SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Novume Solutions, Inc.

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	8742	81-5266334
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(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 every Interactive Data File required to be submitted 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 ☐		Accelerated filer ☐
Non-accelerated filer ☐	(Do not check if a smaller reporting company)	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 November 9, 2018 the Registrant had 18,767,619 shares of common stock, $0.0001 par value per share outstanding.

Novume Solutions, Inc. and Subsidiaries
Form 10-Q
For the Quarterly Period Ended September 30, 2018

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Part I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2018	December 31, 2017
Assets		
Current Assets		
Cash and cash equivalents	$ 1,483,568	$ 1,957,212
Accounts receivable, net	6,810,791	6,707,294
Inventory	124,731	155,716
Note receivable	-	1,475,000
Other current assets	404,223	687,966
Total current assets	8,823,313	10,983,188
Property and Equipment		
Furniture and fixtures	252,412	211,885
Office equipment	549,554	524,131
Camera systems	1,319,078	462,399
Vehicles	36,020	10,020
Leasehold improvements	111,845	72,918
Total fixed assets	2,268,909	1,281,353
Less: accumulated depreciation	(892,153)	(633,014)
Net property and equipment	1,376,756	648,339
Goodwill	3,092,616	3,092,616
Intangibles, net	5,082,846	5,468,874
Other Assets		
Investment at cost	262,140	262,140
Deposits and other long-term assets	44,386	143,583
Total other assets	306,526	405,723
Total assets	$ 18,682,057	$ 20,598,740
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$ 2,191,971	$ 1,390,877
Accrued expenses	3,189,473	3,060,512
Lines of credit	2,091,602	3,663,586
Notes payable, current portion	4,241	-
Deferred revenue	164,303	117,636
Total current liabilities	7,641,590	8,232,611
Long-Term Liabilities		
Notes payable	3,390,295	1,405,994
Deferred rent	42,005	53,217
Total long-term liabilities	3,432,300	1,459,211
Total liabilities	11,073,890	9,691,822
Series A Cumulative Convertible Redeemable Preferred stock, $0.0001 par value, 505,000 shares authorized and 502,327 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	4,879,277	4,396,580
Stockholders' Equity		
Common stock, $0.0001 par value, 30,000,000 shares authorized, 14,545,695 and 14,463,364 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1,455	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 September 30, 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 September 30, 2018 and December 31, 2017, respectively	24	24
Additional paid-in capital	12,591,762	12,342,527
Accumulated deficit	(9,864,351)	(5,833,660)
Total stockholders' equity	2,728,890	6,510,338
Total liabilities and stockholders' equity	$ 18,682,057	$ 20,598,740

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

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

	For the Three Months ended September 30,		For the Nine Months ended September 30,	
	2018	2017	2018	2017
Revenue	$ 13,148,848	$ 4,421,574	$ 36,705,781	$ 11,131,825
Cost of revenue	9,229,054	2,457,806	26,228,464	6,017,982
Gross profit	3,919,794	1,963,768	10,477,317	5,113,843
Operating expenses				
Selling, general, and administrative expenses	4,158,061	2,951,933	13,767,636	7,899,438
Loss from operations	(238,267)	(988,165)	(3,290,319)	(2,785,595)
Other expense				
Interest expense	(244,034)	(33,720)	(507,841)	(97,624)
Other income	549	5,383	201,275	5,382
Total other (expense) income	(243,485)	(28,337)	(306,566)	(92,242)
Loss before income taxes	(481,752)	(1,016,502)	(3,596,885)	(2,877,837)
(Provision) benefit from income taxes	(22,082)	225,142	(22,082)	964,377
Net loss	$ (503,834)	$ (791,360)	$ (3,618,967)	$ (1,913,460)
Loss per common share - basic	$ (0.05)	$ (0.09)	$ (0.31)	$ (0.23)
Loss per common share - diluted	$ (0.05)	$ (0.09)	$ (0.31)	$ (0.23)
Weighted average shares outstanding				
Basic	14,542,362	11,756,560	14,524,030	10,920,866
Diluted	14,542,362	11,756,560	14,524,030	10,920,866

The accompanying notes are an integral part of these unaudited 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 (Deficit)
Balance as of December 31, 2017	14,463,364	$ 1,447	240,861	$ 24	$12,342,527	$ (5,833,660)	$ 6,510,338
Adjustment to adopt new accounting guidance revenue recognition (1)	-	-	-	-	-	(67,000)	(67,000)
Balance as of January 1, 2018	14,463,364	$ 1,447	240,861	$ 24	$12,342,527	$ (5,900,660)	$ 6,443,338
Stock-based compensation	-	-	-	-	295,684	-	295,684
Issuance of warrants	-	-	-	-	123,472	-	123,472
Net common stock issued in Secure Education Consultants acquisition	33,333	3	-	-	163,329	-	163,332
Issuance related to note payable	35,000	4	-	-	125,997	-	126,001
Issuance upon exercise of stock options	13,998	1	-	-	23,449	-	23,450
Preferred stock dividends	-	-	-	-	-	(344,724)	(344,724)
Accretion of Series A preferred stock	-	-	-	-	(482,696)	-	(482,696)
Net loss	-	-	-	-	-	(3,618,967)	(3,618,967)
Balance as of September 30, 2018	14,545,695	$ 1,455	240,861	$ 24	$12,591,762	$ (9,864,351)	$ 2,728,890

(1) See Note 3 for additional information.

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

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

	For the Nine Months Ended September 30, 2018	2017
Cash Flows from Operating Activities		
Net loss	$ (3,618,967)	$ (1,913,460)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	259,139	77,023
Provision for losses on accounts receivable	-	24,000
Deferred taxes	-	(964,377)
Share-based compensation	295,684	227,470
Amortization of financing costs	68,829	-
Deferred rent	(11,213)	(18,588)
Warrant expense	-	67,491
Change in fair value of derivative liability	(77,377)	-
Amortization of intangibles	772,833	327,120
Changes in operating assets and liabilities		
Accounts receivable	(103,496)	(870,426)
Inventory	30,985	(1,460)
Deposits	-	(105)
Prepaid expenses and other current assets	283,742	(50,909)
Accounts payable	801,095	(196,460)
Accrued expenses and other current liabilities	219,423	987,522
Deferred revenue	(20,333)	50,007
Note receivable	-	51,000
Net cash used in operating activities	(1,099,656)	(2,204,152)
Cash Flows from Investing Activities		
Proceeds from sale of note receivable	1,475,000	-
Capital expenditures	(955,730)	(52,985)
Net cash provided by (used in) investing activities	519,270	(52,985)
Cash Flows from Financing Activities		
Deferred stock offering costs	-	75,655
Repayments of short-term borrowings	(1,571,984)	-
Proceeds from notes payable	2,000,000	47,341
Acquisition of Firestorm - net of cash acquired	-	(417,704)
Acquisition of Brekford - net of cash acquired	-	1,943,777
Net proceeds from exercise of options	23,450	-
Net proceeds from issuance of preferred stock	-	1,745,347
Payment of preferred dividends	(344,724)	(163,601)
Net cash provided by financing activities	106,742	3,230,815
Net increase in cash and cash equivalents	(473,644)	973,678
Cash and cash equivalents at beginning of period	1,957,212	2,788,587
Cash and cash equivalents at end of period	$ 1,483,568	$ 3,762,265

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

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.

Novume and AOC Key Solutions are 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.

Firestorm 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. 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 automatic license plate reading systems.

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.

On October 9, 2018, the Company entered into a Management Services Agreement (the "MSA") with OpenALPR Technology, Inc. ("OpenALPR") whereby the Company will provide services to support the continued growth of OpenALPR's platform. These services include sales, call center and customer support, engineering, marketing and website services along with business strategy, contract and other back office functions. The MSA provides for the Company to receive compensation on a time and materials basis for most services and a commission basis for sales of OpenALPR products.

On October 1, 2017, Novume acquired Global (see Note 4). 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, Firestorm acquired certain assets of BC Management, Inc. ("BC Management") and Secure Education Consultants, LLC ("Secure Education"), respectively (see Note 4). These acquisitions provide risk management staffing and customized emergency protocols and critical incident response training. 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Novume, as 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.

Certain information and note disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the SEC rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

It is suggested that these consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-K.

In the opinion of management, all adjustments necessary for a fair presentation for the periods presented have been reflected as required by Regulation S-X, Rule 10-01. All necessary adjustments are of a normal, recurring nature.

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 and external bank lines of credit, 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, the sale of a note and a public offering of its common stock 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 nine months ended September 30, 2018, the Company had a net loss of approximately $3.6 million and working capital of approximately $1.2 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 and in November 2018 by the proceeds of $2.8 million from the sale of common stock. Also, as discussed in Note 8, the maturity dates for the Avon Road Note and the April 2018 Promissory Note have been extended into 2020.

Management continues to seek additional funding to support its operations and planned acquisition of OpenALPR, however, no assurance can be given that it will be successful in raising adequate funds needed (see Note 13). If the Company is unable to raise additional capital when required or on acceptable terms, management may have to: terminate its intent to acquire OpenALPR; delay, scale back or discontinue the development or commercialization of some of our products; restrict the Company's operations; or obtain funds by entering into agreements on unattractive terms, which would likely have a material adverse effect on our business, stock price and our relationships with third parties with whom we have business relationships The Company may implement its contingency plans to reduce or defer expenses and cash outlays if operations do not improve in the look-forward period.

