

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2022

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: 001-38338

Rekor Systems, Inc.

(Exact name of registrant as specified in its charter)

Delaware

81-5266334

(State or other jurisdiction of
incorporation or organization)

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

6721 Columbia Gateway Drive, Suite 400
Columbia, MD

21046

(Address of Principal Executive Offices)

(Zip Code)

(410) 762-0800

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act

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

Securities Registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2022 was approximately \$74.4 million.

As of March 29, 2023, the Registrant had 61,120,612 shares of common stock, \$0.0001 par value per share outstanding.

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CERTAIN TERMS

Unless the context requires otherwise, all references in this Annual Report on Form 10-K (the “Annual Report”) to “Rekor Systems, Inc.,” “Rekor,” “Company,” “we,” “our” and “us” refer to Rekor Systems, Inc. and its consolidated subsidiaries.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the U.S. federal securities laws. All statements other than statements of historical facts, such as statements regarding the objectives of management, timing and the likelihood of success of various activities, the future performance of current and prospective products and services and our future results of operations and financial position, are forward-looking statements, which include all expressions of the expectations, hopes, beliefs, intentions, plans, prospects or strategies of the Company. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these statements. In some cases, you can identify forward-looking statements by terms such as “may,” “might,” “will,” “would,” “could,” “should,” “plan,” “anticipate,” “target,” “expect,” “project,” “intend,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” “possible,” or “continue” or the negative of these terms or other similar expressions. These forward-looking statements are based on certain assumptions and analyses made by the management of the Company in light of their respective experience and perception of historical trends, current conditions and expected future developments and their potential effects on the Company as well as other factors they believe are appropriate in the circumstances. They speak only as of the date of this Annual Report and are subject to several substantial risks, uncertainties and assumptions described under the sections entitled “Risk Factors” and elsewhere in this Annual Report. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, actual results or performance to be materially different from those expressed or implied and you should not rely on these forward-looking statements as predictions of future events. There can be no assurance that future developments affecting the Company will be those anticipated. Should one or more of these risks or uncertainties materialize or should any of the assumptions being made prove incorrect, actual results may vary in material respects. We undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

Overview

Rekor stands at the forefront of innovation, leading the charge to become the premier provider of roadway intelligence and data-driven mobility insights on a global scale. As a technology company, we are dedicated to transforming the public safety, urban mobility, and transportation management market segments worldwide with our cutting-edge, AI-driven solutions tailored specifically to the unique needs of each sector. Our commitment to delivering mission-critical solutions for roadway intelligence is driven by our vision of creating smarter, safer, and more sustainable streets for all communities. To achieve this vision, we strive to collect, connect, and organize the world's mobility data, harnessing its full potential to provide the most essential, real-time, and predictive actionable mobility insights. With our innovative approach and relentless pursuit of excellence, we are making mobility data universally accessible and useful for all, empowering our customers to make informed decisions and drive meaningful progress towards a better future.

Our operations are conducted primarily by our wholly-owned subsidiaries, Rekor Recognition Systems, Inc., or ("Rekor Recognition"), Waycare Technologies, Ltd., or ("Waycare"), and Southern Traffic Services, Inc., or ("STS").

A New Operating System for Roadways

The condition of national transportation infrastructure systems is a matter of great concern, particularly in the United States.

As the private sector continues to innovate and make headlines with cutting-edge technologies such as autonomous vehicles, flying taxis, and smart delivery drones, it's paradoxical that essential issues such as roadway congestion, safety, vehicle emissions and equitable access are worsening at an alarming rate. So much so that on February 2, 2023, the US Department of Transportation declared a national crisis and state of emergency for roadway safety and launched an urgent roadway safety call-to-action demanding stakeholders to commit to specific actions to reverse the spike in serious injuries and deaths on our roadways.

According to a report from the American Society of Civil Engineers ("ASCE"), US infrastructure has been graded a C minus, indicating that there is significant and urgent need for improvement. Over 65% of the 4.3 million miles of US roadways are rated in poor condition, which impacts the safety of drivers and passengers. The issue of congestion is also a serious concern, estimated to cost US citizens a whopping \$120 billion per year in economic and productivity losses. Furthermore, transportation-related greenhouse gas emissions – motorists' emissions, particularly when trapped in traffic account for a significant proportion of the country's total emissions are a leading contributor to declining sustainability, which has far-reaching environmental impacts. Addressing the road infrastructure issue is imperative for both economic and ecological reasons. Last but not least, tragically, more than 43,000 people lose their lives each year while using the nation's transportation network of streets, roads, and highways, which represents a stark failure in public safety and policy. If these transportation network issues remain unaddressed, it is projected that the United States will face a \$10 trillion gap in its gross domestic product.

To address urgent transportation issues and ensure the competitiveness of the US economy, an unprecedented amount of funding has been made available from the federal government through the Infrastructure Investment and Jobs Act ("IIJA"), Inflation Reduction Act, and CHIPS and Science Act to create digitally-enabled transportation infrastructure that will provide public goods and new economic value. This represents a once-in-a-generation level of investment and bipartisan support for creating and scaling transportation digital infrastructure for the 21st century. Rather than a complete reset or rebuilding of infrastructure, the focus is rather to leverage their power of funding and policymaking to build on previous investments, promote new technology layers, and ensure universal access to digital infrastructure systems throughout the country.

The ultimate objective is to adopt an augmented approach to existing physical infrastructure that blends the strengths of physical, digital, and operational infrastructure with mobility data, including mobile phones, connected vehicles, roadway sensors, and more. The goal is to enable and coordinate private and public collaboration through a digital-enabled mobility internet and operating system for the roadways that will advance smarter, safer, greener roadways for all.

This is a unique moment for Rekor, and one that we have been preparing for since 2018.

Roadway Intelligence

Rekor has been dedicated to being a leader in roadway intelligence by collecting, connecting, and organizing global mobility data since its inception. Today, our comprehensive portfolio offers multiple cutting-edge, AI-driven, edge-based Internet of Things ("IoT") devices for roadside data collection, a vast array of curated and integrated data sets from a network of transportation ecosystem data providers, tailored platforms, applications, and data streams that provide accurate, real-time, and predictive actionable insights for any moving objects on roadways.

We specialize in collecting and aggregating mobility-related data from multiple sources into our Rekor One™ roadway intelligence engine, transforming this data into knowledge and actionable insights, and securely distributing those insights to multiple users across our software platforms and applications. Our proprietary technologies use recent advances in artificial intelligence, machine learning, data analysis, edge processing, and communications. They are designed to be integrated into existing roadway and roadway sensor infrastructure to deliver real-time and predictive analytics that address critical challenges in transportation management, public safety, urban mobility, and other key commercial markets.

By applying a multi-layer architectural approach and protocols inspired by the Open System Interconnection ("OSI") model, which was instrumental in creating computer operating systems in the 1970s and the internet in the 1980s, we are collaborating with members of the Rekor Partner Network to integrate various transportation infrastructure systems into a cohesive network of roadway intelligence assets and insights. This involves consolidating fragmented and disparate systems, as well as adding new layers of connectivity, to create a unified infrastructure. To achieve this goal, we are working closely with a wide range of stakeholders, including local and federal government agencies, law enforcement, transit providers, infrastructure owners/operators, automotive OEMs, and technology and communications providers.

At Rekor, we are building a future for our customers where the mobility internet is interactive, generating and distributing real-time transportation intelligence to improve traffic management, public safety, maintenance, and emergency services, and planning agencies, as well as by connected and autonomous vehicles. Our primary objective has been and remains to develop unique and differentiated AI-based and edge-based IoT that will play a central role in facilitating this process, while aligning with key partners in the transportation ecosystem to provide the most comprehensive view of roadways. We will continue to optimize our investments to uniquely combine physical and digital infrastructure that is foundational to a new operating system for the roadways. As agencies plan for and build the transportation network of the future, Rekor expects to play a critical and disproportionately valuable role in meeting the essential need for real-time and predictive roadway intelligence.

Roadway Intelligence Powered by Rekor

Rekor's cutting-edge technology and domain expertise gives us a position of strength in the emerging field of roadway intelligence. Rekor One™ roadway intelligence engine is purpose-built to be a single source of truth, fueled by rich data and powered by AI. With access to multiple sources of data and our award-winning AI-driven innovations, we provide a range of solutions that address diverse use cases across various public and private sector segments. Our platform facilitates the efficient collection, analysis, and distribution of vast amounts of data, unlocking real-time and predictive operational insights like never before. Using our advanced technology and centralized platform, we are well-positioned to provide a single-source of truth for roadway intelligence, and help governments and businesses turn infrastructure data into actionable insights that increase mobility and safety, drive revenue, and power innovation for billions of people and trillions of interactions.

At the core of our roadway intelligence solutions is the Rekor One roadway intelligence engine. It is through this engine that we deliver a range of solutions that cater to public safety, urban mobility, transportation management, and commercial markets. Within Rekor One, our proprietary algorithms curate data from multiple sources, including edge-based IoT devices, existing roadway sensors, and a growing network of transportation data partners, unlocking multiple trillions of additional data points. We use this data to generate multi-dimensional insights in real-time, and AI-driven predictive analytics that leverage patterns of what happened in the past so that we can forecast what will happen in the future. These insights enable our customers to make better-informed proactive decisions and achieve improved operational efficiency through strategic resource allocation.

