers and assemble the camera systems at our facility in Hanover, Maryland. Sales generally are for services only, with Brekford maintaining ownership of provided hardware and software.

Merger Agreement

As reported on Amendment Number 1 to a Form 8-K filed with the Securities and Exchange Commission on February 14, 2017, on February 10, 2017, Brekford entered into an Agreement and Plan of Merger (the "Merger Agreement") to combine the businesses of Brekford and KeyStone Solutions, Inc., a Delaware corporation ("KeyStone"). The Merger Agreement provides that Brekford and KeyStone will each engage in merger transactions (the "Mergers") with separate wholly-owned subsidiaries of a newly-formed company, Novume Solutions, Inc., a Delaware corporation ("Novume"). Under one merger transaction (the "Brekford Merger"), one wholly-owned subsidiary of Novume will merge with and into Brekford, leaving Brekford as a wholly-owned subsidiary of Novume. Under a separate merger transaction (the "KeyStone Merger"), KeyStone will merge with and into another wholly-owned subsidiary of Novume ("KeyStone Merger Sub"), with KeyStone Merger Sub surviving such merger. The time at which the Mergers are completed in accordance with the Merger Agreement is referred to as the "Effective Time". As stipulated within the Merger Agreement, Brekford changed its name to Brekford Traffic Safety, Inc. on June 8, 2017.

Merger Consideration

If the Mergers are completed: (1) each share of the common stock, par value $0.0001 per share, of the Company ("Brekford Common Stock") issued and outstanding immediately prior to the Effective Time and all rights in respect thereof, shall, without any action on the part of any holder thereof, cease to exist and be converted into and become exchangeable for the right to receive 1/15th of a share (the "Brekford Exchange Ratio") of the common stock, par value $0.0001 per share, of Novume ("Novume Common Stock"), (2) each share of the common stock, par value $0.0001 per share, of KeyStone ("KeyStone Common Stock") issued and outstanding immediately prior to the Effective Time and all rights in respect thereof, shall, without any action on the part of any holder thereof, cease to exist and be converted into and become exchangeable for, 1.9399449 (for convenience and readability, this ratio is referred to as 1.9399 hereinafter, but all calculations based on the ratio were completed using the actual ratio of 1.9399449) shares of Novume Common Stock (the "KeyStone Common Exchange Ratio"), and (3) each share of Series A Cumulative Convertible Redeemable Preferred Stock, par value $0.0001 per share, of KeyStone (" KeyStone Preferred Stock") and all rights in respect thereof, shall, without any action on the part of any holder thereof, cease to exist and be converted into and become exchangeable for 1 share of the Series A Cumulative Convertible Redeemable Preferred Stock, par value $0.0001 per share, of Novume ("Novume Preferred Stock" and such 1 for 1 ratio, the " KeyStone Preferred Exchange Ratio").

The Brekford Exchange Ratio, the KeyStone Common Exchange Ratio and the KeyStone Preferred Exchange Ratio (collectively the "Exchange Ratios") have been determined with the intent that immediately after the Mergers, the pre-merger stockholders of Brekford will own that portion of the capital stock of Novume as shall be equal to approximately 20% of the issued and outstanding Novume Common Stock, on a fully-diluted basis, and the pre-merger stockholders of KeyStone will own that portion of the capital stock of Novume as is equal to approximately 80% of the issued and outstanding Novume Common Stock, on a fully-diluted basis.

