SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Rekor Systems, Inc.

Form: 8-K/A

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

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 12, 2019

REKOR SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	001-38338	81-5266334
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

14420 Albemarle Point Place, Suite 200,
Chantilly, VA, 20151
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: **(703) 953-3838**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

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. ☐

Securities registered pursuant to Sectin 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.0001 par value per share	REKR	The Nasdaq Stock Market

Item 2.10 Completion of Acquisition or Disposition of Assets

On March 18, 2019, Rekor Systems, Inc. (the "Company") filed a Current Report on Form 8-K (the "Original Form 8-K") reporting that on March 12, 2019, the Company completed the acquisition of certain assets of OpenALPR Technlogy, Inc. ("OpenALPR") and assumed certain liabilities. This Form 8-K/A amends the Original Form 8-K to include the financial information described in Item 9.01 below, which was excluded from the Original Form 8-K in accordance with Item 9.01(a) and Item 9.01(b) of Form 8-K.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Businesses Acquired.

The audited financial statements of OpenALPR as of and for the years ended December 31, 2018 and 2017, are filed herewith as Exhibit 99.1 hereto and incorporated herein by reference.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial information of the Company and OpenALPR as of and for the year ended December 31, 2018 is filed herewith as Exhibit 99.2 hereto and incorporated herein by reference.

1. Unaudited pro forma condensed combined balance sheet as of December 31, 2018

2. Unaudited pro forma condensed combined statement of operations for the year ended December 31, 2018

(d) Exhibits

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit No.	Description
23.1	Consent of BD & Company, Inc., Independent Auditors of OpenALPR
99.1	Audited financial statements of OpenALPR as of and for the years ended December 31, 2018 and 2017
99.2	Unaudited pro forma condensed combined financial information of the Company and OpenALPR as of and for the year ended December 31, 2018

SIGNATURE

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 hereunto duly authorized.

REKOR SYSTEMS, INC.

Date: May 10, 2019

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

BD & CO. INC.
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

Consent of Registered Independent Public Accounting Firm

We hereby consent to the inclusion in this filing on Form 8-K/A, of our report dated May 6, 2018, of our audits of the financial statements of OpenALPR, Inc., as of and for the years ended December 31, 2018 and 2017.

/s/ BD & Company, Inc.
BD & Company, Inc.
Owings Mills, MD
May 10, 2019

OPENALPR TECHNOLOGY, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2018 and 2017

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B D & C O. INC.
CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

Independent Auditors' Report

Board of Directors and Stockholders of
OpenALPR Technology, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of OpenALPR Technology, Inc., which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OpenALPR Technology, Inc. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ BD & Company, Inc.
BD & Company, Inc.
Owings Mills, MD
May 6, 2019

OpenALPR Technology, Inc.
Balance Sheets
December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 1,230,512	$ 303,714
Accounts receivable, net	218,734	28,053
Prepaid expenses and other	7,559	-
Total current assets	1,456,805	331,767
PROPERTY AND EQUIPMENT		
Software	85,800	85,800
Less: accumulated amortization	(61,490)	(44,140)
Total property and equipment	24,310	41,660
TOTAL ASSETS	$ 1,481,115	$ 373,427
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 162,458	$ 1,897
Accrued salaries, wages and related benefits	14,592	16,907
Deferred revenue	123,468	44,997
Total current liabilities	300,518	63,801
TOTAL LIABILITIES	300,518	63,801
STOCKHOLDERS' EQUITY		
Common stock, $0.01 par value, 1,000 shares authorized, issued and outstanding as of December 31, 2018 and 2017	10	10
Additional paid-in capital	125,206	125,206
Retained earnings	1,055,381	184,410
TOTAL STOCKHOLDERS' EQUITY	1,180,597	309,626
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,481,115	$ 373,427

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

OpenALPR Technology, Inc.
Statements of Operations
For the Years Ended December 31, 2018 and 2017

	2018	2017
NET SALES	$ 1,816,075	$ 430,689
OPERATING COSTS AND EXPENSES		
Salaries and related expenses	380,564	227,238
Selling, general and administrative expenses	344,627	46,145
Total operating costs and expenses	725,191	273,383
NET INCOME	$ 1,090,884	$ 157,306

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

OpenALPR Technology, Inc.
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 2018 and 2017