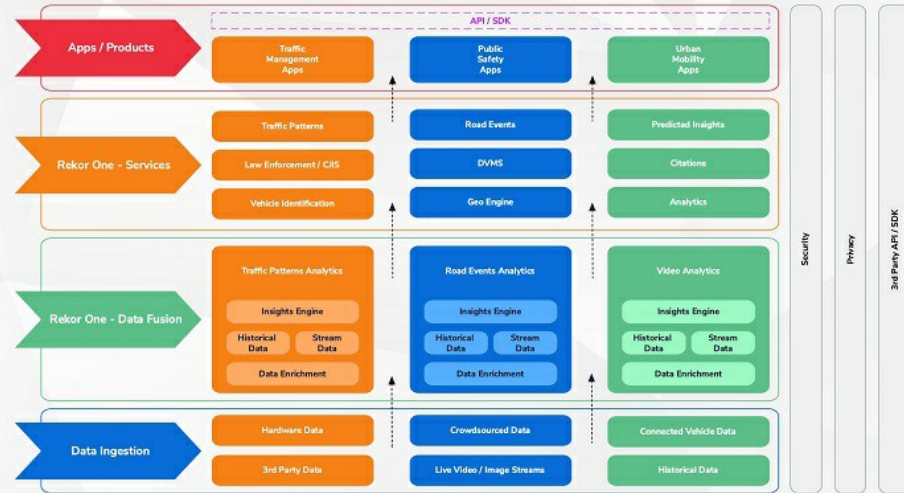
Rekor's solutions can support diverse use cases, including real-time incident detection and response, data driven traffic operations and traffic management, proactive traffic calming around events, Federal Highway Administration ("FHWA") mandated vehicle classification, counts, and speed collection and reporting, analytics for bicycle, pedestrians, and other micromobility modes, patterns and hot spots for greenhouse gas emissions, high-definition ("HD") video management and traffic surveillance, law enforcement and intelligence-based policing, citation management, contactless compliance and enforcement, among others. With our advanced technology and domain expertise, we are well-equipped to serve multiple public agencies and private sector segments with comprehensive roadway intelligence.

To summarize, Rekor One roadway intelligence engine, along with our Rekor Partner Network allows us to collect, connect, and organize more data from the roadways than ever before possible, and generate rich insights that enable our customers to make thoughtful decisions impacting their communities every day. With our deep expertise and technology, Rekor is well positioned to help businesses and governments unlock the true potential of their infrastructure data, driving innovation and enhancing the lives of billions of people worldwide.



Rekor One™

Rekor One is the Roadway Intelligence Engine that powers our platforms and applications. Utilizing our proprietary intellectual property — including computer vision, edge processing, pattern recognition and predictive algorithms — Rekor One ingests billions of data points from multiple sources and transforms this data into intelligence.



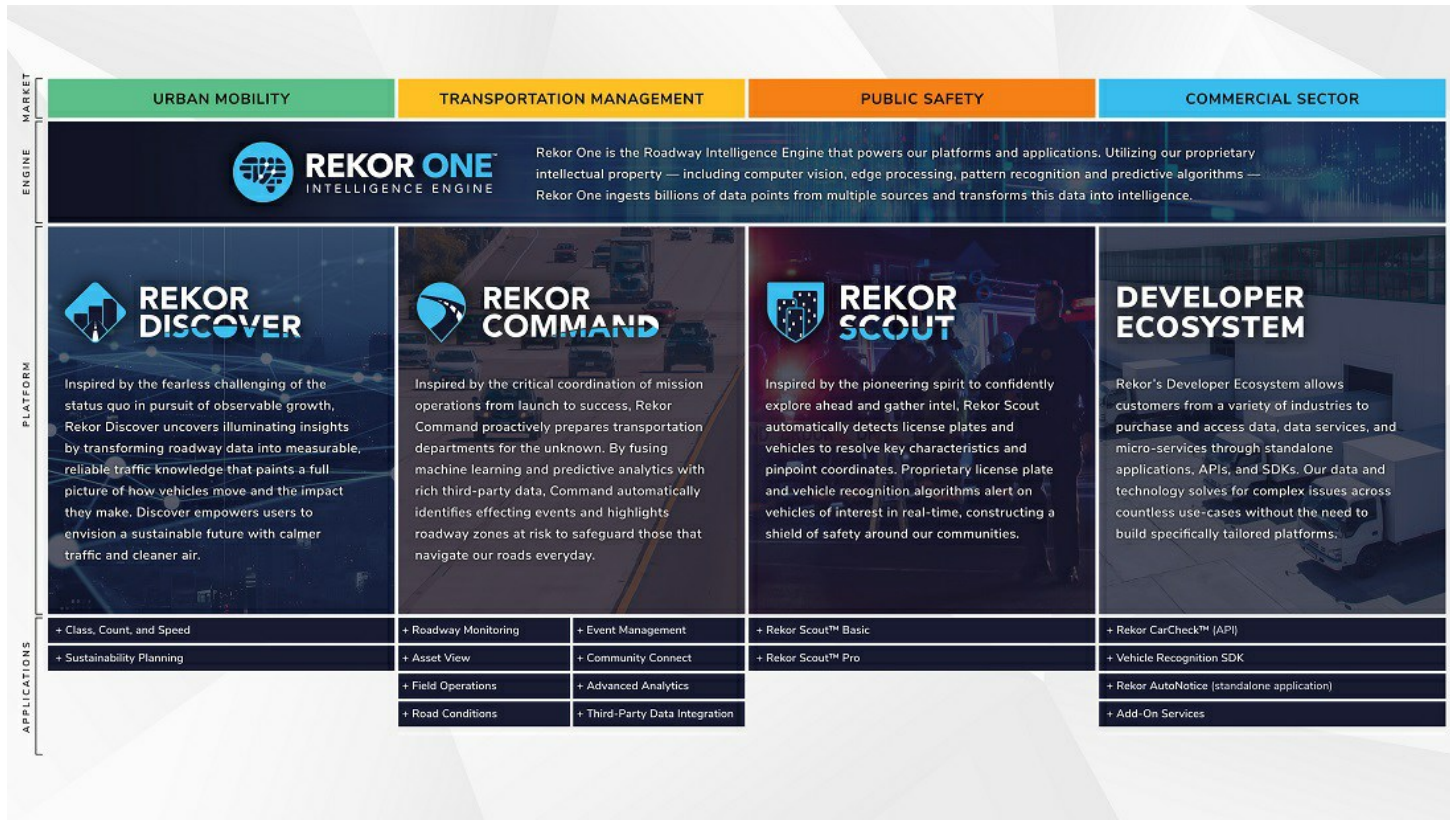
The Road Ahead

We find ourselves at a pivotal moment in history, where governments are investing heavily in upgrading and digitizing outdated infrastructure. Recent technological advances, such as edge- and cloud-based computing, artificial intelligence, and the internet of things, have given us an unprecedented opportunity to revolutionize mobility and bridge the divide between rapidly evolving technology and aging infrastructure. These endeavors are not simply aspirations, but active pursuits we are currently engaged in as described in detail below.

Rekor is a technology company that provides state-of-the-art AI-driven roadway intelligence solutions to enhance public safety, urban mobility, and transportation management. By collecting, connecting, and organizing the world's mobility data, Rekor delivers precise, real-time, and predictive actionable insights for any moving objects on roadways. Our unwavering dedication to delivering mission-critical solutions is propelled by our vision of helping to creating intelligent, secure, and sustainable streets for all communities. The ultimate objective is for Rekor to be the foundation of a digital-enabled internet and operating system for roadways that will enable smarter, safer, and more eco-friendly mobility for all. Rekor is making mobility data widely accessible and useful for all, empowering customers to make informed decisions and drive meaningful progress towards a brighter future.

Platforms, Products, and Solutions

Rekor's revenue streams are driven by our cutting-edge software and data services, along with complementary hardware and peripheral products. The Rekor One™ platform is the central hub of an integrated operating system, supporting the assimilation, analysis, and distribution of data from various sources. Our sales strategy involves offering subscriptions for our software solutions, utilizing the software as a service ("SaaS") model. These subscriptions can be provided with or without hardware sales, and our platform is designed to enable customers to enhance their existing sensor network by integrating our proprietary sensors into the network over time. While we may continue to offer long-term licenses for certain strategic partnerships, we anticipate that the bulk of our revenue will come from our innovative subscription-based model.



Rekor One™ Intelligence Platform

Rekor One™, is the bedrock of our cutting-edge AI-powered roadway intelligence platforms, serving multiple missions with modular and rapid development capabilities. Our proprietary technology and machine learning models power all our solutions, including Rekor Command™ for transportation management, Rekor Discover™ for urban mobility, Rekor Scout™ for public safety, plus various commercial use cases.

The security of Rekor One™, and all our market facing solutions is our top priority. We use industry-leading security technologies and standards, including end-to-end encryption and proprietary data filters, to ensure that all captured and connected data is protected from unauthorized access or use. We adhere to strict privacy protocols and provide customers with 24/7 access to their data until it is purged. Our platform is hosted on AWS GovCloud for secure data handling and stored in secure databases with limited access only to authorized system administrators. Moreover, Rekor One™ incorporates a privacy filter that uses a proprietary algorithm to strip personally identifiable information (“PII”) from data, ensuring that data privacy is always safeguarded.

Rekor Command™ for Transportation Management

Commuters today face staggering congestion, widespread safety concerns, and rising fatalities that are made far worse by outdated, siloed transportation and traffic management systems that are often overwhelmed by large amounts of unusable data. Rekor enables municipalities to transform their approach to transportation management by sourcing, managing, and transforming massive amounts of data, including connected vehicle, event, construction, weather, telematics, existing customer infrastructure, and much more, into actionable insights through AI-enabled technology. Authorities can now shift from being siloed and reactive to an interoperable and proactive approach, saving lives, improving traffic flow, and reducing pollution in their cities. Rekor Command acts as a seamless command center for traffic operations and traffic management centers so they can have a holistic view of their roadways in real-time, and take appropriate action to help improve safety, sustainability, and efficiency for citizens across their communities. It’s been built to identify more incidents faster, to enable proactive traffic management through crash-risk prediction, and to do this in a collaborative way connecting agencies and stakeholders, including notifying citizens and the public. As a comprehensive cross-agency platform, Rekor Command offers dedicated applications for traffic management centers, freeway service patrol, first responders and maintenance crews, aligning them all to better address traffic challenges while arming them with the vital information needed to identify, manage, and recover from incidents, events and irregularities on their roadways.

