

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

## Novume Solutions, Inc.

Form: 10-Q

Date Filed: 2018-05-15

Corporate Issuer CIK: 1697851

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2018

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: 001-33883

**Novume Solutions, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

8742  
(Primary Standard Industrial  
Classification Code Number)

81-5266334  
(I.R.S. Employer Identification No.)

14420 Albemarle Point Place, Suite 200,  
Chantilly, VA, 20151  
(703) 953-3838

(Address, including ZIP code, and telephone number, including area code, of registrant's principal executive offices)

Corporation Trust Company  
1209 Orange Street  
Wilmington, DE 19801

(Name, address, including ZIP code, and telephone number, including area code, of registrant's agent for service)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of May 15, 2018 the Registrant had 14,531,697 shares of common stock, \$0.0001 par value per share outstanding.

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**Novume Solutions, Inc. and Subsidiaries**  
**Form 10-Q**  
**For the Quarterly Period Ended March 31, 2018**

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Novume Solutions, Inc. and Subsidiaries  
Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2018	December 31, 2017
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,184,389	\$ 1,957,212
Accounts receivable, net	5,696,108	6,707,294
Inventory	144,359	155,716
Note receivable	-	1,475,000
Other current assets	545,135	687,966
Total current assets	<u>8,569,992</u>	<u>10,983,188</u>
<b>Property and Equipment</b>		
Furniture and fixtures	219,616	211,885
Office equipment	526,016	524,131
Camera systems	500,286	462,399
Vehicles	28,520	10,020
Leasehold improvements	72,918	72,918
Total fixed assets	1,347,356	1,281,354
Less: accumulated depreciation	(715,052)	(633,014)
Net property and equipment	632,303	648,339
Goodwill	3,092,616	3,092,616
Intangibles, net	5,600,385	5,468,874
<b>Other Assets</b>		
Investment at cost	262,140	262,140
Deposits and other long-term assets	67,986	143,582
Total other assets	330,126	405,722
Total assets	<u>\$ 18,225,422</u>	<u>\$ 20,598,740</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,007,155	\$ 1,390,876
Accrued expenses	3,523,081	3,060,512
Lines of credit	2,141,425	3,663,586
Deferred revenue	157,826	117,636
Total current liabilities	<u>7,829,487</u>	<u>8,232,610</u>
<b>Long-Term Liabilities</b>		
Notes payable	1,414,182	1,405,994
Deferred rent	51,328	53,217
Total long-term liabilities	<u>1,465,510</u>	<u>1,459,211</u>
Total liabilities	<u>9,294,997</u>	<u>9,691,821</u>
Series A Cumulative Convertible Redeemable Preferred stock, \$0.0001 par value, 505,000 shares authorized and 502,327 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	4,551,923	4,396,580
<b>Stockholders' Equity</b>		
Common stock, \$0.0001 par value, 30,000,000 shares authorized, 14,496,697 and 14,463,364 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	1,450	1,447
Preferred stock, \$0.0001 par value, 2,000,000 authorized, 505,000 shares designated as Series A and 240,861 shares designated as Series B as of March 31, 2018 and December 31, 2017, respectively.	-	-
Series B Cumulative Convertible Preferred stock, \$0.0001 par value, 240,861 shares authorized, issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	2,408,610	2,408,610
Additional paid-in capital	10,177,854	9,933,940
Accumulated deficit	(8,209,412)	(5,833,659)
Total stockholders' equity	<u>4,378,502</u>	<u>6,510,338</u>
Total liabilities and stockholders' equity	<u>\$ 18,225,422</u>	<u>\$ 20,598,739</u>

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

**Novume Solutions, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Operations (Unaudited)**

	<b>For the Three Months ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenue	\$ 11,218,769	\$ 3,470,553
Cost of revenue	8,134,036	1,850,059
Gross profit	3,084,733	1,620,494
<b>Operating expenses</b>		
Selling, general, and administrative expenses	5,280,950	2,454,812
Loss from operations	(2,196,216)	(834,318)
Other expense		
Interest expense	(92,950)	(28,800)
Other income	95,322	-
Total other (expense) income	2,372	(28,800)
Loss before income taxes	(2,193,844)	(863,118)
Benefit from income taxes	-	318,801
Net loss	\$ (2,193,844)	\$ (544,317)
<b>Loss per common share - basic</b>		
	\$ (0.16)	\$ (0.12)
<b>Loss per common share - diluted</b>		
	\$ (0.16)	\$ (0.12)
<b>Weighted average shares outstanding</b>		
Basic	14,496,697	5,081,349
Diluted	14,496,697	5,081,349

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

**Novume Solutions, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Stockholders' Equity (Unaudited)**

	Shares of Common Stock	Common Stock	Shares of Series B Preferred Stock	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
<b>Balance as of December 31, 2017</b>	14,463,364	\$ 1,447	240,861	\$ 2,408,610	\$ 9,933,941	\$ (5,833,660)	\$ 6,510,338
Adjustment to adopt new accounting guidance							
Revenue recognition (1)	-	-	-	-	-	(67,000)	(67,000)
<b>Balance as of January 1, 2018</b>	14,463,364	\$ 1,447	240,861	\$ 2,408,610	\$ 9,933,941	\$ (5,900,660)	\$ 6,443,338
Stock-based compensation	-	-	-	-	112,455	-	112,455
Issuance of warrants	-	-	-	-	123,472	-	123,472
Net common stock issued in Secure Education							
Consultants acquisition	33,333	3	-	-	163,329	-	163,332
Preferred stock dividends	-	-	-	-	-	(114,908)	(114,908)
Accretion of Series A preferred stock	-	-	-	-	(155,343)	-	(155,343)
Net loss	-	-	-	-	-	(2,193,844)	(2,193,844)
<b>Balance as of March 31, 2018</b>	<u>14,496,697</u>	<u>\$ 1,450</u>	<u>240,861</u>	<u>\$ 2,408,610</u>	<u>\$10,177,854</u>	<u>\$ (8,209,412)</u>	<u>\$ 4,378,502</u>

(1) See Note 2 for additional information.

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

**Novume Solutions, Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (2,193,844)	\$ (544,317)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	82,039	37,474
Provision for losses on accounts receivable	-	24,000
Deferred taxes	-	(318,801)
Share-based compensation	112,455	83,001
Deferred financing costs	-	3,087
Deferred rent	(1,889)	(17,995)
Warrant expense	-	67,491
Change in fair value of derivative liability	(45,754)	-
Amortization of intangibles	255,294	-
Changes in operating assets and liabilities		
Accounts receivable	1,011,186	(778,750)
Inventory	11,357	-
Deposits	(23,600)	(8,051)
Prepaid expenses and other current assets	142,028	6,378
Accounts payable	616,278	459,088
Accrued expenses and other current liabilities	516,510	97,641
Deferred revenue	(26,810)	(20,176)
Net cash provided by (used in) operating activities	<u>455,250</u>	<u>(909,930)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of note receivable	1,475,000	-
Capital expenditures	(66,003)	(35,998)
Net cash used in investing activities	<u>1,408,997</u>	<u>(35,998)</u>
<b>Cash Flows from Financing Activities</b>		
Repayments of short-term borrowings	(1,522,162)	-
Acquisition of Firestorm - net of cash acquired	-	(417,704)
Net proceeds from issuance of preferred stock	-	1,801,340
Payment of preferred dividends	(114,908)	(70,409)
Net cash (used in) provided by financing activities	<u>(1,637,070)</u>	<u>1,313,227</u>
Net increase in cash and cash equivalents	227,177	367,299
Cash and cash equivalents at beginning of period	1,957,212	2,788,587
Cash and cash equivalents at end of period	<u>\$ 2,184,389</u>	<u>\$ 3,155,886</u>

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

**Novume Solutions, Inc. and Subsidiaries**  
**Notes to Condensed Consolidated Financial Statements (Unaudited)**  
**March 31, 2018 and 2017**

**NOTE 1 – NATURE OF OPERATIONS AND RECAPITALIZATION**

**Nature of Operations**

Novume Solutions, Inc. (the “Company” or “Novume”) was formed in February 2017 to effectuate the mergers of, and become a holding company for KeyStone Solutions, Inc. (“KeyStone”) and Brekford Traffic Safety, Inc. (“Brekford”). Our services are provided through seven wholly owned subsidiaries: AOC Key Solutions, Inc. (“AOC Key Solutions”); Firestorm Solutions, LLC and Firestorm Franchising, LLC (collectively referred to as “Firestorm”); Brekford; Global Technical Services, Inc. and Global Contract Professionals; Inc. (collectively referred to as “Global”); and Novume Media, Inc. (“Novume Media”).

For narrative purposes, Company and Novume references include AOC Key Solutions, Brekford, Firestorm and Global.

The financial statements for Novume prior to the merger with Brekford reflect the historical financial statements of KeyStone. The financial results of Brekford are included in the results of operations from August 28, 2017 through December 31, 2017. In this document, references to KeyStone are to KeyStone Solutions, Inc. prior to, and to KeyStone Solutions, LLC on and after, August 28, 2017 and references to Novume prior to August 28, 2017 are to KeyStone.

KeyStone was formed in March 2016 as a holding company for AOC Key Solutions, which is headquartered in Chantilly, Virginia. AOC Key Solutions provides consulting and technical support services to assist clients seeking U.S. Federal government contracts in the technology, telecommunications, defense, and aerospace industries.

On January 25, 2017, Novume acquired Firestorm (see Note 3), a nationally-recognized leader in crisis management, crisis communications, emergency response, and business continuity, including workplace violence prevention, cyber-breach response, communicable illness/pandemic planning, predictive intelligence, and other emergency, crisis and disaster preparedness initiatives. Firestorm is headquartered in Roswell, Georgia.

Brekford, headquartered in Hanover, Maryland, is a leading public safety technology service provider of fully-integrated automated traffic safety solutions, including speed, red light, move-over and distracted driving camera systems.

On October 1, 2017, Novume acquired Global (see Note 3). Global provides temporary contract professional and skilled labor to businesses throughout the United States. Contracts to provide such services vary in length, usually less than one year. Global’s corporate offices are located in Fort Worth, Texas.

On December 31, 2017 and January 1, 2018, respectively, Firestorm acquired certain assets of BC Management, Inc. (“BC Management”) and Secure Education Consultants, LLC (“Secure Education”), as described below (see Note 3). Results of operations for both BC Management and Secure Education have been included in the financial statements of Novume since January 1, 2018.



## NOTE 2 – NEW ACCOUNTING GUIDANCE

### Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued new revenue recognition guidance to provide a single, comprehensive revenue recognition model for all contracts with customers. Under the new guidance, an entity will recognize revenue at an amount that the entity expects to be entitled to receive in exchange for the transfer of promised goods or services to customers. A five-step model has been introduced for an entity to apply when recognizing revenue. The new guidance also includes enhanced disclosure requirements (see Note 4). The guidance was effective January 1, 2018. It was applied on a modified retrospective basis to contracts that were not completed at the date of initial application through a cumulative effect adjustment to accumulated deficit as of January 1, 2018. The prior period comparative information has not been recast and continues to be reported under the accounting guidance in effect for that period.

On January 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customers, using the modified retrospective method. Novume has aggregated and reviewed its contracts that are within the scope of Topic 606. Based on its evaluation, the adoption of Topic 606 did not have a material impact on the Company's balance sheet or related consolidated statements of operations, equity or cash flows. Therefore, prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605. The impact of adopting Topic 606 to the Company relate to: (1) a change to franchisee agreements recorded prior to 2017 of \$22,000 which will be amortized over remaining term of the franchisee agreements; and (2) the timing of certain contractual agreements which amounted \$45,000 and subsequently recognized as revenue in three months ended March 31, 2018. Revenue recognition related to the Company's other revenue streams will remain substantially unchanged.

## NOTE 3 – ACQUISITIONS

### Secure Education Consultants Acquisition

On January 1, 2018, Novume completed its acquisition of certain assets of Secure Education. Secure Education's security and safety experts provide customized emergency protocols and critical incident response training for schools and child care organizations, which will further augment the risk mitigation and crisis management services we provide to our clients through Firestorm. Consideration paid as part of this acquisition included: (a) \$99,197 in cash, (b) 33,333 shares of Novume common stock valued at \$163,332; (c) warrants to purchase 33,333 shares of Novume common stock, exercisable over a period of five years, at an exercise price of \$5.44 per share, valued at \$65,988 and (d) warrants to purchase 33,333 of Novume common stock, exercisable over a period of five years at an exercise price of \$6.53 per share, valued at \$57,484.

As the Secure Education acquisition has recently been completed, the Company is currently in the process of completing the preliminary purchase price allocation treating the Secure Education acquisition as a business combination. The final purchase price allocation for Secure Education will be included in the Company's financial statements in future periods. The table below shows preliminary analysis for the Secure Education asset purchase:

Cash paid	\$	99,197
Common stock issued		163,332
Warrants issued, at \$5.44		65,988
Warrants issued, at \$6.53		57,484
Total consideration		<u>386,001</u>
Less intangible and intellectual property		<u>(386,001)</u>
Net goodwill recorded	\$	<u>-</u>

## BC Management Acquisition

On December 31, 2017, Novume completed its acquisition of certain assets of BC Management through Firestorm. Consideration paid as part of this acquisition included: (a) \$100,000 in cash, (b) 33,333 shares of Novume common stock valued at \$163,332, and (c) 66,666 warrants to purchase Novume common stock valued at \$123,472.

The preliminary purchase price has been allocated to the assets acquired based on fair values as of the acquisition date.

The Company is currently in the process of completing the preliminary purchase price allocation as an acquisition of certain assets. The final purchase price allocation for BC Management will be included in the Company's financial statements in future periods. The table below shows preliminary analysis for the BC Management asset purchase:

Cash paid	\$	100,000
Common stock issued		163,332
Warrants issued, at \$5.44		65,988
Warrants issued, at \$6.53		57,484
Total consideration		386,804
Less intangible and intellectual property		(386,804)
Net goodwill recorded	\$	-

## Global Acquisition

On October 1, 2017, Novume completed its acquisition of Global by purchasing Global Technical Services, Inc. ("GTS") and Global Contract Professionals, Inc. ("GCP"). Consideration paid as part of the Global acquisition included: (a) \$750,000 in cash, (b) 375,000 shares of Novume common stock valued at \$566,288 and (c) 240,861 shares of Novume Series B Cumulative Convertible Preferred Stock (the "Novume Series B Preferred Stock") valued at \$2,408,610. In addition to the merger consideration, Novume paid \$365,037 to satisfy in full all of the outstanding debt of GTS and GCP at closing, except for certain intercompany debt and ordinary course debt, and amounts due under (a) the Secured Account Purchase Agreement dated August 22, 2012 by and between GTS and Wells Fargo Bank, National Association (the "GTS Wells Fargo Credit Facility") and (b) the Secured Account Purchase Agreement dated August 22, 2012 by and between GCP and Wells Fargo Bank, National Association (the "GCP Wells Fargo Credit Facility" and together with the GTS Wells Fargo Credit Facility, the "Wells Fargo Credit Facilities"), which have remained in effect following the consummation of the Global Acquisition. In connection with the Wells Fargo Credit Facilities, Novume delivered general continuing guaranties, dated September 29, 2017 to Wells Fargo Bank, National Association, guaranteeing the Guaranteed Obligations of GTS and GCP (as defined in the Wells Fargo Guaranty Agreements) under the Wells Fargo Credit Facilities, and paid \$175,000 in the aggregate to reduce the current borrowed amounts under the Wells Fargo Credit Facilities as of October 1, 2017. Additionally, Novume assumed \$2,462,276 of Global's liabilities.

As part of the Global acquisition, the Company issued 240,861 shares of \$0.0001 par value Novume Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock"). All Series B Preferred Stock was issued at a price of \$10.00 per share as part of the acquisition of Global. The Series B Preferred Stock is entitled to quarterly cash dividends of 1.12% (4.48% per annum) per share. The Series B Preferred Stock has a conversion price of \$5.00 per share. Each Series B Preferred Stock has an automatic conversion feature based on the share price of Novume (See Note 10). The Company measured the holdback consideration in April 2018 and determined that the contingent liability should be decreased by \$94,657. In accordance with ASC 805-10-25, a contingent consideration classified as an asset or liability shall be recognized in earnings, and \$94,657 was recognized as other income for the three months ended March 31, 2018. As of March 31, 2018 and December 31, 2017, the Company had \$105,343 and \$200,000, respectively, of holdback consideration included in accrued expenses.