Closing Conditions

The closing of the Merger Agreement will take place upon the fulfillment or waiver of all of the conditions to closing set forth in Article VIII of the Merger Agreement or as soon thereafter as practicable, but not later than July 31, 2017, unless otherwise mutually agreed by Brekford and KeyStone. One closing condition is that each of Brekford and KeyStone receive all stockholder approvals and corporate approvals required by the Delaware General Corporations Code and the organizational documents of each company to complete the Mergers. The satisfaction of this condition is assured. On February 10, 2017, the board of directors of Brekford authorized and approved the Mergers and the adoption of the Merger Agreement. On the same day, Chandra Brechin, a member of Brekford's Board of Directors, Scott Rutherford, Brekford's Chief Strategic Officer and a member of its Board of Directors and Robert West, a member of the Board of Directors of Brekford who own an aggregate of 25,712,787 shares of Brekford Common Stock, which represent approximately 52.13% of the issued and outstanding shares of Brekford's Common Stock entered into separate agreements ("Voting Agreements") with Brekford pursuant to which they separately agreed with Brekford to vote all of their shares in favor of the Brekford Merger and against any action or transaction that would delay or compromise the ability of Brekford to effectuate the Mergers. On February 9, 2017, the board of directors of KeyStone (the "KeyStone Board") authorized and approved the Mergers and the adoption of the Merger Agreement. On the same date, certain holders of more than 51% of the issued and outstanding shares of KeyStone Common Stock entered into Voting Agreements with KeyStone, and such holders indeed delivered written consents to KeyStone approving the Mergers and adopting the Merger Agreement.

A second closing condition requires Novume to prepare and file a Registration Statement on Form S-4 (the "Registration Statement"), which shall be declared effective by the Securities and Exchange Commission (the "SEC") prior to the Effective Time, registering the Merger Consideration. This shall not include registration of the options issuable as Merger Consideration in exchange for options previously received by stockholders of Brekford under Brekford's 2008 Director's Compensation Plan or stockholders of KeyStone under KeyStone's 2016 Equity Award Plan, which are intended to be registered separately on a Registration Statement on Form S-8 after the Effective Time. The Registration Statement will include an information statement of Brekford, which Brekford shall distribute to its stockholders in accordance with the rules and regulations of the Securities Exchange Act of 1934, as amended, prior to the Effective Time. In furtherance of this condition, Novume filed the Registration Statement with the SEC on February 10, 2017. The SEC declared the Registration Statement effective on August 3, 2017.

Finally, prior to the Effective Time, Novume shall enter into five-year employment agreements with each of Scott Rutherford, Brekford's current Chief Strategy Officer, and Rodney Hillman, Brekford's current President and Chief Operating Officer (the "Employment Agreements"). Pursuant to the Merger Agreement, Mr. Rutherford shall serve as Chief Technology Officer and Mr. Hillman shall serve as President and Chief Operating officer of Brekford Traffic Safety, Inc.

Under the Merger Agreement, Novume shall use its best efforts, as soon as practicable after the Effective Time, to obtain listings for Novume Common Stock, Novume Preferred Stock and certain warrants to purchase Novume Common Stock on a national stock exchange, or, alternatively, to obtain quotations for such securities on the OTCQX.

Leadership of Novume

The leadership of Novume shall be substantially comprised of the current management of KeyStone.

At the Effective Time, the Board of Directors of Novume (the "Novume Board"), shall have seven (7) members, four (4) of whom shall be independent within the meaning of the Exchange Act, and the national stock exchange to which Novume intends to apply for listings of the Novume securities indicated above. Six (6) members of the Novume Board shall be designated by KeyStone, and one (1) member of the Novume Board shall be designated by Brekford, subject to the approval of KeyStone.

Termination Fee

If (i) the Merger Agreement (A) is terminated by KeyStone due to the withdrawal of the recommendation of the Merger Agreement by the board of directors of Brekford (the "Brekford Board"), or by Brekford or KeyStone because of the failure to obtain the requisite Brekford stockholders' approval, or (B) is terminated as a result of Brekford's material breach of its obligations with regard to Closing and to filing and distributing of the Registration Statement required for the transaction, which breach is not cured within thirty (30) days after notice thereof to Brekford, and (ii) at the time of such termination there shall have been an Acquisition Proposal (as defined in the Merger Agreement) involving Brekford or any of its subsidiaries (whether or not such offer shall have been rejected or shall have been withdrawn prior to the time of such termination), Brekford shall pay KeyStone a termination fee of $250,000 (the "Termination Fee"). The Termination Fee shall be payable in cash at the date of termination.