Rekor Command – Roadway Monitoring Core Application & Events Management Application

The Roadway Monitoring Core application and Events Management application are fundamental applications that sit within the Rekor Command platform providing cross-agency incident detection and management functionality that allows customers to effectively implement incident detection and management within their existing workflows while accessing real-time information needed to rapidly identify, manage, and recover from incidents. Traffic management agencies are able to access a live map view of their roadways and are alerted to irregular events and potential incidents that have been identified through AI leveraging multiple sources of data. Once confirmed by the agency, multiple responders are notified to rapidly approach and clear the roadways, enabling traffic to continue and roadway safety to improve.

Rekor Command – Community Connect Application

The Community Connect application within the Rekor Command platform allows agencies to integrate with systems that can notify public in real-time of events or incidents that are impacting the roadway. This application is a channel for agencies to interact directly with the public, keeping citizens the up to date and aware of potentially dangerous events and incidents to help prevent additional incidents from occurring.

Rekor Command – Advanced Analytics Application

The Advanced Analytics application within the Rekor Command platform provides agencies with reporting capabilities to archive incident and event information, as well as analytics to help users better understand trends, patterns, and planning. This helps Departments of Transportation (“DOTs”) to understand historic patterns and arms them with the insights needed to make more proactive decisions around resource allocation and planning.

Rekor Command – Road Conditions Application

The Road Conditions application within the Rekor Command platform provides several layers of critical information about real-time conditions happening on an agency’s roadways, including real-time weather information with high geospatial specificity, regular and irregular congestion, heightened crash risk, transit impact, and current roadway status. These additional insights and data feeds help further the real-time view agencies have of their roadways and provide additional layer of information that drive decision-making.

Rekor Command – Asset View Application

The Asset View application within the Rekor Command platform allows agencies to integrate with their existing assets on the roadway and showcase these assets in real-time within the Command platform. Agency assets become an additional layer of data to drive decision making and resource allocation. Assets that are typically integrated include freeway service patrol vehicles, highway police vehicles, city police vehicles, fire department vehicles, construction vehicles, EMS, maintenance vehicles, street sweep vehicles, and snowplows.

Rekor Discover™ for Urban Mobility

Traditional approaches to capturing roadway and infrastructure analytics for planning and engineering employ expensive, manual processes that use antiquated technology to capture a fraction of the information needed for a fraction of the time. Cities, states, and municipalities know that having a clear and accurate picture of what's happening in and around the roadway is critical as they plan and invest in the infrastructure needed for smart cities, smart transit, self-driving vehicles, and multi-modal movement across their geographies. The Rekor Discover platform ingests data from Rekor's state-of-the-art hardware and fully automates comprehensive analytics and actionable insights about the movement of objects across the roadway. Whether its passenger vehicles, or multi-axle commercial trucks, Rekor Discover pulls ground truth insights, both in real-time and historically, allowing agencies to better organize and execute their next-generation roadway planning and city building initiatives in a smart, safe, and future-proof way. Customers access their dashboard on web-based cloud instances and review on-demand traffic reports and analytics that breakdown vehicle volumes and patterns, FHWA 13-bin vehicle classification, electric vehicle volumes and hot spots, geospatial greenhouse gas emissions from vehicles, smog scores, average and spot speeds, along with a variety of other insights. In addition to agencies, many businesses need to understand the vehicle flow, patterns, types, and other important analytics regarding vehicles in their geographies. Whether it is an engineering firm collecting roadway data for their customers, or a real estate developer planning development in a specific area, the capture of accurate, holistic roadway data is valuable for their unique use cases.

Rekor Discover – Count, Class and Speed Application

The Count, Class and Speed ("CCS") application within the Rekor Discover platform delivers per vehicle record ("PVR") data and analytics that fully automate FHWA reporting requirements for 13-bin classification. Agencies can leverage Rekor's portable or fixed AI-based systems to capture this data in a fully automated way and then access this rich data in real-time through the CCS application's cloud-based dashboards. In addition to FHWA-13 vehicle category classification, the application also provides vehicle counting, traffic data, and speed reporting, all accessible by different agencies determined time frames. Agencies can generate reports and extract data through a REST API or also by exporting data in multiple Traffic Monitoring Guide ("TMG") standard formats (PRN, .CSV, and .PDF) for integration with the tools they may already be using. With this technology agencies can make better-informed planning decisions with ground truth information.

Rekor Discover – Sustainability Planning Application

The Sustainability Planning application within the Rekor Discover platform helps agencies better plan for electric vehicle ("EV") charge station deployment, understand the movement of EVs and their adoption, and gather insights on where emissions and greenhouse gasses are emitted from the roadway. The application provides cloud-based dashboards and reports the count of EVs, provide heatmaps for EVs as well as a breakdown of EV models, greenhouse gas emissions and smog, and other useful metrics. Agencies can leverage Rekor's AI-based systems to capture this data in a fully automated way and then access this rich data in real-time through the sustainability planning application.

Rekor Scout™ for Public Safety

Rekor is transforming the typically siloed, reactive, single-purpose world of legacy law enforcement and security technology with real-time, AI-driven solutions that act as connectors between agencies and force multipliers in a chronically under-resourced space. The Rekor Scout platform fully automates previously manual processes with collaborative solutions that keep all stakeholders apprised of developing situations and accelerate reaction times to incidents and offenders. The platform provides accurate license plate and vehicle recognition on nearly any IP, traffic, or security camera. It provides integrated AI support for both existing cameras and any proprietary Rekor AI systems in the network and displays results on a web-based dashboard that can be accessed from anywhere by any authorized user. The platform can connect authorized law enforcement agencies to National Crime Information Center ("NCIC") lists, allowing them to establish customized hotlists with alerts, apply customized data retention policies and share data with other agencies. Vehicles listed on "blacklists" (stolen, terrorists, amber alerts, etc.) generate an alarm in the dispatching room so that they can be intercepted by a patrol. Millions of cars per week are automatically checked in this way. Through this platform agencies can access real-time alerting, forensic research tools, and investigative tools that accelerate public safety and security missions. Agencies and customers can access plate data by state or province from over 50 countries together with the vehicles' make, model, color, body type, and direction of travel. Users can also access subtle and unique vehicle characteristics including rust, the presence of a roof rack, mismatched paint, or the like, which can be used for investigative policing and forensics. When combined with high performance reads, parallel processing capability and best-in-class hardware such as those built and deployed by Rekor, Rekor Scout can be an absolute force multiplier capturing license plate data and vehicle characteristics across multiple lanes at high vehicle speeds with a high degree of accuracy.

Rekor Scout can also be accessed through a smartphone app designed specifically for law enforcement. This app enables advanced data capture by public safety officers in the palm of the hand, providing access to extremely accurate license plate recognition in areas not covered by stationary or mobile sensors, even where there is no network connectivity. The mobile application retrieves vehicle license plate number and state of registration and automatically organizes information by sessions, capturing date, location, and timestamp. Verified reads then sync with the Rekor Scout™ platform, and users can receive in-app alerts using plate matches from custom and connected hotlists. With on-device encrypted lists and data, the mobile application is compliant with the Federal Bureau of Investigation's Criminal Justice Information System ("CJIS").

Through our eCommerce platform, we also offer commercial versions of Rekor Scout which are sold as a subscription service. Rekor Scout for commercial users includes specialized offerings that bring value to a variety of industries including parking, retail, logistics and security.

Additional Products Supporting Additional and Commercial Use-Cases

Rekor AutoNotice™ Application for Contactless Compliance

Rekor's AutoNotice is a cloud-based financial management application that delivers a turnkey information and citation management solution for cities, states, and municipalities for both primary and secondary offenses. Our plate-based application provides a safe, equitable, and unbiased enforcement method that requires no human involvement. The application issues notices and/or sends information to registered vehicle owners when a non-compliant vehicle is detected by a Rekor AI system. Non-compliant vehicles are any vehicles actively detected to be violating the law or otherwise requiring a compliance notice. Non-compliance may include uninsured vehicles, vehicles with expired registration, and vehicles with outdated emissions/inspection statuses. In addition to the application, there is an application programming interface for third-party payment gateways for credit card transactions to accommodate both phone and web payments. The interface can also automatically record payments in the system and provide functionality to research, manage unapplied payments, and reconcile receipts. A full call-center is also provided with our AutoNotice application to help facilitate payment or information distribution to non-compliant citizens remotely. We have active deployments of our AutoNotice application for contactless compliance scanning millions of plates and delivering thousands of notices/tickets, including a program for the State of Oklahoma that facilitates enrolling uninsured motorists into a diversion program.

Rekor CarCheck™ Application Program Interface ("API")

Rekor CarCheck allows our powerful AI based vehicle and license plate recognition technology to be conveniently accessed for a wide range of commercial applications. This API supports nearly any programming language, analyzes still images of vehicles from different countries and responds in seconds with accurate license plate data, vehicle make, model, body type, color and orientation.

Rekor Hardware Products

Rekor's portfolio of AI-based state-of-the-art hardware products are purpose-built to optimize the value of our software as well as bring the advantages of edge processing to capture real-time roadway data. Data capture, aggregation and AI/ML analysis is done on device, at the point of capture on the roadway. This allows us and our customers to gather insights from the roadway in real-time where it matters. It also allows our systems to work with significantly reduced bandwidth requirements, allowing us to deploy in almost any area, at scale, while also reducing costs. Rekor's law enforcement products and services also include speed trailers and other in-car and mobile vehicle recognition devices.