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Total Stockholders' Equity
Balance as of January 1, 2017	1,000	$ 10	$ 125,206	$ 27,104	$ 152,320
Repurchase of Stock - 200 shares at $0.01 par value	(200)	(2)	-	-	(2)
Issuance of stock - 200 Shares at $0.01 per share	200	2	-	-	2
Net income	-	-	-	157,306	157,306
Balance as of December 31, 2017	1,000	10	125,206	184,410	309,626
Repurchase of stock - 100 Shares at $0.01 per share	(100)	(1)	-	-	(1)
Issuance of stock - 100 Shares at $0.01 per share	100	1	-	-	1
Distributions - net	-	-	-	(219,913)	(219,913)
Net income	-	-	-	1,090,884	1,090,884
Balance as of December 31, 2018	1,000	$ 10	$ 125,206	$ 1,055,381	$ 1,180,597

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

OpenALPR Technology, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,090,884	$ 157,306
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization	17,350	17,160
Allowance for doubtful accounts	21,560	-
Changes in operating assets and liabilities:		
Accounts receivable	(212,242)	(23,333)
Prepaid expenses and other	(7,559)	-
Accounts payable and accrued liabilities	160,562	(1,225)
Accrued salaries, wages and related benefits	(2,315)	16,907
Deferred revenue	78,471	27,852
Net cash provided by operating activities	1,146,711	194,667
CASH FLOWS FROM FINANCING ACTIVITIES		
Majority stockholder contribution and (distribution)	(219,913)	-
Net cash (used in) financing activities	(219,913)	-
NET CHANGE IN CASH	926,798	194,667
CASH AT BEGINNING OF YEAR	303,714	109,047
CASH AT END OF YEAR	$ 1,230,512	$ 303,714

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

NOTE 1 – ORGANIZATION AND BUSINESS ACTIVITY

OpenALPR Technology, Inc. ("OpenALPR" or the "Company"), is an S Corporation organized in the state of Florida on June 5, 2015 and headquartered in Boston, Massachusetts.

OpenALPR provides Automatic License Plate Recognition software used by both law enforcement and commercial clients to analyze digital images and video streams to identify license plates. License plate information, along with vehicle make, model, color, and direction of travel, are converted to data in real time, with the capability for recognition of thousands of plates per hour depending on hardware configuration. The OpenALPR software uses artificial intelligence to extract information from video streams and images.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America ("GAAP").

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are carried at estimated net realizable value. The Company's payment terms vary by type of services offered. For services purchased through the Company's website, payment is due by credit card at the time of purchase; all other sales are billed and collected subsequent to the sale. The Company determined that an allowance of $21,560 and $0 was required at December 31, 2018 and 2017, respectively. Unbilled receivables were $162,540 and $0 as of December 31, 2018 and 2017, respectively.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk include cash and accounts receivable. Concentrations of credit risk with respect to accounts receivable are minimal due to the collection history and the ongoing relationships with 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.

Software Capitalization

At the date of the Company's incorporation, the majority stockholder, in addition to transferring cash of $36,763, transferred the internally developed OpenALPR intellectual property (IP), which is held for sale, with a value of $85,800. Since the transfer, all costs related to maintaining and enhancing the OpenALPR IP has been expensed as incurred.

The capitalized software cost is being amortized over five years. Amortization expense related to the software for the years ended December 31, 2018 and 2017 was $17,350 and $17,160, respectively.

Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, services have been rendered or delivery has occurred, the transaction price is fixed or determinable and collectability of the related revenue is reasonably assured. The Company recognizes sales revenue, net of sales fees and discounts.

Revenue is generated through the sale of the following services or products:

- On-Premises software designed for hosting on a private network and for software developers building custom applications with embedded license plate recognition. The solution includes a web server, self-managed database, and access to a cross-platform application programming interface (API). Customers are typically billed a one-time fee for the purchase of on-premises software and revenue is recognized upon delivery of the perpetual software license.
- OpenALPR Cloud Stream designed to enable automatic license plate and vehicle recognition with any internet protocol camera. The software is installed on the customer's local computer hardware to recognize license plates and the results are displayed on a web portal which can be accessed from anywhere. Customers typically pay upfront by credit card on a month-to-month basis. Alternatively, customers may prefer to be billed upfront for a minimum of one year of services and pay within set payment terms. Revenue is recognized monthly over the period of the service term for OpenALPR Cloud Stream.
- OpenALPR Cloud API designed as a web service running in the cloud that analyzes images of vehicles and responds with license plate data, as well as vehicle color, make, model, and body type. Customers typically pay upfront by credit card on a month-to-month basis. Alternatively, customers may prefer to be billed upfront for a minimum of one year of services and pay within set payment terms. Revenue is recognized monthly over the period of the service term for OpenALPR Cloud API.
- OpenALPR's Forensic Plate Finder utility is designed to enable license plates to be detected and recognized from video and still image files. Customers are typically billed a one-time fee for this solution and revenue is recognized upon delivery of the software license.
- The Company provides software updates to its customers through maintenance service agreements. Revenue from maintenance services is recognized over the period of the service term.
- The Company also provides training and consulting services to its customers. Revenue from these services is recognized when the services are provided.