Results of Operations

Results of Operations for the Three Months Ended June 30, 2017 and 2016

The following tables summarize selected items from the consolidated statements of operations from continuing operations for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

	Three Months Ended June 30,		(Decrease) / Increase	
	2017	2016	$	%
Net Revenues	$ 835,822	$ 607,252	$ 228,570	37.6%
Cost of Revenues	292,716	242,763	49,953	20.6%
Gross Profit	$ 543,106	$ 364,489	$ 178,617	49.0%
Gross Profit Percentage of Revenue	65.0%	60.0%		

Revenues

Revenue for the three months ended June 30, 2017 amounted to $835,822, the highest quarterly total achieved since 2013, as compared to revenue of $607,252 for the three months ended June 30, 2016, representing an increase of $228,570 or 37.6%. The increase was attributable to the addition of new contracts in Calvert County, Maryland and Wetaskiwin, Alberta, Canada, as well as expansion of programs in New Rochelle, New York, Laurel, Maryland, and Fruitland, Maryland. The increase was offset by a decrease in revenue from our Saltillo, Mexico program which reported no revenue for the three months ended June 30, 2017. On March 11, 2017, the City resumed collection efforts for unpaid fines and announced that these efforts would continue through the expiration of the contract on December 31, 2017. We are working with the City to identify the amount due from recent collections, and to determine whether the City intends to extend the current contract beyond the expiration date.

Our contract structures generate revenue based on either a percentage of fines collected by our customers or a fixed monthly flat fee per camera. At June 30, 2017, approximately 40% of our contracts were based on a percentage of fines collected and 60% were based on a monthly flat fee per camera. As a result of a change in the law that prohibits ATSE contractors from being compensated in relation to volume of fines collected, all Maryland contracts, with the exception of one which recently expired, have been converted to a flat monthly fee structure.

Cost of Revenues

Cost of revenues for the three months ended June 30, 2017 amounted to $292,716 as compared to $242,763 for the three months ended June 30, 2016, an increase of $49,953 or 20.6%. This increase was related to direct labor and materials costs associated with increased camera deployments and citation issuances.

Gross Profit

Gross profit for the three months ended June 30, 2017 amounted to $543,106 as compared to $364,489 for the three months ended June 30, 2016, an increase of $178,617 or 49.0%. The increase was primarily due to new programs and current program expansions, offset by a reduction in recurring revenue from the Saltillo, Mexico program as previously discussed. Gross margin for the three months ended June 30, 2017 was 65.0% as compared to 60.0% for the three months ended June 30, 2016. The margin increase was primarily due to economies of scale reflected by lower proportional costs of printing, mailing, wireless communications, and parts for maintenance.

Expenses

	Three Months Ended June 30,		Increase / (Decrease)	
	2017	2016	$	%
OPERATING EXPENSES				
Salaries and related expenses	$ 403,222	$ 430,203	$ (26,981)	(6.3)%
Selling, general and administrative expenses	302,043	275,608	26,435	9.6%
Total operating expenses	$ 705,265	$ 705,811	$ (546)	0.0%

Salaries and Related Expenses

Salaries and related expenses for the three months ended June 30, 2017 amounted to $403,222 as compared to $430,203 for the three months ended June 30, 2016, a decrease of $26,981 or 6.3%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2017 amounted to $302,043 as compared to $275,608 for the three months ended June 30, 2016, an increase of $26,435 or 9.6%. The increase was primarily driven by corporate and professional fees related to our recent transactions.

Other Expenses, net

Total other expenses, net for the three months ended June 30, 2017 amounted to income of $14,255 compared to an expense $73,299 for the three months ended June 30, 2016, a change of $87,554 or 120.4%. The change was primarily due to the elimination of interest, financing, and debt extinguishment expenses in the three months ended June 30, 2017, compared to finance and interest related costs of $105,524 and the loss on extinguishment of debt of $38,923, offset by a change in fair value of derivative liability of $71,148 for the three months ended June 30, 2016.