The Company has completed its analysis of the purchase price allocation. The table below shows the final breakdown related to the Global acquisition:

Assets acquired	\$ 4,384,668
Liabilities acquired	(4,384,417)
Net assets acquired	251
Less intangible assets	2,574,000
Consideration paid (see below)	4,264,934
Net goodwill recorded	<u>\$ 1,690,683</u>
Cash consideration	\$ 550,000
Cash paid towards acquired liabilities	540,037
Total cash paid	1,090,037
Holdback consideration	200,000
Common stock consideration	566,288
Series B Preferred Stock consideration	2,408,610
Total acquisition consideration	<u>\$ 4,264,934</u>

The determination of the fair value of the assets acquired and liabilities assumed, includes approximately \$2.6 million of intangible and intellectual property and approximately \$1.6 million of goodwill.

#### **Brekford Acquisition**

On August 28, 2017, the mergers by and among Novume, KeyStone, Brekford, Brekford Merger Sub, Inc., and KeyStone Merger Sub, LLC, were consummated (the "Brekford Merger"). As a result, Brekford became a wholly-owned subsidiary of Novume, and Brekford Merger Sub ceased to exist. KeyStone Merger Sub, LLC also became a wholly-owned subsidiary of Novume, and KeyStone Solutions, Inc. ceased to exist. When KeyStone Merger Sub, Inc. filed its certificate of merger with the Secretary of State of the State of Delaware, it immediately effectuated a name-change to KeyStone Solutions, LLC, the name by which it is now known.

Upon completion of the Brekford Merger, the merger consideration was issued in accordance with the terms of the merger agreement. Immediately upon completion of the Brekford Merger, the pre-merger stockholders of KeyStone owned approximately 80% or 13,548,837 of the issued and outstanding capital stock of Novume on a fully-diluted basis, and the pre-merger stockholders of Brekford owned approximately 20% or 3,375,084 shares of the issued and outstanding capital stock of Novume on a fully-diluted basis.

The Company has completed its analysis of the purchase price allocation. The table below shows the final breakdown related to the Brekford acquisition:

Common stock issued	\$ 5,851,193
Total consideration	5,851,193
Less cash received	(1,943,778)
Less note receivable	(2,000,000)
Less other assets	(1,139,007)
Less intangible assets	(558,412)
Plus liabilities assumed	1,191,937
Net goodwill recorded	<u>\$ 1,401,933</u>

The determination of the fair value of the assets acquired and liabilities assumed, includes approximately \$0.6 million of intangible and intellectual property and approximately \$1.4 million of goodwill.

#### **Firestorm Acquisition**

On January 25, 2017 (the "Firestorm Closing Date"), Novume acquired Firestorm Solutions, LLC and Firestorm Franchising, LLC (collectively, the "Firestorm Entities").

## Membership Interest Purchase Agreement

Pursuant to the terms of the Membership Interest Purchase Agreement (the "MIPA"), by and among Novume, the Firestorm Entities, the Members of the Firestorm Entities (described below), and a newly-created acquisition subsidiary of Novume, Firestorm Holdings, LLC, a Delaware limited liability company ("Firestorm Holdings"), Novume acquired all of the membership interests in each of the Firestorm Entities for the following consideration:

- \$500,000 in cash in the aggregate paid by Novume as of the Firestorm Closing Date to the three principals (Harry W. Rhulen, Suzanne Loughlin, and James W. Satterfield, collectively the "Firestorm Principals") of Firestorm. Of that aggregate amount \$250,000 was paid to Mr. Satterfield, and \$125,000 was paid to each of Mr. Rhulen and Ms. Loughlin;
- \$1,000,000 in the aggregate in the form of four unsecured, subordinated promissory notes issued by Novume payable over five years after the Firestorm Closing Date, to all the Members of the Firestorm Entities (consisting of the Firestorm Principals and Lancer Financial Group, Inc. ("Lancer")). The principal amount of the note payable to Lancer is \$500,000 (the "Lancer Note"). The principal amount of the note payable to Mr. Rhulen is \$166,666.66. The principal amount of the notes payable to each of Mr. Satterfield and Ms. Loughlin is \$166,666.67. (The notes payable to Mr. Rhulen, Ms. Loughlin and Mr. Satterfield are individually referred to herein as a "Firestorm Principal Note" and collectively, as the "Firestorm Principal Notes"). The Firestorm Principal Notes are payable at an interest rate of 2% and the Lancer Note is payable at an interest rate of 7%. \$907,407 was recorded to notes payable to reflect the net fair value of the notes issued due to the difference in interest rates. The Lancer Note also has a capped subordination of \$7,000,000, subject to the consent of Lancer;
- Each of the Firestorm Principals was issued 162,698 (315,625 post Brekford Merger) shares of Novume common stock, par value \$0.0001 per share, for an aggregate issuance of 488,094 (946,875 post Brekford Merger) shares of Novume common stock;
- Each of the Firestorm Principals received warrants to purchase 54,233 (105,209 post Brekford Merger) Novume Common Shares, exercisable over a period of five years after the Firestorm Closing Date, at an exercise price of \$2.5744 per share; and
- Each of the Firestorm Principals received warrants to purchase 54,233 (105,209 post Brekford Merger) Novume Common Shares, exercisable over a period of five years after the Firestorm Closing Date, at an exercise price of \$3.6048 per share.

The Company has completed its analysis of the purchase price allocation. The table below shows the final breakdown related to the Firestorm acquisition:

Cash paid	\$	500,000
Notes payable issued		907,407
Common stock issued		976,286
Warrants issued, at \$2.58		125,411
Warrants issued, at \$3.61		102,289
Total consideration		2,611,393
Less cash received		(82,296)
Less other assets		(137,457)
Less intangible and intellectual property		(2,497,686)
Plus liabilities assumed		106,046
Net goodwill recorded	\$	-

The determination of the fair value of the assets acquired and liabilities assumed includes approximately \$2.5 million of intangible and intellectual property. In connection with the acquisition, Novume has also entered into employment agreements with three of the founders of the Firestorm Entities as set forth below.

### **Harry W. Rhulen Employment Agreement**

The Rhulen Employment Agreement provides that upon the Firestorm Closing Date his employment agreement will become effective for an initial five-year term as President of Novume Solutions, Inc. His base salary will be \$275,000 per annum, and he will be eligible for a bonus as determined by Novume's Compensation Committee. Mr. Rhulen will also be eligible to receive all such other benefits as are provided by Novume to other management employees that are consistent with Novume's fringe benefits available to any other officer or executive of Novume. Mr. Rhulen has been granted options to purchase 155,195 Novume Common Shares, which shall begin vesting on the one-year anniversary of the Firestorm Closing Date and continue vesting monthly over the following two years, at an exercise price of \$1.55 per share.

### **Suzanne Loughlin Employment Agreement**

The Loughlin Employment Agreement provides that upon the Firestorm Closing Date her employment agreement will become effective for an initial five-year term as General Counsel and Chief Administrative Officer of Novume Solutions, Inc. Her base salary will be \$225,000 per annum, and she will be eligible for a bonus as determined by Novume's Compensation Committee. Ms. Loughlin will also be eligible to receive all such other benefits as are provided by Novume to other management employees that are consistent with Novume's fringe benefits available to any other officer or executive of Novume. Ms. Loughlin has been granted options to purchase 155,195 Novume Common Shares, which shall begin vesting on the one-year anniversary of the Firestorm Closing Date and continue vesting monthly over the following two years, at an exercise price of \$1.55 per share.

### **James W. Satterfield Employment Agreement**

The Satterfield Employment Agreement provides that upon the Firestorm Closing Date his employment agreement will become effective for an initial five-year term as President and Chief Executive Officer of each of the Firestorm Entities. His base salary will be \$225,000 per annum, and he will be eligible for a bonus as determined by Novume's Compensation Committee. Mr. Satterfield will also be eligible to receive all such other benefits as are provided by Novume to other management employees that are consistent with Novume's fringe benefits available to any other officer or executive of Novume or its subsidiaries. Mr. Satterfield has been granted options to purchase 96,997 Novume Common Shares, which shall begin vesting on the one-year anniversary of the Firestorm Closing Date and continue vesting monthly over the following two years, at an exercise price of \$1.55 per share, in connection with the acquisition of Firestorm.

### **Operations of Combined Entities**

The following unaudited pro-forma combined financial information gives effect to the acquisition of Firestorm, the merger with Brekford and the acquisition of Global as if they were consummated as of January 1, 2017. The pro-forma financial information for the three months ended March 31, 2017 does not include BC Management and Secure Education as it was deemed immaterial. This unaudited pro-forma financial information is presented for information purposes only and is not intended to present actual operating results that would have been attained had the acquisitions been completed as of January 1, 2017 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	<b>Three Months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Revenues	\$ 11,218,769	\$ 10,854,678
Net loss	\$ (2,193,844)	\$ (1,203,713)
Basic earnings (loss) per share	\$ (0.16)	\$ (0.25)
Diluted earnings (loss) per share	\$ (0.16)	\$ (0.25)
Basic Number of Shares	14,496,697	5,081,349
Diluted Number of Shares	14,496,697	5,081,349

## **NOTE 4 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Novume, the parent company, and its wholly owned subsidiaries AOC Key Solutions, Inc., Brekford Traffic Safety Inc., Novume Media, Inc., Chantilly Petroleum, LLC, Firestorm Solutions, LLC, Firestorm Franchising, LLC, Global Technical Services Inc. and Global Contract Professionals, Inc.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in accordance with the accounting rules under Regulation S-X, as promulgated by the Securities and Exchange Commission ("SEC"). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

### **Cash Equivalents**

Novume considers all highly liquid debt instruments purchased with the maturity of three months or less to be cash equivalents.

### **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its clients' financial condition, and the Company generally does not require collateral.

Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in the determination include, among other factors, number of days an invoice is past due, client historical trends, available credit ratings information, other financial data and the overall economic environment. Collection agencies may also be utilized if management so determines.

The Company records an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. The Company also considers recording as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and the Company's assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. The balance in the allowance for doubtful accounts was \$24,000 at March 31, 2018 and December 31, 2017.

Accounts receivable at March 31, 2018 and December 31, 2017 included \$1,878,267 and \$1,259,089 in unbilled contracts respectively related to work performed in the period in which the receivable was recorded. The amounts were billed in the subsequent period.

### **Inventory**

Inventory principally consists of parts held temporarily until installed for service. 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 components and replacement parts.

### **Property and Equipment**

The cost of furniture and fixtures and office equipment is depreciated over the useful lives of the related assets. Leasehold improvements are amortized over the shorter of their estimated useful lives or the terms of the lease. Depreciation and amortization is recorded on the straight-line basis.

The range of estimated useful lives used for computing depreciation are as follows:

Furniture and fixtures	2 - 10 years
Office equipment	2 - 5 years
Leasehold improvements	3 - 15 years
Automobiles	3 - 5 years
Camera systems	3 years

Repairs and maintenance are expensed as incurred. expenditures for additions, improvements and replacements are capitalized. Depreciation expense for the three months ended March 31, 2018 and 2017 was \$82,039 and \$37,474, respectively.

### **Business Combination**

Management conducts a valuation analysis on the tangible and intangible assets acquired and liabilities assumed at the acquisition date thereof. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially established in connection with a business combination as of the acquisition date. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

Amounts paid for acquisitions are allocated to the tangible assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. We may also allocate a portion of the purchase price to the fair value of identifiable intangible assets. The fair value of identifiable intangible assets is based on detailed valuations that use information and assumptions provided by management. We allocate any excess purchase price over the fair value of the net tangible and intangible assets acquired to goodwill.

We recorded goodwill and intangible assets for the mergers and acquisitions that occurred in 2018 and 2017. The BC Management, Secure Education and Firestorm acquisitions were asset acquisitions, which created both book and tax bases in goodwill and non-goodwill intangible assets. Secure Education's acquisition resulted in \$0.4 million of non-goodwill intangible assets. BC Management's acquisition resulted in \$0.4 million of non-goodwill intangible assets. The Firestorm acquisition resulted in \$2.5 million of non-goodwill intangible assets. Brekford and Global were stock acquisitions and only have book basis in the goodwill and intangible assets. The fair value assigned to Brekford's intangible and goodwill is \$0.6 million and \$1.4 million, respectively. The Global Technical Services and Global Contract Professionals goodwill and intangible assets resulted in a fair value of \$1.7 million and \$2.6 million, respectively. As a result of a corresponding deferred tax liability, an adjustment was recorded to goodwill to account for the tax effect of the deferred tax liability in the year ended December 31, 2017. As discussed above, the fair value of BC Management and Secure Education assets may change and require subsequent adjustments.

### **Goodwill and Other Intangibles**

In applying the acquisition method of accounting, amounts assigned to identifiable assets and liabilities acquired were based on estimated fair values as of the date of acquisition, with the remainder recorded as goodwill. Identifiable intangible assets are initially valued at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Identifiable intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. Intangible assets with indefinite lives are tested for impairment within one year of acquisitions or annually as of December 1, and whenever indicators of impairment exist. The fair value of intangible assets are compared with their carrying values, and an impairment loss would be recognized for the amount by which a carrying amount exceeds its fair value.

Acquired identifiable intangible assets are amortized over the following periods:

<b>Acquired intangible Asset</b>	<b>Amortization Basis</b>	<b>Expected Life (years)</b>
Customer-Related	Straight-line basis	5-15
Marketing-Related	Straight-line basis	4
Technology-Based	In line with underlying cash flows or straight-line basis	3

### Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*.

The Company generates substantially all revenues from providing professional services to clients. A single contract could include one or multiple performance obligations. For those contracts that have multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on its relative standalone selling price, which is determined based on our overall pricing objectives, taking into consideration market conditions and other factors.

Revenue is recognized when control of the goods and services provided are transferred to our customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services using the following steps: 1) identify the contract; 2) identify the performance obligations; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue as or when the Company satisfies the performance obligations. The Company typically satisfies performance obligations for professional services over time as the related services are provided.

The Company generates revenues under three types of billing arrangements: time-and-expense; fixed-fee; and franchise fees.

Time-and-expense billing arrangements require the client to pay based on the number of hours worked by revenue-generating staff at agreed upon rates. The Company recognizes revenues under time-and-expense arrangements as the related services are provided, using the right to invoice practical expedient which allows us to recognize revenue in the amount that the Company has a right to invoice, based on the number of hours worked and the agreed upon hourly rates.

In fixed-fee billing arrangements, the Company agrees to a pre-established fee in exchange for a predetermined set of professional services or deliverables. The Company sets the fees based on our estimates of the costs and timing for completing the engagements. The Company generally recognizes revenues under fixed-fee billing arrangements using a proportionate performance approach, which is based on the cost of the work completed to-date versus our estimates of the total cost of the services to be provided under the engagement. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and can be reasonably estimated.

The Company collects initial franchise fees when franchise agreements are signed. The Company recognizes franchise fee revenue over the estimated life of the franchise, beginning with the opening of the franchise, which is when the Company has performed substantially all initial services required by the franchise agreement and the franchisee benefits from the rights afforded by the franchise agreement. Royalties from individual franchises are earned based upon the terms in the franchising agreement which are generally the greater of \$1,000 or 8% of the franchisee's monthly gross sales.

Expense reimbursements that are billable to clients are included in total revenues and cost of revenue.



The payment terms and conditions in our customer contracts vary. Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenues in the accompanying consolidated balance sheets. Revenues recognized for services performed, but not yet billed to clients, are recorded as unbilled services. Revenues recognized, but for which the Company has not yet been entitled to bill because certain events must occur, such as the completion of the measurement period or client approval, are recorded as contract assets and included within unbilled services. Client prepayments and retainers are classified as deferred revenues and recognized over future periods, as earned, in accordance with the applicable engagement agreement.

### **Advertising**

The Company expenses all advertising costs as incurred. Such costs were not material for the three months ended March 31, 2018 and 2017.