Management believes that based on relevant conditions and events that are known and reasonably knowable that its current forecasts and projections, 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 for that one-year period. The Company is actively monitoring its operations, cash on hand and working capital. The Company has contingency plans to reduce or defer expenses and cash outlays should operations not improve in the look-forward period or if additional financing is not available. Management believes the substantial doubt regarding the going concern reported at June 30, 2018 has been alleviated as a result of improved operations, the extended maturity dates on notes payable and the proceeds of the November stock issuance.

Cash and Cash Equivalents

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

Brekford makes collections on behalf of certain client jurisdictions. Cash balances designated for these client jurisdictions as of September 30, 2018 and December 31, 2017 were $882,034 and $641,103, respectively, and correspond to equal amounts of related accounts payable.

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 both September 30, 2018 and December 31, 2017.

Accounts receivable at September 30, 2018 and December 31, 2017 included $1,728,393 and $1,259,089 in unbilled services, respectively, related to work performed in the period in which the receivable was recorded. The amounts are expected to be billed or were billed in the subsequent periods.

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 costs of furniture and fixtures, office equipment, automobiles and camera systems are 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 September 30, 2018 and 2017 was $85,592 and $26,862, respectively, and for the nine months ended September 30, 2018 and 2017 was $259,139 and $77,023, 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:

Acquired Intangible Asset	Amortization Basis	Expected Life (years)
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,* (Topic 606) using the modified retrospective approach applied to those contracts in effect as of January 1, 2018. Under this transition method, results for reporting periods beginning after January 1, 2018 are presented under the new standard, while prior period amounts are not adjusted and continue to be reported in accordance with our historical accounting under Topic 605, *Revenue Recognition*. See the *Recently Issued Accounting Pronouncements* section below for further discussion of the adoption of Topic 606, including the impact on our 2018 financial statements.

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 recognize 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 in the circumstances under which the Company is entitled to bill clients results in the recognition of revenue 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. As of December 31, 2017, the Company had $117,636 of deferred revenue, of which $12,333 and $42,636, was recognized for the three and nine months ended September 30, 2018, respectively.

See Note 3 – Revenue Recognition, for information on revenues disaggregated by contract type.

Advertising

The Company expenses all advertising costs as incurred. Such costs were not material for the three and nine months ended September 30, 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 September 30, 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 September 30, 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 the Company. The 2017 Act effects the 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.

The 2017 Act instituted fundamental changes to the U.S. tax system. Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the 2017 Act. In accordance with SAB 118, management calculated its best estimate of the impact of the 2017 Act in the 2017 year-end income tax provision in accordance with their understanding of the 2017 Act and available guidance. Also pursuant to SAB 118, certain additional impacts of the 2017 Act remain open during the measurement period, including state tax impacts of the 2017 Act. As of the close of the third quarter, the Company continues to analyze the 2017 Act in its entirety and refine its calculations, which could potentially impact the measurement of recorded tax balances. Any subsequent adjustment to the tax balances resulting from the analysis of the 2017 Act, will be recorded to income tax expense when the analysis is completed.

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 September 30, 2018 and 2017 was $86,879 and $107,321, respectively, and for the nine months end September 30, 2018 and 2017 was $295,684 and $227,470, 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 nine months ended September 30, 2017. No options were issued during the nine months ended September 30, 2018.

	Nine Months Ended September 30, 2017
Risk-free interest rate	1.00% - 1.99%
Expected term	0.3 – 6 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 September 30, 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 September 30, 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 had a note receivable at December 31, 2017 and determined that $1,475,000 approximated its recorded value. 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 and nine months ended September 30, 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 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 September 30, 2018 and December 31, 2017, the Company had $892,244 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 for the quarterly financial statements of the Company show the effect of the exchange on earnings per share as if the exchange occurred at the beginning of 2017.

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.

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

Not Yet Adopted

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity’s adoption date of Topic 606. We will adopt the provisions of this ASU in the first quarter of 2019. Adoption of the new standard is not expected to have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently evaluating the effect that ASU 2018-13 will have on our consolidated financial statements and related disclosures.

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. The Company is currently evaluating the effect that this update will have on its financial statements and related disclosures.

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 lease 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. An additional update was issued by FASB in January 2018 to ASC Topic 842. The Company is currently evaluating the impact of the adoption of this guidance and the related update 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 ASC 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 Licensin* g, 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*, and all related amendments (referred to collectively hereinafter as "Topic 606") using the modified retrospective method. Novume has aggregated and reviewed all contracts at the date of initial application that are within the scope of Topic 606, excluding time-and-expense contracts at AOC Key Solutions and Global since Topic 606 does not have a material impact on time-and-expense contracts. 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 (see Note 3 for the effects of adopting Topic 606).

NOTE 3 – 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 2).

On January 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customers, using the modified retrospective method. The Company has aggregated and reviewed all contracts at the date of initial application that are within the scope of Topic 606, excluding time-and-expense contracts at AOC Key Solutions and Global since Topic 606 does not have a material impact on time-and-expense contracts. 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 as of January 1, 2018 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 to $45,000 and subsequently recognized as revenue in nine months ended September 30, 2018 resulting in (3) an increase in each of deferred revenue and accumulated deficit of $67,000. The impact of adopting Topic 606 on our consolidated balance sheet as of September 30, 2018 is a $53,250 reduction to deferred revenue. The impact of adopting Topic 606 on our consolidated income statement for the nine months ended September 30, 2018 is a $53,250 increase in revenue. Revenue recognition related to the Company's other revenue streams will remain substantially unchanged. As of September 30, 2018, approximately $13,750 of deferred revenue recognized upon adoption of Topic 606 is expected to be recognized from remaining performance obligations for a franchise contract over the next 15 months.

Revenues were as follows:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Time & Materials	$ 11,436,918	$ 32,123,199
Fixed Price	1,671,350	4,502,197
Franchising	40,580	80,385
Total	$ 13,148,848	$ 36,705,781

NOTE 4 – ACQUISITIONS

Secure Education Consultants Acquisition

On January 1, 2018, Novume completed its acquisition of certain assets of Secure Education 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 preliminary purchase price has been allocated to the assets acquired based on fair values as of the acquisition date. 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	386,001
Less intangible and intellectual property	(386,001)
Net goodwill recorded	$ -

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) 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.

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 nine months ended September 30, 2018. For the nine months ended September 30, 2018, the Company paid $78,342 of the holdback consideration. As of September 30, 2018 and December 31, 2017, the Company had $27,001 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	$ 1,690,683
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	$ 4,264,934

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 $1.7 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	$ 1,401,933

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 with interest payable over, and principal due after, 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 $3.6083 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. Effective October 11, 2018, Mr. Rhulen changed position from President of Novume to Executive Vice-President of Firestorm.

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.

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 and nine months ended September 30, 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.

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Revenues	$ 13,148,848	$ 10,674,716	$ 36,705,781	$ 31,824,716
Net income (loss)	$ (503,834)	$ (1,002,345)	$ (3,618,967)	$ (3,061,031)
Basic earnings (loss) per share	$ (0.05)	$ (0.09)	$ (0.31)	$ (0.27)
Diluted earnings (loss) per share	$ (0.05)	$ (0.09)	$ (0.31)	$ (0.27)
Basic Number of Shares	14,542,362	14,323,018	14,524,030	13,592,532
Diluted Number of Shares	14,542,362	14,323,018	14,524,030	13,592,532

NOTE 5 – INVESTMENT AT COST AND NOTE RECEIVABLE

On February 28, Brekford contributed substantially all of the assets and certain liabilities related to its vehicle services business to Global Public Safety, LLC (“GPS”) and sold units representing 80.1% of the units of GPS to LB&B Associates Inc. (“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, 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 is subordinated to the LB&B’s senior lender, matures on March 31, 2022, accrues interest at a rate of 3% per annum and is secured pursuant to the terms of a Pledge granting 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 $0 and $1,475,000 as of September 30, 2018 and December 31, 2017, respectively. The sale was consummated on February 13, 2018 and the Company received proceeds of $1,475,000 in the nine months ended September 30, 2018. In connection with the sale of the GPS Promissory Note, the Company 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 September 30, 2018:

	Customer Relationships	Marketing Related	Technology Based	Total
Identifiable intangible assets, gross	$ 5,588,677	$ 730,000	$ 83,412	$ 6,402,089
Accumulated amortization	(1,123,201)	(189,091)	(6,951)	(1,319,243)
Identifiable intangible assets, net	$ 4,465,476	$ 540,909	$ 76,461	$ 5,082,846

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 7.8 years. Amortization expense for the three months ended September 30, 2018 and 2017 was $262,245 and $327,120, respectively, and for the nine months ended September 30, 2018 and 2017 was $772,833 and $327,120, respectively.