Rekor Edge Max™ System

Rekor Edge Max is a fixed traffic data collection system that captures and transforms high-resolution roadway data into holistic traffic insights. Engineered for high-speed primary roadways and highways up to 120 mph, 3-4 lanes (up to 6 lanes with dual cameras), and 300 ft max range, Edge Max seamlessly captures and processes vehicle data on-device and from advanced distances. The system features a durable enclosure, onboard modem, easy mounting, optional solar power, and can be configured with two cameras to increase capture range. The system captures and analyzes vehicles using the embedded Edge Processing Unit ("EPU") and AI-powered video processing. The Edge Max can be integrated into a network and features an onboard modem, easy mounting, optional solar power, and can even be configured with multiple cameras to increase capture range.

Rekor Edge Pro™

Rekor Edge Pro is a complete vehicle recognition solution that can be used on a standalone basis or integrated into a network. Engineered for roadway speeds up to 70 mph, 1-2 lanes, and 75 ft max range, the system can be deployed in neighborhoods, campuses, business districts, and can also be used for parking and access control. It captures and processes data on-device within a durable enclosure. The unit is simple to install and features optional solar power that expands the number of locations where Rekor Edge Pro can meet the customer's needs.

Rekor Edge Flex™

Rekor Edge Flex is a non-intrusive, portable data collection system that captures and transforms high-speed roadway data into holistic traffic insights. Powered by a range of modular batteries, the Edge Flex is designed for temporary studies lasting 1 to 7 days. Edge Flex captures up to 12 lanes of traffic and employs AI-powered video processing to analyze it on site using the embedded EPU. Vehicle category classification, vehicle counts, and speed reports are made available in web-based dashboards or exported in multiple file formats that meet TMG standards.

Competitive Strengths

Our unparalleled, patented technology has been prominently featured by renowned outlets and has driven our global expansion. We have repeatedly earned trust and business over established incumbents in highly competitive bidding processes, owing to our award-winning proprietary technology and exceptional customer service. We provide a unique breadth, depth, and sophistication that our integrated platform delivers to multiple missions and agencies. We maintain our first-mover advantage by tirelessly investing in our competitive strengths and key differentiators.

In the transportation management, public safety, urban mobility, and commercial markets, we possess and continue to cultivate a variety of competitive strengths that set us apart:

- *Solution-driven Approach:* Our customers are often overwhelmed with an immense amount of data from a wide range of sources. We bridge the gap between data and actionable solutions by converting data into information, knowledge, and insights through our proprietary technology and platform, enabling customers to make informed decisions.
- *Single Source Provider:* Unlike other organizations that provide only disconnected products, we deliver an integrated platform of solutions to meet the needs of transportation management, public safety, and commercial markets. As we are infrastructure and data agnostic, we can serve as a single source provider to customers for any of their requirements.
- *One Device Multiple Missions:* Our advanced IOT devices are powerful performer that support multiple value-added AI-based data collection and analytic services on the same unit simultaneously, thereby providing extreme value, extensibility, and ability for customers to future-proof their investments well into the future as needed.
- *Cross-Agency Functionality:* Our platform supports multiple missions with the same, unified operating system. By integrating our platform directly into agency workflows, we empower our customers to address the growing concerns around safety, equity, and sustainability effectively.
- *Industry-leading Privacy and Security:* We use the most advanced security technologies and standards to safeguard all captured and connected data from unauthorized access or use. Our platform also employs proprietary algorithms to strip PII from data, protecting the privacy of our customers and their data.
- *Enhanced Accuracy and Capture for Vehicle Recognition:* Our AI software achieves superior accuracy rates under broader parameters of vehicle speed, camera viewing angles, and lighting conditions, capturing vehicle traits, rust, damage, and other unique signatures that can be used to aid investigations
- *Technology leading Vehicle Classification, Count, and Speed:* Our AI software achieves superior accuracy and performance rates across all 13 classes and deep classification of vehicles for DOT studies in line with the latest FHWA guidelines.
- *Intelligence-Based Policing:* Our comprehensive data capture allows us to detect patterns and analytics around vehicles of interest for law enforcement, significantly enhancing the value of our products and services.
- *Functionality with any IP Cameras:* Our AI software supports images and vehicle recognition captured by almost any digital camera, providing a flexible, infrastructure-agnostic solution that is easily scalable across geographies.
- *Edge Processing:* Our hardware delivers low-latency alerting via defined edge processing at the edge of the network, enabling real-time data processing and scale without the need for expensive infrastructure such as fiber.

We are dedicated to continuously enhancing our competitive advantages and differentiators, driving innovation in the transportation management, public safety, and commercial markets.

Customer Segments and Markets

Our technology and solutions are transforming the transportation infrastructure landscape, empowering customers in 80 countries around the world. With many markets currently relying on outdated physical infrastructure, or in the early stages of technology adoption, we see immense potential for growth. Our diverse customer base includes cities, states, municipalities, law enforcement agencies, and more, and our success is evidenced by our multiple pilots, proof of concept, and full-scale deployment agreements throughout the Americas.

While we will continue to pursue opportunities to sell perpetual licenses and hardware, our primary focus is on providing cutting-edge SaaS offerings and services with recurring annual revenues. Our eCommerce site and mobile apps allow us to serve individuals and smaller organizations at scale using a self-service recurring revenue model.

With an estimated total addressable intelligent infrastructure market of \$148 billion by 2026, we expect the market for our solutions and services to be extraordinary. We are dedicated to addressing a wide range of market segments, including intelligent transportation systems, smart mobility, traffic analytics, incident detection and location systems, traffic and parking management, smart cities, vehicle regulatory compliance programs, and more.

Since the launch of our Rekor One roadway intelligence Engine in 2020, our market-specific solutions have gained widespread adoption, both in the government and commercial sectors. We are confident in our competitive position and look forward to continued growth and success as we lead the way in intelligent infrastructure.

Business Drivers and Growth Strategies

Our products and services have demonstrated the ability to provide significant improvements in public safety and transportation management and we anticipate that this will drive our growth. The transportation infrastructure market is in the process of transformative change due to a convergence of political, economic, societal, and technological forces. These include rising safety concerns, rapid urbanization and a heightened awareness of the impact human mobility has on the planet. Both governments and businesses are seeking out new technologies and better ways to manage public safety, urban mobility and transportation management challenges. As a result, there has been a significant increase in government funding available to digitize transportation infrastructure in the United States and other countries with a focus on deploying proven near-term solutions that are scalable, efficient, equitable and sustainable. We believe the technologies that we have developed and are continuing to develop have positioned us to take advantage of these market forces.

Our use of AI to extract information about the movements of vehicles and other objects on the roadway has proven to be a core strength, allowing us to capture comprehensive and detailed roadway data with superior accuracy and speed. The modular design of our Rekor One intelligence platform, in tandem with our proprietary edge processing and filtering technologies, have positioned us to emerge as a leader in facilitating the emerging industry of interactive roadway intelligence. Our mission is to gather the most accurate and detailed data that can be obtained from the roadway in real time and facilitate the aggregation and analysis of that data with other sources, so that insights drawn from that aggregation and analysis can be delivered securely and efficiently to the persons who can make the best use of it. Automotive OEMs and government agencies in the transportation industry are starting to focus on how to leverage connected vehicle data with AI to improve safety. We are building deep partnerships and enhancing our solutions with data to facilitate the delivery of real-time information to citizens. With Rekor Command™ for transportation management, we are at the forefront of developing predictive analytics that deliver insights based on the analysis of aggregated data from a variety of sources. These sources include real time information drawn from roadway sensors and connected vehicles, off roadway sources such as weather and event data, as well as daily, seasonal and historical trend data.

The enhanced information we provide on roadway conditions is valuable to a wide range of stakeholders. During the past three years, we have initiated the delivery of products and services to a wide range of governmental and business customers. These customers are diverse, ranging from large government entities to small entrepreneurs, and the uses they make of our technology are varied. We have used these customer relationships as an opportunity to assess the full potential of the technologies we have been developing and to learn by doing as well as imagining. When the capital markets were strong, we pursued this strategy aggressively and independently.

In the transportation management and public safety areas, where we are furthest along with the delivery of revenue producing products and services, we expect to continue to employ a "land and expand" growth strategy. This focuses on scaling our resources to supporting growth within these industry segments through expansion of the products and services delivered to existing customers, as well as recruitment of new customers who become familiar with our products and services. By expanding our services and solutions to existing customers while also facilitating cooperation between our existing and new customers we expect to continually expand our information network.

As we develop our sales and marketing capabilities, we are concentrating primarily on subscription-based solutions, with hardware sales used primarily to drive these subscriptions. We continue to explore opportunities for acquisitions or strategic investments in complementary businesses, products, services, or technologies, including those that might benefit most from the use of our technology. These strategic partnerships, mergers, and acquisitions will be attractive to us when they allow us to accelerate our growth or expand our capability to continue leading the roadway intelligence industry.

Competition

Our strategy is to disrupt the transportation infrastructure industry by offering cutting-edge, data-driven solutions that provide unparalleled roadway intelligence, surpassing our competitors. The competition in roadway intelligence takes various forms - some solely focused on Automatic License Plate Recognition ("ALPR") and vehicle recognition technology, while others specialize in data creation, aggregation, insights platforms, or smart city technologies. Additionally, there are a variety of vendors supporting the classification, counting, and speed of vehicles according to Federal Highway Administration guidelines.

To lead in this highly competitive industry, we must innovate and deliver new, groundbreaking products and services that set us apart from the competition. Our ability to efficiently collect massive amounts of data from existing infrastructure, combine it with third-party data sets, and process and transform this data into actionable insights using advanced AI and data analytical tools gives us a competitive edge. We also excel by providing tailored datasets and integrated solutions and workflows to multiple agencies through a single platform, allowing us to meet the unique needs of various markets.