Operating Costs

The Company does not currently lease any office facilities, as all OpenALPR employees and contractors operate out of their own home offices. All communication and support activities are handled through the Company's cloud and web services. The founder and chief executive officer of the Company has actively participated in OpenALPR since the Company's inception and has been paid salaries of $32,000 and $5,000 for the years ended December 31, 2018 and 2017, respectively.

Advertising Costs

Advertising costs are charged to selling, general and administrative expenses as incurred. The Company incurred $19,735 and $4,016 in advertising costs for the years ended December 31, 2018 and 2017, respectively.

Income Taxes

The Company has elected to be taxed under provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income and is not allowed a net operating loss carryover or carry back as a deduction. Instead, the stockholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income or include their respective shares of the Company's net operating loss in their individual income tax returns.

GAAP requires management to evaluate tax positions taken by the Company and recognize a tax liability (or asset) if the Company has taken an uncertain position that more likely than not would not be sustained upon examination by federal, state or local tax authorities. Management has analyzed the tax positions taken and has concluded that, as of December 31, 2018 and 2017, there were no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress and tax years 2015 through 2018 are subject to audit.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates include, but are not limited to accounts receivables, accrued salaries and expenses and deferred revenue. Estimates have been prepared on the basis of the most current and best available information and actual results could differ materially from those estimates.

Recent Accounting Pronouncements

Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with* Customers, as amended ("ASC 606"), updating the accounting guidance related to revenue recognition to clarify the princ iples for recognizing revenue and replaced all existing revenue recognition guidance in U.S. GAAP with one accounting model. The core principle of the guidance is that an entity should 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 updated guidance also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers largely on a disaggregated basis. The standard permits the use of either a retrospective or modified retrospective application. These new accounting standards are effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this guidance on the Company's financial condition, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 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 U.S. 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 guidance. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, although earlier adoption is permitted. In the financial statements in which ASU 2016-02 is first applied, leases shall be measured and recognized at the beginning of the earliest comparative period presented with an adjustment to equity. Management is currently evaluating the impact of the adoption of this guidance on the Company's financial condition, results of operations and cash flows.

NOTE 3 – MAJOR CUSTOMERS AND VENDORS

The Company has several contracts with law enforcement and commercial clients, of which net revenue from two major customers for the year ended December 31, 2018 represented 35% of the total net revenue, as compared to net revenue from five major customers for the year ended December 31, 2017 represented 44% of the total net revenue. The Company also has credit risk with regard to its accounts receivables, as one major customer represent 10% of the accounts receivable balance as of December 31, 2018 and two major customers represent 75% of the accounts receivable balance as of December 31, 2017.

NOTE 4 – EQUITY

The Company has authorized a total of 1,000 shares of $0.01 par value common stock of which 1,000 shares were issued and outstanding at December 31, 2018 and 2017.

On December 29, 2017, the Company entered into a stock purchase agreement which provided an employee the right to purchase 200 shares of the Company's common stock at a purchase price of $0.01 per share, of which 50 shares vested immediately and 50 shares each would vest generally over the next three years. Concurrent with the stock purchase agreement, the Company repurchased 200 shares of its common stock from the sole stockholder. Under this stockholder purchase agreement, the employee vested an additional 50 shares on January 1, 2018.

The stock purchase agreement also granted the Company the right to repurchase at the purchase price any and all of the unvested shares at the time of the employee's cessation of service. On June 18, 2018, the employee resigned, and the Company repurchased the 100 shares of unvested stock and issued a notice of redemption to the stockholder. Concurrent with the repurchase of the unvested shares, the Company sold 100 shares of its common stock to the majority stockholder.

During 2018, the majority stockholder contributed $56,796 and received distributions totaling $276,709.

NOTE 5 – BONUS LIABILITY

On October 3, 2018, the Company entered into a verbal agreement with an independent contractor promising $150,000 as a bonus in the form of cash, less any stock options in Rekor Systems, Inc. (formerly known as Novume Solutions, Inc.) ("Rekor") that he receives in the event Rekor acquires certain assets and liabilities of the Company. This liability is recorded as a selling, general and administrative expense on the statement of operations for the year ended December 31, 2018 and as an accrued expense on the accompanying balance sheet as of December 31, 2018.