As of September 30, 2018, the estimated annual amortization expense for each of the next five fiscal years is as follows:

2018 (remainder of year)	$ 262,245
2019	1,048,980
2020	1,048,980
2021	982,876
2022	238,155
Thereafter	1,501,610
Total	$ 5,082,846

NOTE 7 – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the nine months ended September 30, 2018 and 2017 was as follows:

	For the Nine Months Ended September 31,	
	2018	**2017**
Cash paid for interest	$ 393,689	$ 33,429
Cash paid for taxes	$ -	$ -
Common stock issued in connection with note payable	$ 126,001	$ -
Warrants issued in connection with issuance of Series A Preferred Stock	$ -	$ 67,491
Business Combinations/Asset Acquisitions:		
Current Assets	$ -	$ 1,044,893
Property and equipment, net	$ 31,824	$ 268,398
Intangible assets	$ 386,001	$ 2,498,737
Goodwill	$ -	$ 1,960,328
Other non-current assets	$ -	$ 1,962,140
Assumed liabilities	$ -	$ (1,258,905)
Deferred revenue	$ -	$ (22,493)
Other non-current liabilities	$ -	$ (16,584)
Issuance of common stock	$ (163,332)	$ (7,055,179)
Notes payable	$ (31,824)	$ (907,407)
Issuance of common stock warrants	$ (123,472)	$ -

On April 7, 2017, Novume paid cash dividends of $75,694 to shareholders of record of Series A Preferred Stock as of March 30, 2017. On July 8, 2017, October 7, 2017, January 5, 2018, April 6, 2018 and July 9, 2018, the Company paid cash dividends of $87,907 to shareholders of record of Series A Preferred Stock as of the end of the previous month. On January 5, 2018, April 6, 2018 and July 9, 2018, the Company paid cash dividends of $27,001 to shareholders of record of Series B Preferred Stock as of the end of the previous month. On September 30, 2018, the Company accrued dividends of $87,907 to Series A Preferred Stock shareholders of record as of September 30, 2018. On September 30, 2018, the Company accrued dividends of $27,001 to Series B Preferred Stock shareholders of record as of September 30, 2018.

NOTE 8 – DEBT

Lines of Credit

Global and AOC Key Solutions have revolving lines of credit with Wells Fargo Bank, National Association ("WFB") (the "Global Wells Agreements" and "AOC Wells Agreement"). The current terms of the Global Wells Agreements and AOC Wells Agreement run through December 31, 2018, with automatic renewal terms of 12 months and may be terminated by either party upon written notice at least 60, but no more than 120, days prior to the last day of the current term. WFB may also terminate either of these agreements 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. As part of the lines of credit agreements, Global and AOC Key Solutions must maintain certain financial covenants. Global and AOC Key Solutions met all financial covenant requirements for the nine months ended September 30, 2018.

WFB has 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 principal balance at September 30, 2018 and December 31, 2017 was $1,510,234 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 nine months ended September 30, 2018.

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 "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 principal balance at September 30, 2018 and December 31, 2017 was $581,368 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 nine months ended September 30, 2018.

Short-Term and Long-Term Debt

Avon Road Note

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 of the Avon Road Subordinated Note Warrants 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 was to mature on March 16, 2019. On October 23, 2018, the maturity date of this note was extended to March 16, 2020.

Firestorm Notes

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. The principal amount of the note payable to Lancer is $500,000. The principal amount of the note payable to each of Mr. Rhulen, Mr. Satterfield and Ms. Loughlin is $166,667. 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. The Firestorm Principal Notes were recorded at fair value to reflect the difference in the interest rates. As of September 30, 2018 and December 31, 2017, the balance of these notes payable was $938,272 and $924,383, net of unamortized interest of $61,728 and $75,617, respectively.

April 2018 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 “April 2018 Promissory Note”). The loan was originally due and payable on May 1, 2019 and bears interest at 15% per annum, with a minimum of 15% interest payable if the loan is repaid prior to May 1, 2019. On October 24, 2018, Novume and Brekford entered into a note amendment with the Lender by which the maturity date of the note was extended to May 1, 2020. In consideration for the agreement of the Lender to extend the maturity date, the Company agreed to pay the Lender $62,500. The amendment further provides for payment of interest through May 1, 2019 if the principal is repaid before May 1, 2019 and for the payment of interest through May 1, 2020 if the principal is repaid after May 1, 2019 and before May 1, 2020. 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 for any payments that might ultimately be paid to the Lender as its Lender’s Participation, if any. At April 3, 2018, the fair value of shares issued was $126,000 and designated as financing cost and the amortized financing cost for the three and nine months ended September 30, 2018 was determined to be $29,076 and $58,152, respectively. The April 2018 Promissory note has an effective interest rate of 22.5%.

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

2018	$ 975
2019	4,388
2020	2,504,665
2021	4,959
2022	1,005,273
Thereafter	11,564
Total	3,531,824
Less unamortized interest	(61,728)
Less unamortized financing costs	(75,560)
	3,394,536
Current portion of long-term debt	(4,241)
Long-term debt	$ 3,390,295

NOTE 9 – INCOME TAXES

Our income tax provision for the three months ended September 30, 2018 was $22,082 compared to a benefit of $225,142 for the three months ended September 30, 2017. The decrease in the tax benefit recorded is due primarily to the full valuation allowance on our deferred tax assets and a provision for state income taxes in 2018.

Our income tax provision for the nine months ended September 30, 2018 was $22,082, compared to a benefit of $964,377 for the nine months ended September 30, 2017. The decrease in the tax benefit recorded is due primarily to the full valuation allowance on our deferred tax assets and a provision for state income taxes in 2018. The Company established a valuation allowance against deferred tax assets during 2017 and has continued to maintain a full valuation allowance through the nine months ended September 30, 2018. Therefore, no tax benefit was recognized for the losses during the nine months ended September 30, 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 September 30, 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 more likely than not that these benefits will not 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 and nine months ended September 30, 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 use 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 September 30, 2018 and December 31, 2017, the issued and outstanding common shares of Novume were 14,545,695 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.

In April 2018, the Company issued 35,000 shares of Novume common stock as additional consideration to the Lender in connection with the April 2018 Promissory Note.

For the three months ended September 30, 2018, the Company issued 10,000 shares of Novume common stock related to the exercise of common stock options. For the nine months ended September 30, 2018, the Company issued 82,331 shares of Novume common stock.

As part of its acquisition of Brekford on August 29, 2017, the Company assumed warrants to purchase 56,000 shares of Novume common stock (the "Brekford Warrants") (see Note 11). Effective October 16, 2018, the Company entered into exchange agreements with holders of the Brekford Warrants pursuant to which the Company issued to the holders an aggregate of 96,924 shares of common stock in exchange for the return of the warrants to the Company for cancellation.

On November 1, 2018, the Company issued 4,125,000 shares of common stock through an underwritten public offering at a public offering price of $0.80 per share. Net proceeds to the Company was approximately $2.8 million. In addition, the Company granted underwriters a 45-day option to purchase up to 618,750 additional shares of common stock to cover over-allotment, if any. As part of the consideration to the underwriters, the Company issued to the underwriters warrants to purchase an aggregate of 206,250 shares of common stock, exercisable over a period of five years, at an exercise price of $1.00 per share. The warrants are exercisable commencing April 27, 2019 and expire on October 29, 2023.

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 Novume's common stock at an exercise price of $1.03 per share. The holders of Series A Preferred Stock are entitled to quarterly dividends of 7.0% per annum per share.

The holders of Series A Preferred Stock 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 holders of Series A Preferred Stock 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 holders of Series A Preferred Stock 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 September 30, 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 Reg A Offering for the sale and 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 21, 2017, the Company completed its third and final closing of the Reg A Offering for the sale and issuance 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 $166,519 and $144,916 for the three months ended September 30, 2018 and 2017, respectively, and $482,696 and $400,616 for the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 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 April 6, 2018, the Company paid cash dividends of $87,907 to Series A shareholders of record as of March 31, 2018. On July 9, 2018, the Company paid cash dividends of $87,907 to Series A shareholders of record as of June 30, 2018. On September 30, 2018, the Company declared and accrued dividends of $87,907 payable to Series A shareholders of record as of September 30, 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 September 30, 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 April 6, 2018, the Company paid cash dividends of $27,001 to Series B shareholders of record as of March 31, 2018. On July 9, 2018, the Company paid cash dividends of $27,001 to Series B shareholders of record as of June 30, 2018. On September 30, 2018, the Company accrued dividends of $27,001 to Series B Preferred Stock shareholders of record as of September 30, 2018.

Warrants

The Company has a total of 1,322,913 and 1,256,247 warrants issued and outstanding as of September 30, 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 September 30, 2018 and December 31, 2017, respectively.

The exercise price for the Brekford Warrants is $7.50 and they expire on March 31, 2020. As of September 30, 2018 and December 31, 2017, there were 56,000 Brekford Warrants outstanding (See Note 11). Effective October 16, 2018, the Company entered into exchange agreements with holders of the Brekford Warrants pursuant to which the Company issued to the holders an aggregate of 96,924 shares of common stock in exchange for the return of the warrants to the Company for cancellation.

As part of the Reg A Offering in fiscal year 2016 and 2017, Novume issued 502,327 Unit Warrants to the holders of Series A Preferred Stock. 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 September 30, 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 September 30, 2018 and December 31, 2017.

Pursuant to its acquisition of Firestorm on January 24, 2017, Novume issued warrants to purchase 315,627 shares of 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 $3.6083 per share. The expiration date of the Firestorm warrants is January 24, 2022. As of September 30, 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 shares of 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 September 30, 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 shares of 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 September 30, 2018, there are 66,666 Secure Education warrants outstanding.

On November 1, 2018, the Company issued warrants to purchase 206,250 shares of Novume common stock, exercisable over a period of five years, at an exercise price of $1.00 per share. The warrants may not be exercised until April 27, 2019 and expire on October 29, 2023.

NOTE 11 – WARRANT DERIVATIVE LIABILITY

On March 17, 2015, Brekford issued the Brekford Warrants which permit the holders 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 Warrants 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 Warrants 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 September 30, 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%-2.81%; (iv) expected life of 1.46-2.21 years; and (v) estimated fair value of the common stock of $1.22-$4.90 per share.

At September 30, 2018 and December 31, 2017, the outstanding fair value of the derivative liability, which is included in accrued liabilities in the consolidated balance sheets, was $851 and $78,228, respectively.