Our unique approach allows us to collect vehicle classification, counts and speed across all FHWA13 classes. We also provide deeper classification for both traditional vehicles, connected vehicles, hybrid-electric vehicles, and can report on the interactions of these modes of transport with non-motorized roadway users – including bicycles and pedestrians. In the transportation management sector, these data collection and analysis abilities differentiate our results from others in the market. In addition, we have the ability to accomplish this data collection without intruding on the roadway, which presents a leapfrog opportunity for us to gain and accelerate market segment share because of the serious concerns that our customers have for human safety. We believe that we can sustain our success in the roadway intelligence market because we have developed groundbreaking, innovative offerings that surpass the high standards set by established industry leaders. To penetrate these established markets, we must challenge the status quo, drive the evolution of industry standards, and deliver superior price and performance characteristics.

Although we were an early leader in the successful application of AI to vehicle recognition and continue to see significant potential for innovative applications of AI in the roadway intelligence area, we do not see the use of AI itself as a proprietary advantage. Rather our early start in using AI and machine learning to develop vehicle recognition and roadway data analysis algorithms for a diverse customer base has allowed us to maintain a lead over others who have had access to the same non-proprietary AI and machine learning techniques but have not used it as early or as widely as we have. As we increase our footprint in the industry, we preserve this advantage. However, the roadway is constantly changing with the introduction of new models and types of vehicles, as well as other modifications, such as plate designs. In order to minimize potential threats from others seeking to match our performance or undercut our prices, we must remain committed to delivering differentiated, unique solutions that provide greater value and benefits to our customers. Where we have developed proprietary technologies, such as our unique edge processing and privacy filter technologies, we will take decisive action to protect our innovations and intellectual property rights. However, it will be through our unyielding pursuit of innovation and quality that we will establish ourselves as a leader in the industry. To maintain our competitive edge, we are required to prioritize key factors such as design innovation, security and privacy features, product quality and reliability, and exceptional service and support.

We face intense competition in the transportation and public safety markets, pitted against rival companies with significant technical, marketing, distribution, and resource advantages, as well as established hardware, software, and service offerings. Furthermore, several competitors possess a larger installed base of active devices, making the competition even more fierce. By providing a comprehensive set of solutions across a wide range of use cases, however, we feel that we can stand apart from most of our competitors, who only operate in a narrow segment of the market. We are concentrating on providing data resources that are more reliable, efficient and readily available. This includes upgrading existing infrastructure to efficiently collect reliable data, aggregating that data with third-party data, processing the data with superior analytical tools, and delivering datasets and actionable insights tailored to the specific needs of multiple agencies through a single platform. Throughout the development of our products and platforms, we have paid particular attention to network and data processing efficiency to allow results to be distributed more effectively through existing communications networks. By facilitating a variety of modular upgrades to existing infrastructure, combining data from various sources, and providing valuable real-time, historical, and predictive insights, Rekor can continue to deliver solutions that meet the needs of customers across the value chain.

Marketing and Sales

We offer product and services in multiple markets, using direct sales, an eCommerce platform and extensive partnerships and alliances. Our direct sales force is organized into groups aligned to the Intelligent Traffic Systems ("ITS") chapters and other targeted market segments, with a primary focus on direct-to-end-user sales through a high-touch consultative process. In addition, we have established partnerships and strategic alliances that allow us to bundle our technology into purpose-built solutions for various national and global market segments.

As we continue to increase our roadway intelligence engagement with national, state and municipal DOTs, we remain focused on law enforcement communities – both directly and indirectly through strategic partners and resellers/integrators. Our market-leading solutions provide significant value to DOTs for traffic management, planning and operations, and to municipal planning organizations for urban mobility. In addition to these agencies, our solutions also enable law enforcement, intelligence-based policing, corporate campus security, and regulatory compliance for public security. Our technology enables us to understand vehicle characteristics and behaviors beyond simple license plate capture, and digital vehicle signatures – extending into traffic analytics, sustainability metrics, and weigh-in-motion studies for motorized as well as non-motorized movements, such as bicycles and pedestrians. In 2023, we will be working to extend our reach into smaller communities as we continue to serve medium-large DOT and law enforcement departments with our direct sales representatives.

Given that our primary market is state and local governments in the United States, the majority of our sales efforts involve a request for proposal process and/or grant application process. In 2023, we will continue to capture and submit proposals and apply for grants, while also seeking opportunities to submit concurrently with strategic partners.

Our eCommerce platform offers businesses and individuals around the world a convenient way to purchase our high-value vehicle recognition solutions with just a credit card and a click. The platform allows for self-service sign-up and a range of subscription options while also funneling customers directly to our sales support team if they need more information. We recently launched our Edge Pro camera system, our first hardware device for sale directly through the eCommerce platform. With our ALPR software preloaded, customers can activate AI-based vehicle recognition services through a subscription online or by telephone. The device is shipped globally, with optional enhancements for solar power and various pole configurations.

Research and Development

The highly competitive industries where we compete are defined by swift technological advancements. As such, our success is reliant upon a consistent and timely release of innovative products, new rich data services, and advanced technologies to the market. To ensure our competitive edge, we are constantly developing cutting-edge technologies to enhance our existing offerings, expanding our range of solutions through rigorous research and development, as well as developing new AI models and algorithms, licensing intellectual property, and acquiring third-party datasets and technology. We are committed to staying abreast of our customers' technological developments, adhering to industry standards, and meeting their increasingly stringent demands for performance, productivity, quality, and predictability. As a result, we will continue to make significant investments in research and development and data and analytics as we strive to maintain our position as a leader in our field.

Proprietary Technology and Intellectual Property

Our innovative hardware devices, accessories, software, and services are protected by a collection of patents, copyrights, trademarks, service marks, trade dress, and other forms of intellectual property rights both in the United States and foreign countries. While we recognize the importance of owning these intellectual property rights and believe they contribute to our success, we know that the know-how of our skilled personnel and their technical competence and marketing abilities are the foundation of our Company's achievements.

To ensure our continued success, we prioritize the filing of patent applications to safeguard the innovations that arise from our research, development, and design efforts, and we are currently pursuing multiple patent applications. With our commitment to intellectual property rights and our talented personnel, we are well-positioned to lead the market in delivering cutting-edge solutions and services.

Acquisitions

On June 17, 2022, we completed the STS Acquisition.

On August 18, 2021, we completed the Waycare Technology Acquisition.

Additional information concerning the STS and Waycare Technology Acquisition is provided in this Annual Report on Form 10-K under ITEM 7 “Management’s Discussion and Analysis of Financial Conditions and Results of Operations.”

Human Capital Management

We look for our employees to represent the best and brightest in our industry and the talent we select to be a part of our team defines our culture and success. Our global workforce is highly educated, technical and specialized, with a substantial majority of employees working in technical roles.

As of March 29, 2023, we had 268 employees, of which 267 were full-time and one was considered part-time. We consider our employee relations to be good. To date, we have been able to locate and engage highly qualified employees as needed and do not expect our growth efforts to be constrained by a lack of qualified personnel.

Seasonality

We derive revenues substantially from the sale of software, hardware and related services. Therefore, we do not currently anticipate a significant seasonality impact on our revenues. Should our penetration of tolling and other markets involving per recognition fees expand, we would expect to become more subject to seasonal traffic patterns.

Insurance and Risk Management

We maintain insurance covering professional liability and claims involving bodily injury, property and economic loss. We consider our present limits of coverage, deductibles, and reserves to be adequate. Whenever possible, we endeavor to eliminate or reduce the risk of loss on a project through quality assurance and control, risk management, workplace safety, and other similar methods.

Risk management is an integral part of our project management approach for fixed-price contracts and our project execution process. We also evaluate risk through internal risk analyses in which our management reviews higher-risk projects, contracts, or other business decisions that require corporate legal and risk management approval.

Regulation

We are regulated in some of the fields in which we operate. When working with governmental agencies and entities, we must comply with laws and regulations relating to the formation, administration, and performance of contracts. These laws and regulations contain terms that, among other things may require certification and disclosure of all costs or pricing data in connection with various contract negotiations. We are subject to the laws and regulations that restrict the use and dissemination of information classified for national security purposes.

To help ensure compliance with these laws and regulations, our employees are sometimes required to complete tailored ethics and other compliance training relevant to their position and our operations.

ITEM 1A. RISK FACTORS

Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks occur, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risks Relating to Our Corporate Structure and Business

We are currently not profitable, and we may be unable to become profitable on a quarterly or annual basis.

For the year ended December 31, 2022, we had a loss from continuing operations of \$83,454,000. We cannot assure that we will be profitable in the future or that our financial performance will sustain a sufficient level to completely support operations. Our ability to become profitable in future periods could be impacted by government activity and regulation, economic instability and other items that are not in our control. A significant portion of our expenses are fixed in advance. As such, we generally are unable to reduce our expenses significantly in the short term to compensate for any unexpected delay or decrease in anticipated revenues or increases in planned investments. In addition, we have experienced and expect to continue to experience significant expenses related to acquisitions and the development of new products and services. Our strategic transition to a technology-based company focused on roadway intelligence will require us to generate sufficient new revenues from the roadway intelligence market to support our business plan while continuing to operate as a public company. As a result, we may continue to experience operating losses and net losses in the future, which would make it difficult to fund operations and achieve our business plan and could cause the market price of our common stock to decline.

We rely, in part, on third-party data providers and existing camera networks to grow our business. If we are unable to enter into agreements with third-party data providers or successfully maintain them, our growth may be adversely impacted.

We rely, in part, on access to third-party data and access to existing camera networks to grow our business. The majority of the third-party data agreements allow us to access connected vehicle data, existing camera networks or other data services, thereby increasing the data points used in our solutions.

Any agreement we enter into with a third party may not be on favorable terms, and the expected benefits and growth from these agreements may not materialize as planned. Despite our past experience, opportunities to grow our business through third-party data may not be available to us in the future.

The market for our Rekor One platform is new and unproven, may decline or experience limited growth and is dependent in part on our ability to attract new customers to adopt our platform and use our services.