NOTE 6 – SALE OF THE COMPANY AND SERVICE AGREEMENT

On October 9, 2018, the Company entered into a Management Services Agreement (the "MSA") with Rekor, whereby Rekor agreed to provide services to support the continued growth of the Company's platform. The MSA provides for the Company to compensate Rekor on a time and materials basis for most services and a commission basis for sales of the Company's products. For the year ended December 31, 2018, the Company and Rekor determined that the compensation in accordance with the MSA was not material.

On November 14, 2018, the Company entered into an Asset Purchase Agreement ("Open ALPR Purchase Agreement") with Rekor pursuant to which the Company will sell certain assets including software and customer lists, and transfer certain liabilities, as defined ("OpenALPR's Net Assets").

On February 15, 2019, the Company entered into Amendment No. 1 to the OpenALPR Purchase Agreement, pursuant to which the parties agreed to amend the components of the original $15,000,000 Base Purchase Price to $7,000,000, subject to adjustment after closing, issue a promissory note in the amount of $5,000,000, and issue 600,000 shares of Rekor common stock, with a stated value of $5 per share, as consideration for the acquisition of OpenALPR's Net Assets.

On March 8, 2019, the Company entered into Amendment No. 2 to the OpenALPR Purchase Agreement which eliminated the prior purchase price adjustment set forth in the OpenALPR Purchase Agreement, as amended, and replaced it with an adjustment for prepaid maintenance contracts, as defined.

On March 12, 2019, the Company completed the sale of certain assets and liabilities to Rekor Recognition Systems, Inc. ("Rekor Recognition"). Consideration received was as follows: $7,000,000 in cash, subject to adjustment after closing; 600,000 shares of Rekor common stock; and $5,000,000 in a promissory note, which is due and payable on March 11, 2021 and bears interest at 16%, as defined, together with an accompanying warrant to purchase 625,000 shares of Rekor common stock, exercisable over a period of five years, at an exercise price of $0.74 per share, valued at $208,125. The note also requires a premium, if paid before the maturity date, a $250,000 exit fee due at maturity, and compliance with covenants by Rekor.

NOTE 7 – SUBSEQUENT EVENTS

As detailed in Note 6 above, on March 12, 2019, the Company sold certain assets liabilities to Rekor through Rekor Recognition. Effective March 18, 2019, the Company changed its name to ClosedRPLA Holdings, Inc.

Rekor Systems, Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Financial Information

On March 12, 2019, Rekor Systems, Inc. ("Rekor" or the "Company") completed the acquisition of certain assets of OpenALPR Technology, Inc. ("OpenALPR") and assumed certain liabilities, through its subsidiary Rekor Recognition Systems, Inc. ("Rekor Recognition"). The Company financed the cash portion of the acquisition from the proceeds of the 2019 Promissory Notes (as defined below), net of $1.89 million in debt issuance costs, on March 12, 2019. Consideration paid as part of this acquisition was: $7,000,000 in cash, subject to post-closing adjustments; 600,000 shares of Rekor common stock, valued at $396,600; and a promissory note in the principal amount of $5,000,000 pursuant to the 2019 Promissory Notes, together with an accompanying warrant to purchase 625,000 shares of Rekor common stock, exercisable over a period of five years, at an exercise price of $0.74 per share, valued at $208,125. (See Notes 2 and 3)

The purchase price has been allocated preliminarily to the assets acquired and liabilities assumed based on estimated fair values as of the acquisition date.

The following unaudited pro forma condensed combined financial statements are based on the Company's historical consolidated financial statements and OpenALPR's historical financial statements, as adjusted to give effect to the Company's acquisition of certain assets and liabilities from OpenALPR and the related financing transaction. The unaudited pro forma condensed combined statement of operations for the twelve months ended December 31, 2018 gives effect to these transactions as if they had occurred on January 1, 2018. The unaudited pro forma condensed combined balance sheet as of December 31, 2018 gives effect to these transactions as if they have occurred on December 31, 2018.

The assumptions and estimates underlying the unaudited adjustments to the unaudited pro forma condensed combined financial statements are described in the accompanying notes, which should be read together with the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial statements should also be read together with the Company's historical financial statements, which are included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018 as filed with the Security and Exchange Commission on April 11, 2019, and the historical financial statements of OpenALPR for the year ended December 31, 2018 which are included herein.