Net Income (Loss)

Net loss from continuing operations for the three months ended June 30, 2017 amounted to $147,934 compared to a net loss of $261,921 for the three months ended June 30, 2016, a decrease of $113,987 or 43.5%. A tax benefit of $0 versus $152,700 was a primary driver of the decrease for the three months ended June 30, 2017 and 2016, respectively. Excluding the tax benefit, net loss from continuing operations before income taxes for the three months ended June 30, 2017 amounted to $147,934, compared to a net loss of $414,621 for the three months ended June 30, 2016, a decrease of $266,687 or 64.3%. The decrease was primarily driven by significantly higher gross profit, combined with flat operating expenses and lower other expenses, as discussed previously.

Results of Operations

Results of Operations for the Six Months Ended June 30, 2017 and 2016

The following tables summarize selected items from the consolidated statements of operations from continuing operations for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

	Six Months Ended June 30,		(Decrease) / Increase	
	2017	2016	$	%
Net Revenues	$ 1,583,990	$ 1,220,197	$ 363,793	29.8%
Cost of Revenues	587,902	426,893	161,009	37.7%
Gross Profit	$ 996,088	$ 793,304	$ 202,784	25.6%
Gross Profit Percentage of Revenue	62.9%	65.0%		

Revenues

Revenue for the six months ended June 30, 2017 amounted to $1,583,990 as compared to revenue of $1,220,197 for the six months ended June 30, 2016, representing an increase of $363,793 or 29.8%. The increase was attributable to the addition of new contracts in Calvert County, Maryland and Wetaskiwin, Alberta, Canada, as well as expansion of programs in New Rochelle, New York, Laurel, Maryland, and Fruitland, Maryland. The increase was offset by a decrease in revenue from our Saltillo, Mexico program which reported no revenue for the three months ended June 30, 2017. On March 11, 2017, the City resumed collection efforts for unpaid fines and announced that these efforts would continue through the expiration of the contract on December 31, 2017. We are working with the City to identify the amount due from recent collections, and to determine whether the City intends to extend the current contract beyond the expiration date.

Our contract structures generate revenue based on either a percentage of fines collected by our customers or a fixed monthly flat fee per camera. At June 30, 2017 approximately 40% of our contracts were based on a percentage of fines collected and 60% were based on a monthly flat fee per camera. As a result of a change in the law that prohibits ATSE contractors from being compensated in relation to volume of fines collected, all Maryland contracts, with the exception of one which recently expired, have been converted to a flat monthly fee structure.

Cost of Revenues

Cost of revenues for the six months ended June 30, 2017 amounted to $587,902 as compared to $426,893 for the six months ended June 30, 2016, an increase of $161,009 or 37.7%. This increase was related to direct labor and materials costs associated with increased camera deployments and citation issuances.

Gross Profit

Gross profit for the six months ended June 30, 2017 amounted to $996,088 as compared to $793,304 for the six months ended June 30, 2016, an increase of $202,784 or 25.6%. The increase was primarily due to new programs and current program expansions, offset by a reduction in recurring revenue from the Saltillo, Mexico program as discussed previously. Gross margin for six months ended June 30, 2017 was 62.9% as compared to 65.0% for the six months ended June 30, 2016. The margin reduction was primarily due to increased maintenance parts cost in the first quarter as certain systems were upgraded for performance enhancements.

Expenses

	Six Months Ended June 30,		Increase / (Decrease)	
	2017	2016	$	%
OPERATING EXPENSES				
Salaries and related expenses	$ 830,185	$ 832,383	$ (2,198)	(0.3)%
Selling, general and administrative expenses	654,516	577,254	77,262	13.4%
Total operating expenses	$ 1,484,701	$ 1,409,637	$ 75,064	5.3%

Salaries and Related Expenses

Salaries and related expenses for the six months ended June 30, 2017 amounted to $830,185 as compared to $832,383 for the six months ended June 30, 2016, a decrease of $2,198 or 0.3%.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended June 30, 2017 amounted to $654,516 as compared to $577,254, for the six months ended June 30, 2016, an increase of $77,262 or 13.4%. The increase was primarily driven by corporate and professional fees related to our recent transactions.