The market for an ecosystem that connects government agencies, service providers and, ultimately, drivers is relatively new and some aspects of it are unproven, therefore, it is subject to several risks and uncertainties. We believe that our future success will significantly depend in large part on the growth, if any, of this market. The use of advanced vehicle recognition systems and marketplace data to obtain data on vehicles, drivers and the environment is still relatively new and potential customers may not recognize the need for, or benefits of, our platform and solutions. Moreover, if they do not recognize the need for and benefits of our platform and solutions, they may decide to adopt alternative services to satisfy some portion of their business needs.

Our ability to expand the market that our platform and solutions address depends upon a number of factors, including the cost, performance and perceived value associated with them. The market for our platform and solutions could fail to grow significantly or there could be a reduction in demand for its services as a result of a lack of acceptance, technological challenges, competing services, decreases in spending by current and prospective customers, weakening economic conditions and other causes. If our market does not experience significant growth, or demand for our services decreases, then our business, results of operations, and financial condition could be adversely affected.

We depend on component and product manufacturing provided by outsourcing partners, most of which are located outside of the U.S.

We rely on single-source outsourcing partners primarily located in Asia to supply and manufacture many components of substantially all of our hardware products. Any failure of these partners to perform can have a negative impact on our cost or supply of components or finished goods. In addition, manufacturing or logistics in these locations or transit to final destinations can be disrupted for a variety of reasons, including natural and man-made disasters, information technology system failures, commercial disputes, military actions, economic, business, labor, environmental, public health or political issues, or international trade disputes.

Our internal investments and go-to-market strategy may place downward pressure on our operating margins.

To increase our revenue growth, we continue to invest in our business, including investments into new markets and in innovation and product development to expand the suite of solutions we provide to our customers. Our operating margins experience downward pressure in the short term as a result of these investments. Furthermore, our investments may not produce the expected results. If we are unable to successfully execute our go-to-market strategy, we may experience decreases in our revenues and operating margins.

We have not been a leading provider of traffic management and public safety products and services in the past and do not have the level of established contacts and existing business relationships that some of our competitors have.

Although it is growing, our presence in the transportation and public safety markets has been limited. As a result of this, although we believe our products and services have significant competitive advantages, we may encounter difficulties in establishing widespread market acceptance of our products in various markets and regions. Early successes in penetrating these markets and regions may not be able to be sustained once our ability to compete with our more established competitors comes to their attention. They may seek to develop more competitive products before their existing contracts expire, reduce prices, use to advantage their past association as a trusted provider and their superior financial and marketing resources and use other stratagems to competitive advantage, which could significantly impact our ability to continue to grow.

We will need to raise additional capital in the future, which may not be available on acceptable terms, or at all.

We have experienced fluctuations in earnings and cash flows from operations from year to year. To support business growth, or if our business declines, we expect to need to raise additional capital to support operations, pursue acquisitions or expand our operations. Such additional capital may be raised through bank borrowings, or other debt or equity financings. We cannot assure you that any additional capital will be available on a timely basis, on acceptable terms, or at all, and such additional financing may result in further dilution to our stockholders.

Our capital requirements will depend on many factors, including, but not limited to: our ability to increase revenue, reduce net losses or generate net income; market acceptance of our services, and the overall level of sales of our services; our need to respond to technological advancements and our competitors' introductions of new products, services or technologies; our ability to control costs; promptness of customer payments; our ability to successfully negotiate arrangements with credit providers; and enhancements to subsidiaries' infrastructure and systems.

If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders will be reduced, and such securities may have rights, preferences and privileges senior to our common stock. Additional equity or debt financing may not be available on favorable terms, on a timely basis, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to continue our operations as planned, develop or enhance our products, expand our sales and marketing programs, take advantage of future opportunities or respond to competitive pressures, or we may be forced to sell assets at prices below their stated value.

If we experience declining or flat revenues and fail to manage such declines effectively, we may be unable to execute our business plans and may experience future weaknesses in operating results.

To achieve future growth, we will need to continue to employ qualified personnel and invest in additional research and development and sales and marketing activities, which could limit our ability to reduce expenses or lead to increases in our expenses and result in future declines in operating results. In addition, our future expansion is expected to place a significant strain on our managerial, administrative, operational, financial and other resources. If we are unable to manage these activities or any revenue declines successfully, our business, financial condition and results of operations could be adversely affected.

If we are unable to retain our existing customers, our revenue and results of operations would be adversely affected.

Customers have no obligation to renew their subscriptions after their subscription period expires, and these subscriptions may not be renewed on the same or more profitable terms. As a result, our ability to sustain our revenue base depends in part on subscription renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our products and services, the prices of our services, the prices of the products and services offered by our competitors or reductions in our customers' spending levels. If our customers do not renew their subscriptions for our products and services, renew on less favorable terms, or do not purchase additional functionality or subscriptions, our revenue may grow more slowly than expected or decline, and our profitability and gross margins may be harmed.

Our sales cycles for commercial and government clients can be long, unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.

The timing of our revenue from sales to commercial and government clients is difficult to predict. These efforts require us to educate our clients about the use and benefit of our services, including the technical capabilities and potential cost savings to an organization. Commercial clients typically undertake a significant evaluation and pilot testing process that has in the past, resulted in lengthy sales cycles, typically several months. We spend substantial time, effort and money on our commercial sales efforts without any assurance that these efforts will produce any sales. In addition, subscriptions are frequently subject to budget constraints and unplanned administrative, processing and other delays. If sales expected from a specific client for a particular reporting period are not realized in that period or at all, our results could fall short of expectations and our business, operating results and financial condition could be adversely affected.

Industry consolidation may result in increased competition.

Some of our competitors have made or may make acquisitions or may enter into partnerships or other strategic relationships to offer a more comprehensive service than they had offered individually. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships. We expect these trends to continue as companies attempt to strengthen or maintain their market positions. Many of the companies driving this trend have significantly greater financial, technical and other resources than we do and may be better positioned to acquire and offer complementary services and technologies. Such combinations and realignments may create more compelling service offerings or offer greater pricing flexibility than we can or may engage in business practices that make it more difficult for us to compete effectively, including on the basis of price, sales and marketing programs, technology or service functionality. These pressures could result in a loss of customers, reduction in revenues or limitation on our ability to grow.

We may not be able to respond to rapid technological changes in time to address the needs of our customers, which could have a material adverse effect on our sales and profitability.

The cloud-based services and AI-based product markets in which many of our products and services compete are characterized by rapid technological change, frequent introduction of new products and services and evolving industry standards. Our ability to remain competitive will depend in large part on our ability to continue to enhance our existing products and services and develop new service offerings that keep pace with these markets' rapid technological developments. Additionally, to achieve market acceptance, we must effectively anticipate and offer products and services that meet changing client demands in a timely manner. Clients may require features and capabilities that our current products and services do not have. If we fail to develop products and services that satisfy customer requirements in a timely and cost-effective manner, our ability to renew subscriptions with existing clients and our ability to create or increase demand for our products and services will be harmed, and our revenue and results of operations would be adversely affected.

The success of our business will depend, in part, on the continued services of certain key personnel and our ability to attract and retain qualified personnel.

The success of our business will depend, in part, on the continued services of certain members of our management. Our inability to attract and retain qualified personnel could significantly disrupt our business.

Although we take prudent steps to retain key personnel, we face competition for qualified individuals from numerous professional services and technology companies. For example, our competitors may be able to attract and retain more qualified professional and technical personnel by offering more competitive compensation packages. If we are unable to attract new personnel and retain our current personnel, we may not be able to develop and maintain our services at the same levels as our competitors and we may, therefore, lose potential customers and sales penetration in certain markets. It may also be difficult to attract and retain qualified individuals in the timeframe demanded by our clients. Furthermore, some of our contracts may require us to employ only individuals who have particular government security clearance levels.

We may fail to realize the anticipated benefits of acquisitions which we consummate, and we may be subject to business uncertainties.

Uncertainties about the effect of our recent and planned acquisitions on employees and customers may have an adverse effect on our Company. These uncertainties may impair our ability to attract, retain and motivate key personnel for a period of time after the acquisitions, and could cause customers, suppliers and others that deal with us to seek to change existing business relationships with us, which may have an adverse effect on our Company. Employee retention may be particularly challenging, as employees may experience an uncertainty about their future roles with us.

The achievement of the benefits expected from the integration of acquired companies may require us to incur significant costs. The incurrence of any such costs, as well as any unexpected costs or delays, in connection with such integration, could have a material adverse effect on our business, operating results or financial condition.

We may be required to write-down certain assets after completing our required annual evaluations, which may affect our reported financial results.

The initial determination of the fair value of assets we acquire upon consummation of an acquisition is based upon an internal valuation. We are required to analyze the carrying value of our acquired intangibles and goodwill on an annual basis going forward. After the detailed annual evaluation of the carrying value of the intangible assets, as supported by external analysis, we may be required to make adjustments to our consolidated balance sheet and/or statement of operations. Any adjustments will affect our reported financial results.

Our operating results may be harmed if we are required to collect sales or other related taxes for our licensing and subscription products and services or pay regulatory fees in jurisdictions where we have not historically done so.

Primarily due to the nature of our cloud-based services in certain states and countries, we do not believe we are required to collect sales or other related taxes from our customers in certain states or countries. However, one or more other states or countries may seek to impose sales, regulatory fees or other tax collection obligations on us, including for past sales by us or our resellers and other partners. A successful assertion that we should be collecting sales or other related taxes on our services or paying regulatory fees could result in substantial tax liabilities for past sales, discourage customers from purchasing our services or otherwise harm our business and operating results.

Improper disclosure of confidential and personal data could result in liability and harm to our reputation.