Rekor Systems, Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2018

	Historical Rekor	March 2019 Debt Financing Pro Forma Adjustments	Notes	Pro Forma Condensed Combined with March 2019 Debt Financing	Historical OpenALPR	OpenALPR Acquisition Pro Forma Adjustments	Notes	Pro Forma Condensed Combined with March 2019 Debt Financing and OpenALPR Acquisition
Assets								
Current Assets								
Cash and cash equivalents	$ 2,767,183	$ 3,838,402	(a-1)	$ 6,605,585	$ 1,230,512	$ (1,230,512)	(b-1)	$ 6,605,585
Accounts receivable, net	5,264,949	-		5,264,949	218,734	394,688	(b-2)	5,878,371
Inventory	72,702	-		72,702	-	-		72,702
Related party receivable	-	-		-	-	37,000	(b-2)	37,000
Due from OpenALPR	-	-		-	-	254,340	(b-2)	254,340
Other current assets, net	425,530	-		425,530	7,559	5,864	(b-2)	438,953
Total current assets	8,530,364	3,838,402		12,368,766	1,456,805	(538,620)		13,286,951
Property and Equipment								
Total fixed assets	2,445,431	-		2,445,431	85,800	-		2,531,231
Less: accumulated depreciation and amortization	(978,150)	-		(978,150)	(61,490)	(3,368)	(b-2)	(1,043,008)
Net property and equipment	1,467,281	-		1,467,281	24,310	(3,368)		1,488,223
Goodwill	3,092,616	-		3,092,616	-	-		3,092,616
Intangibles, net	4,834,503	-		4,834,503	-	11,845,073	(b-3)	16,679,576
Other Assets								-
Investment in OpenALPR	-	12,000,000	(a-2)	12,000,000	-	(12,000,000)		-
Deposits and other long-term assets	130,485	-		130,485	-	-		130,485
Total other assets	130,485	12,000,000		12,130,485	-	(12,000,000)		130,485
Total assets	$ 18,055,249	$ 15,838,402		$ 33,893,651	$ 1,481,115	$ (696,916)		$ 34,677,850
Liabilities and Stockholders' Equity								
Current Liabilities								
Accounts payable	$ 1,593,726	$ 360,000	(a-3)	$ 1,953,726	$ 162,458	$ (162,458)	(b-4)	$ 1,953,726
Accrued expenses	2,643,027	-		2,643,027	14,592	(14,592)	(b-4)	2,643,027
Lines of credit	1,661,212	-		1,661,212	-	-		1,661,212
Notes payable, current portion	2,469,211	(2,405,966)	(a-4)	63,245	-	-		63,245
Deferred revenue	207,059	-		207,059	123,468	264,131	(b-2)	594,658
Total current liabilities	8,574,235	(2,045,966)		6,528,269	300,518	87,081		6,915,868
Long-Term Liabilities								
Notes payable	964,733	18,400,807	(a-5)	19,365,540	-	-		19,365,540
Deferred rent	8,475	-		8,475	-	-		8,475
Total long-term liabilities	973,208	18,400,807		19,374,015	-	-		19,374,015
Total liabilities	9,547,443	16,354,841		25,902,284	300,518	87,081		26,289,883
Rekor Systems, Inc. Series A Cumulative Convertible Redeemable Preferred stock, $0.0001 par value, 505,000 shares authorized and 502,327 shares issued and outstanding as of December 31, 2018	5,051,683	-		5,051,683	-	-		5,051,683
Stockholders' Equity								
Rekor Systems, Inc. common stock, $0.0001 par value, 30,000,000 shares authorized, 19,367,619 shares issued and outstanding as of December 31, 2018	1,877			1,877		60	(b-6)	1,937
OpenALPR Technology, Inc. common stock, $0.01 par value, 1,000 shares authorized, issued and outstanding as of December 31, 2018	-	-		-	10	(10)	(b-5)	-
Rekor Systems, Inc. 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 December 31, 2018	-	-		-	-	-		-
Rekor Systems, Inc. Series B Cumulative Convertible Preferred stock, $0.0001 par value, 240,861 shares authorized, issued and outstanding as of December 31, 2018	24	-		24	-	-		24
Additional paid-in capital	15,518,013	705,943	(a-6)	16,223,956	125,206	396,540	(b-6)	16,620,496
						(125,206)	(b-5)	
Retained earnings (accumulated deficit)	(12,063,791)	(1,222,382)	(a-7)	(13,286,173)	1,055,381	(1,055,381)	(b-5)	(13,286,173)
Total stockholders' equity	3,456,123	(516,439)		2,939,684	1,180,597	(783,997)		3,336,284
Total liabilities and stockholders' equity	$ 18,055,249	$ 15,838,402		$ 33,893,651	$ 1,481,115	$ (696,916)		$ 34,677,850