Other Expenses, net

Total other expenses, net for the six months ended June 30, 2017 amounted to $222,142 as compared to $304,197 for the six months ended June 30, 2016, a decrease of $82,055, or 27.0%. The primary driver of the decrease was no extinguishment of debt for the six months ended June 30, 2017, as compared to $161,395 loss on extinguishment of debt, offset by $70,308 change in fair value of derivative liability, for the six months ended June 30, 2016.

Net Income (Loss)

Net income from continuing operations for the six months ended June 30, 2017 amounted to $1,357,377 compared to a net loss of $767,830 for the six months ended June 30, 2016, a change of $2,125,207. A tax benefit of $2,068,132 versus $152,700 was the primary driver of the increase for the six months ended June 30, 2017 and 2016, respectively. Excluding the tax benefit, net loss from continuing operations before income taxes for the six months ended June 30, 2017 amounted to $710,755, compared to a net loss of $920,530 for the six months ended June 30, 2016, a decrease of $209,775 or 22.8%. The decrease was primarily driven by significantly higher gross profit and lower other expense, offset by slightly higher operating expenses, as discussed previously.

Financial Condition, Liquidity and Capital Resources

At June 30, 2017, we had total current assets of approximately $3.02 million and total current liabilities of approximately $1.11 million resulting in a working capital surplus of approximately $1.91 million. At June 30, 2017, inventory totaled approximately $0.2 million consisting primarily of ATSE cameras components. In comparison, at December 31, 2016, we had total current assets of approximately $2.36 million and total current liabilities of approximately $1.81 million, resulting in a working capital surplus of approximately $0.55 million.

The Company's accumulated deficit decreased to approximately $7.4 million at June 30, 2017 from $12.0 million at December 31, 2016, as a result of the net income recorded for the six months ended June 30, 2017. Cash flows used in continuing operations for the six months ended June 30, 2017 were approximately $0.8 million, compared to cash flows used in continuing operations for the six months ended June 30, 2016 of approximately $0.01 million.

On July 12, 2016 (the “Closing Date”), the Company entered into a loan and security agreement (the “Loan Agreement”) with Fundamental Funding LLC (the “Lender”). The primary purpose of the new Loan Agreement is to pay off the prior loan, and provide additional working capital. The Loan Agreement provides for a multi-draw loan to the Company for (i) the Company’s accounts receivable, the lesser of (y) $2,500,000 or (z) 85% of the Company’s eligible accounts and (ii) the Company’s inventory advances, the lesser of (y) $500,000 or (z) 50% of the eligible inventory (the “Revolving Loans”). The maximum amount available to the Company under the Loan Agreement for the Revolving Loans is $3,500,000 (the “Credit Limit”). In addition, the Lender agreed to provide the Company with an accommodation loan in an amount not to exceed $500,000, which shall be repaid in thirty-six (36) equal monthly installments of principal and interest (the “Accommodation Loan” and together with the Revolving Loans, the “Loans”).

As discussed in Note 6 to the condensed consolidated financial statements presented elsewhere in this Quarterly Report, the Company is indebted to C.B. Brechin and Scott Rutherford under unsecured promissory notes in the aggregate balance of $500,000 as of December 31, 2016. On November 7, 2016, the maturity dates of these unsecured promissory notes were extended to the earlier of (i) November 7, 2017 or (ii) 10 business days from the date on which Brekford closes an equity financing that generates gross proceeds in the aggregate amount of not less than $5,000,000.

On March 17, 2015, the Company entered into a note and warrant purchase agreement providing for immediate funding of $650,000 through the issuance of the Investor Note (see Note 7 to the consolidated financial statements presented elsewhere in this Quarterly Report for additional detail). The primary use of proceeds was to fund startup costs for the initial phase of a project in Mexico providing turnkey ATSE services to the City of Saltillo, which began operations in the second quarter of 2015.

On February 28, 2017, as presented elsewhere in this Quarterly Report, the Company completed a transaction to sell substantially all assets and certain liabilities related to its vehicle services business. From the approximately $4.0 million in cash proceeds, all outstanding debt of the Company was retired, including the Loan Agreement, the Investor Note, and the notes payable to Brechin and Rutherford.