### **Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual amounts may differ from these estimates. On an on-going basis, the Company evaluates its estimates, including those related to collectability of accounts receivable, fair value of debt and equity instruments and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

### **Income Taxes**

We use the liability method of accounting for income taxes as set forth in the authoritative guidance for accounting for income taxes. This method requires an asset and liability approach for the recognition of deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management has evaluated the recoverability of the net deferred income tax assets and the level of the valuation allowance required with respect to such net deferred income tax assets. After considering all available facts, the Company fully reserved for its net deferred tax assets because management believes that it is more likely than not that their benefits will not be realized in future periods. The Company will continue to evaluate its net deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's net deferred income tax assets satisfy the realization standard, the valuation allowance will be reduced accordingly.

The tax effects of uncertain tax positions are recognized in the consolidated financial statements only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized. It is our accounting policy to account for ASC 740-10-related penalties and interest as a component of the income tax provision in the consolidated statements of operations.

As of March 31, 2018, our evaluation revealed no uncertain tax positions that would have a material impact on the financial statements. The 2014 through 2017 tax years remain subject to examination by the IRS, as of March 31, 2018. Our management does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

## Tax Cut and Jobs Act

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Act") was enacted, which changes U.S. tax law and includes various provisions that impact our company. The 2017 Act effects our company by (i) changing U.S. tax rates, (ii) increasing the Company's ability to utilize accumulated net operating losses generated after December 31, 2017 and (iii) limiting the Company's ability to deduct interest.

### Equity-Based Compensation

The Company recognizes equity-based compensation based on the grant-date fair value of the award on a straight-line basis over the requisite service period, net of estimated forfeitures. Total equity-based compensation expense included in selling, general and administrative expenses in the accompanying consolidated statements of operations for the three months ended March 31, 2018 and 2017 was \$112,455 and \$83,001, respectively.

The Company estimates the fair value of stock options using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires the use of subjective assumptions, including the fair value and projected volatility of the underlying common stock and the expected term of the award.

The fair value of each option granted has been estimated as of the date of the grant using the Black-Scholes option pricing model with the assumptions below during the three months ended March 31, 2017. No options were issued during the three months ended March 31, 2018.

	<u>Three Months Ended March 31, 2017</u>
Risk-free interest rate	1.00% - 2.17%
Expected term	0.3 – 6.1 years
Volatility	70%
Dividend yield	0%
Estimated annual forfeiture rate at time of grant	0% - 30%

*Risk-Free Interest Rate* – The yield on actively traded non-inflation indexed U.S. Treasury notes with the same maturity as the expected term of the underlying grants was used as the average risk-free interest rate.

*Expected Term* – The expected term of options granted was determined based on management's expectations of the options granted which are expected to remain outstanding.

*Expected Volatility* – Because the Company's common stock has only been publicly traded since late August 2017, there is not a substantive share price history to calculate volatility and, as such, the Company has elected to use the calculated value method.

*Dividend Yield* – The Black-Scholes option pricing model requires an expected dividend yield as an input. The Company has not issued common stock dividends in the past nor does the Company expect to issue common stock dividends in the future.

*Forfeiture Rate* – This is the estimated percentage of equity grants that are expected to be forfeited or cancelled on an annual basis before becoming fully vested. The Company estimates the forfeiture rate based on past turnover data, level of employee receiving the equity grant, and vesting terms, and revises the rate if subsequent information indicates that the actual number of instruments that will vest is likely to differ from the estimate. The cumulative effect on current and prior periods of a change in the estimated number of awards likely to vest is recognized in compensation cost in the period of the change.

## Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable and accounts payable approximate fair value as of March 31, 2018 and December 31, 2017 because of the relatively short-term maturity of these financial instruments. The carrying amount reported for long-term debt approximates fair value as of March 31, 2018, given management's evaluation of the instrument's current rate compared to market rates of interest and other factors.

The determination of fair value is based upon the fair value framework established by Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. ASC 820 also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value (listed from low to high):

*Level 1* – Quoted prices in active markets for identical assets or liabilities.

*Level 2* – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

*Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Company determined that the value of the remaining balance of the note receivable at December 31, 2017 approximated its recorded value and the Company sold the note in February 2018 for proceeds of \$1,400,000. The Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis using Level 3 inputs.

The Company has concluded that its Series A Preferred Stock is a Level 3 financial instrument and that the fair value approximates the carrying value due to the proximity of the date of the sale of the Series A Preferred Stock to independent third-parties. There were no changes in levels during the three months ended March 31, 2018.

## Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, and accounts receivable. Concentrations of credit risk with respect to accounts receivable are minimal due to the collection history and due to the nature of the Company's client base. The Company limits its credit risk with respect to cash by maintaining cash balances with high-quality financial institutions. At times, the Company's cash may exceed U.S. Federally insured limits, and as of March 31, 2018 and December 31, 2017, the Company had \$1,934,389 and \$1,707,212, respectively, of cash and cash equivalents on deposit that exceeded the federally insured limit.

## Earnings per Share

Basic earnings per share, or EPS, is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common and potentially dilutive securities outstanding during the period, except for periods of net loss for which no potentially dilutive securities are included because their effect would be anti-dilutive. Potentially dilutive securities consist of common stock issuable upon exercise of stock options or warrants using the treasury stock method. Potentially dilutive securities issuable upon conversion of the Series A Preferred Stock and Series B Preferred Stock are calculated using the if-converted method.

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. Participating securities consist of preferred stock that contain a non-forfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common stockholders.

On August 28, 2017, the Company effected a 1.9339-to-1 stock exchange related to the Brekford Merger. The per share amounts have been updated to show the effect of the exchange on earnings per share as if the exchange occurred at the beginning of both years for the quarterly financial statements of the Company.

### **Segment Reporting**

The Financial Accounting Standards Board ("FASB") ASC Topic 280, *Segment Reporting*, requires that an enterprise report selected information about reportable segments in its financial reports issued to its stockholders. Based on its analysis of current operations, management has determined that the Company has only one operating segment, which is Novume. Management will continue to reevaluate its segment reporting as the Company grows and matures. However, the chief operating decision-makers currently use combined results to make operating and strategic decisions, and, therefore, the Company believes its entire operation is currently covered under a single reportable segment.

### **Going Concern Assessment**

Beginning with the year ended December 31, 2017 and all annual and interim periods thereafter, management will assess going concern uncertainty in the Company's consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued or available to be issued, which is referred to as the "look-forward period", as defined in GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections, estimates and will make certain key assumptions, including the timing and nature of projected cash expenditures or programs, its ability to delay or curtail expenditures or programs and its ability to raise additional capital, if necessary, among other factors. Based on this assessment, as necessary or applicable, management makes certain assumptions around implementing curtailments or delays in the nature and timing of programs and expenditures to the extent it deems probable those implementations can be achieved and management has the proper authority to execute them within the look-forward period.

The Company has generated losses since its inception in August 2017 and has relied on cash on hand, external bank lines of credit and the sale of a note to support cashflow from operations. The Company attributes losses to merger costs, public company corporate overhead and investments made by some of our subsidiary operations. As of and for the three months ended March 31, 2018, the Company had a net loss of approximately \$2.2 million and positive working capital of approximately \$0.7 million. The Company's cash position was increased in April 2018 by the receipt of \$2 million related to the issuance of a promissory note. Management believes that based on relevant conditions and events that are known and reasonably knowable that its forecasts, for one year from the date of the filing of the consolidated financial statements in this Quarterly Report on Form 10-Q, indicate improved operations and the Company's ability to continue operations as a going concern. The Company has contingency plans to reduce or defer expenses and cash outlays should operations not improve in the look-forward period.

## New Accounting Pronouncements

### Recently Issued Accounting Pronouncements

#### Not Yet Adopted

In August 2017, the FASB issued new guidance related to accounting for hedging activities. This guidance expands strategies that qualify for hedge accounting, changes how many hedging relationships are presented in the financial statements and simplifies the application of hedge accounting in certain situations. The standard will be effective for us beginning July 1, 2019, with early adoption permitted for any interim or annual period before the effective date. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. The Company is currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

In May 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-09, *Compensation - Stock Compensation: Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. The update is effective for fiscal year 2019. The update is to be adopted prospectively to an award modified on or after the adoption date. Early adoption is permitted. The Company is currently evaluating the effect of this update but does not believe it will have a material impact on its financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*. To simplify the subsequent measurement of goodwill, the update requires only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value. A qualitative assessment may still be completed first for an entity to determine if a quantitative impairment test is necessary. The update is effective for fiscal year 2021 and is to be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company will test goodwill for impairment within one year of the acquisition or annually as of December 1, and whenever indicators of impairment exist.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*, as part of its simplification initiatives. The update requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than deferring the recognition until the asset has been sold to an outside party as is required under current GAAP. The update is effective for fiscal year 2019. The new standard will require adoption on a modified retrospective basis through a cumulative-effect adjustment to retained earnings, and early adoption is permitted. The Company is currently evaluating the effect that this update will have on its financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years; earlier adoption is permitted. In the financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. Practical expedients are available for election as a package and if applied consistently to all leases. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial condition, results of operations and cash flows.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2019. We are currently in the process of evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

There are currently no other accounting standards that have been issued, but not yet adopted, that will have a significant impact on the Company's consolidated financial position, results of operations or cash flows upon adoption.

#### *Recently Adopted*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as a new Topic, ASC Topic 606, which supersedes existing accounting standards for revenue recognition and creates a single framework. Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

- ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017.
- ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*, which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).
- ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements.
- ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which clarifies the implementation guidance in a number of other areas.

The underlying principle is to use a five-step analysis of transactions to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard permits the use of either a retrospective or modified retrospective application. ASU 2014-09 and ASU 2016-12 are effective for annual reporting periods beginning after December 15, 2017.

On January 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customers, using the modified retrospective method. Novume has aggregated and reviewed its contracts that are within the scope of Topic 606. Based on its evaluation, Novume does not anticipate the adoption of Topic 606 will have a material impact on its balance sheet or related consolidated statements of operations, equity or cash flows. The impact of adopting Topic 606 to the Company relate to: (1) a change to franchisee agreements recorded prior to 2017; and (2) the timing of certain contractual agreements, which the Company deemed as immaterial. Revenue recognition related to the Company's other revenue streams will remain substantially unchanged.

#### **NOTE 5 – INVESTMENT AT COST AND NOTES RECEIVABLE**

On February 6, 2017, prior to the Brekford Merger, Brekford entered into a Contribution and Unit Purchase Agreement (the "CUP Agreement") with LB&B Associates Inc. ("LB&B") and Global Public Safety, LLC ("GPS").

The closing for the transaction set forth in the CUP Agreement occurred on February 28, 2017 (the “GPS Closing”) and on such date the Company contributed substantially all of the assets and certain liabilities related to its vehicle services business to GPS. On the GPS Closing, the Company sold units representing 80.1% of the units of GPS to LB&B 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 LB&B issuing the Company a promissory note receivable (the “GPS Promissory Note”). After the GPS Closing, the Company continues to own 19.9% of the units of GPS after the transaction. The Company is accounting for this as an investment at cost.

The GPS Promissory Note (\$2,000,000) is subordinated to the LB&B’s senior lender and accrues interest at a rate of 3% per annum. The maturity date of the GPS Promissory Note is March 31, 2022. The GPS 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 GPS Promissory Note was secured pursuant to the terms of a Pledge Agreement (the “LB&B Pledge Agreement”) between the Company and LB&B. Pursuant to the LB&B Pledge Agreement LB&B, granted the Company a continuing second priority lien and security interest in the LB&B’s units of GPS subject to liens of the LB&B’s senior lender. In December 2017, the Company reclassified the note receivable balance to a current asset and wrote down \$450,000 based on the decision to sell the note receivable to an unrelated third party. The current portion of note receivable was \$1,475,000 as of December 31, 2017. The sale was consummated on February 13, 2018 and the Company received proceeds of \$1,475,000 in the three months ended March 31, 2018. In connection with the sale of the GPS Promissory Note, the Company has indemnified the unrelated third-party buyer for any amounts of principal and interest not paid by LB&B.

**NOTE 6 – IDENTIFIABLE INTANGIBLE ASSETS**

The following provides a breakdown of identifiable intangible assets as of March 31, 2018:

	<b>Customer Relationships</b>	<b>Marketing Related</b>	<b>Technology Based</b>	<b>Total</b>
Identifiable intangible assets, gross	\$ 5,588,677	\$ 730,000	\$ 83,412	\$ 6,402,089
Accumulated amortization	(703,867)	(97,837)	-	(801,704)
Identifiable intangible assets, net	<u>\$ 4,884,810</u>	<u>\$ 632,163</u>	<u>\$ 83,412</u>	<u>\$ 5,600,385</u>

In connection with the acquisition of Firestorm, Global and Brekford, the Company identified intangible assets of \$2,497,686, \$2,574,000 and \$558,412, respectively, representing trade names, customer relationships and technology. In addition, as of December 31, 2017, intangibles attributable to the asset acquisition of BC Management totaled \$386,804, and as of January 1, 2018, intangibles attributable to the asset acquisition of Secure Education totaled \$386,001. These assets are being amortized on a straight-line basis over their weighted average estimated useful life of 8.1 years. Amortization expense for the three months ended March 31, 2018 and 2017 was \$255,294 and \$0, respectively.

As of March 31, 2018, the estimated annual amortization expense for each of the next five fiscal years is as follows:

2018 (remainder of year)	\$ 779,784
2019	1,048,980
2020	1,048,980
2021	982,876
2022	238,155
Thereafter	1,501,610
<b>Total</b>	<b>\$ 5,600,385</b>

**NOTE 7 – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Supplemental disclosures of cash flow information for the three months ended March 31, 2018 and 2017 was as follows:

	<b>For the Three Months Ended</b>	
	<b>2018</b>	<b>2017</b>
Cash paid for interest	\$ 59,857	\$ 18,750
Cash paid for taxes	\$ -	\$ -
Warrants issued in connection with note payable	\$ -	\$ -
Warrants issued in connection with issuance of Series A Preferred Stock	\$ -	\$ 67,491
<b>Business Combinations:</b>		
Current Assets	\$ -	\$ 136,406
Intangible assets	\$ 386,801	\$ 2,498,737
Assumed liabilities	\$ -	\$ (66,968)
Deferred revenue	\$ -	\$ (22,493)
Other non-current liabilities	\$ -	\$ (16,584)
Issuance of common stock	\$ (163,332)	\$ (1,203,986)
Notes payable	\$ -	\$ (907,407)
Issuance of common stock warrants	\$ (123,472)	\$ -

On April 7, 2017, Novume paid cash dividends of \$76,695 to shareholders of record of Series A Preferred Stock as of March 30, 2017. On July 8, 2017, the Company paid cash dividends of \$87,907 to shareholders of record of Series A Preferred Stock as June 30, 2017. On October 7, 2017, the Company paid cash dividends of \$87,907 to shareholders of record of Series A Preferred Stock as September 30, 2017. On January 5, 2018, the Company paid cash dividends of \$87,907 to shareholders of record of Series A Preferred Stock as of December 31, 2017. On January 5, 2018, the Company paid cash dividends of \$27,001 to shareholders of record of Series B Preferred Stock as of December 31, 2017. On March 31, 2018, the Company declared and accrued dividends of \$87,907 payable to Series A Preferred Stock shareholders of record as of March 31, 2018. On March 31, 2018, the Company declared and accrued dividends of \$27,001 payable to Series B Preferred Stock shareholders of record as of March 31, 2018.



## NOTE 8 – DEBT

### Line of Credit

Global has revolving lines of credit with Wells Fargo Bank, National Association (“WFB”) (“the Global Wells Agreements”). WFB agreed to advance to Global, 90% of all eligible accounts with a maximum facility amount of \$5,000,000. Interest is payable under the Global Wells Agreements at a monthly rate equal to the Three-Month LIBOR in effect from time to time plus 3% plus the Margin. The Margin is 3%. Payment of the revolving lines of credit is secured by the accounts receivable of Global. The current terms of the Global Wells Agreements run through December 31, 2018, with automatic renewal terms of 12 months. WFB or Global may terminate the Global Wells Agreements upon at least 60 days’ written notice prior to the last day of the current term. The principal balance at March 31, 2018 and December 31, 2017 was \$1,557,214 and \$2,057,259, respectively. As part of the lines of credit agreements, Global must maintain certain financial covenants. Global met all financial covenant requirements for the three months ended March 31, 2018.