Effective October 16, 2018, the Company entered into exchange agreements with holders of the Brekford Warrants pursuant to which the Company issued to the holders an aggregate of 96,924 shares of common stock in exchange for the return of the warrants to the Company for cancellation.

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 which expired on May 31, 2018, and lease payments are currently being made on a month-to-month basis.

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 December 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 September 30, 2018 and 2017 was $210,148 and $193,985, respectively, and for the nine months ended September 30, 2018 and 2017 was $608,943 and $575,181, respectively, and is included in selling, general and administrative expenses.

As of September 30, 2018, the future obligations over the primary terms of Novume's long-term leases expiring through 2023 are as follows:

2018 (remainder of year)	$	192,046
2019		624,228
2020		190,599
2021		101,386
2022		38,873
Thereafter		30,393
Total	$	1,177,525

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 each of the three months ended September 30, 2018 and 2017, and $136,901 for each of the nine months ended September 30, 2018 and 2017.

NeoSystems

The Company planned to acquire NeoSystems LLC ("NeoSystems") through a forward merger under an agreement entered into on November 16, 2017. The consummation of the merger was subject to, among other things, the completion of the Qualifying Offering by February 28, 2018, the proceeds of which were expected to be used in connection with the contemplated acquisition of NeoSystems. The Company has 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 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.

OpenALPR

On September 17, 2018, the Company entered into a Letter of Intent with OpenALPR which sets forth the parties' intent to consummate a transaction pursuant to which the Company will acquire the assets of OpenALPR. The consideration for the transaction will be approximately $15 million, comprised of cash, or cash and the Company's common stock (up to $5,000,000 based on a price per share of $5.00), at the election of OpenALPR. OpenALPR is a privately-held Boston, Massachusetts-based company that provides automated license plate reader (ALPR) technology used by both law enforcement and commercial clients. This transaction is subject to closing conditions, including satisfactory completion of due diligence, entry into definitive agreements, and consummation of a financing transaction. The Company contemplates closing the transaction on or before February 28, 2019.

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 nine months ended September 30, 2018 is as follows:

	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding Balance at December 31, 2017	1,695,375	$ 2.19	9.26	$ 4,590,714
Granted	-	-	-	
Exercised	(13,998)	1.68	9.42	
Canceled	(260,205)	1.98	9.44	
Outstanding Balance at September 30, 2018	1,421,172	$ 2.22	8.00	$ 116,076
Exercisable at September 30, 2018	577,245	$ 1.68	6.96	$ 61,956
Vested and expected to vest at September 30, 2018	1,337,756	$ 2.22	7.82	$ 111,208

Stock compensation expense for the three months ended September 30, 2018 and 2017 was $86,879 and $107,321, respectively, and for the nine months ended September 30, 2018 and 2017 was $295,684 and $227,470, respectively, and is included in selling, general and administrative expenses in the accompanying consolidated statements of operations. The intrinsic value of stock options granted during the nine months ended September 30, 2017 was $400,543. The weighted average fair value at grant date for the nine months ended September 30, 2017 was $72,750.

There were no stock options granted during the three and nine months ended September 30, 2018. The total fair value of shares that became vested after grant during the nine months ended September 30, 2018 was $734,863.

As of September 30, 2018, there was $635,051 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 1.85 years.

NOTE 15 – EARNINGS (LOSS) PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic and diluted (loss) earnings per share				
Net (loss) earnings from continuing operations	$ (503,834)	$ (791,360)	$ (3,618,967)	$ (1,913,460)
Less: preferred stock accretion	(166,519)	(144,916)	(482,696)	(400,616)
Less: preferred stock dividends	(114,908)	(87,907)	(344,724)	(251,508)
Net income (loss) attributable to shareholders	(785,261)	(1,024,183)	(4,446,387)	(2,565,584)
Weighted average common shares outstanding - basic	14,542,362	11,756,560	14,524,030	10,920,866
Basic (loss) earnings per share	$ (0.05)	$ (0.09)	$ (0.31)	$ (0.23)
Weighted average common shares outstanding - diluted	14,542,362	11,756,560	14,524,030	10,920,866
Diluted (loss) earnings per share	$ (0.05)	$ (0.09)	$ (0.31)	$ (0.23)
Common stock equivalents excluded due to anti-dilutive effect	2,675,906	2,016,838	2,690,768	2,048,739

As the Company had a net loss for the three months ended September 30, 2018, the following 2,675,906 potentially dilutive securities were excluded from diluted loss per share: 917,950 for outstanding warrants, 974,487 related to the Series A Preferred Stock, 481,722 related to the Series B Preferred Stock and 301,747 related to outstanding options. In addition, 10,000 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 September 30, 2017, the following 2,016,838 potentially dilutive securities were excluded from diluted loss per share as the Company had a net loss: 967,845 for outstanding warrants and 974,487 related to the Series A Preferred Stock and 74,506 related to outstanding options. In addition, 15,707 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 nine months ended September 30, 2018, the following 2,690,768 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 316,609 related to outstanding options. In addition, 475,942 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 nine months ended September 30, 2017, the following 2,048,739 potentially dilutive securities were excluded from diluted loss per share as the Company had a net loss: 1,052,122 for outstanding warrants and 917,931 related to the Series A Preferred Stock and 78,686 related to options. In addition, 10,000 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 and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net (loss) earnings from continuing operations	$ (503,834)	$ (791,360)	$ (3,618,967)	$ (1,913,460)
Less: preferred stock accretion	(166,519)	(144,916)	(482,696)	(400,616)
Less: preferred stock dividends	(114,908)	(87,907)	(344,724)	(251,508)
Net income (loss) attributable to shareholders	$ (785,261)	$ (1,024,183)	$ (4,446,387)	$ (2,565,584)
Denominator (basic):				
Weighted average common shares outstanding	14,542,362	11,756,560	14,524,030	10,920,866
Participating securities - Series A preferred stock	974,487	974,487	974,487	917,931
Participating securities - Series B preferred stock	481,722	-	481,722	-
Weighted average shares outstanding	15,998,571	12,731,047	15,980,239	11,838,797
Loss per common share - basic under two-class method	$ (0.05)	$ (0.08)	$ (0.28)	$ (0.22)
Denominator (diluted):				
Weighted average common shares outstanding	14,542,362	11,756,560	14,524,030	10,920,866
Participating securities - Series A preferred stock	974,487	974,487	974,487	917,931
Participating securities - Series B preferred stock	481,722	-	481,722	-
Weighted average shares outstanding	15,998,571	12,731,047	15,980,239	11,838,797
Loss per common share - basic under two-class method	$ (0.05)	$ (0.08)	$ (0.28)	$ (0.22)

NOTE 16 – SUBSEQUENT EVENTS

Effective October 16, 2018, the Company entered into exchange agreements with holders of warrants to purchase an aggregate of 56,000 shares of the Company's common stock. Pursuant to the exchange agreements, the Company issued to the holders an aggregate of 96,924 shares of common stock in exchange for the return of the warrants to the Company for cancellation.

Effective October 23, 2018, the Company entered into amendment with the holder of an outstanding promissory note in the principal amount of $500,000 to extend the maturity date of the promissory note from March 16, 2019 through March 16, 2020. Also, on October 24, 2018, the Company entered into an amendment with another holder of an outstanding promissory note in the principal amount of $2,000,000 to extend the maturity date from May 1, 2019 through May 1, 2020. In consideration for the agreement of the Lender to extend the maturity date, the Company agreed to pay the Lender $62,500. The amendment further provides for the payment of interest through May 1, 2019 if the principal is repaid before May 1, 2019 and for the payment of interest through May 1, 2020 if the principal is repaid after May 1, 2019 and before May 1, 2020.

On November 1, 2018, the Company issued 4,125,000 shares of common stock through an underwritten public offering at a public offering price of $0.80 per share. Net proceeds to the Company was approximately $2.8 million. In addition, the Company granted underwriters a 45-day option to purchase up to 618,750 additional shares of common stock to cover over-allotment, if any. As part of this transaction, the Company issued to the underwriter warrants to purchase 206,250 shares of Novume common stock, exercisable over a period of five years, at an exercise price of $1.00 per share. The warrants may be exercised on or after April 27, 2019 and expire on October 29, 2023.

On November 5, 2018, David Hanlon was appointed as Director. Mr. Hanlon was appointed to fill the vacancy created by the resignation of Professor Marta Tienda, who resigned as a Director on November 5, 2018. The Board has determined that Mr. Hanlon is an independent director within the meaning of NASDAQ Rule 5605. Mr. Hanlon's compensation for his services as a director will be consistent with that of the Company's other nonemployee directors. Effective upon his appointment, Mr. Hanlon was granted fully-vested options to purchase 48,499 shares of common stock, par value $0.0001 per share, of the Company at a strike price of $0.73 per share. The options were granted pursuant to the Company's 2017 Equity Award Plan and expire on November 5, 2028.

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 the Annual Report on Form 10-K filed with the SEC on April 12, 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 and nine months ended September 30, 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.

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 automatic license plate reading systems, 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 currently undergoing field testing, and is expected to be piloted in several jurisdictions later in 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 deferred development of a second season in order to further evaluate the benefit to the Company. Accordingly, Novume Media has suspended active operations.