Management believes that the Company’s current level of cash combined with cash that it expects to generate in its operations during the next twelve months including anticipated new customer contracts will be sufficient to sustain the Company’s business initiatives through at least August 2018, but there can be no assurance that these measures will be successful or adequate.

In the event that the Company’s cash reserves and cash flow from operations are not sufficient to fund the Company’s future operations, it may need to obtain additional capital. No assurance can be given that the Company will be able to obtain additional capital in the future or that such capital will be available to the Company on acceptable terms. The Company’s ability to obtain additional capital will be subject to a number of factors, including market conditions, the Company’s operating performance and investor sentiment, which may make it difficult for the Company to consummate a transaction at the time, in the amount and/or upon the terms and conditions that the Company desires. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock or the debt securities may cause us to be subject to restrictive covenants. If the Company is unable to raise additional capital at the times, in the amounts, or upon the terms and conditions that it desires, then it might have to delay, scale back or abandon its expansion efforts. Even with such changes, the Company’s operations could consume available capital resources and liquidity.

Cash Flows Used in Operating Activities

Our cash flows from operating activities are significantly affected by our cash to support the growth of our business in areas such as selling, general and administrative. Our operating cash flows are also affected by our working capital needs to support growth and fluctuations in inventory, personnel related expenditures, accounts payable and other current assets and liabilities.

Net cash used in operating activities from continuing operations was $821,321 for the six months ended June 30, 2017 compared to net cash used in operating activities from continuing operations of $90,423 for the six months ended June 30, 2016. Cash was used primarily to fund our operations and working capital needs, net of non-cash expenditures such as depreciation and amortization, share based compensation for services and financing related costs. For the six months ended June 30, 2017, net income of $4,630,799, offset by a gain on sale of the vehicle services business of $5,700,446, a decrease in current assets, net, of $159,213 and an increase in current liabilities, net, of $301,691, were the primary drivers of the cash used in operating activities for continuing operations.

During the six months ended June 30, 2016, the net loss of $533,443 offset by a non-cash loss on the extinguishment of debt of $161,394, a decrease in current assets, net, of $152,499 and an increase in current liabilities, net, of $214,135 were the primary drivers of the cash used in operating activities for continuing operations.

Net cash provided by operating activities from discontinued operations was $3,758,157 for the six months ended June 30, 2017 compared to net cash used in operating activities from discontinued operations of $586,592 for the six months ended June 30, 2016. In the six months ended June 30, 2017, the gain on sale of the vehicle services of $5,700,446 was offset by a $2,000,000 note receivable, providing $3,700,446 in proceeds, net of costs, offset by net cash used to fund operating activities from discontinued operations of $57,711.

Cash Flows Used in Investing Activities

Net cash used in investing activities was $165,310 related to capital expenditures for the period ended June 30, 2017 and there was no cash used for the period ended June 30, 2016.

Cash Flows Provided by Financing Activities

Net cash used in financing activities from continuing operations was $354,646 for the six months ended June 30, 2017 and net cash provided by financing activities was $159,699 for the six months ended June 30, 2016. In the six months ended June 30, 2017, the Company paid other notes payable of $354,646. In the six months ended June 30, 2016, the Company made aggregate principal payments of $49,625 under capital leases and other note obligations and advanced net proceeds of $209,324 from the line of credit.

Net cash used in financing activities from discontinued operations was $1,155,283 for the six months ended June 30, 2017 compared to net cash provided by financing activities from discontinued operations of $407,835 for the six months ended June 30, 2016.