On November 12, 2017, AOC Key Solutions entered into an Account Purchase Agreement and related agreements (the “AOC Wells Agreement”) with WFB. Pursuant to the Agreement, AOC Key Solutions agreed to sell and assign to WFB all of its Accounts (as such term is defined in Article 9 of the Uniform Commercial Code), constituting accounts arising out of sales of Goods (as such term is defined in Article 9 of the Uniform Commercial Code) or rendition of services that WFB deems to be eligible for borrowing under the AOC Wells Agreement. WFB agreed to advance to AOC Key Solutions, 90% of all eligible accounts with a maximum facility amount of \$3,000,000. Interest is payable under the AOC Wells Agreement at a monthly rate equal to the Daily One Month LIBOR in effect from time to time plus 5% (the “Contract Rate”). The AOC Wells Agreement also provides for a deficit interest rate equal to the then applicable interest rate plus 50% of the Contract Rate and a default interest rate equal to the then applicable interest rate or deficit interest rate, plus 50% of the Contract Rate. The initial term of the AOC Wells Agreement runs through December 31, 2018 (the “Initial Term”), with automatic renewal terms of 12 months (the “Renewal Term”), commencing on the first day after the last day of the Initial Term. AOC Key Solutions may terminate the AOC Wells Agreement upon at least 60 days’ prior written notice, but no more than 120 days’ written notice, prior to and effective as of the last day of the Initial Term or a Renewal Term, as the case may be. WFB may terminate the AOC Wells Agreement at any time and for any reason upon 30 days’ written notice or without notice upon the occurrence of an Event of Default (as such term is defined in the AOC Wells Agreement) after the expiration of any grace or cure period. The principal balance at March 31, 2018 and December 31, 2017 was \$584,211 and \$1,606,327, respectively. As part of the line of credit agreement, AOC Key Solutions must maintain certain financial covenants. AOC Key Solutions met all financial covenant requirements for the three months ended March 31, 2018.

### Long-Term Debt

On March 16, 2016, Novume entered into a Subordinated Note and Warrant Purchase Agreement (the “Avon Road Note Purchase Agreement”) pursuant to which Novume agreed to issue up to \$1,000,000 in subordinated debt (the “Avon Road Note”) and warrants to purchase up to 242,493 shares of Novume’s common stock (“Avon Road Subordinated Note Warrants”). The exercise price for the Avon Road Subordinated Note Warrants is equal to \$1.031 per share of common stock. Subordinated notes with a face amount of \$500,000 and Avon Road Subordinated Note Warrants to purchase 121,247 shares of Novume’s common stock have been issued pursuant to the Avon Road Note Purchase Agreement to Avon Road Partners, L.P. (“Avon Road”), an affiliate of Robert Berman, Novume’s CEO and a member of Novume’s Board of Directors. The Avon Road Subordinated Note Warrants had an expiration date of March 16, 2019 and qualified for equity accounting as the warrants did not fall within the scope of ASC Topic 480, *Distinguishing Liabilities from Equity*. The fair value was determined to be \$58,520 and was recorded as a debt discount and additional paid-in capital in the 2016 consolidated financial statements. The debt discount is being amortized as interest expense on a straight-line basis through the maturity date of the note payable.

The Avon Road Note accrues simple interest on the unpaid principal at a rate equal to the lower of (a) 9% per annum, or (b) the highest rate permitted by applicable law. Interest is payable monthly, and the note is to mature on March 16, 2019.

Pursuant to the terms of the Novume acquisition of the membership interests in the Firestorm Entities, the Company issued \$1,000,000 in the aggregate in the form of four unsecured, subordinated promissory notes issued by Novume with interest payable over five years after the Firestorm Closing Date, to all the Members of the Firestorm Entities. The principal amount of the note payable to Lancer is \$500,000. The principal amount of the note payable to Mr. Rhulen is \$166,666.66. The principal amount of the notes payable to each of Mr. Satterfield and Ms. Loughlin is \$166,666.67. The Firestorm Principal Notes are payable at an interest rate of 2% and the Lancer Note is payable at an interest rate of 7%. The notes mature on January 25, 2022. As of March 31, 2018 and December 31, 2017, the balance of these notes payable was \$929,012 and \$924,383, net of unamortized interest of \$70,988 and \$75,617, respectively.

The principal amounts due for long-term notes payable are shown below:

2018	\$	-
2019		500,000
2020		-
2021		-
2022		1,000,000
Thereafter		-
Total	\$	<u>1,500,000</u>
Less unamortized interest		(70,988)
Less unamortized financing costs		(14,830)
Long-term debt	\$	<u><u>1,414,182</u></u>

#### NOTE 9 – INCOME TAXES

Our income tax provision in our first quarter of 2018 was \$0, compared to a benefit of \$0.3 million in our first quarter of fiscal year 2017. The decrease in the tax benefit recorded is due to the full valuation allowance on our deferred tax assets. The Company established a valuation allowance against deferred tax assets during 2017 and has continued to maintain a full valuation allowance through the first quarter of 2018; therefore, there was no tax benefit recognized for the losses incurred in the first quarter of 2018.

The Company files income tax returns in the United States and in various state and foreign jurisdictions. No U.S. Federal, state or foreign income tax audits were in process as of March 31, 2018.

Management has evaluated the recoverability of the net deferred income tax assets and the level of the valuation allowance required with respect to such net deferred income tax assets. After considering all available facts, the Company fully reserved for its net deferred tax assets because management believes that it is not more likely than not that their benefits will be realized in future periods. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's net deferred income tax assets satisfy the realization standard, the valuation allowance will be reduced accordingly.

For the three months ended March 31, 2018, Novume did not record any interest or penalties related to unrecognized tax benefits. It is the Company's policy to record interest and penalties related to unrecognized tax benefits as part of income tax expense. The 2014 through 2017 tax years remain subject to examination by the IRS.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "2017 Act") was enacted, which changes U.S. tax law and includes various provisions that impact our company. The 2017 Act effects our company by (i) changing U.S. tax rates, (ii) increasing the Company's ability to utilize accumulated net operating losses generated after December 31, 2017, and (iii) limits the Company's ability to deduct interest.

## NOTE 10 – STOCKHOLDERS' EQUITY

### Common Stock

The Company is authorized to issue 30,000,000 shares of common stock, \$0.0001 par value. As of March 31, 2018 and December 31, 2017, the issued and outstanding common shares of Novume were 14,496,697 and 14,463,364, respectively.

In January 2018, the Company issued 33,333 shares of Novume common stock as consideration as part of its acquisition of Secure Education.

### Preferred Stock

The Company is authorized to issue up to 2,000,000 shares of preferred stock, \$0.0001 par value. The Company's preferred stock may be entitled to preference over the common stock with respect to the distribution of assets of the Company in the event of liquidation, dissolution or winding-up of the Company, whether voluntarily or involuntarily, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of the winding-up of its affairs. The authorized but unissued shares of the preferred stock may be divided into, and issued in, designated series from time to time by one or more resolutions adopted by the Board of Directors of the Company. The Board of Directors of the Company, in its sole discretion, has the power to determine the relative powers, preferences and rights of each series of preferred stock.

#### *Series A Cumulative Convertible Redeemable Preferred Stock*

Of the 2,000,000 authorized shares of preferred stock, 500,000 shares were initially designated as \$0.0001 par value Series A Cumulative Convertible Redeemable Preferred Stock (the "Series A Preferred Stock"). The number of designated shares of the Series A Preferred Stock was increased to 505,000 shares on March 20, 2017.

In November 2016, Novume commenced its Regulation A Offering (the "Reg A Offering") of up to 3,000,000 Units. Each Unit (post merger exchange) consisted of one share of Series A Preferred Stock and one Unit Warrant to purchase 0.48 shares of the Novume's common stock at an exercise price of \$1.03 per share. The Series A Preferred Stock holders are entitled to quarterly dividends of 7.0% per annum per share.

The Series A Preferred Stock holders have a put right to convert each share into common stock at an initial conversion price and a specified price which increases annually based on the passage of time beginning in November 2019. The Series A Preferred Stock holders also have a put right after 60 months from the issuance date to redeem any or all of the Series A Preferred Stock at a redemption price of \$15.00 per share plus any accrued but unpaid dividends. Novume has a call right after 36 months from the issuance date to redeem all of the Series A Preferred Stock at a redemption price which increases annually based on the passage of time beginning in November 2019. The Series A Preferred Stock contains an automatic conversion feature based on a qualified initial public offering in excess of \$30,000,000 or a written agreement by at least two-thirds of the Series A Preferred Stock holders at an initial conversion price and a specified price which increases annually based on the passage of time beginning in November 2016. Based on the terms of the Series A Preferred Stock, the Company concluded that the Series A Preferred Stock should be classified as temporary equity in the accompanying consolidated balance sheets as of March 31, 2018 and December 31, 2017.

The Reg A Offering Units were sold at \$10 per Unit in minimum investment amounts of \$5,000. There were three closings related to the sales of the Units. The gross proceeds, which the Company deemed to be fair value, from the first closing on December 23, 2016 totaled \$3,015,700 with the issuance of 301,570 shares of Series A Preferred Stock and 301,570 Unit Warrants. On January 23, 2017, the Company completed its second closing of the Offering for the issuance of 119,757 shares of Series A Preferred Stock and 119,757 Unit Warrants with the Company receiving aggregate gross proceeds of \$1,197,570.

On March 20, 2017, the Company increased the total number of designated shares of the Series A Preferred Stock from 500,000 to 505,000 shares.

On March 21, 2017, the Company completed its third and final closing of the Reg A Offering. The third and final sale of 81,000 shares of Series A Preferred Stock and 81,000 Unit Warrants with the Company receiving aggregate gross proceeds of \$810,000.

The aggregate total sold in the Reg A Offering through and including the third and final closing was 502,327 Units, or 502,327 shares of Series A Preferred Stock and 502,327 Unit Warrants, for total gross proceeds to the Company of \$5,023,270. The Reg A Offering is now closed.

Novume adjusts the value of the Series A Preferred Stock to redemption value at the end of each reporting period. The adjustment to the redemption value is recorded through additional paid in capital of \$155,343 and \$108,046 for the three months ended March 31, 2018 and 2017, respectively.

As of March 31, 2018 and December 31, 2017, 502,327 shares of Series A Preferred Stock were issued and outstanding.

The Series A Preferred Stock is entitled to quarterly cash dividends of \$0.175 (7% per annum) per share. On December 31, 2017, the Company declared and accrued dividends of \$87,907 payable to Series A shareholders of record as of December 31, 2017. On January 5, 2018, the Company paid cash dividends of \$87,907 to Series A shareholders of record as of December 31, 2017. On March 31, 2018, the Company declared and accrued dividends of \$87,907 payable to Series A shareholders of record as of March 31, 2018. On April 6, 2018, the Company paid cash dividends of \$87,907 to Series A shareholders of record as of March 31, 2018.

The Unit Warrants expire on November 8, 2023. The Unit Warrants are required to be measured at fair value at the time of issuance and classified as equity. The Company determined that under the Black-Scholes option pricing model, the aggregate fair value at the dates of issuance was \$169,125. As of March 31, 2018 and December 31, 2017, 502,327 Unit Warrants were outstanding.

### ***Series B Cumulative Convertible Preferred Stock***

Of the 2,000,000 authorized shares of preferred stock, 240,861 shares are designated as \$0.0001 par value Novume Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock"). As part of the Global Merger, the Company issued 240,861 shares of \$0.0001 par value Series B Preferred Stock. All Series B Preferred Stock was issued at a price of \$10.00 per share as part of the acquisition of the Global Merger. The Series B Preferred Stock has a conversion price of \$5.00 per share. Each Series B Preferred Stock has an automatic conversion feature based on the share price of Novume. The Series B Preferred Stock is entitled to quarterly cash dividends of 1.121% (4.484% per annum) per share. On December 31, 2017, the Company declared and accrued dividends of \$27,001 payable to Series B shareholders of record as of December 31, 2017. On January 5, 2018, the Company paid cash dividends of \$27,001 to Series B shareholders of record as of December 31, 2017. On March 31, 2018, the Company declared and accrued dividends of \$27,001 payable to Series B shareholders of record as of March 31, 2018. On April 6, 2018, the Company paid cash dividends of \$27,001 to Series B shareholders of record as of March 31, 2018.

### **Warrants**

The Company has a total of 1,322,913 and 1,256,247 warrants issued and outstanding as of March 31, 2018 and December 31, 2017, respectively. These warrants are exercisable and convertible for a total of 1,064,241 and 997,575 shares of Novume common stock as of March 31, 2018 and December 31, 2017, respectively.

As part of its acquisition of Brekford on August 29, 2017, the Company assumed warrants to purchase 56,000 shares of Novume common stock (See Note 10). The exercise price for these warrants is \$7.50 and they expire on March 31, 2020. As of March 31, 2018 and December 31, 2017, there are 56,000 Brekford warrants outstanding.

As part of the Reg1A offering in fiscal year 2016 and 2017, Novume issued 502,327 Unit Warrants to the Series A Preferred Stock holders. The exercise price for these Unit Warrants is \$1.03 and they are convertible into a total of 243,655 shares of Novume common stock. The Unit Warrants expire on November 23, 2023. As of March 31, 2018 and December 31, 2017, there are 502,327 Unit Warrants outstanding.

On March 16, 2016, Novume entered into a Subordinated Note and Warrant Purchase Agreement (the "Avon Road Note Purchase Agreement") pursuant to which Novume agreed to issue up to \$1,000,000 in subordinated debt and warrants to purchase up to 242,493 shares of Novume's common stock ("Avon Road Subordinated Note Warrants"). The exercise price for the Avon Road Subordinated Note Warrants is equal to \$1.031 per share of common stock. Subordinated notes with a face amount of \$500,000 and Avon Road Subordinated Note Warrants to purchase 121,247 shares of Novume's common stock have been issued pursuant to the Avon Road Note Purchase Agreement to Avon Road Partners, L.P. ("Avon Road"), an affiliate of Robert Berman, Novume's CEO and a member of Novume's Board of Directors. These warrants were exercised on December 11, 2017 for proceeds of \$125,006 and there are no Avon Road Subordinated Note Warrants outstanding as of March 31, 2018 and December 31, 2017.

Pursuant to its acquisition of Firestorm on January 24, 2017, Novume issued warrants to purchase 315,627 Novume common stock, exercisable over a period of five years, at an exercise price of \$2.5744 per share; and warrants to purchase 315,627 Novume Common Shares, exercisable over a period of five years at an exercise price of \$3.6048 per share. The expiration date of the Firestorm warrants is January 24, 2022. As of March 31, 2018 and December 31, 2017, there are 631,254 Firestorm warrants outstanding.

Pursuant to its acquisition of BC Management on December 31, 2017, Novume issued warrants to purchase 33,333 Novume common stock, exercisable over a period of five years, at an exercise price of \$5.44 per share; and warrants to purchase 33,333 Novume common stock, exercisable over a period of five years at an exercise price of \$6.53 per share. The expiration date of the BC Management warrants is December 31, 2022. As of March 31, 2018 and December 31, 2017, there are 66,666 BC Management warrants outstanding.

Pursuant to its acquisition of Secure Education on January 1, 2018, Novume issued warrants to purchase 33,333 Novume common stock, exercisable over a period of five years, at an exercise price of \$5.44 per share; and warrants to purchase 33,333 Novume common stock, exercisable over a period of five years at an exercise price of \$6.53 per share. The expiration date of the Secure Education warrants is January 1, 2023. As of March 31, 2018, there are 66,666 Secure Education warrants outstanding.

#### **NOTE 11 – WARRANT DERIVATIVE LIABILITY**

On March 17, 2015, Brekford issued a warrant ("Brekford Warrant"), which permits the holder to purchase at any time over five years, up to 56,000 shares of common stock with an exercise price of \$7.50 per share.

The Brekford Warrant 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 \$7.50 a share. The Company accounted for the conversion option of the Brekford 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 Brekford Warrant has been measured at fair value at March 31, 2018 and December 31, 2017 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 70.0%; (iii) weighted average risk-free interest rate of 1.89%-2.27%; (iv) expected life of 1.96-2.21 years; and (v) estimated fair value of the common stock of \$3.40-\$4.90 per share.