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 and nine months ended September 30, 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 shares 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 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 and nine months ended September 30, 2018. As of September 30, 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, (c) warrants to purchase 33,333 shares of Novume common stock, exercisable over a period of five years, at an excercise price of $5.44 per share valued at $65,988 and (d) warrants to purchase 33,333 shares of Novume common stock, exercisable over a period of five years, at an excercise price of $6.53 per share valued at $57,484. As the BC Management acquisition has recently been completed, we are currently in the process of completing the 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 September 30, 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 of the 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 Novume, and Brekford Merger Sub, Inc. 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 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 Novume on a fully-diluted basis, and the pre-merger stockholders of Brekford owned approximately 20% of the issued and outstanding capital stock of 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 with interest payable over, and principal due after, 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 $3.61 per share.

Key Trends, Developments and Challenges

Letter of Intent to Acquire OpenALPR Technology, Inc.

On September 17, 2018, we entered into a Letter of Intent with OpenALPR Technology, Inc. ("OpenALPR") which sets forth the parties' intent to consummate a transaction pursuant to which the we will acquire the assets of OpenALPR. The consideration for the transaction will be approximately $15 million, comprised of cash, or cash and the Company's common stock (up to $5,000,000 based on a price per share of $5.00), at the election of OpenALPR. OpenALPR is a privately-held Boston, Massachusetts-based company that provides automated license plate reader (ALPR) technology used by both law enforcement and commercial clients. This transaction is subject to closing conditions, including satisfactory completion of due diligence, entry into definitive agreements, and consummation of a financing transaction. We are committed to closing the transaction on or before February 28, 2019.

On October 9, 2018, we entered into a Management Services Agreement (the "MSA") with OpenALPR whereby we will provide services to support the continued growth of OpenALPR's platform. These services include sales, call center and customer support, engineering, marketing and website services along with business strategy, contract and other back office functions. The MSA provides for the Novume to receive compensation on a time and materials basis for most services and a commission basis for sales of OpenALPR products.

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

The FY2019 federal budget is approximately $4.4 trillion and it provides for about $1.3 trillion in discretionary spending, The federal government annually procures $450-$500 billion in goods and services directly from the private sector. In addition, there is also an emergency fund of approximately $111 billion that is not included in the budget process.

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.

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.

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 "April 2018 Promissory Note"). 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. On October 24, 2018, Novume entered into an amendment to extend the maturity date from May 1, 2019 through May 1, 2020. In consideration for the agreement of the Lender to extend the maturity date, the Company agreed to pay the Lender $62,500. The amendment further provides for the payment of interest through May 1, 2019 if the principal is repaid before May 1, 2019 and for the payment of interest through May 1, 2020 if the principal is repaid after May 1, 2019 and before May 1, 2020. Along with the April 3, 2018 transaction, 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 for any payments that might ultimately be paid to the Lender as its Lender's Participation, if any. At April 3, 2018, the fair value of shares issued was $126,000 and designated as financing cost and the amortized financing cost for the three months ended September 30, 2018 was determined to be $29,076. The April 2018 Promissory note has an effective interest rate of 20.8%.

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.

Public Offering

On November 1, 2018, the Company issued 4,125,000 shares of common stock through an underwritten public offering at a public offering price of $0.80 per share. Net proceeds to the Company was approximately $2.8 million. In addition, the Company granted underwriters a 45-day option to purchase up to 618,750 additional shares of common stock to cover over-allotment, if any. As part of this transaction, the Company issued to the underwriters warrants to purchase an aggregate of 206,250 shares of common stock, exercisable over a period of five years, at an exercise price of $1.00 per share. The warrants are exercisable commencing April 27, 2019 and expire on October 29, 2023.

Executive Management

Effective October 11, 2018, Harry Rhulen changed position from President of Novume to Executive Vice-President of Firestorm.

Effective October 29, 2018, our Chief Executive Officer, Robert A. Berman, was appointed as President of Novume.

Board of Directors

On November 5, 2018, David Hanlon was appointed as a Director. Mr. Hanlon was appointed to fill the vacancy created by the resignation of Professor Marta Tienda, who resigned as a Director on November 5, 2018. The Board has determined that Mr. Hanlon is an independent director within the meaning of NASDAQ Rule 5605. Mr. Hanlon's compensation for his services as a director will be consistent with that of the Company's other nonemployee directors. Effective upon his appointment, Mr. Hanlon was granted fully-vested options to purchase 48,499 shares of common stock, par value $0.0001 per share, of the Company at a strike price of $0.73 per share. The options were granted pursuant to the Company's 2017 Equity Award Plan and expire on November 5, 2028.

Results of Operations – Comparison of the Three Months Ended September 30, 2018 and 2017

Consolidated operating results for three months ended September 30, 2017 include AOC Key Solutions and Firestorm ("Legacy Novume"), and one month of Brekford from the date of acquisition, but do not include operations from Global. Consolidated operating results for three months ended September 30, 2018 include AOC Key Solutions, Firestorm, Brekford and Global.

Novume Solutions, Inc.
Consolidated Statements of Operations
For the Three Months Ended September 30, 2018 and 2017

	For the Three Months ended September 30,	
	2018	**2017**
Revenue	$ 13,148,848	$ 4,421,574
Cost of revenue	9,229,054	2,457,806
Gross profit	3,919,794	1,963,768
Operating expenses		
Selling, general, and administrative expenses	4,158,061	2,951,933
Loss from operations	(238,267)	(988,165)
Other expense		
Interest expense	(244,034)	(33,720)
Other income	549	5,383
Total other (expense) income	(243,485)	(28,337)
Loss before income taxes	(481,752)	(1,016,502)
(Provision) benefit from income taxes	(22,082)	225,142
Net loss	$ (503,834)	$ (791,360)

Revenue

Revenue increased by $8,727,274, or 197%, to $13,148,848 for the three months ended September 30, 2018, compared to $4,421,574 for the three months ended September 30, 2017, which includes one month of revenue from Brekford of $224,783. Aggregate revenue attributable to Brekford and Global for the three months ended September 30, 2018 was $8,134,344. Aggregate revenue attributable to Legacy Novume for the three months ended September 30, 2018 was $5,014,504, an increase of 19% compared to the prior year period due to the integration of BC Management and Secure Education into Firestorm and increased contract activity within AOC Key Solutions.

Cost of Revenue

Total cost of revenue for the three months ended September 30, 2018 increased $6,771,248, or 275.5%, to $9,229,054 compared to $2,457,806 for the three months ended September 30, 2017, which includes one month of cost of revenue from Brekford of $88,963. Aggregate cost of revenue attributable to Brekford and Global for the three months ended September 30, 2018 was $6,667,350. Aggregate cost of revenue attributable to Legacy Novume for the three months ended September 30, 2018 was $2,561,704, or 51.1% of revenue, which is a decrease from the prior year legacy period of 53.5% of revenue and is primarily attributable to a decrease in costs of labor.

Gross Profit

Gross profit for three months ended September 30, 2018 increased by $1,956,026, or 99.6%, to $3,919,794 compared to $1,963,768 for the three months ended September 30, 2017, which includes one month of gross profit from Brekford of $135,820. Aggregate gross profit attributable to Brekford and Global for the three months ended September 30, 2018 was $1,466,994. Aggregate gross profit attributable to Legacy Novume for the three months ended September 30, 2018 was $2,452,800, an increase of 34.2% compared to the prior year period.

The gross profit margin was 29.8% for the three months ended September 30, 2018, compared to 44.4% for the three months ended September 30, 2017. The gross profit margin for Brekford and Global was 28.5%, while the gross profit margin for Legacy Novume for the three months ended September 30, 2018 was 48.9% compared to the prior year period of 48.9%. 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 September 30, 2018, increased by $1,206,128, or 41%, to $4,158,061 compared to $2,951,933 for the three months ended September 30, 2017, which includes one month of selling, general and administrative expenses from Brekford of $173,466. Aggregate selling, general and administrative expenses attributable to Brekford and Global for the three months ended September 30, 2018 was $1,427,895. Aggregate selling, general and administrative expenses attributable to Legacy Novume for the three months ended September 30, 2018 was $2,730,167, a decrease of 1.7% compared to the prior year period.

The decrease in selling, general and administrative expenses of Legacy Novume was primarily due to decrease in professional and legal fees due to fewer corporate initiatives in the current year period. As percentage of revenue, our selling, general and administrative expenses for the three months ended September 30, 2018 decreased to 31.6% compared to 67.8% for the three months ended September 30, 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 expense, net, for the three months ended September 30, 2018 was $243,485 compared to other expense of $28,337 for the three months ended September 30, 2017. This increase was primarily related to a $210,314 increase in interest expense for the April 2018 promissory note.

Income Tax Expense

Our income tax provision for the three months ended September 30, 2018 was $22,082 compared to a benefit of $225,142 for the three months ended September 30, 2017. The prior year period tax benefit recorded is due primarily to the full valuation allowance on our deferred tax assets in the fourth quarter of 2017 and a provision for state income taxes in 2018.

Net Loss

Net loss for the three months ended September 30, 2018, was $503,834 compared to a net loss of $791,360 for the three months ended September 30, 2017. The net loss margin was 3.8% for the three months ended September 30, 2018, compared to a net loss margin of 17.9% for the three months ended September 30, 2017. The decrease in net loss compared to the prior year period was attributable primarily to the accretive gross profit of Global and Brekford acquisitions as well as reduced selling, general and administrative expenses due to fewer corporate initiatives offset somewhat by increased interest costs.

Results of Operations – Comparison of the Nine Months Ended September 30, 2018 and 2017

Consolidated operating results for nine months ended September 30, 2017 include AOC Key Solutions and Firestorm operations only for the period from January 25, 2017 through September 30, 2017 and one month of Brekford from the date of acquisition, but do not include operations from Global. Consolidated operating results for nine months ended September 30, 2018 include AOC Key Solutions, Firestorm, Brekford and Global.