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 material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies and Estimates

Certain of our accounting policies are considered critical, as these policies require significant, difficult or complex judgments by management, often requiring the use of estimates about the effects of matters that are inherently uncertain. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 discusses those critical accounting policies and estimates that management uses to prepare our consolidated financial statements, which include those relating to accounts receivables allowances, revenue recognition and income taxes. We have reviewed those polices and believe that they remain our most critical accounting policies for the three and six months ended June 30, 2017, and that no material changes therein have occurred.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed in our periodic reports filed under the Exchange Act, as amended, or 1934 Act, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to ensure that such information is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer (Principal Financial Officer) as appropriate, to allow timely decisions regarding required disclosure. During the quarter ended June 30, 2017, we carried out an evaluation, under the supervision and with the participation of our management, including the Principal Executive Officer and Chief Financial Officer (Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) under the Exchange Act. Based on this evaluation, because of the Company's limited resources and limited number of employees as discussed below, management concluded that our disclosure controls and procedures were ineffective as of June 30, 2017.

Management has identified the major control deficiencies as the lack of segregation of duties and limited accounting knowledge of Company debt and equity transactions. Our management believes that these material weaknesses are due to the small size of our accounting staff. The small size of our accounting staff may prevent adequate controls in the future, such as segregation of duties, due to the high cost of such remediation relative to the benefit expected to be derived thereby.

To mitigate the current limited resources and limited employees, we rely heavily on direct management oversight of transactions, along with the use of external legal and accounting professionals. As we grow, we expect to increase our number of employees, which will enable us to implement adequate segregation of duties within the internal control framework. These control deficiencies could result in a misstatement of account balances that would result in a reasonable possibility that a material misstatement to our consolidated financial statements may not be prevented or detected on a timely basis. Accordingly, we have determined that these control deficiencies as described above together constitute a material weakness. In light of this material weakness, we performed additional analyses and procedures in order to conclude that our consolidated financial statements for the quarter ended June 30, 2017 included in this Quarterly Report on Form 10-Q were fairly stated in accordance with US GAAP. Accordingly, management believes that despite our material weaknesses, our financial statements for the quarter ended June 30, 2017 are fairly stated, in all material respects, in accordance with U.S. GAAP. This report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not required to attestation by our registered public accounting firm under section 404(a) of the Sarbanes-Oxley Act.

Limitations on Effectiveness of Controls and Procedures

Our management, including our Principal Executive Officer and Principal Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include, but are not limited to, the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Controls

During the quarter ended June 30, 2017, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company was not a party to pending legal proceedings during the six months ended June 30, 2017 that are material to the Company or its assets.

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

Recent Sales of Unregistered Securities

None.

Issuer Repurchases of Equity Securities

Neither Brekford Traffic Safety, Inc. nor any of its affiliated purchasers (as defined by Rule 10b-18 under the Exchange Act) purchased any shares of its common stock during the three months ended June 30, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits that are filed or furnished with this report are listed in the Exhibit Index, which immediately follows the signatures hereto, and that Exhibit Index is incorporated herein by reference.

SIGNATURES

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

Brekford Traffic Safety, Inc.

Date: August 14, 2017

By: /s/ Rodney Hillman

Rodney Hillman
President and Chief Operating Officer, Chief Financial Officer (Principal Executive Officer and Principal Financial Officer)

EXHIBIT INDEX

Exhibit Number	Description
10.1	Amended and Restated Agreement and Plan of Merger dated June 7, 2017(1).
31.1	Certification of Principal Executive Officer and 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 (filed herewith).
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase (filed herewith).
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith).

(1) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2017

Exhibit 31.1

Certifications of the Principal Executive Officer and 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

I, Rodney Hillman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Brekford 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. I am 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 my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared; and

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my 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; and

    c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report my 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. I have disclosed, based on my 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: August 14, 2017

By: /s/ Rodney Hillman

Rodney Hillman, Principal Executive Officer
and
Principal Financial Officer

Exhibit 32.1

Certification of Periodic Report
Pursuant to 18 U.S.C. Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, the undersigned hereby certifies that (i) the Quarterly Report of Brekford Corp. on Form 10-Q for the quarter ended June 30, 2017, as filed with the Securities and Exchange Commission (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the consolidated financial condition and results of operations of Brekford Corp.

Date: August 14, 2017

By: /s/ Rodney Hillman
Rodney Hillman, Principal Executive Officer
and
Principal Financial Officer