At March 31, 2018 and December 31, 2017, the outstanding fair value of the derivative liability was \$32,474 and \$78,228, respectively.

#### **NOTE 12 – COMMON STOCK OPTION AGREEMENT**

On March 16, 2016, two stockholders of the Company entered into an option agreement with Avon Road (collectively, the "Avon Road Parties"). Under the terms of this agreement Avon Road paid the stockholders \$10,000 each (a total of \$20,000) for the right to purchase, on a simultaneous and pro-rata basis, up to 4,318,856 shares of Novume's common stock owned by those two shareholders at \$0.52 per share. The option agreement had a two-year term which expires on March 16, 2018. On September 7, 2017, the Avon Road Parties entered into an amended and restated option agreement which extended the right to exercise the option up to and including March 21, 2019.

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

### Operating Leases

AOC Key Solutions leases office space in Chantilly, Virginia under the terms of a ten-year lease expiring October 31, 2019. The lease contains one five-year renewal option. The lease terms include an annual increase in base rent and expenses of 2.75%, which have been amortized ratably over the lease term. AOC Key Solutions also leases office space in New Orleans, Louisiana under the terms of a three-year lease expiring May 31, 2018.

Firestorm leases office space in Roswell, Georgia under the terms of a lease expiring on January 31, 2022 and in Grand Rapids, Michigan under a seven-year lease expiring in October 2023.

Brekford leases office space from Global Public Safety, LLC on a month-to-month basis. Brekford also leases space under an operating lease expiring on July 31, 2018.

Global leases office space in Fort Worth, Texas under the terms of a lease expiring on January 31, 2022.

Rent expense for the three months ended March 31, 2018 and 2017 was \$192,964 and \$134,019, respectively, and is included in selling, general and administrative expenses.

As of March 31, 2018, the future obligations over the primary terms of Novume's long-term leases expiring through 2023 are as follows:

2018 (remainder of year)	\$	603,535
2019		624,228
2020		190,599
2021		101,386
2022		38,873
Thereafter		30,393
Total	\$	<u>1,589,014</u>

The Company is the lessor in an agreement to sublease office space in Chantilly, Virginia with an initial term of two years with eight one-year options to renew the sublease through October 31, 2019. The lease provides for an annual increase in base rent and expenses of 2.90%. The initial term ended October 31, 2011 and the Company exercised the renewal options through 2015. On April 7, 2015, the month-to-month lease was amended to sublease more space to the subtenant and change the rental calculation. The sublease agreement provided for an offset of \$45,634 to rent expense for the three months ended March 31, 2018 and 2017.

### NeoSystems

On March 7, 2018, we received notice of termination of the Agreement and Plan of Merger (the "NeoSystems Merger Agreement"). The stated basis of termination by NeoSystems was due to the Company's failure to complete a Qualifying Offering, as defined in the NeoSystems Merger Agreement, by February 28, 2018. The terms of the NeoSystems Merger Agreement provide that upon termination, the Company is required to pay certain fees and expenses of legal counsel, financial advisors, investment bankers and accountants, which shall not exceed in the aggregate \$450,000. The Company reserves all rights under applicable law with respect to the NeoSystems Merger Agreement.

## NOTE 14 – EQUITY INCENTIVE PLAN

In August 2017, the Company approved and adopted the 2017 Equity Award Plan (the “2017 Plan”) which replaced the 2016 Equity Award Plan (the “2016 Plan”). The 2017 Plan permits the granting of stock options, stock appreciation rights, restricted and unrestricted stock awards, phantom stock, performance awards and other stock-based awards for the purpose of attracting and retaining quality employees, directors and consultants. Maximum awards available under the 2017 Plan were initially set at 3,000,000 shares. To date, only stock options have been issued under the 2016 Plan and the 2017 Plan.

### Stock Options

Stock options granted under the 2017 Plan may be either incentive stock options (“ISOs”) or non-qualified stock options (“NSOs”). ISOs may be granted to employees and NSOs may be granted to employees, directors, or consultants. Stock options are granted at exercise prices as determined by the Board of Directors. The vesting period is generally three to four years with a contractual term of 10 years.

The 2017 Plan is administered by the Administrator, which is currently the Board of Directors of the Company. The Administrator has the exclusive authority, subject to the terms and conditions set forth in the 2017 Plan, to determine all matters relating to awards under the 2017 Plan, including the selection of individuals to be granted an award, the type of award, the number of shares of Novume common stock subject to an award, and all terms, conditions, restrictions and limitations, if any, including, without limitation, vesting, acceleration of vesting, exercisability, termination, substitution, cancellation, forfeiture, or repurchase of an award and the terms of any instrument that evidences the award.

Novume has also designed the 2017 Plan to include a number of provisions that Novume’s management believes promote best practices by reinforcing the alignment of equity compensation arrangements for nonemployee directors, officers, employees, consultants and stockholders’ interests. These provisions include, but are not limited to, the following:

*No Discounted Awards.* Awards that have an exercise price cannot be granted with an exercise price less than the fair market value on the grant date.

*No Repricing Without Stockholder Approval.* Novume cannot, without stockholder approval, reduce the exercise price of an award (except for adjustments in connection with a Novume recapitalization), and at any time when the exercise price of an award is above the market value of Novume common stock, Novume cannot, without stockholder approval, cancel and re-grant or exchange such award for cash, other awards or a new award at a lower (or no) exercise price.

*No Evergreen Provision.* There is no evergreen feature under which the shares of common stock authorized for issuance under the 2017 Plan can be automatically replenished.

*No Automatic Grants.* The 2017 Plan does not provide for “reload” or other automatic grants to recipients.

*No Transferability.* Awards generally may not be transferred, except by will or the laws of descent and distribution or pursuant to a qualified domestic relations order, unless approved by the Administrator.

*No Tax Gross-Ups.* The 2017 Plan does not provide for any tax gross-ups.

*No Liberal Change-in-Control Definition.* The change-in-control definition contained in the 2017 Plan is not a “liberal” definition that would be activated on mere stockholder approval of a transaction.

*“Double-trigger” Change in Control Vesting.* If awards granted under the 2017 Plan are assumed by a successor in connection with a change in control of Novume, such awards will not automatically vest and pay out solely as a result of the change in control, unless otherwise expressly set forth in an award agreement.

*No Dividends on Unearned Performance Awards.* The 2017 Plan prohibits the current payment of dividends or dividend equivalent rights on unearned performance-based awards.

*Limitation on Amendments.* No amendments to the 2017 Plan may be made without stockholder approval if any such amendment would materially increase the number of shares reserved or the per-participant award limitations under the 2017 Plan, diminish the prohibitions on repricing stock options or stock appreciation rights, or otherwise constitute a material change requiring stockholder approval under applicable laws, policies or regulations or the applicable listing or other requirements of the principal exchange on which Novume's shares are traded.

*Clawbacks.* Awards based on the satisfaction of financial metrics that are subsequently reversed, due to a financial statement restatement or reclassification, are subject to forfeiture.

When making an award under the 2017 Plan, the Administrator may designate the award as "qualified performance-based compensation," which means that performance criteria must be satisfied in order for an employee to be paid the award. Qualified performance-based compensation may be made in the form of restricted common stock, restricted stock units, common stock options, performance shares, performance units or other stock equivalents. The 2017 Plan includes the performance criteria the Administrator has adopted, subject to stockholder approval, for a "qualified performance-based compensation" award.

A summary of stock option activity under the Company's 2017 Plan for the three months ended March 31, 2018 is as follows:

	<b>Number of Shares Subject to Option</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding Balance at December 31, 2017	1,695,375	\$ 2.19	9.26	\$ 4,590,714
Granted	-	-	-	
Exercised	-	-	-	
Canceled	(155,539)	(1.81)	(9.43)	
Outstanding Balance at March 31, 2018	1,539,836	\$ 2.23	7.99	\$ 1,993,291
Exercisable at March 31, 2018	490,699	\$ 1.78	6.97	\$ 813,994
Vested and expected to vest at March 31, 2018	1,356,042	\$ 2.23	9.21	\$ 1,885,314

Stock compensation expense for the three months ended March 31, 2018 and 2017 was \$112,455 and \$83,001, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The weighted average fair value at grant date for the three months ended March 31, 2018 and 2017 was \$0.00 and \$1.53, respectively.

There were no stock options granted during the three months ended March 31, 2018. The total fair value of shares that became vested after grant during the three months ended March 31, 2018 was \$1,325,929.

As of March 31, 2018, there was \$757,105 of unrecognized stock compensation expense related to unvested stock options granted under the 2017 Plan that will be recognized over a weighted average period of 2.36 years.



**NOTE 15 – EARNINGS (LOSS) PER SHARE**

The following table provides information relating to the calculation of earnings (loss) per common share:

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Basic and diluted (loss) earnings per share		
Net (loss) earnings from continuing operations	\$ (2,193,844)	\$ (544,317)
Less: preferred stock dividends	<u>(114,908)</u>	<u>(70,409)</u>
Net income (loss) attributable to shareholders	(2,308,752)	(614,726)
Weighted average common shares outstanding - basic	14,496,697	5,081,349
Basic (loss) earnings per share	<u>\$ (0.16)</u>	<u>\$ (0.12)</u>
Weighted average common shares outstanding - diluted	14,496,697	5,081,349
Diluted (loss) earnings per share	<u>\$ (0.16)</u>	<u>\$ (0.12)</u>
Common stock equivalents excluded due to anti-dilutive effect	<u>2,902,355</u>	<u>560,173</u>

For the three months ended March 31, 2018, the following potentially dilutive securities were excluded from diluted loss per share as the Company had a net loss: 917,950 for outstanding warrants, 974,487 related to the Series A Preferred Stock, 481,722 related to the Series B Preferred Stock and 528,196 related to outstanding options. In addition, 2,902,355 options were excluded from the diluted loss per share calculations as the exercise price of these shares exceeded the per share value of the common stock.

For the three months ended March 31, 2017, the following potentially dilutive securities were excluded from diluted loss per share as the Company had a net loss: 398,138 for outstanding warrants and 162,035 related to the Series A Preferred Stock. In addition, 58,499 options were excluded from the diluted loss per share calculations as the exercise price of these shares exceeded the per share value of the common stock.

**(Loss) Earnings Per Share under Two – Class Method**

The Series A Preferred Stock and Series B Preferred Stock have the non-forfeitable right to participate on an as converted basis at the conversion rate then in effect in any common stock dividends declared and, as such, is considered a participating security. The Series A Preferred Stock and Series B Preferred Stock are included in the computation of basic and diluted loss per share pursuant to the two-class method. Holders of the Series A Preferred Stock and Series B Preferred Stock do not participate in undistributed net losses because they are not contractually obligated to do so.

The computation of diluted (loss) earnings per share attributable to common stockholders reflects the potential dilution that could occur if securities or other contracts to issue shares of common stock that are dilutive were exercised or converted into shares of common stock (or resulted in the issuance of shares of common stock) and would then share in our earnings. During the periods in which we record a loss attributable to common stockholders, securities would not be dilutive to net loss per share and conversion into shares of common stock is assumed not to occur.

The following table provides a reconciliation of net (loss) to preferred shareholders and common stockholders for purposes of computing net (loss) per share for the three months ended March 31, 2018 and 2017.

	<b>Three Months Ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
<b>Numerator:</b>		
Net (loss) earnings from continuing operations	\$ (2,193,844)	\$ (544,317)
Less: preferred stock dividends	(114,908)	(70,409)
Net income (loss) attributable to shareholders	<u>\$ (2,308,752)</u>	<u>\$ (614,726)</u>
<b>Denominator (basic):</b>		
Weighted average common shares outstanding	14,496,697	5,081,349
Participating securities - Series A preferred stock	974,487	398,138
Participating securities - Series B preferred stock	481,722	-
Weighted average shares outstanding	<u>15,952,906</u>	<u>5,479,487</u>
Loss per common share - basic under two-class method	<u>\$ (0.14)</u>	<u>\$ (0.11)</u>
<b>Denominator (diluted):</b>		
Weighted average common shares outstanding	14,496,697	5,081,349
Participating securities - Series A preferred stock	974,487	398,138
Participating securities - Series B preferred stock	481,722	-
Weighted average shares outstanding	<u>15,952,906</u>	<u>5,479,487</u>
Loss per common share - basic under two-class method	<u>\$ (0.14)</u>	<u>\$ (0.11)</u>

#### **NOTE 16 – SUBSEQUENT EVENTS**

##### **Promissory Note**

On April 3, 2018, Novume and Brekford entered into a transaction pursuant to which an institutional investor (the "Lender") loaned \$2,000,000 to Novume and Brekford. The loan is due and payable on May 1, 2019 and bears interest at 15% per annum, with a minimum of 15% interest payable regardless of when the loan is repaid. The loan is secured by a security interest in all of the assets of Brekford. In addition, Novume agreed to issue 35,000 shares of common stock to the Lender, which shares contain piggy-back registration rights. If the shares are not so registered on the next selling shareholder registration statement, Novume shall be obligated to issue an additional 15,000 shares to the Lender. Upon any sale of Brekford or its assets, the Lender will be entitled to receive 7% of any proceeds received by Novume or Brekford in excess of \$5 million (the "Lender's Participation"). In addition, commencing January 1, 2020, the Lender shall be paid 7% of Brekford's earnings before interest, taxes, depreciation and amortization, less any capital expenditures, which amount would be credited any payments that might ultimately be paid to the Lender as its Lender's Participation, if any.

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

Certain statements in Management's Discussion and Analysis or MD&A, other than purely historical information are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These include estimates, projections, and statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based. These forward-looking statements generally are identified by the words "believe," "project," "expect," "anticipate," "estimate," "intend," "strategy," "plan," "may," "should," "will," "would," "will be," "will continue," "will likely result," and similar expressions. Historical results may not indicate future performance. Our forward-looking statements reflect our current views about future events. They are based on assumptions and subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those contemplated by these statements. Factors that may cause differences between actual results and those contemplated by forward-looking statements include, but are not limited to, those discussed in "Risk Factors" in Item 1A of this Annual Report and in the S-1 registration statement file with the SEC on January 25, 2018. We undertake no obligation to publicly update or revise any forward-looking statements, including any changes that might result from any facts, events or circumstances after the date hereof that may bear upon forward-looking statements. Furthermore, we cannot guarantee future results, events, levels of activity, performance or achievements.

This MD&A is intended to assist in understanding and assessing the trends and significant changes in our results of operations and financial condition. As used in this MD&A, the words, "we," "our" and "us" refer to Novume Inc. and its consolidated subsidiaries. This MD&A should be read in conjunction with our condensed consolidated financial statements and related notes included in this report, as well as the consolidated financial statements and MD&A of our Annual Report. The following overview provides a summary of the sections included in our MD&A:

*Executive Summary* — a general description of our business and key highlights of the three months ended March 31, 2018.

*Key Trends, Developments and Challenges* — a discussion of items and trends that may impact our business in the upcoming year.

*Results of Operations* — an analysis of our results of operations in our condensed consolidated financial statements.

*Lease Obligations* — a summary of current and future lease obligations.

*Liquidity and Capital Resources* — an analysis of cash flows, sources and uses of cash, commitments and contingencies, seasonality in the results of our operations and quantitative and qualitative disclosures about market risk.

*Critical Accounting Policies and Estimates* — a discussion of critical accounting policies requiring critical judgments and estimates.

### **Executive Summary**

#### **Our Company**

We were formed in February 2017 and began operations upon the merger of KeyStone Solutions, Inc. ("KeyStone") and Brekford Traffic Safety, Inc. ("Brekford") in August 2017. KeyStone was formed in March 2016 as a holding company for its wholly-owned subsidiary AOC Key Solutions, Inc. ("AOC Key Solutions") and on January 25, 2017, acquired Firestorm Solutions, LLC and Firestorm Franchising, LLC (collectively referred to as "Firestorm"). On October 1, 2017, we completed our acquisition of Global Technical Services, Inc. ("GTS") and Global Contract Professionals, Inc. ("GCP") (collectively referred to as "Global"). For narrative purposes, references to the Company and Novume include AOC Key Solutions, Firestorm, Brekford and Global.