Novume Solutions, Inc.
Consolidated Statements of Operations
For the Nine Months Ended September 30, 2018 and 2017

	For the Nine Months ended September 30, 2018	For the Nine Months ended September 30, 2017
Revenue	$ 36,705,781	$ 11,131,825
Cost of revenue	26,228,464	6,017,982
Gross profit	10,477,317	5,113,843
Operating expenses		
Selling, general, and administrative expenses	13,767,636	7,899,438
Loss from operations	(3,290,319)	(2,785,595)
Other expense	-	-
Interest expense	(507,841)	(97,624)
Other income	201,275	5,382
Total other (expense) income	(306,566)	(92,242)
Loss before income taxes	(3,596,885)	(2,877,837)
(Provision) benefit from income taxes	(22,082)	964,377
Net loss	$ (3,618,967)	$ (1,913,460)

Revenue

Revenue increased by $25,573,956, or 230%, to $36,705,781 for the nine months ended September 30, 2018, compared to $11,131,825 for the nine months ended September 30, 2017, which includes one month of revenue from Brekford of $224,783. Aggregate revenue attributable to Brekford and Global for the nine months ended September 30, 2018 was $24,073,605. Aggregate revenue attributable to Legacy Novume for the nine months ended September 30, 2018 was $12,632,177, an increase of 15.8% compared to the prior year period due to an increase in revenue attributable to the integration of BC Management and Secure Education into Firestorm and increased contract activity within AOC Key Solutions.

Cost of Revenue

Total cost of revenue for the nine months ended September 30, 2018 increased $20,210,482, or 335.8%, to $26,228,464 compared to $6,017,982 for the nine months ended September 30, 2017, which includes one month of cost of revenue from Brekford of $88,963. Aggregate cost of revenue attributable to Brekford and Global for the nine months ended September 30, 2018 was $19,795,220. Aggregate cost of revenue attributable to Legacy Novume for the nine months ended September 30, 2018 was $6,433,245, or 50.9% of revenue compared to the prior year legacy period of 54.4% of revenue.

Gross Profit

Gross profit for nine months ended September 30, 2018 increased by $5,363,474, or 105%, to $10,477,317 compared to $5,113,843 for the nine months ended September 30, 2017, which includes one month of gross profit from Brekford of $135,820. Aggregate gross profit attributable to Brekford and Global for the nine months ended September 30, 2018 was $4,278,385. Aggregate gross profit attributable to Legacy Novume for the nine months ended September 30, 2018 was $6,198,932, an increase of 24.5% compared to the prior year period.

The gross profit margin was 28.5% for the nine months ended September 30, 2018, compared to 45.9% for the nine months ended September 30, 2017. The gross profit margin for Brekford and Global was 17.8%, while the gross profit margin for Legacy Novume for the nine months ended September 30, 2018 and 2017 was relatively consistent at 49.1% and 45.9%, 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 nine months ended September 30, 2018, increased by $5,868,198, or 74.3%, to $13,767,636 compared to $7,899,438 for the nine months ended September 30, 2017, which includes one month of selling, general and administrative expense from Brekford of $173,466. Aggregate selling, general and administrative expenses attributable to Brekford and Global for the nine months ended September 30, 2018 was $4,418,059. Aggregate selling, general and administrative expenses attributable to Legacy Novume for the nine months ended September 30, 2018 was $9,349,577, an increase of 21.0% compared to the prior year period.

The increase in selling, general and administrative expenses of Legacy Novume was primarily due to increases in professional and legal fees related to acquisitions and financings, board and corporate expenses, and expenses related to maintaining compliance with applicable listing rules and SEC requirements. As percentage of revenue, our selling, general and administrative expenses for the nine months ended September 30, 2018 decreased to 37.5% compared to 71.0% for the nine months ended September 30, 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 expense, net, for the nine months ended September 30, 2018 was $306,566 compared to other expense of $92,242 for the nine months ended September 30, 2017. This increase was related to an increase of $410,217 of interest expense for the April 2018 promissory note, offset by a $200,000 adjustment to holdback consideration and the reversal of a prior year accrued expense.

Income Tax Expense

Our income tax provision for the nine months ended September 30, 2018 was $22,082, compared to a benefit of $964,377 for the nine months ended September 30, 2017. The Company established a valuation allowance against deferred tax assets in the fourth quarter of 2017 and has continued to maintain a full valuation allowance through the nine months ended September 30, 2018; therefore, there was no tax benefit recognized for the losses incurred for the nine months ended September 30, 2018. The $22,082 represents a provision for state income taxes for 2018.

Net Loss

Net loss for the nine months ended September 30, 2018, was $3,618,967 compared to a net loss of $1,913,460 for the nine months ended September 30, 2017. The net loss margin was 9.9% for the nine months ended September 30, 2018, compared to a net loss margin of 17.2% for the nine months ended September 30, 2017. The increase in net loss for the nine months ended September 30, 2018 compared to the prior year period was attributable to the increase in selling, general and administrative expenses, offset by the increased gross profit, increase interest expense and reduction in the tax provision.

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, to the extent available to the Company.

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

	Nine months ended September 30,	
	2018	**2017**
Net cash provided by (used in):		
Operating activities	$ (1,099,656)	$ (2,204,152)
Investing activities	519,270	(52,985)
Financing activities	106,742	3,230,815
Net increase in cash and cash equivalents:	$ (473,644)	$ 973,678

Cash Used in Operating Activities

For the nine months ended September 30, 2018, net cash used in operating activities was $1,099,656. Cash was used primarily to fund our loss from operations of $3,618,967 and was affected by the increase in current liabilities of $1,000,185, offset by the increase in current assets of $211,231. We also incurred non-cash expenses of $1,307,895 including depreciation and amortization, amortization of intangibles, share-based compensation, deferred rent, financing related costs and changes in fair value of derivative liability.

For the nine months ended September 30, 2017, net cash used in operating activities was $2,204,152. Cash was used primarily to fund our loss from operations of $1,913,460 and was affected by the increase in current liabilities of $1,088,529, offset by the decrease in current assets of $1,119,630. We also incurred non-cash expenses of $259,861including depreciation and amortization, provision for losses on accounts receivable, deferred tax effect, share-based compensation, deferred rent and warrant expense.

Cash Provided by and Used in Investing Activities

For the nine months ended September 30, 2018, net cash provided by investing activities of $519,270 was primarily the result of $1,475,000 of proceeds from the sale of a note receivable offset by the development of new products including the allocation of certain labor costs and the purchase of computer hardware and equipment.

For the nine months ended September 30, 2017, net cash used in investing activities of $52,985 related to the purchase of computer hardware and equipment.

Cash Provided by Financing Activities

For the nine months ended September 30, 2018, net cash provided by financing activities of $106,742 related to the proceeds from the sale of notes payable of $2,000,000, vehicle loan of $31,824, and the exercise of options of $23,449 offset by the net short-term repayments of $1,571,984 and the payment of Series A and Series B Preferred Stock dividends of $344,724.

For the nine months ended September 30, 2017, net cash provided by financing activities of $3,230,815 related to proceeds from the issuance of preferred stock of $1,745,347, net of fees, the acquisition of Brekford of $1,943,777, net of cash acquired, proceeds from a note payable of $47,341, offset by the payment of Series A Preferred Stock dividends of $163,601 and the acquisition of Firestorm of $417,704, net of cash acquired.

Non-Cash Financing Activities

In April 2018, we issued 35,000 shares, valued at $126,000, of Novume common stock as consideration in connection with the April 2018 Promissory Note.

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.

In August 2017, the Company merged with Brekford as described above. The non-cash consideration for the Brekford Merger included the issuance of 3,287,187 shares of Novume common stock valued at $5,851,193.

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.

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 the terms of a three-year lease which expired on May 31, 2018, and lease payments are currently on a month-to-month basis; Roswell, Georgia under a lease expiring January 31, 2022; Hanover, Maryland under a lease expiring December 31, 2018; and 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 nine months ended September 30, 2018 and 2017 was $608,943 and $575,181, respectively, and is included in selling, general and administrative expenses.

As of September 30, 2018, the future obligations over the primary terms of the long-term leases expiring through 2023 are as follows:

2018 (remainder of year)	$	192,046
2019		624,228
2020		190,599
2021		101,386
2022		38,873
Thereafter		30,393
Total	$	1,177,525

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 offsets of $136,901 to rent expense for each of the nine months ended September 30, 2018 and 2017.

Liquidity and Capital Resources

During 2017 and 2018, we have funded our operations primarily through cash from operating activities from our subsidiaries, revolving lines of credit, issuance of debt, the completed Reg A Offering and the sale of assets. As of September 30, 2018, we had unrestricted cash and cash equivalents of $1,483,568 and working capital of $1,181,723, 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 April 6, 2018, we paid cash dividends of $87,907 to Series A shareholders of record as of March 31, 2018. On July 9, 2018, we paid cash dividends of $87,907 to Series A shareholders of record as of June 30, 2018. On September 30, 2018, the Company accrued dividends of $87,907 to Series A Preferred Stock shareholders of record as of September 30, 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 April 6, 2018, we paid cash dividends of $27,001 to Series B shareholders of record as of March 31, 2018. On July 9, 2018, we paid cash dividends of $27,001 to Series B shareholders of record as of June 30, 2018. On September 30, 2018, the Company accrued dividends of $27,001 to Series B Preferred Stock shareholders of record as of September 30, 2018.

Operating assets and liabilities consist primarily of receivables from billed and unbilled services, accounts payable, accrued expenses, current portion of long-term debt and lines of credit, and accrued payroll and related benefits. The volume of billings and timing of collections and payments affect these account balances.