Our handling and storage of the data we collect from some of our customers, vendors and employees, and our processing of data, which may include confidential or personally identifiable information, through the services we provide, may be subject to a variety of laws and regulations, which have been adopted by various federal, state and foreign governments to regulate the collection, distribution, use and storage of personal information of individuals. Several foreign countries in which we conduct business, including the European Economic Area (“EEA”) and Canada, currently have in place or have recently proposed, laws or regulations concerning privacy, data protection and information security, which are more restrictive than those imposed in the United States. Some of these laws are in their early stages and we cannot yet determine the impact these revised laws and regulations, if implemented, may have on our business. However, any failure or perceived failure by us to comply with these privacy laws, regulations, policies or obligations or any security incident that results in the unauthorized release or transfer of personally identifiable information or other customer data in our possession, could result in government enforcement actions, litigation, fines and penalties and/or adverse publicity, all of which could have an adverse effect on our reputation and business.

For example, the EEA wide General Data Protection Regulation (“GDPR”) became applicable on May 25, 2018, replacing the data protection laws of each EEA member state. The GDPR implemented more stringent operational requirements for processors and controllers of personal data, including, for example, expanded disclosures about how personal information is to be used, limitations on retention of information, increased requirements to erase an individual’s information upon request, mandatory data breach notification requirements and higher standards for data controllers to demonstrate that they have obtained valid consent for certain data processing activities. It also significantly increases penalties for non-compliance, including where we act as a service provider (e.g. data processor). If our privacy or data security measures fail to comply with applicable current or future laws and regulations, we may be subject to litigation, regulatory investigations, enforcement notices requiring us to change the way we use personal data or our marketing practices, fines, for example, of up to 20 million Euros or up to 4% of the total worldwide annual turnover of the preceding financial year (whichever is higher) under the GDPR, or other liabilities, as well as negative publicity and a potential loss of business.

Data protection regulation remains an area of increased focus in all jurisdictions and data protection regulations continue to evolve. There is no assurance that we will be able to meet new requirements that may be imposed on the transfer of personally identifiable information from the EU to the United States without incurring substantial expense or at all. European and/or multi-national customers may be reluctant to purchase or continue to use our services due to concerns regarding their data protection obligations. In addition, we may be subject to claims, legal proceedings or other actions by individuals or governmental authorities if they have reason to believe that our data privacy or security measures fail to comply with current or future laws and regulations.

Moreover, we must ensure that certain vendors and customers who have access to such information also have the appropriate privacy policies, procedures and protections in place. Although we take customary measures to protect such information, the continued occurrence of high-profile data breaches provides evidence of an external environment increasingly hostile to information security. If our security measures are breached as a result of third-party action, employee or subcontractor error, malfeasance or otherwise, and, as a result, someone obtains unauthorized access to customer data, our reputation may be damaged, our business may suffer and we could incur significant liability. Techniques used to obtain unauthorized access or to sabotage systems change frequently and are growing increasingly sophisticated. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures.

This environment demands that we continuously improve our design and coordination of security controls throughout our business. Despite these efforts, it is possible that our security controls over data, training and other practices we follow may not prevent the improper disclosure of personally identifiable or other confidential information.

If an actual or perceived breach of our security occurs, we could be liable under laws and regulations that protect personal or other confidential data resulting in increased costs or loss of revenues and the market perception of our services could be harmed.

Our business could be negatively impacted by cyber and other security threats or disruptions.

We face various cyber and other security threats, including attempts to gain unauthorized access to sensitive information and networks; insider threats; threats to the security of our facilities and infrastructure; and threats from terrorist acts or other acts of aggression. Cyber threats are constant and evolving and include, but are not limited to, computer viruses, malicious software, destructive malware, attacks by computer hackers attempts to gain unauthorized access to data, disruption or denial of service attacks, and other electronic security breaches that could lead to disruptions in mission critical systems, unauthorized release or loss of confidential, personal or otherwise protected information (ours or that of our employees, customers or subcontractors), and corruption of data, networks or systems. In addition, we could be impacted by cyber threats or other disruptions or vulnerabilities found in products we use or in our partners' or customers' systems that are used in connection with our business. Our clients and subcontractors face similar threats and/or they may not be able to detect or deter them, or effectively mitigate resulting losses. These threats could damage our reputation as well as our subcontractor's ability to perform and could affect our client's ability to pay.

Although we use various procedures and controls to monitor and mitigate the risk of these threats to us, our clients and our partners, there can be no assurance that these procedures and controls will be sufficient. The impact of these factors is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation and/or require remedial actions or lead to loss of business, regulatory actions potential liability and financial loss, any one of which could have a material adverse effect on our financial position, results of operations and/or cash flows.

We are dependent upon technology services, and if we experience damage, service interruptions or failures in our computer and telecommunications systems, our customer and worker relationships and our ability to attract new customers may be adversely affected.

Our business could be interrupted by damage to or disruption of our computer, telecommunications equipment, software systems, or software applications. Our customers' businesses may be adversely affected by any system, application or equipment failure we experience. As a result of any of the foregoing, our relationships with our customers may be impaired, we may lose customers, our ability to attract new customers may be adversely affected and we could be exposed to contractual liability. Precautions in place to protect us from, or minimize the effect of, such events may not be adequate.

In addition, the failure or disruption of mail, communications and/or utilities could cause an interruption or suspension of our operations or otherwise harm our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, revenue, profits and operating results could be adversely affected.

If we do not keep pace with rapid technological changes and evolving industry standards, we will not be able to remain competitive, and the demand for our services will likely decline.

The markets in which we operate are in general characterized by the following factors: changes due to rapid technological advances; additional qualification requirements related to technological challenges; and evolving industry standards and changes in the regulatory and legislative environment. Our future success will depend upon our ability to anticipate and adapt to changes in technology and industry standards and to effectively develop, introduce, market and gain broad acceptance of new product and service enhancements incorporating the latest technological advancements.

A downturn of the U.S. or global economy or in our ability to provide customers with a sustained level of support could result in our customers using fewer products and services or becoming unable to pay us for our services on a timely basis or at all, which would materially adversely affect our business.

Because demand for our solutions and services are sensitive to changes in the level of economic activity, our business may suffer during economic downturns. During periods of weak economic growth or economic contraction, the demand for outsourced services could decline. In addition, market forces may restrict our ability to sustain funding for our sales and support efforts. When the level of demand for our products and services drops, our operating profit could be impacted unfavorably because expenses may not decline as quickly as revenues. In these periods, we can only reduce selling and administrative expenses to a certain level without negatively impacting the long-term potential of our business.

Additionally, during economic downturns, government agencies and companies may slow the rate at which they pay their vendors, or they may become unable to pay their obligations. If our customers become unable to pay amounts owed to us or pay us more slowly, then our cash flow and profitability may suffer significantly.

Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations, which could subject our business to higher tax liability.

We may be limited in the portion of net operating loss carryforwards that we can offset future taxable income for U.S. federal and state income tax purposes. As of December 31, 2022, we had gross federal and state net operating loss carryforwards, or NOLs, of approximately \$114,742,000 and \$106,866,000, respectively. A lack of future taxable income could adversely affect our ability to use these NOLs. In addition, future changes in our stock ownership, including through acquisitions, could result in ownership changes under Section 382 of the Internal Revenue Code and may result in a limitation on the amount of NOL carryforwards that could be used annually to offset future taxable income and taxes payable. Our NOLs at December 31, 2022 may also be impaired under similar provisions of state law and may expire unused or underused, which would prevent us from using our NOL carryforwards to offset future taxable income.

Assertions by a third party that our services and solutions infringe its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or result in settlements or licensing arrangements that could affect our short-term or long-term profitability.

There is frequent litigation in the software and technology industries based on allegations of infringement or other violations of intellectual property rights. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel or require us to develop non-infringing technology or enter into license agreements. Because of the potential for court awards that are difficult to predict, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. In addition, our service agreements may require us to indemnify our customers from certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. Competitors may also seek to use these claims and the pendency of associated litigation as a means of attempting to discredit us or make potential customers fearful of using us, which could harm our relationships with our customers, deter future customers from subscribing to our services or expose us to further litigation. These costs, monetary or otherwise, associated with defending against third-party allegations of infringement could have negative effects on our business, financial condition and operating results.

If our services are used to commit intentional or illegal acts, we may incur significant liabilities, our services may be perceived as not secure, and customers may curtail or stop using our services.

Certain services offered by us enable customers to capture data from video images. Although our service agreements require our customers to comply with all applicable laws, we do not exercise direct control over use or content of information obtained by our customers through the use of our services. If our services are used by others to commit bad or illegal acts, we may become subject to claims and subject to other potential liabilities. Defending against such claims could be expensive and time-consuming, and there is a possibility that we could incur significant liability to entities who were harmed by such acts. As a result, our business may suffer, and our reputation may be damaged.

We use a limited number of data centers to deliver our services. Any disruption of service at these facilities could harm our business.

Our cloud-based services are hosted from third-party data center facilities located in various parts of the United States. We also use these facilities for some of our development efforts. We do not control the operation of these facilities. The owners of these data center facilities have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to transfer to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. In addition, our operations and development efforts could be seriously affected by failures or interruptions in service at these facilities. Any changes in third-party service levels at these third-party data centers or any errors, defects, disruptions or other performance problems with our services related to the non-performance of these facilities could harm our reputation and may damage our clients' businesses. Interruptions in our services might reduce our revenue, cause us to issue credits to clients, subject us to potential liability, cause clients to terminate their subscriptions or harm our renewal rates.

Our data centers are vulnerable to damage or interruption from human error, intentional bad acts, pandemics, earthquakes, hurricanes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a natural disaster, an act of terrorism, vandalism or other misconduct, a decision to close the facilities without adequate notice or other unanticipated problems could result in lengthy interruptions in our services.

Our long-term success depends, in part, on our ability to expand the sales of our services to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

Conducting international operations subjects us to other risks than those we have generally faced in the United States. These risks include: localization of our services and adaptation for local practices, differences in local, legal standards and regulatory requirements; difficulties in managing and staffing international operations; fluctuations in currency exchange rates; dependence on customers, third parties, and channel partners with whom we do not have extensive experience; potentially adverse tax consequences, including the complexities of foreign value-added or other tax systems; reduced or varied protection for intellectual property rights in some countries; and increased financial accounting and reporting burdens and complexities. Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

Our success depends in large part on our ability to protect and enforce our intellectual property rights.