AOC Key Solutions is based in Chantilly, Virginia and provides consulting and technical support services to assist clients seeking U.S. federal government contracts in the technology, telecommunications, defense, and aerospace industries. AOC Key Solutions provides consulting and technical support services to assist clients seeking U.S. Federal government contracts in the technology, telecommunications, defense, and aerospace industries.

Firestorm is headquartered in Roswell, Georgia and is a nationally recognized leader in crisis management, crisis communications, emergency response, and business continuity, including workplace violence prevention, cyber-breach response, communicable illness/pandemic planning, predictive intelligence, and other emergency, crisis and disaster preparedness initiatives. For example, its behavioral risk and threat assessment program, *BERTHA@*, positions schools, businesses and other organizations to prevent violence from occurring. This program helps our clients to identify early warning signs that may be exhibited by an individual before they are on a path to violence. *BERTHA@* is an integral part of an innovative school violence prevention program launched by Firestorm in partnership with the University of Alabama in November of 2017. On December 31, 2017 and January 1, 2018, Firestorm completed the acquisition of all assets of BC Management, Inc. ("BC Management") and Secure Education Consultants, LLC ("Secure Education"), respectively. BC Management is internationally recognized as a leading executive search firm for business continuity, disaster recovery, crisis management and risk management professionals. Coupled with its staffing expertise, BC Management is a recognized leader in business continuity research with annual studies covering compensation assessments, program maturity effectiveness, event impact management reviews, IT resiliency and critical supply analyses. Secure Education is comprised of an expert team of highly trained, former U.S. Secret Service Agents and assists clients by designing customized plans, conducting security assessments, delivering training, and responding to critical incidents.

Brekford, headquartered in Hanover, Maryland, is a leading public safety technology service provider of fully integrated automated traffic safety enforcement, or ATSE, solutions, including speed, red light, and distracted driving cameras, as well as citation management software and secure electronic evidence storage. Brekford is also in the final stages of development of a new traffic safety product, Argos Guardian, which is expected to be launched in the summer of 2018. The patent pending system will combine leading edge camera and radar technology with an advanced triggering mechanism to detect, capture, and record "move over" law violations. It will also include built-in artificial intelligence-based automated license plate reader or ALPR capability. When combined with Brekford's comprehensive citation management software suite, iP360, Argos Guardian will provide an innovative technology solution that can assist law enforcement agencies in improving the safety of officers and emergency response personnel.

Global is headquartered in Fort Worth, Texas, and provides the U.S. Department of Defense and the aerospace industry with experienced maintenance and modification specialists. Global provides specialized contract personnel, temp-to-hire professionals, direct hires, and temporary or seasonal hires to a diverse group of companies.

In an effort to create specific awareness about us in the Government Contracting, or GovCon, industry, we formed a subsidiary in 2017, Novume Media, to develop a television show called *The Bridge* -- a weekly 30-minute program featuring panel discussions and interviews with leaders from the government, business, academia and associations. The show premiered on April 2, 2017 in the Washington, DC market and the first season is available on line. We have deferred development of a second season in order to further evaluate the benefit to the Company.

In selective situations, we will also seek to serve as a partner or incubator for businesses where an understanding of government contracting and contacts with seasoned providers of government services or products can be instrumental to success. In making arrangements for the merger with Brekford, Novume assisted it in arranging the sale Brekford's legacy vehicle unfitting business to LB&B Associates Inc., a long-term client of AOC Key Solutions, retaining a 19.9% interest. We expect to continue our efforts to find low-risk, high-reward opportunities by using our knowledge base and strategic position to facilitate transactions that can provide financial returns without significant operating or balance sheet exposure.

## **General**

The information provided in this discussion and analysis of Novume's financial condition and results of operations covers the three months ended March 31, 2018 and 2017. In 2017, we completed the acquisition of Firestorm, the Brekford Merger, the acquisition of Global and the purchase of certain assets of BC Management (described below).

The financial information in this section for all periods prior to the January 25, 2017 acquisition of Firestorm is prepared on a consolidated basis for KeyStone and AOC Key Solutions. The financial information for periods subsequent to January 25, 2017 is prepared on a consolidated basis for KeyStone, AOC Key Solutions and Firestorm. For periods subsequent to the Brekford Merger on August 28, 2017, the financial information is prepared on a consolidated basis for Novume, AOC Key Solutions, Firestorm and Brekford. For periods subsequent to the Global acquisition on October 1, 2017, the financial information is prepared on a consolidated basis for Novume, AOC Key Solutions, Firestorm, Brekford and Global. For periods subsequent to January 1, 2018, the financial information is prepared on a consolidated basis for Novume, AOC Key Solutions, Firestorm (which includes BC Management and Secure Education), Brekford and Global.

The statements of operations and other information provided in this discussion and analysis of the financial condition and results of operations of Novume should be read in conjunction with the Novume audited consolidated financial statements and the historical financial statements of Brekford, KeyStone, Firestorm and Global, and the related notes thereto.

## **Recent Acquisitions**

### ***Secure Education Consultants Acquisition***

On January 1, 2018, Novume completed its acquisition of certain assets of Secure Education. Secure Education's security and safety experts provide customized emergency protocols and critical incident response training for schools and child care organizations and will further augment the risk mitigation and crisis management services we provide to our clients through Firestorm. Consideration paid as part of this acquisition included: (a) \$99,197 in cash, (b) 33,333 shares of Novume common stock valued at \$163,332; (c) warrants to purchase 33,333 shares of Novume common stock, exercisable over a period of five years, at an exercise price of \$5.44 per share valued at \$65,988 and (d) warrants to purchase 33,333 of Novume common stock, exercisable over a period of five years at an exercise price of \$6.53 per share valued at \$57,484. As the Secure Education acquisition has recently been completed, we are currently in the process of completing the preliminary purchase price allocation treating the Secure Education acquisition as a business combination. The preliminary purchase price allocation for Secure Education is included in our consolidated financial statements for the three months ended March 31, 2018. As of March 31, 2018, there are 66,666 Secure Education warrants outstanding.

### ***BC Management Acquisition***

On December 31, 2017, Novume completed its acquisition of certain assets of BC Management through Firestorm. Consideration paid as part of this acquisition included: (a) \$100,000 in cash, (b) 33,333 shares of Novume common stock valued at \$163,332 and (c) 66,666 warrants to purchase Novume common stock valued at \$123,472. As the BC Management acquisition has recently been completed, we are currently in the process of completing the preliminary purchase price allocation treating the BC Management acquisition as a business combination. The preliminary purchase price allocation for BC Management is included in the Company's consolidated financial statements at March 31, 2018 and December 31, 2017. BC Management results are included in our statement of operations for the period beginning after December 31, 2017.

### **Global Acquisition**

On October 1, 2017, we completed our acquisition of Global Technical Services, Inc. (“GTS”) and Global Contract Professionals, Inc. (“GCP”) (collectively, the “Global Entities”) (the “Global Merger”). Consideration paid as part Global Merger included: (a) \$750,000 in cash, (b) 375,000 shares of Novume common stock and (c) 240,861 shares of Novume Series B Cumulative Convertible Preferred Stock (the “Novume Series B Preferred Stock”). In addition to the merger consideration, Novume paid \$365,037 to satisfy in full all of the outstanding debt of GTS and GCP at closing, except for certain intercompany debt and ordinary course debt, and amounts due under (a) the Secured Account Purchase Agreement dated August 22, 2012 by and between GTS and Wells Fargo Bank, National Association (the “GTS Wells Fargo Credit Facility”) and (b) the Secured Account Purchase Agreement dated August 22, 2012 by and between GCP and Wells Fargo Bank, National Association (the “GCP Wells Fargo Credit Facility” and together with the GTS Wells Fargo Credit Facility, the “Wells Fargo Credit Facilities”), which will remain in effect following the consummation of the Global Merger. In connection with the Wells Fargo Credit Facilities, Novume has delivered to Wells Fargo Bank, National Association, general continuing guaranties (the “Wells Fargo Guaranty Agreements”), effective upon the closing of the Global Merger guaranteeing the Guaranteed Obligations of GTS and GCP under the Wells Fargo Credit Facilities, and paid \$175,000 in the aggregate to reduce the current borrowed amounts under the Wells Fargo Credit Facilities as of October 1, 2017.

As part of the Global Merger, we created 240,861 shares of \$0.0001 par value Novume Series B Cumulative Convertible Preferred Stock (the “Series B Preferred Stock”). All Series B Preferred Stock was issued at a price of \$10.00 per share as part of the acquisition of the Global Merger. The Series B Preferred Stock is entitled to quarterly cash dividends of 1.121% (4.484% per annum) per share. The Series B Preferred Stock has a conversion price of \$5.00 per share. Each Series B Preferred Stock has an automatic conversion feature based on the share price of Novume.

### **Brekford Acquisition**

On August 28, 2017, the mergers by and among Novume, KeyStone, Brekford, Brekford Merger Sub, Inc., and KeyStone Merger Sub, LLC, were consummated (the “Brekford Merger”). As a result, Brekford became a wholly owned subsidiary of the Novume, and Brekford Merger Sub, Inc. ceased to exist. KeyStone Merger Sub, LLC also became a wholly owned subsidiary of the Novume, and KeyStone Solutions, Inc. ceased to exist. When KeyStone Merger Sub filed its certificate of merger with the Secretary of State of the State of Delaware, it immediately effectuated a name-change to KeyStone Solutions, LLC, the name by which it is now known. For the purpose of this document any references to KeyStone are to KeyStone Solutions, Inc. prior to August 28, 2017 and to KeyStone Solutions, LLC on and after August 28, 2017.

Upon completion of the Brekford Merger, the merger consideration was issued in accordance with the terms of the Merger Agreement. Immediately upon completion of the Brekford Merger, the pre-merger stockholders of KeyStone owned approximately 80% of the issued and outstanding capital stock of the Novume on a fully-diluted basis, and the pre-merger stockholders of Brekford owned approximately 20% of the issued and outstanding capital stock of the Novume on a fully-diluted basis.

## **Firestorm Acquisition**

Pursuant to the terms of the Membership Interest Purchase Agreement (the "MIPA"), by and among Novume, each of the Firestorm Entities, each of the Members of the Firestorm Entities (described below), and a newly-created acquisition subsidiary of Novume, Firestorm Holdings, LLC, a Delaware limited liability company ("Firestorm Holdings"), Novume acquired all of the membership interests in each of the Firestorm Entities for the following consideration:

- \$500,000 in cash in the aggregate paid by Novume as of the Firestorm Closing Date to the three principals (Harry W. Rhulen, Suzanne Loughlin, and James W. Satterfield, collectively the "Firestorm Principals") of Firestorm. Of that aggregate amount \$250,000 was paid to Mr. Satterfield, and \$125,000 was paid to each of Mr. Rhulen and Ms. Loughlin;
- \$1,000,000 in the aggregate in the form of four unsecured, subordinated promissory notes issued by Novume payable over five years after the Firestorm Closing Date, to all the Members of the Firestorm Entities (consisting of the Firestorm Principals and Lancer Financial Group, Inc. ("Lancer")). The principal amount of the note payable to Lancer is \$500,000 (the "Lancer Note"). The principal amount of the note payable to Mr. Rhulen is \$166,666.66. The principal amount of the notes payable to each of Mr. Satterfield and Ms. Loughlin is \$166,666.67. (The notes payable to Mr. Rhulen, Ms. Loughlin and Mr. Satterfield are individually referred to herein as a "Firestorm Principal Note" and collectively, as the "Firestorm Principal Notes"). The Firestorm Principal Notes are payable at an interest rate of 2% and the Lancer Note is payable at an interest rate of 7%. \$907,407 was recorded to notes payable to reflect the net fair value of the notes issued due to the difference in interest rates. The Lancer Note also has a capped subordination of \$7,000,000, subject to the consent of Lancer;
- Each of the Firestorm Principals was issued 162,698 (315,625 post Brekford Merger) shares of Novume common stock, par value \$0.0001 per share, for an aggregate issuance of 488,094 (946,875 post Brekford Merger) shares of Novume common stock;
- Each of the Firestorm Principals received warrants to purchase 54,233 (105,209 post Brekford Merger) Novume Common Shares, exercisable over a period of five years after the Firestorm Closing Date, at an exercise price of \$2.58 per share; and
- Each of the Firestorm Principals received warrants to purchase 54,233 (105,209 post Brekford Merger) Novume Common Shares, exercisable over a period of five years after the Firestorm Closing Date, at an exercise price of \$3.60 per share.

## **Key Trends, Developments and Challenges**

### ***U.S. Government Spending and the Government Contractor Industry Generally***

On March 23, 2018, the Consolidated Appropriations Act (the "2018 Act") was signed into law. It provides \$1.3 trillion in funding through September 2018. It also anticipates \$500 billion in new federal spending for defense and domestic programs over two years. The 2018 Act provides more than \$2.3 billion in new funding for threat identification, mental health, training, and school safety programs at the Departments of Justice, Education, and Health and Human Services. The legislation also lifts statutory budget caps and increases funding for emergency disaster aid funding, lifts the debt ceiling and extends certain health care and tax authorizations. We believe that these increases in federal funding will increase demand for our services.

While we anticipate an increasing demand for our services based upon an expected increase in the volume of federal government spending and as our clients elect to outsource their bid and proposal activities, it is still not clear how government spending will be impacted beyond 2018. The administration does have some discretion to delay spending on programs previously authorized.

### ***Impact of Current Federal Budget on Defense Spending***

The 2018 Act represents the largest investment in national defense in 15 years. Although the 2018 Act included a 2.4 % pay raise for military personnel, it also provides for significant increases military procurements, it also provides for significant increases in military procurements. We believe that increased defense spending will flow down to government contractor and provide them with new opportunities to offer national defense product and services to the federal government.

The Department of Defense is experimenting with a type of simplified acquisition process known as Other Transactional Authority (OTA). A purpose of OTA is to encourage nontraditional defense contractors to develop innovative technologies, though more traditional defense contractors can also participate. Furthermore, the 2018 Act seeks to maximize the participation of small and socio-economically diverse companies, which may increase the number of contractors offering goods and services to the federal government. We believe that these increases in federal funding will increase demand for our services.

### ***NeoSystems Merger***

We filed a Form S-1 with the SEC on January 25, 2018. A portion of the proceeds from the proposed offering was to be used for the planned acquisition of NeoSystems LLC ("NeoSystems") through a forward merger under an agreement entered into on November 16, 2017. The proposed offering was for \$12.5 million Units, with each Unit consisting of one share of our common stock and a warrant to purchase one share of our common stock. A significant portion of the proceeds of the offering were expected to be used in connection with the contemplated acquisition of NeoSystems. The consummation of the merger was subject to, among other things, the completion of the Qualifying Offering by February 28, 2018. We have not yet completed this offering.

On March 7, 2018, we received notice of termination of the Agreement and Plan of Merger (the "NeoSystems Merger Agreement") The stated basis of termination by NeoSystems was due to our failure to complete a Qualifying Offering, as defined in the NeoSystems Merger Agreement, by February 28, 2018. The terms of the NeoSystems Merger Agreement provide that upon termination, we are required to pay certain fees and expenses of legal counsel, financial advisors, investment bankers and accountants, which shall not exceed in the aggregate \$450,000. We reserve all rights under applicable law with respect to the NeoSystems Merger Agreement, including such notice.

### ***Sale of Note***

On February 13, 2018, Brekford sold a note receivable from Global Public Safety, LLC ("Global Public Safety"), which it had received as part of the purchase price consideration in connection with the sale of its legacy upfitting business prior to its acquisition by Novume as a result of the merger with KeyStone in 2017. On December 31, 2017, based on the decision to sell the note receivable to an unrelated third party, we reclassified the note receivable balance to a current asset and wrote down \$450,000 as other expense, thus reducing the balance to \$1,475,000. Brekford continues to retain a 19.9% interest in Global Public Safety.

Other than as discussed above and elsewhere in this Quarterly Report on Form 10-Q, we are not aware of any trends, events or uncertainties that are likely to have a material effect on our financial condition.



## Results of Operations – Comparison of the Three Months Ended March 31, 2018 and 2017

Consolidated operating results for three months ended March 31, 2017 include AOC Key Solutions, and include Firestorm operations only for the period from January 25, 2017 through March 31, 2017, but do not include operations from Brekford or Global. Consolidated operating results for three months ended March 31, 2018 include AOC Key Solutions, Firestorm, Brekford and Global.