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 September 30, 2018 and December 31, 2017 was $1,510,234 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 September 30, 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 September 30, 2018 and December 31, 2017 was $581,368 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 September 30, 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 was to mature on March 16, 2019. On October 23, 2018, the maturity date of this note was extended to March 16, 2020.

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 “April 2018 Promissory Note”). The loan was originally due and payable on May 1, 2019 and bears interest at 15% per annum, with a minimum of 15% interest payable if the loan is repaid prior to May 1, 2019. On October 24, 2018, Novume and Brekford entered into a note amendment with the Lender by which the maturity date of the note was extended to May 1, 2020. In consideration for the agreement of the Lender to extend the maturity date, the Company agreed to pay the Lender $62,500. The amendment further provides for payment of interest through May 1, 2019 if the principal is repaid before May 1, 2019 and for the payment of interest through May 1, 2020 if the principal is repaid after May 1, 2019 and before May 1, 2020. 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 for any payments that might ultimately be paid to the Lender as its Lender’s Participation, if any. At April 3, 2018, the fair value of shares issued was $126,000 and designated as financing cost and the amortized financing cost for the three and nine months ended September 30, 2018 was determined to be $29,076 and $58,152, respectively. The April 2018 Promissory note has an effective interest rate of 22.5%.

Novume has generated losses since its inception in August 2017 and has relied on cash on hand, external bank lines of credit, issuance of debt and the sale of a note to provide cash for operations. The Company attributes losses to merger costs, public company corporate overhead, lower than expected revenue and lower gross profit of some of our subsidiaries. As of and for the nine months ended September 30, 2018, the Company incurred a net loss from continuing operations of approximately $3.6 million and used approximately $1.1 million in net cash from operating activities from continuing operations. The Company had total cash and cash equivalents of approximately $1.5 million as of September 30, 2018 and a net working capital of $1.2 million.

On November 1, 2018, the Company issued 4,125,000 shares of common stock through an underwritten public offering at a public offering price of $0.80 per share. Net proceeds to the Company was approximately $2.8 million. In addition, the Company granted underwriters a 45-day option to purchase up to 618,750 additional shares of common stock to cover over-allotment, if any. As part of this transaction, the Company issued to the underwriter warrants to purchase an aggregate of 206,250 shares of common stock, exercisable over a period of five years, at an exercise price of $1.00 per share. The warrants are exercisable commencing April 27, 2019 and expire on October 29, 2023.

No additional sources of capital have been obtained or committed through the date these consolidated financial statements were available to be issued, except as noted in the Recent Events below. Although certain of our subsidiaries are profitable, due to the operating costs associated with being a public company and expenses related to product development and commercialization costs at other subsidiaries, we anticipate that we will operate at a loss for the foreseeable future.

As of September 30, 2018, Novume did not have any material commitments for capital expenditures.

Recent Events

On September 17, 2018, we entered into a Letter of Intent with OpenALPR which sets forth the parties' intent to consummate a transaction pursuant to which we will acquire the assets of OpenALPR. The consideration for the transaction will be approximately $15 million, comprised of cash, or cash and the Company's common stock (up to $5,000,000 based on a price per share of $5.00), at the election of OpenALPR. OpenALPR is a privately-held Boston, Massachusetts-based company that provides automated license plate reader (ALPR) technology used by both law enforcement and commercial clients. This transaction is subject to closing conditions, including satisfactory completion of due diligence, entry into definitive agreements, and consummation of a financing transaction. The Company is committed to closing the transaction on or before February 28, 2019.

On October 9, 2018, we entered into the MSA with OpenALPR whereby the we will provide services to support the continued growth of OpenALPR's platform. These services include sales, call center and customer support, engineering, marketing and website services along with business strategy, contract and other back office functions. The MSA provides for Novume to receive compensation on a time and materials basis for most services and a commission basis for sales of OpenALPR products.

Effective October 16, 2018, we entered into exchange agreements with holders of warrants to purchase an aggregate of 56,000 shares of the Company's common stock. Pursuant to the exchange agreements, we issued to the holders an aggregate of 96,924 shares of common stock in exchange for the return of the warrants to the Company for cancellation.

Effective October 23, 2018, we entered into amendment with the holder of an outstanding promissory note in the principal amount of $500,000 to only extend the maturity date of the promissory note from March 16, 2019 through March 16, 2020. Also, on October 24, 2018, we entered into an amendment with another holder of an outstanding promissory note in the principal amount of $2,000,000 to extend the maturity date from May 1, 2019 through May 1, 2020. In consideration for the agreement of the Lender to extend the maturity date, the Company agreed to pay the Lender $62,500. The amendment further provides for the payment of interest through May 1, 2019 if the principal is repaid before May 1, 2019 and for the payment of interest through May 1, 2020 if the principal is repaid after May 1, 2019 and before May 1, 2020.

On November 1, 2018, we issued 4,125,000 shares of common stock through an underwritten public offering at a public offering price of $0.80 per share. Net proceeds to the Company was approximately $2.8 million. In addition, we granted underwriters a 45-day option to purchase up to 618,750 additional shares of common stock to cover over-allotment, if any. As part of this transaction, the Company issued to the underwriter warrants to purchase an aggregate of 206,250 shares of common stock, exercisable over a period of five years, at an exercise price of $1.00 per share. The warrants are exercisable commencing April 27, 2019 and expire on October 29, 2023.

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 recognize 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. As of December 31, 2017, the Company had $117,636 of deferred revenue, of which $12,333 and $42,636, was recognized for the three and nine months ended September 30, 2018, respectively.

Accounts Receivable

Accounts receivable are customer obligations due under normal trade terms. We perform continuing credit evaluations of our 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 September 30, 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.

As of September 30, 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 September 30, 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.

Going Concern and Management's Plan

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 and external bank lines of credit, 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, the sale of a note and a public offering of its common stock 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 nine months ended September 30, 2018, the Company had a net loss of approximately $3.6 million and working capital of approximately $1.2 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 and in November 2018 by the proceeds of $2.8 million from the sale of common stock. Also, as discussed in Note 8, the maturity dates for the Avon Road Note and the April 2018 Promissory Note have been extended into 2020.

Management continues to seek additional funding to support its planned acquisition of OpenALPR, however, no assurance can be given that it will be successful in raising adequate funds needed. If the Company is unable to raise additional capital when required or on acceptable terms, management may have to: terminate its intent to acquire OpenALPR; delay, scale back or discontinue the development or commercialization of some of our products; restrict our operations; or obtain funds by entering into agreements on unattractive terms, which would likely have a material adverse effect on our business, stock price and our relationships with third parties with whom we have business relationships, at least until additional funding is obtained. The Company may implement its contingency plans to reduce or defer expenses and cash outlays if operations do not improve in the look-forward period.

Management believes that based on relevant conditions and events that are known and reasonably knowable that its current forecasts and projections, 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 for that one-year period. The Company is actively monitoring its operations, cash on hand and working capital. The Company has contingency plans to reduce or defer expenses and cash outlays should operations not improve in the look-forward period or additional financing is not available. Management believes the substantial doubt regarding the going concern reported at June 30, 2018 has been alleviated as a result of improved operations, the extended maturity dates on notes payable and the proceeds of the November stock issuance.

New Accounting Pronouncements

Recently Issued Accounting Pronouncements

Not Yet Adopted

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting.* This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity's adoption date of Topic 606. We will adopt the provisions of this ASU in the first quarter of 2019. Adoption of the new standard is not expected to have a material impact on our Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently evaluating the effect that ASU 2018-13 will have on our consolidated financial statements and related disclosures.

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. 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. 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 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. An additional update was issued by FASB in January 2018 to ASC Topic 842. We are currently evaluating the impact of the adoption of this guidance and the related update 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, 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 Licensin* g, 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 all contracts at the date of initial application that are within the scope of Topic 606, excluding time-and-expense contracts at AOC Key Solutions and Global since Topic 606 does not have a material impact on time-and-expense contracts. 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 as of January 1, 2018 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 to $45,000 and subsequently recognized as revenue in nine months ended September 30, 2018 resulting in (3) an increase in each of deferred revenue and accumulated deficit of $67,000. The impact of adopting Topic 606 on our consolidated balance sheet as of September 30, 2018 is a $53,248 reduction to deferred revenue. The impact of adopting Topic 606 on our consolidated income statement for the nine months ended September 30, 2018 is a $53,248 increase in revenue. Revenue recognition related to the Company’s other revenue streams will remain substantially unchanged. As of September 30, 2018, approximately $13,752 of deferred revenue recognized upon adoption of Topic 606 is expected to be recognized from remaining performance obligations for a franchise contract over the next 15 months.

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 September 30, 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. However, we have hired a Chief Accounting Officer and instituted initiatives to improve our controls throughout the organization.

Part II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Other than as set forth below, 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.

Risks Relating to our Business

We may be unable to complete our acquisition of the assets of OpenALPR.

On September 17, 2018, we entered into a Letter of Intent with OpenALPR which sets forth the parties’ intent to consummate a transaction pursuant to which we will acquire the assets of OpenALPR (see “Recent Developments”). The closing of the acquisition is subject to, among other things, raising additional capital, which may not be available to us on acceptable terms, or at all. If we raise additional capital in connection with the acquisition through the sale of common stock or securities convertible or exercisable into common stock, our then-stockholders may experience substantial dilution. If we fail to complete the acquisition, our business may be harmed.

We may be required to redeem our outstanding shares of Series A Preferred Stock.