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

Rekor Systems, Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2018

	Historical Rekor	March 2019 Debt Financing Pro Forma Adjustment	Notes	Pro Forma Condensed Combined with March 2019 Debt Financing	Historical OpenALPR	OpenALPR Acquisition Pro Forma Adjustment	Notes	Pro Forma Condensed Combined with March 2019 Debt Financing and OpenALPR Acquisition
Revenue	$ 48,562,441	$ -		$ 48,562,441	$ 1,816,075	$ (117,075)	(b-7)	$ 50,256,121
						(5,320)	(b-8)	
Cost of revenue	34,765,781	-		34,765,781	-	2,369,015	(b-3)	37,129,476
						(5,320)	(b-8)	
Gross profit	13,796,660	-		13,796,660	1,816,075	(2,486,090)		13,126,645
Operating expenses								
Selling, general, and administrative expenses	18,833,280	-		18,833,280	725,191	234,750	(b-9)	19,793,221
(Loss) income from operations	(5,036,620)	-		(5,036,620)	1,090,884	(2,720,840)		(6,666,576)
Other expense								
Interest expense	(609,461)	(3,200,000)	(a-8)	(5,109,058)	-	-		(5,109,058)
		(946,625)	(a-3)					
		(352,972)	(a-6)					
Other income (expense)	(28,168)	(1,222,382)	(a-7)	(1,250,550)	-	-		(1,250,550)
Total other expense	(637,629)	(5,721,979)		(6,359,608)	-	-		(6,359,608)
(Loss) income before income taxes	(5,674,249)	(5,721,979)		(11,396,228)	1,090,884	(2,720,840)		(13,026,183)
(Provision) benefit from income taxes	(29,250)	-		(29,250)	-	-	(b-10)	(29,250)
Net loss	$ (5,703,499)	$ (5,721,979)		$ (11,425,478)	$ 1,090,884	$ (2,720,840)		$ (13,055,433)
Loss per common share - basic	$ (0.44)							$ (0.82)
Loss per common share - diluted	$ (0.44)							$ (0.82)
Weighted average shares outstanding								
Basic	15,409,014					600,000	(b-6)	16,009,014
Diluted	15,409,014					600,000	(b-6)	16,009,014

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

NOTE 1 – BASIS OF PRESENTATION

The historical consolidated financial statements have been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are: directly attributable to the business combination; factually supportable; and with respect to the pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results following the business combination.

The business combination was accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification 805, *Business Combinations*. As the acquirer for accounting purposes, the Company has estimated the fair value of OpenALPR's assets acquired and liabilities assumed and conformed the accounting policies of OpenALPR to its own accounting policies.

Refer to Note 4, "Pro Forma Adjustments" for the financial impact of the pro forma adjustments on the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed combined financial statements have been prepared for informational purposes only and are not indicative of the financial position or results of operations that would have occurred if the OpenALPR acquisition had been completed on the assumed dates indicated, nor are they indicative of the future financial position or results of operations following completion of the OpenALPR acquisition.

The unaudited pro forma condensed combined financial information does not reflect the realization of any cost savings or other synergies from the acquisition of OpenALPR following the completion of the business combination.

NOTE 2 – FINANCING TRANSACTION

On March 12, 2019, the Company completed the acquisition of certain assets and liabilities from OpenALPR for $7,000,000 in cash, subject to adjustment after closing and other consideration (see Note 3). The Company financed the cash portion of the acquisition by entering into a note purchase agreement pursuant to which investors, loaned $15,000,000 to the Company, pursuant to senior secured promissory notes. Together with the $5,000,000 note payable, issued in conjunction with the acquisition, the $20,000,000 of notes payable will be described as the "2019 Promissory Notes" and the participants as the "2019 Lenders". The Company also issued to the 2019 Lenders warrants to purchase 2,500,000 shares of the Company's common stock (the "March 2019 Warrants"). The 2019 Promissory Notes are due and payable on March 11, 2021 and bear interest at 16% per annum, of which at least 10% per annum shall be paid in cash. Any portion of interest not paid in cash will accrue and be paid at maturity or earlier redemption. Transaction costs were approximately $403,250 for a work fee payable over 10 months, $290,000 in legal fees, a $200,000 closing fee and a $1,000,000 exit fee due at maturity. The loan is secured by a security interest in substantially all of the assets of the Company and certain of its subsidiaries. The March 2019 Warrants are valued at $730,500 and are exercisable over a period of five years, at an exercise price of $0.74 per share, commencing March 12, 2019 and expiring on March 12, 2024. The 2019 Promissory Notes have an effective interest rate of 24.87%.