### Novume Solutions, Inc. Consolidated Statements of Operations For the Three Months Ended March 31, 2018 and 2017

	For the Three Months ended March 31,	
	2018	2017
Revenue	\$ 11,218,769	\$ 3,470,553
Cost of revenue	8,134,036	1,850,059
Gross profit	3,084,733	1,620,494
Operating expenses		
Selling, general, and administrative expenses	5,280,950	2,454,812
Loss from operations	(2,196,216)	(834,318)
Other expense		
Interest expense	(92,950)	(28,800)
Other income	95,322	-
Total other (expense) income	2,372	(28,800)
Loss before income taxes	(2,193,844)	(863,118)
Benefit from income taxes	-	318,801
Net loss	\$ (2,193,844)	\$ (544,317)

#### Revenue

Revenue increased by \$7,748,216, or 223%, to \$11,218,769 for the three months ended March 31, 2018, compared to \$3,470,553 for the three months ended March 31, 2017. Aggregate revenue attributable to Brekford and Global for the three months ended March 31, 2018 was \$7,633,715. Aggregate revenue attributable to legacy Novume (AOC Key Solutions and Firestorm) for the three months ended March 31, 2018 was \$3,585,054, an increase of 3.3% compared to the prior year period due to an increase in revenue attributable to Firestorm offset by decrease in revenue attributable to AOC Key Solutions.

#### Cost of Revenue

Total cost of revenue for the three years ended March 31, 2018 increased \$6,283,977, or 340%, to \$8,134,036 compared to \$1,850,059 for the three months ended March 31, 2017. Aggregate cost of revenue attributable to Brekford and Global for the three months ended March 31, 2018 was \$6,311,759. Aggregate cost of revenue attributable to legacy Novume for the three months ended March 31, 2018 was \$1,822,277, a decrease of 1.5% which is consistent with the prior year period.

#### Gross Profit

Gross profit for three months ended March 31, 2018 increased by \$1,464,239, or 90%, to \$3,084,733 compared to \$1,620,494 for the three months ended March 31, 2017. Aggregate gross profit attributable to Brekford and Global for the three months ended March 31, 2018 was \$1,321,956. Aggregate gross profit attributable to legacy Novume for the three months ended March 31, 2018 was \$1,762,777, an increase of 8.8% compared to the prior year period.

The gross profit margin was 27.5% for the three months ended March 31, 2018, compared to 46.7% for the three months ended March 31, 2017. Excluding the 17.3% gross profit margin for Brekford and Global, the gross profit margin for legacy Novume for the three months ended March 31, 2018 and 2017 was relatively consistent at 49.2% and 46.7%, respectively. Because staffing companies, such as Global, have greater costs of services as compared to professional services support providers such as AOC Key Solutions, the addition of Global has had an impact of lowering the consolidated gross profit.

#### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses for the three months ended March 31, 2018, increased by \$2,826,138, or 115%, to \$5,280,950 compared to \$2,454,812 for the three months ended March 31, 2017. Aggregate selling, general and administrative expenses attributable to Brekford and Global for the three months ended March 31, 2018 was \$1,588,063. Aggregate selling, general and administrative expenses attributable to legacy Novume for the three months ended March 31, 2018 was \$3,692,886, an increase of 50.4% compared to the prior year period.

The increase in selling, general and administrative expenses of legacy Novume was primarily due to increases in professional, legal fees, board and corporate expenses, acquisition expenses, and expenses related to maintaining compliance with applicable listing rules and SEC requirements. Brekford continues to incur additional product development expenses. As percentage of revenue, our selling, general and administrative expenses for the three months ended March 31, 2018 decreased to 47.1% compared to 70.7% for the three months ended March 31, 2017.

We anticipate that our general and administrative expenses may continue to increase, however at a reduced pace, in future periods. These increases may include costs related to hiring of personnel and fees to outside consultants, lawyers and accountants as well as expenses related to maintaining compliance with applicable listing rules and SEC requirements, insurance, and investor relations activities.

#### ***Other Expense***

Other income for the three months ended March 31, 2018 was \$2,372 compared to other expense of \$28,800 for the three months ended March 31, 2017. This increase was primarily related to \$92,950 of interest expense offset by a \$94,657 adjustment to holdback consideration.

#### ***Income Tax Expense***

Our income tax provision in our first quarter of 2018 was \$0, compared to a benefit of \$0.3 million in our first quarter of fiscal year 2017. The decrease in the tax benefit recorded is due to the full valuation allowance on our deferred tax assets. The Company established a valuation allowance against deferred tax assets during 2017 and has continued to maintain a full valuation allowance through the first quarter of 2018; therefore, there was no tax benefit recognized for the losses incurred in the first quarter of 2018.

#### ***Net Loss***

Net loss for the three months ended March 31, 2018, was \$2,193,844 compared to a net loss of \$544,317 for the three months ended March 31, 2017. The net loss margin was 19.6% for the three months ended March 31, 2018, compared to a net loss margin of 15.7% for the three months ended March 31, 2017. The reduction in gross margin and the increase in selling, general and administrative expenses in the current quarter compared to the prior period increased the net loss. We anticipate the recent acquisitions of BC Management and Secure Education will have a positive impact through the current year.

#### ***Cash Flow***

Novume expects to finance its operations over the next twelve months from the date of this Form 10-Q primarily through existing cash flow, supplemented as necessary by funds available through access to credit and through access to additional capital.

The net cash flows from operating, investing and financing activities for the periods below were as follows:

	<b>Three months ended March 31,</b>	
	<b>2018</b>	<b>2017</b>
Net cash provided by (used in):		
Operating activities	\$ 455,250	\$ (909,930)
Investing activities	1,408,997	(35,998)
Financing activities	(1,637,070)	1,313,227
Net increase in cash and cash equivalents:	<u>\$ 227,177</u>	<u>\$ 367,299</u>

*Cash Provided by and Used in Operating Activities*

For the three months ended March 31, 2018, net cash provided by operating activities was \$455,250. Cash was used primarily to fund our loss from operations of \$2,193,844 and was affected by the increase in current liabilities of \$1,105,978, offset by a decrease in current assets of \$1,140,971. We also incurred non-cash expenses of \$402,145 including depreciation and amortization, share-based compensation, warrant expense and financing related costs.

For the three months ended March 31, 2017, net cash used in operating activities was \$909,930. Cash was used primarily to fund our operations and was affected by increases in accounts payable and accrued expenses, offset by increases in accounts receivable. We also incurred non-cash expenses including depreciation and amortization.

*Cash Used in Investing Activities*

For the three months ended March 31, 2018, net cash provided by investing activities of \$1,408,997 was primarily as a result of \$1,475,000 of proceeds from the sale of a note receivable.

For the three months ended March 31, 2017, net cash used in investing activities of \$35,998 related to the purchase of computer hardware and equipment.

*Cash Used in and Provided by Financing Activities*

For the three months ended March 31, 2018, net cash used in financing activities of \$1,637,070 related to the repayment of short-term borrowings and the payment of Series A and Series B Preferred Stock dividends.

For the three months ended March 31, 2017, net cash provided by financing activities of \$1,313,227 related to proceeds from the issuance of preferred stock offset by the payment of Series A Preferred Stock dividends and the acquisition of Firestorm, net of cash acquired.

*Non-Cash Financing Activities*

In January 2017, KeyStone acquired Firestorm as described above. The non-cash consideration for this acquisition included notes payable of \$907,407 and the issuance of 946,875 shares (post merger exchange) of our common stock and 631,254 warrants valued at \$1,203,986.

In January 2018, we acquired the assets of Secure Education. The non-cash consideration for this acquisition included the issuance of 33,333 shares of our common stock valued at \$163,332 and the issuance of 66,666 Novume common stock warrants valued at \$123,472.

## Lease Obligations

We lease office space in Chantilly, Virginia under the terms of a ten-year lease expiring October 31, 2019. The lease contains one five-year renewal option. The lease terms include an annual increase in base rent and expenses of 2.75%, which have been amortized ratably over the lease term. We also lease office space in New Orleans, Louisiana under a three-year lease expiring May 31, 2018, in Roswell, Georgia under a lease expiring January 31, 2022 and in Fort Worth, Texas under a lease expiring January 31, 2022. In addition, we lease office space from Global Public Safety on a month-to-month basis under an operating lease with a 90-day termination notice by either party. Furthermore, we lease office space in Grand Rapids, Michigan under a seven-year lease expiring in October 2023.

Rent expense for the three months ended March 31, 2018 and 2017 was \$192,964 and \$134,019, respectively, and is included in selling, general and administrative expenses.

As of March 31, 2018, the future obligations over the primary terms of the long-term leases expiring through 2023 are as follows:

2018 (remainder of year)	\$	603,535
2019		624,228
2020		190,599
2021		101,386
2022		38,873
Thereafter		30,393
Total	\$	<u>1,589,014</u>

We are the lessor in an agreement to sublease office space in Chantilly, Virginia with an initial term of two years with eight one-year options to renew the lease through October 31, 2019. The lease provides for an annual increase in base rent and expenses of 2.90%. The initial term ended October 31, 2011 and we exercised the renewal options through 2014. On April 7, 2015, the lease was amended to sublease more space to the subtenant and change the rental calculation. The sublease agreement provided for an offset of \$45,634 to rent expense for the three months ended March 31, 2018 and 2017.

## Liquidity and Capital Resources

During 2017 and 2018, we have funded our operations primarily through cash from operating activities from its subsidiaries, revolving lines of credit, the completed Reg A offering and the sale of assets. As of March 31, 2018, we had unrestricted cash and cash equivalents of \$2,184,389 and working capital of \$740,505, as compared to unrestricted cash and cash equivalents of \$1,957,212 and working capital of \$2,750,578 as of December 31, 2017.

In the Fall of 2016, we commenced our Regulation A Offering (the "Reg A Offering") of up to 3,000,000 Units. At the initial closing of the Reg A Offering, on December 23, 2016, we sold 301,570 Units and received aggregate gross proceeds of \$3,015,700. At the second closing of the Reg A Offering, on January 23, 2017, we sold 119,757 Units and received aggregate gross proceeds of \$1,197,570. At the third and final closing of the Reg A Offering, on March 21, 2017, we sold 81,000 Units and received aggregate gross proceeds of \$810,000. As reported our Current Report on Form I-U, as filed with the SEC on March 22, 2017, the Reg A Offering is now closed, effective as of the third closing.

Following the Brekford Merger, all outstanding shares of KeyStone Series A Preferred Stock were exchanged for the right to receive one share of Novume Series A Preferred Stock. Novume Series A Preferred Stock will be entitled to quarterly dividends in the amount of \$0.175 (7% per annum) per share, being an identical per annum percentage per share dividend as received by holders of KeyStone Series A Preferred Stock prior to the Brekford Merger. We anticipate that we will pay the quarterly cash dividends through cash flow from operations, potential business growth from other acquired entities and access to additional credit or capital. The quarterly dividend payments are due within five business days following the end of a quarter.

On December 31, 2017, we declared and accrued dividends of \$87,907 payable to Series A shareholders of record as of December 31, 2017. On January 5, 2018, we paid cash dividends of \$87,907 to Series A shareholders of record as of December 31, 2017. On March 31, 2018, we declared and accrued dividends of \$87,907 payable to Series A shareholders of record as of March 31, 2018. On April 6, 2018, we paid cash dividends of \$87,907 to Series A shareholders of record as of March 31, 2018.

As part of the Global Merger, we issued 240,861 shares of \$0.0001 par value Series B Preferred Stock. All Series B Preferred Stock was issued at a price of \$10.00 per share as part of the acquisition of the Global Merger. The Series B Preferred Stock has a conversion price of \$5.00 per share. Each Series B Preferred Stock has an automatic conversion feature based on the share price of Novume. The Series B Preferred Stock is entitled to quarterly cash dividends of 1.121% (4.484% per annum) per share. On December 31, 2017, we declared and accrued dividends of \$27,001 payable to Series B shareholders of record on December 31, 2017. On January 5, 2018, we paid cash dividends of \$27,001 to Series B shareholders of record as December 31, 2017. On March 31, 2018, we declared and accrued dividends of \$27,001 payable to Series B shareholders of record as of March 31, 2018. On April 6, 2018, we paid cash dividends of \$27,001 to Series B shareholders of record as of March 31, 2018.

Operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable, accrued expenses, and accrued payroll and related benefits. The volume of billings and timing of collections and payments affect these account balances.

On August 11, 2016, we entered into a Loan and Security Agreement (the "2016 Line of Credit") with SSB. The 2016 Line of Credit was comprised of: 1) an asset-based revolving line of credit up to \$1,000,000 for short-term working capital needs and general corporate purposes which matured on July 31, 2017, bore interest at the Wall Street Journal Prime Rate, floating, plus 0.50% and was secured by a first lien on all of our business assets; and 2) an optional term loan of \$100,000, which was for permanent working capital, bore interest at the Wall Street Journal Prime Rate, floating, plus 0.75%, required monthly payments of principal plus interest to fully amortize the loan over four years, was secured by a first lien on all of our business assets, cross-collateralized and cross-defaulted with the revolving line of credit, and was to mature on February 15, 2019.

The borrowing base for the 2016 Line of Credit was up to the lesser of (1) \$1,000,000 or (2) eighty percent (80%) of the aggregate amount of all eligible accounts receivable as defined by SSB. The borrowing base for the \$100,000 term loan was fully reserved under the borrowing base for the revolving line of credit. The 2016 Line of Credit had periodic reporting requirements and balance sheet covenants, as well as affirmative and negative operational and ownership covenants. Novume was in compliance with all 2016 Line of Credit covenants at December 31, 2016 and March 31, 2017. In August 2017, we terminated the 2016 Line of Credit with SSB.

As such, as of March 31, 2018 and 2017, Novume had no balances due for the 2016 Line of Credit and there were no amounts outstanding as of the date of this Form 10-Q.

Global has revolving lines of credit with Wells Fargo Bank, National Association ("WFB") ("the Global Wells Agreements"). WFB agreed to advance to Global, 90% of all eligible accounts with a maximum facility amount of \$5,000,000. Interest is payable under the Global Wells Agreements at a monthly rate equal to the Three-Month LIBOR in effect from time to time plus 3% plus the Margin. The Margin is 3%. Payment of the revolving lines of credit is secured by the accounts receivable of Global. The current terms of the Global Wells Agreements run through December 31, 2018, with automatic renewal terms of 12 months. WFB or Global may terminate the Global Wells Agreements upon at least 60 days' written notice prior to the last day of the current term. The principal balance at March 31, 2018 and December 31, 2017 was \$1,557,213 and \$2,057,259, respectively. As part of the lines of credit agreements, Global must maintain certain financial covenants. Global met all financial covenant requirements for the three months ended March 31, 2018.

On November 12, 2017, AOC Key Solutions entered into an Account Purchase Agreement and related agreements (the "AOC Wells Agreement") with WFB. Pursuant to the AOC Wells Agreement, AOC Key Solutions agreed to sell and assign to WFB all of its Accounts (as such term is defined in Article 9 of the Uniform Commercial Code), constituting accounts arising out of sales of Goods (as such term is defined in Article 9 of the Uniform Commercial Code) or rendition of services that WFB deems to be eligible for borrowing under the AOC Wells Agreement. WFB agreed to advance to AOC Key Solutions, 90% of all eligible accounts with a maximum facility amount of \$3,000,000. Interest is payable under the AOC Wells Agreement at a monthly rate equal to the Daily One Month LIBOR in effect from time to time plus 5%. The AOC Wells Agreement also provides for a deficit interest rate equal to the then applicable interest rate plus 50% and a default interest rate equal to the then applicable interest rate or deficit interest rate, plus 50%. The initial term of the AOC Wells Agreement runs through December 31, 2018 (the "Initial Term"), with automatic renewal terms of 12 months (the "Renewal Term"), commencing on the first day after the last day of the Initial Term. AOC Key Solutions may terminate the AOC Wells Agreement upon at least 60 days' prior written notice, but no more than 120 days' written notice, prior to and effective as of the last day of the Initial Term or the Renewal Term, as the case may be. WFB may terminate the AOC Wells Agreement at any time and for any reason upon 30 days' written notice or without notice upon the occurrence of an Event of Default (as such term is defined in the Agreement) after the expiration of any grace or cure period. The principal balance at March 31, 2018 and December 31, 2017 was \$584,211 and \$1,606,327, respectively. As part of the line of credit agreement, AOC Key Solutions must maintain certain financial covenants. AOC Key Solutions met all financial covenant requirements for the three months ended March 31, 2018.