The holders of our outstanding shares of Series A Preferred Stock (consisting of 502,327 shares as of October 29, 2018), will have the right to require the Company to redeem their shares, at any time from and after November 8, 2021, at a price of $15.00 per share plus any accrued but unpaid dividends (such accrued but unpaid dividends are equal to an aggregate of $114,908 as of October 29, 2018). (See the Company’s Certificate of Designation of Series A Preferred Stock filed as an exhibit to our Form 8-K filed with the SEC on August 25, 2017). In the event that the market price of our common stock does not exceed the conversion price of the Series A Preferred Stock at the time of redemption, we will likely be required to redeem the outstanding shares of Series A Preferred Stock, which would likely have a material adverse effect on our liquidity, capital resources and business prospects.

Our significant debt obligations could impair our liquidity and financial condition. If we default on our secured debt, the lender may foreclose on our assets.

As of September 30, 2018, we (through a subsidiary) had $1,510,234 outstanding under our line of credit with Wells Fargo Bank, National Association (“WFB”), secured by one of our subsidiary’s accounts receivable. WFB agreed to advance to this subsidiary, 90% of all eligible accounts with a maximum facility amount of $5,000,000. If we default on this debt, the lender may foreclose on its collateral, which would have a material adverse effect on our business and operations. As of October 29, 2018, $1,051,011 was outstanding under this line of credit.

In addition, as of September 30, 2018, we (through a subsidiary) had $581,368 outstanding under an account purchase agreement with WFB, pursuant to which our subsidiary 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 our subsidiary, 90% of all eligible accounts with a maximum facility amount of $3,000,000. A default under this agreement would have a material, adverse effect on our business and operations. As of October 29, 2018, $0 was outstanding under this line of credit.

As of September 30, 2018, we had $2,000,000 outstanding with an institutional investor (the “Lender”). The loan was originally due and payable on May 1, 2019 and bears interest at 15% per annum, with a minimum of 15% interest payable if the loan is repaid prior to May 1, 2019. On October 24, 2018, we entered into a note amendment with the Lender by which the maturity date of the note was extended to May 1, 2020. In consideration for the agreement of the Lender to extend the maturity date, we agreed to pay the Lender $62,500. The amendment further provides for payment of interest through May 1, 2019 if the principal is repaid before May 1, 2019 and for the payment of interest through May 1, 2020 if the principal is repaid after May 1, 2019 and before May 1, 2020. The loan is secured by a security interest in all of the assets of Brekford. A default under this agreement would have a material, adverse effect on our business and operations.

In addition, our debt obligations:

- could impair our liquidity;
- could make it more difficult for us to satisfy our other obligations;
- require us to dedicate a substantial portion of our cash flow to payments on our debt obligations, which reduces the availability of our cash flow to fund working capital, capital expenditures and other corporate requirements;
- could impede us from obtaining additional financing in the future for working capital, capital expenditures, acquisitions and general corporate purposes;
- impose restrictions on us with respect to the use of our available cash, including in connection with future transactions;
- could limit our ability to execute on our acquisition strategy;
- make us more vulnerable in the event of a downturn in our business prospects and could limit our flexibility to plan for, or react to, changes in our licensing markets; and
- could place us at a competitive disadvantage when compared to our competitors who have less debt.

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.

Number	Description
1.1	Underwriting Agreement, dated October 29, 2018, by and between ThinkEquity, a division of Fordham Financial Management, Inc. acting as the representative of the several underwriters named on Schedule I thereto (Previously filed as Exhibit 1.1 to the Company's current report on Form 8-K as filed with the SEC on November 1, 2018).
10.1	Letter of Intent for the purchase of the assets of OpenALPR Technology, Inc. dated September 17, 2018 (Previously filed as Exhibit 99.2 to the Company's current report on Form 8-K as filed with the SEC on September 20, 2018).
10.2	Management Services Agreement dated October 9, 2018 (Previously filed as Exhibit 99.2 to the Company's current report on Form 8-K as filed with the SEC on October 12, 2018). (Confidential treatment was requested with respect to certain portions of this exhibit pursuant to 17.C.F.R. §240.24b-2. Omitted portions were filed separately with the SEC). (1)
10.3	Amendment to Promissory Note dated March 16, 2016 (Previously filed as Exhibit 10.1 to the Company's current report on Form 8-K as filed with the SEC on October 24, 2018).
10.4	Amendment to Promissory Note dated April 3, 2018 (Previously filed as Exhibit 10.2 to the Company's current report on Form 8-K as filed with the SEC on October 24, 2018).
31.1	Certification of Principal Executive Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended .
31.2	Certification of Principal Financial Officer Required Under Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended .
32.1	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.
32.2	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.
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

(1) Filed herewith.

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: November 13, 2018		/s/ Robert A. Berman
	Name:	Robert A. Berman
	Title:	President and Chief Executive Officer
		Principal Executive Officer
Date: November 13, 2018		/s/ Riaz Latifullah
	Name:	Riaz Latifullah
	Title:	EVP Corporate Development
		Principal Financial and Accounting Officer
		Authorized Signatory

NOVUME

Novume Solutions, Inc. has requested that portions of this document be accorded confidential treatment pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.

October 9, 2018

Mr. Matt Hill
OpenALPR Technologies, Inc.
177 Huntington Avenue #179700
Boston, MA 02115

Dear Matt,

The purpose of this Management Services Agreement is to summarize the ways in which Novume Solutions, Inc. and its subsidiaries ("Novume") can support the continued growth of OpenALPR Technologies, Inc. ("OpenALPR"). We have outlined areas of support below. If there are any desired services that cannot be provided by Novume personnel, Novume will recommend a third-party, negotiate pricing and seek OpenALPR approval before engaging any vendor.

Business Strategy, Contract Support, Accounting & General Admin
We will provide, as requested, business strategy, contract support, accounting and other general administrative support services for OpenALPR at no charge. We envision our corporate leadership helping with contract review, intellectual property matters, project management/coordination for web redesign, coordinating sales support from the Novume team, marketing materials, international banking, and regulatory matters, etc. In addition, we can work with your accountant/bookkeeper to start building OpenALPR's accounting structure.

Website Redesign & Marketing Materials
We will coordinate web design and provide marketing materials support at a rate of [***].

Engineering Support
We will provide engineering support through our developers and engineers at a rate of [***].

Call Center and Customer Support
We will provide inbound call center and customer service support at a rate of [***].

Sales Support
Through Novume business development and sales personnel, we will provide sales support to Open ALPR on a commission basis for completed sales as described below.

[***] Confidential Treatment pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended has been requested for this information

Weekly Status Call

Open ALPR and Novume will have weekly status calls. Open ALPR CEO, Matt Hill, and Novume EVP Corporate Development, Riaz Latifullah, will participate on the weekly calls. Others will be invited to attend the calls, as needed. A project status report, to be updated by Matt Hill and Riaz Latifullah each week in advance of the call, will reference the consulting services that are being performed by Novume and its subsidiaries, as well as the sales referrals in the pipeline or completed. This report will be reviewed during the weekly status call.

Payment Terms

Novume will submit invoices to OpenALPR on a monthly basis for consulting services that are provided to OpenALPR. Expenses incurred by Novume will be reimbursed by Open ALPR at cost. Novume will seek approval from OpenALPR prior to incurring any extraordinary expense, e.g., filing and outside counsel fees related to intellectual property. All invoices will include documentation sufficient to support charges.

OpenALPR will pay a [***] commission on the gross sale amount for any business sold by Novume and its subsidiaries. OpenALPR agrees to pay the commission due to Novume upon receipt of payment from your customer or client.

Term

This letter agreement can be terminated upon 10-days written notice by either party for any reason. Should the letter agreement be terminated, OpenALPR agrees to pay Novume for all closed sales which were consummated by Novume prior to the termination date.

Intellectual Property

All material on the OpenALPR and Novume web sites, whether explicitly marked or not, as well as any other materials the parties provide to each other, remains the proprietary property of the providing party, and all intellectual property rights therein remain the property of the providing party.

Confidentiality

We will maintain the information provided to each other for our internal use, with the exception of information Novume and its subsidiaries will utilize to represent Open ALPR's products to existing or proposed new clients, and this information is subject to the confidentially agreement entered into buy Buyer and Seller on August 30, 2018 along with the Letter of Intent to purchase OpenALPR assets dated September 17, 2018, both of which remain in full force and effect.

Independent Contractor

In performing the services set forth in this letter agreement, the parties shall at all times act in their own capacity and right as an independent contractor, and nothing contained herein shall be construed to make one party an employee, partner, or joint venture, of the other party, and neither party shall have authority to contract for or bind the other party.

[***] Confidential Treatment pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended has been requested for this information

Liability Insurance

Both Novume and Open ALPR will maintain professional liability insurance.

Signature Page Follows

Dated: _________________

Novume Solutions, Inc.

By: /s/ Riaz Latifullah
Name: Riaz Latifullah
Title: EVP Corporate Development
Principal Financial & Accounting Officer

Open ALPR

By: /s/ Matt Hill
Name: Matt Hill
Title: CEO

Exhibit 31.1

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: November 13, 2018

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

Exhibit 31.2

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: November 13, 2018

/s/ Riaz Latifullah

Riaz Latifullah
EVP Corporate Development
Principal Financial and Accounting Officer

Exhibit 32.1

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 September 30, 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: November 13, 2018

/s/ Robert A. Berman
Robert A. Berman
President and 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.

Exhibit 32.2

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 September 30, 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: November 13, 2018

/s/ Riaz Latifullah
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.