NOTE 3 – PRELIMINARY PURCHASE PRICE ALLOCATION

The Company has performed a preliminary valuation analysis of the fair market value of OpenALPR's assets acquired and liabilities assumed. The following table summarizes the preliminary allocation of the purchase price as of the acquisition date:

Cash paid	$ 7,000,000
Note payable	5,000,000
Common stock issued	396,600
Total consideration	12,396,600
Less accounts receivable	(613,422)
Less related party receivable	(37,000)
Less other current assets	(13,423)
Less due from OpenALPR	(254,340)
Less net property and equipment	(20,942)
Less intangible and intellectual property	(11,845,073)
Plus deferred revenue assumed	387,599
Net goodwill recorded	$ -

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the unaudited pro forma condensed combined balance sheet and statement of operations. Due to the recent completion of the acquisition, the determination of the purchase price and the allocation of the purchase price used in the unaudited pro forma condensed combined financial information are based upon preliminary estimates, which are subject to change during the measurement period (up to one year from the acquisition date) as the Company finalizes the valuations of the assets acquired and liabilities assumed, including, but not limited to, contract receivables, prepaid expenses and other current assets, intangible assets, accounts payable, and deferred revenue. It is expected that the financial statement basis and income tax basis for the assets acquired and liabilities assumed will be the same. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments.

NOTE 4 – PRO FORMA ADJUSTMENTS

March 2019 Debt Financing

The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(a-1) ***Cash and cash equivalents –*** Adjustment reflects $3,838,402 net proceeds received for working capital purposes by the Company from the 2019 Promissory Notes.

(a-2) ***Investment in OpenALPR –*** Reflects the Company's investment in OpenALPR. (See Note 3)

(a-3) ***Debt discount financing costs*** – Reflects the debt discount attributable to the financing costs from the 2019 Promissory Notes of $1,893,250, (see a-5), and the annual amortization of related debt issuance costs over the two-year financing term of $946,625. Financing costs include a $1,000,000 exit fee, $290,000 of legal fees, a $200,000 closing fee and a work fee of $403,250 payable over a term of ten months, of which $360,000 is included in accounts payable, since it was unpaid as of the financing date.

(a-4) ***Repayment of debt –*** Adjustment reflects the proceeds from the 2019 Promissory Notes used to extinguish a portion of the Company's historical debt as follows:

Avon Road Note principal	$ 500,000
2018 Promissory Note principal	2,000,000
2018 Promissory Note unamortized financing costs (see a-7)	(94,034)
Total pro forma adjustment	$ 2,405,966

On March 12, 2019, the $500,000 principal balance due on the Avon Road Note and the $2,000,000 principal balance due on the 2018 Promissory Note were retired in their entirety (see Note 17 in the Company's Annual Report on Form 10-K for the year ended December 31, 2018).

(a-5) ***2019 Promissory Notes –*** Represents the new $20,000,000 of debt incurred to finance the acquisition of certain assets and liabilities of OpenALPR to provide funds to pay off some existing debt and to provide working capital for the Company, plus the $1,000,000 exit fee, net of debt issuance costs and discounts as described in Note 2 above. Details are listed below:

2019 Promissory Notes, including exit fee	$ 21,000,000
Debt discount financing costs	(1,893,250)
Debt discount feature of warrants issued	(705,943)
Total pro forma adjustment - non-current	$ 18,400,807

(a-6) ***Debt discount feature warrants issued*** – The March 2019 Warrants were issued in accordance with the 2019 Promissory Notes and are exercisable over a period of five years, at an exercise price of $0.74 per share, and are valued at $705,943, net of debt discount of $24,557. The warrants are exercisable commencing March 12, 2019 and expire on March 12, 2024. The proforma adjustment of warrant expense is included as interest expense of $352,972, based on the two-year financing term.

(a-7) ***Debt extinguishment –*** On March 12, 2019, the $2,000,000 principal balance due on the 2018 Promissory Note was retired in its entirety and the Company paid to the Lender $1,050,000 of consideration for the Lender's Participation (see Note 17 in the Company's Annual Report on Form 10-K for the year ended December 31, 2018) and $75,000 of interest due through May 1, 2019 which was recorded as other expense. In addition, the remaining Avon Road unamortized financing costs of $94,034 and interest expense of $3,348 were expensed.

2018 Lender's Participation	$ 1,050,000
Avon Road debt discount amortization and extinguishment of unamortized financing costs	94,034
2018 Promissory Note interest expense	75,000
Avon Road interest expense	3,348
Total pro forma adjustment - non-current	$ 1,222,382

(a-8) ***Interest expense*** – Reflects the interest expense resulting from the 2019 Promissory Notes of annualized interest of 16% or approximately $3,200,000.