On March 16, 2016, Novume entered into a Subordinated Note and Warrant Purchase Agreement (the "Avon Road Note Purchase Agreement") pursuant to which Novume agreed to issue up to \$1,000,000 in subordinated debt (the "Avon Road Note") and warrants to purchase up to 242,493 shares of Novume's common stock ("Avon Road Subordinated Note Warrants"). The exercise price for the Avon Road Subordinated Note Warrants is equal to \$1.031 per share of common stock. Subordinated notes with a face amount of \$500,000 and Avon Road Subordinated Note Warrants to purchase 121,247 shares of Novume's common stock have been issued pursuant to the Avon Road Note Purchase Agreement to Avon Road Partners, L.P. ("Avon Road"), an affiliate of Robert Berman, Novume's CEO and a member of Novume's Board of Directors. The Avon Road Subordinated Note Warrants had an expiration date of March 16, 2019 and qualified for equity accounting as the warrants did not fall within the scope of ASC Topic 480, *Distinguishing Liabilities from Equity*. The debt discount is being amortized as interest expense on a straight-line basis, which approximates the effective interest method, through the maturity date of the note payable.

The Avon Road Note accrues simple interest on the unpaid principal of the note at a rate equal to the lower of (a) 9% per annum, or (b) the highest rate permitted by applicable law. Interest is payable monthly, and the note matures on March 16, 2019.

The Company has generated losses since its inception in August 2017 and has relied on cash on hand, external bank lines of credit and the sale of a note to support cashflow from operations. We attribute losses for the three months ended March 31, 2018 to public company corporate overhead and increased selling, general and administrative expenses. As of and for the three months ended March 31, 2018, we had a net loss of approximately \$2.2 million and positive working capital of approximately \$0.7 million. Our cash position was increased in April 2018 by the receipt of \$2 million related to the issuance of a promissory note (see *Recent Events* below). Management believes that based on relevant conditions and events that are known and reasonably knowable that its forecasts, for one year from the date of the filing of the consolidated financial statements in this Quarterly Report on Form 10-Q, indicate improved operations and the Company's ability to continue operations as a going concern. We have contingency plans to reduce or defer expenses and cash outlays should operations not improve in the look-forward period.

As of March 31, 2018, Novume did not have any material commitments for capital expenditures.

## Recent Events

On April 3, 2018, Novume and Brekford entered into a transaction pursuant to which an institutional investor (the "Lender") loaned \$2,000,000 to Novume and Brekford. The loan is due and payable on May 1, 2019 and bears interest at 15% per annum, with a minimum of 15% interest payable regardless of when the loan is repaid. The loan is secured by a security interest in all of the assets of Brekford. In addition, Novume agreed to issue 35,000 shares of common stock to the Lender, which shares contain piggy-back registration rights. If the shares are not so registered on the next selling shareholder registration statement, Novume is obligated to issue an additional 15,000 shares to the Lender. Upon any sale of Brekford or its assets, the Lender will be entitled to receive 7% of any proceeds received by Novume or Brekford in excess of \$5 million (the "Lender's Participation"). In addition, commencing January 1, 2020, the Lender shall be paid 7% of Brekford's earnings before interest, taxes, depreciation and amortization, less any capital expenditures, of which this amount would be credited against any payments that might ultimately be paid to the Lender as its Lender's Participation, if any.

## Off-Balance Sheet Arrangements, Contractual Obligations and Commitments

As of the date of this Quarterly Report on Form 10-Q, we did not have any off-balance sheet arrangements that have had or are reasonably likely to have a material effect on our financial condition, revenues or expenses, results of operations, liquidity, capital resources or capital expenditures.

## Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon Novume's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these consolidated financial statements requires the management of Novume to make estimates and judgments that affect the reported amounts in our consolidated financial statements.

We believe the application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are periodically reevaluated, and adjustments are made when facts and circumstances dictate a change. Novume bases its estimates on historical experience and on various other assumptions that management of Novume believes to be reasonable under the circumstances, the results of which form management's basis for making judgments about the carrying values of assets and liabilities that may not be readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, or if management made different judgments or utilized different estimates.

Novume's accounting policies are further described in its historical audited consolidated financial statements and the accompanying notes included elsewhere in this Form 10-Q. Novume has identified the following critical accounting policies:

### **Revenue Recognition**

On January 1, 2018, the Company adopted Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*.

The Company generates substantially all revenues from providing professional services to clients. A single contract could include one or multiple performance obligations. For those contracts that have multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on its relative standalone selling price, which is determined based on our overall pricing objectives, taking into consideration market conditions and other factors.

Revenue is recognized when control of the goods and services provided are transferred to our customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods and services using the following steps: 1) identify the contract; 2) identify the performance obligations; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue as or when the Company satisfies the performance obligations. The Company typically satisfies performance obligations for professional services over time as the related services are provided.

The Company generates revenues under three types of billing arrangements: time-and-expense; fixed-fee; and franchise fees.

Time-and-expense billing arrangements require the client to pay based on the number of hours worked by revenue-generating staff at agreed upon rates. The Company recognizes revenues under time-and-expense arrangements as the related services are provided, using the right to invoice practical expedient which allows us to recognize revenue in the amount that the Company has a right to invoice, based on the number of hours worked and the agreed upon hourly rates.

In fixed-fee billing arrangements, the Company agrees to a pre-established fee in exchange for a predetermined set of professional services or deliverables. The Company sets the fees based on our estimates of the costs and timing for completing the engagements. The Company generally recognizes revenues under fixed-fee billing arrangements using a proportionate performance approach, which is based on the cost of the work completed to-date versus our estimates of the total cost of the services to be provided under the engagement. Estimates of total engagement revenues and cost of services are monitored regularly during the term of the engagement. If our estimates indicate a potential loss, such loss is recognized in the period in which the loss first becomes probable and can be reasonably estimated.

The Company collects initial franchise fees when franchise agreements are signed. The Company recognizes franchise fee revenue over the estimated life of the franchise, beginning with the opening of the franchise, which is when the Company has performed substantially all initial services required by the franchise agreement and the franchisee benefits from the rights afforded by the franchise agreement. Royalties from individual franchises are earned based upon the terms in the franchising agreement which are generally the greater of \$1,000 or 8% of the franchisee's monthly gross sales.

Expense reimbursements that are billable to clients are included in total revenues and cost of revenue.

The payment terms and conditions in our customer contracts vary. Differences between the timing of billings and the recognition of revenue are recognized as either unbilled services or deferred revenues in the accompanying consolidated balance sheets. Revenues recognized for services performed, but not yet billed to clients, are recorded as unbilled services. Revenues recognized, but for which the Company has not yet been entitled to bill because certain events must occur, such as the completion of the measurement period or client approval, are recorded as contract assets and included within unbilled services. Client prepayments and retainers are classified as deferred revenues and recognized over future periods, as earned, in accordance with the applicable engagement agreement.



### **Accounts Receivable**

Accounts receivable are customer obligations due under normal trade terms. We perform continuing credit evaluations of its clients' financial condition, and Novume generally does not require collateral.

Management reviews accounts receivable to determine if any receivables will potentially be uncollectible. Factors considered in the determination include, among other factors, number of days an invoice is past due, client historical trends, available credit ratings information, other financial data and the overall economic environment. Collection agencies may also be utilized if management so determines.

We record an allowance for doubtful accounts based on specifically identified amounts that are believed to be uncollectible. We also record as an additional allowance a certain percentage of aged accounts receivable, based on historical experience and our assessment of the general financial conditions affecting its customer base. If actual collection experience changes, revisions to the allowance may be required. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. The balance in the allowance for doubtful accounts was \$24,000 as of March 31, 2018 and December 31, 2017. However, actual write-offs might exceed the recorded allowance.

### **Income Taxes**

We use the liability method of accounting for income taxes as set forth in the authoritative guidance for accounting for income taxes. This method requires an asset and liability approach for the recognition of deferred tax assets and liabilities. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Management has evaluated the recoverability of the net deferred income tax assets and the level of the valuation allowance required with respect to such net deferred income tax assets. After considering all available facts, we fully reserved for its net deferred tax assets because management believes that it is more likely than not that their benefits will not be realized in future periods. We will continue to evaluate its net deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of our net deferred income tax assets satisfy the realization standard, the valuation allowance will be reduced accordingly.

The tax effects of uncertain tax positions are recognized in the consolidated financial statements only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the amount recognized in the consolidated financial statements is the largest benefit that has a greater than 50% likelihood of being realized. It is our accounting policy to account for ASC 740-10-related penalties and interest as a component of the income tax provision in the consolidated statements of operations and comprehensive loss.

As of March 31, 2018, our evaluation revealed no uncertain tax positions that would have a material impact on the financial statements. The 2014 through 2017 tax years remain subject to examination by the IRS, as of March 31, 2018. Our management does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

## New Accounting Pronouncements

### Recently Issued Accounting Pronouncements

#### Not Yet Adopted

In August 2017, the Financial Accounting Standards Board ("FASB") issued new guidance related to accounting for hedging activities. This guidance expands strategies that qualify for hedge accounting, changes how many hedging relationships are presented in the financial statements, and simplifies the application of hedge accounting in certain situations. The standard will be effective for us beginning July 1, 2019, with early adoption permitted for any interim or annual period before the effective date. Adoption of the standard will be applied using a modified retrospective approach through a cumulative-effect adjustment to retained earnings as of the effective date. We are currently evaluating the impact of this standard on our consolidated financial statements, including accounting policies, processes, and systems.

In May 2017, the FASB issued Accounting Standards Update ("ASU") No. 2017-09, *Compensation - Stock Compensation: Scope of Modification Accounting*, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. An entity will account for the effects of a modification unless the fair value of the modified award is the same as the original award, the vesting conditions of the modified award are the same as the original award and the classification of the modified award as an equity instrument or liability instrument is the same as the original award. The update is effective for fiscal year 2019. The update is to be adopted prospectively to an award modified on or after the adoption date. Early adoption is permitted. We are currently evaluating the effect of this update but do not believe it will have a material impact on its financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*. To simplify the subsequent measurement of goodwill, the update requires only a single-step quantitative test to identify and measure impairment based on the excess of a reporting unit's carrying amount over its fair value. A qualitative assessment may still be completed first for an entity to determine if a quantitative impairment test is necessary. The update is effective for fiscal year 2021 and is to be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory*, as part of its simplification initiatives. The update requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than deferring the recognition until the asset has been sold to an outside party as is required under current GAAP. The update is effective for fiscal year 2019. The new standard will require adoption on a modified retrospective basis through a cumulative-effect adjustment to retained earnings, and early adoption is permitted. We are currently evaluating the effect that this update will have on our financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2019. We are currently in the process of evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU is a comprehensive new leases standard that amends various aspects of existing guidance for leases and requires additional disclosures about leasing arrangements. It will require companies to recognize lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Topic 842 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The ASU is effective for annual periods beginning after December 15, 2018, including interim periods within those fiscal years; earlier adoption is permitted. In the financial statements in which the ASU is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. Practical expedients are available for election as a package and if applied consistently to all leases. We are currently evaluating the impact of the adoption of this guidance on our consolidated financial condition, results of operations and cash flows.

There are currently no other accounting standards that have been issued but not yet adopted that will have a significant impact on our consolidated financial position, results of operations or cash flows upon adoption.

#### *Recently Adopted*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, as a new Topic, Accounting Standards Codification ("ASC") Topic 606, which supersedes existing accounting standards for revenue recognition and creates a single framework. Additional updates to Topic 606 issued by the FASB in 2015 and 2016 include the following:

- ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date of the new guidance such that the new provisions will now be required for fiscal years, and interim periods within those years, beginning after December 15, 2017.
- ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations*, which clarifies the implementation guidance on principal versus agent considerations (reporting revenue gross versus net).
- ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies the implementation guidance on identifying performance obligations and classifying licensing arrangements.
- ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which clarifies the implementation guidance in a number of other areas.

The underlying principle is to use a five-step analysis of transactions to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The standard permits the use of either a retrospective or modified retrospective application. ASU 2014-09 and ASU 2016-12 are effective for annual reporting periods beginning after December 15, 2017.

On January 1, 2018, we adopted Topic 606, Revenue from Contracts with Customers, using the modified retrospective method. Novume has aggregated and reviewed its contracts that are within the scope of Topic 606. Based on its evaluation, Novume does not anticipate the adoption of Topic 606 will have a material impact on its balance sheet or related consolidated statements of operations, equity or cash flows. The impact of adopting Topic 606 relate to: (1) a change to franchisee agreements recorded prior to 2017; and (2) the timing of certain contractual agreements which we deemed as immaterial. Revenue recognition related to the other revenue streams will remain substantially unchanged.

We do not believe that any recently issued accounting standards, in addition to those referenced above, would have a material effect on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

As a “smaller reporting company” as defined by Item 10 of Regulation SK, we are not required to provide information required by this Item.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures (as defined in Rule 13a-15(f) of the Exchange Act) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

We carried out an evaluation, required by paragraph (b) of Rule 13a-15 or Rule 15d-15 under the Exchange Act, under the supervision and with the participation of management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) of the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this review, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2018.

**Changes to Internal Control over Financial Reporting**

There have been no changes in our internal controls over financial reporting during our most recent fiscal quarter 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**

None.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors disclosed in "Risk Factors" in our Annual Report on Form 10-K as filed with the SEC on April 12, 2018.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits.

<b>Number</b>	<b>Description</b>
<a href="#">31.1</a>	<a href="#">Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">31.2</a>	<a href="#">Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.</a>
<a href="#">32.1</a>	<a href="#">Certification of Principal Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.</a>
<a href="#">32.2</a>	<a href="#">Certification of Principal Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350.</a>
101-INS	XBRL Instance Document
101-SCH	XBRL Taxonomy Extension Schema Document
101-CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101-LAB	XBRL Taxonomy Extension Label Linkbase Document
101-PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101-DEF	XBRL Taxonomy Extension Definition Linkbase Document

**SIGNATURES**

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

Novume Solutions, Inc.

Date: May 15, 2018

/s/ Robert A. Berman  
Name: Robert A. Berman  
Title: Chief Executive Officer  
Principal Executive Officer

Date: May 15, 2018

/s/ Riaz Latifullah  
Name: Riaz Latifullah  
Title: EVP Corporate Development  
Principal Financial and Accounting Officer  
Authorized Signatory

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Robert A. Berman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novume Solutions, Inc..
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a15(e) and 15d15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a15(f) and 15d 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation. and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information. and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2018

/s/ Robert A. Berman  
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Robert A. Berman  
Chief Executive Officer  
Principal Executive Officer

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**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
UNDER  
SECTION 302 OF THE SARBANES-OXLEY ACT**

I, Riaz Latifullah, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Novume Solutions, Inc..
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a15(e) and 15d15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a15(f) and 15d 15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared.
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation. and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information. and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2018

/s/ Riaz Latifullah  
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Riaz Latifullah  
EVP Corporate Development  
Principal Financial and Accounting Officer

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

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the SarbanesOxley Act of 2002, that the Quarterly Report of Novume Solutions, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2018

/s/ Robert A. Berman

\_\_\_\_\_  
Robert A. Berman  
Chief Executive Officer  
Principal Executive Officer

*A signed original of this written statement required by Section 906 of the SarbanesOxley Act of 2002 has been provided to Novume Solutions, Inc. and will be retained by Novume Solutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.*

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**CERTIFICATION  
OF  
PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANE-SOXLEY ACT OF 2002**

The undersigned hereby certify, pursuant to, and as required by, 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the SarbanesOxley Act of 2002, that the Quarterly Report of Novume Solutions, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2018 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in such Annual Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2018

/s/ Riaz Latifullah

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Riaz Latifullah

EVP Corporate Development

Principal Financial and Accounting Officer

*A signed original of this written statement required by Section 906 of the SarbanesOxley Act of 2002 has been provided to Novume Solutions, Inc. and will be retained by Novume Solutions, Inc. and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.*

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