OpenALPR Acquisition

On March 12, 2019 and pursuant to the OpenALPR Asset Purchase Agreement, as amended, the Company completed the acquisition of certain assets of OpenALPR and assumed certain liabilities, through Rekor Recognition. Consideration paid as part of this acquisition was: $7,000,000 in cash, subject to adjustment after closing; 600,000 shares of Rekor common stock with a stated value per share of $5, valued at $396,600; and a promissory note in the principal amount of $5,000,000 pursuant to the 2019 Promissory Notes (see Note 2), together with an accompanying warrant to purchase 625,000 shares of Rekor common stock, exercisable over a period of five years at an exercise price of $0.74 per share, valued at $182,625. As the OpenALPR acquisition has recently been completed, the Company is currently in the process of completing the purchase price allocation treating the OpenALPR acquisition as a business combination (see Note 3). The purchase price allocation for OpenALPR will be included in the Company's consolidated financial statements in the first quarter of the year ending December 31, 2019. As of March 31, 2019, there are 625,000 OpenALPR warrants outstanding.

The pro forma adjustments included in the unaudited pro forma condensed combined financial statements are as follows:

(b-1) ***Historical OpenALPR cash and cash equivalents –*** In accordance with the purchase agreement, OpenALPR retained all available cash on the day of the acquisition.

(b-2) ***Pro Forma Adjustments –*** Represents adjustments to record the fair value of acquired assets and liabilities as of the acquisition date. Pro forma adjustments to cash, accounts receivable, related-party receivable, prepaid expenses and other assets, accounts payable, accrued payroll, deferred revenue and other accruals represent changes in working capital as a result of business operations during the period from January 1, 2019 to March 12, 2019, the acquisition date. See Note 3 for the preliminary purchase price allocation as of the acquisition date.

(b-3) ***OpenALPR intangibles –*** Reflects preliminary estimated fair value of the intangible assets recognized upon the acquisition of OpenALPR.

As part of the preliminary valuation analysis, the Company identified intangible assets related to software intellectual property. The fair value of identifiable intangible assets is estimated primarily using the "income approach", which requires a forecast of the expected future cash flows. Since the detailed valuation analysis of OpenALPR's identifiable intangible assets has not been completed, the preliminary estimates of fair value will likely differ from final amounts the Company will calculate after completing a detailed valuation analysis.

The following table presents the preliminary fair value of the identified intangible assets acquired at the date of acquisition and its estimated useful life:

	Preliminary Value	**Useful Life**
Software intellectual property	$ 11,845,073	5 years
Total preliminary intangible assets subject to amortization	$ 11,845,073	

Software intellectual property represents the preliminary estimated fair value of OpenALPR's software. The Company determined the useful life of the developed technology to be five years. The amortization of the OpenALPR intangible is estimated at an annual expense of $1,184,507 which is classified as cost of revenue.

The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed are based on management's estimates and assumptions.

(b-4) ***Accounts payable and accrued expenses –*** adjustment reflects a reduction of $150,000 of consulting fees included in accounts payable and an adjustment of the remaining $12,458 of accounts payable and $14,592 of accrued expenses of OpenALPR not assumed per the terms of the acquisition.

(b-5) ***Elimination of OpenALPR equity –*** Reflects the elimination of OpenALPR's historical stockholders' equity and the estimated transaction costs. Details are listed below:

Elimination of OpenALPR's historical stockholders' equity	$ 1,180,597
Pro Forma adjustment to OpenALPR stockholders' equity	$ 1,180,597

(b-6) ***Common stock issuance –*** Reflects the issuance of 600,000 shares of the Company's common stock valued at $396,600.

(b-7) ***OpenALPR ASC 606 adoption –*** Adjustment of $117,075 represents the impact of adopting ASC 606 by OpenALPR as of January 1, 2018.

(b-8) ***Revenue - intercompany elimination –*** Reflects the $5,320 revenue and cost of revenue adjustment for intercompany activity between OpenALPR and the Company prior to the acquisition.

(b-9) ***Selling, general and administrative expense –*** Adjustment represents the $234,750 net increase of certain executive compensation and benefits in connection with the employment agreement for the OpenALPR executive to become an officer of the Company, resulting in an increase in annual compensation concurrent with the acquisition.

(b-10) ***Income taxes –*** Prior to the acquisition, OpenALPR elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, OpenALPR taxable income and losses passed through to its stockholders. As such, OpenALPR did not pay federal or state corporate income taxes. Upon the acquisition of the assets by the Company, the taxable income and losses from the OpenALPR business will be included with the Company's future corporate income tax filings. Due to the Company's history of losses and full valuation of its deferred tax assets, there is no pro forma tax impact on the Company from combining the OpenALPR's income other than the reduction of the net operating loss carryforwards.