We rely on a combination of trade secret, patent, copyright, service mark and trademark laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our intellectual property rights, all of which can provide only limited protection. In addition, we have not patented significant technologies used to provide our services. We cannot assure you any future patents that may be applied for and issued will not be challenged, invalidated or circumvented. Any patents that may issue in the future from future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers. Also, we cannot assure you that any future service mark or trademark registrations will be issued for pending or future applications or that any registered service marks or trademarks will be enforceable or provide adequate protection of our proprietary rights.

We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business to limit access to and disclosure of our proprietary information. The steps we have taken, however, may not prevent unauthorized use or the reverse engineering of our technology. Moreover, others may independently develop technologies that are competitive to ours or infringe our intellectual property. Enforcement of our intellectual property rights also depends on our successful legal actions against these infringers, but these actions may not be successful, even when our rights have been infringed.

Furthermore, effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our services are available. In addition, the legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving.

Material defects or errors in the software that we use to deliver our services could harm our reputation, result in significant costs to us and impair our ability to sell our solutions.

The software applications underlying our products and services are inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. Any defects that cause interruptions to the availability of our products and services could result in: a reduction in sales or delay in market acceptance of our services; sales credits or refunds to customers; loss of existing customers and difficulty in attracting new customers; reputational harm; and diversion of internal resources. The costs incurred in correcting any material defects or errors in our products and services may be substantial and could harm our operating results.

Government regulation of the Internet, telecommunications and other communications technologies could harm our business and operating results.

As internet commerce and telecommunications continue to evolve, increasing regulation by federal, state or foreign governments and agencies becomes more likely. Any increase in regulation could affect our clients' ability to collect and share data, potentially reducing demand for our products and services. In addition, taxation of products and services provided over the Internet or other charges imposed by government agencies or by private organizations for accessing the Internet or utilizing telecommunications services may also be imposed. Any regulation imposing greater fees for internet use or restricting the exchange of information over the internet could diminish the viability of our services, which could harm our business and operating results.

Natural disasters, public health crises, political crises, and other catastrophic events or other events outside of our control may damage our business and operating results.

In the event of natural disasters, public health crises, such as pandemics and epidemics, including from the continued effects of the COVID-19 pandemic, political crises, such as terrorism, war, political instability or other conflicts, or other events outside of our control, our business and operating results could suffer. Moreover, these types of events could negatively impact consumer spending in the impacted regions or depending upon the severity, globally, which could adversely impact our operating results.

We may be impacted by macroeconomic conditions resulting from the global COVID-19 pandemic.

Since the first quarter of 2020, there has been a worldwide impact from the COVID-19 pandemic. Government regulations and shifting social behaviors have limited or closed non-essential transportation, government functions, business activities and person-to-person interactions. In some cases, the relaxation of such trends has been followed by actual or contemplated returns to stringent restrictions on gatherings or commerce, including in parts of the U.S., and the rest of the world. During the COVID-19 pandemic, certain industry events at which we present and participate have been canceled, postponed or moved to virtual-only experiences, we have encouraged all of our employees to work remotely, and we may deem it advisable to similarly alter, postpone or cancel entirely additional customer, employee or industry events in the future due to the ongoing pandemic. Additionally, we may see our services carrying less revenue-generating traffic in areas subject to “shelter in place” restrictions or related government orders as the population of those areas refrain from traveling and normal commerce activities.

We cannot predict the duration or direction of current global trends or their sustained impact. Ultimately, we continue to monitor macroeconomic conditions to remain flexible and to optimize and evolve our business as appropriate, and we will have to accurately project demand and deploy our solutions, workforce and other resources accordingly. If we experience unfavorable market conditions, or if we cannot or do not maintain operations at a scope that is commensurate with such conditions or are later required to or choose to suspend such operations, our business, prospects, financial condition and operating results may be harmed.

Risks relating to our common stock

If securities or industry analysts do not publish research or publish inaccurate or unfavorable reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease covering us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Sales of a substantial number of shares of our common stock may cause the price of our common stock to decline.

As of March 24, 2023, we have a total of 55,020,612 shares of common stock outstanding. Based on shares outstanding as of March 24, 2023, 6,821,752 shares of common stock, or 12.4%, are beneficially owned by our officers, directors and their affiliated entities, and will be subject to volume limitations under Rule 144 under the Securities Act and various vesting agreements. In addition, 8,951,543 shares of our common stock that are subject to outstanding options, restricted stock units and warrants as of March 24, 2023, will become eligible for sale in the public market to the extent permitted by the provisions of various vesting agreements, and Rules 144 and 701 under the Securities Act.

We cannot predict what effect, if any, sales of our shares in the public market or the availability of shares for sale will have on the market price of our common stock. However, future sales of substantial amounts of our common stock in the public market, including shares issued on exercise of outstanding options, or the perception that such sales may occur, could adversely affect the market price of our common stock.

Investors may experience future dilution as a result of future equity offerings.

In order to raise additional capital, we may in the future offer additional shares of our common stock or other securities convertible into or exchangeable for our common stock. We cannot assure investors that we will be able to sell shares or other securities in any other offering at a price per share that is equal to or greater than the price per share paid by investors, and investors purchasing our shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our common stock or other securities convertible into or exchangeable for our common stock in future transactions may be higher or lower than the price per share paid by investors.

We do not intend to pay dividends on our common stock for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends on our common stock in the foreseeable future. We currently anticipate that for the foreseeable future we will retain all of our future earnings for the development, operation and growth of our business and general corporate purposes. Any future determination to pay dividends on our common stock will be at the discretion of our Board of Directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Our executive officers, directors, principal stockholders and their affiliates will continue to exercise significant influence over our company, which will limit your ability to influence corporate matters and could delay or prevent a change in corporate control.

As of March 24, 2023, our executive officers, directors, five percent or greater stockholders and their respective affiliates owned in the aggregate approximately 38.5% of our common stock.

These stockholders have the ability to influence us through this ownership position and may have a determining role in matters requiring stockholder approval. For example, these stockholders may be able to ultimately determine elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders. The interests of this group of stockholders may not always coincide with your interests or the interests of other stockholders and they may act in a manner that advances their best interests and not necessarily those of other stockholders, including seeking a premium value for their common stock, and might affect the prevailing market price for our common stock.

We are a “smaller reporting company” and, as a result of the reduced disclosure and governance requirements applicable to smaller reporting companies, our common stock may be less attractive to investors.

We are currently a “smaller reporting company,” meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a “smaller reporting company,” and have had annual revenues of less than \$100 million and public float of less than \$700 million during the most recently completed fiscal year. As a “smaller reporting company,” we are subject to lesser disclosure obligations in our SEC filings compared to other issuers. Specifically, “smaller reporting companies” are able to provide simplified executive compensation disclosures in their filings, are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited consolidated financial statements in annual reports. Decreased disclosures in our SEC filings due to our status as a “smaller reporting company” may make it harder for investors to analyze our operating results and financial prospects.

Delaware law and provisions in our certificate of incorporation and bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our common stock.

The anti-takeover provisions of the Delaware General Corporation Law, or the DGCL, may discourage, delay or prevent a change of control by prohibiting us from engaging in a business combination with stockholders owning in excess of 15% of our outstanding voting stock for three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult, including that: the request of one or more stockholders holding shares in the aggregate entitled to cast not less than 35% of the vote at a meeting is required to call a stockholder meeting. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take certain actions you desire.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal executive offices are located at 6721 Columbia Gateway Drive, Suite 400, Columbia, Maryland 21046 and 55a Yigal Alon Street, Tel-Aviv, Israel. We do not own any real property. We do not consider any of our leased properties to be materially important to us. While we believe it is necessary to maintain offices through which our services are coordinated, we feel there are sufficient available office rental properties to adequately serve our needs should we need to relocate or expand our operations.

ITEM 3. LEGAL PROCEEDINGS

On August 19, 2019, we filed suit in the United States District Court for the Southern District of New York against three former executives of the Company who were founders of two related former subsidiaries (the “Firestorm Principals”)—Rekor Systems, Inc. v. Suzanne Loughlin, et al., Case no. 1:19-cv-07767-VEC. The Firestorm Principals answered together with counterclaims on February 28, 2020. In 2020, the Firestorm Principals filed various suits in New York, Delaware and Virginia against directors and officers of the Company, alleging breach of fiduciary duty and libel.

On March 22, 2023, the Company entered into a settlement agreement with the Firestorm Principals. Pursuant to the terms of the settlement agreement, the parties have mutually released and discharged all existing and potential actions, causes of action, suits, proceedings, debts, dues, contracts, damages or claims against each other, including certain claims for officer indemnification of the Firestorm Principals. In exchange for the mutual releases, the Company will transfer certain Firestorm assets to CrisisRisk Strategies, LLC, make a payment of \$175,000, and the Firestorm Principals have agreed to the extinguishment of all rights to enforce their claims for payment with respect to principal and interest on the promissory notes issued in connection with the Company’s acquisition of Firestorm, and are giving up their rights to exercise the warrants issued in connection with the same.

As a result of the settlement agreement, the Company expects to record a reduction to notes payable, the related accrued interest and other assets and liabilities already presented as discontinued operations. The Company will also cancel warrants to purchase 631,254 shares of common stock, which were issued in connection with the acquisition of Firestorm. The settlement also results in there being no litigation pending against the Company at this time.

On January 31, 2020, our wholly-owned subsidiary, OpenALPR, filed a complaint in the US District Court for the Western District of Pennsylvania against a former customer, Plate Capture Solutions, Inc. ("PCS") for breach of software license agreements pursuant to which software was licensed to PCS. On June 14, 2020, PCS filed its operative answer to the Complaint. On June 21, 2020, PCS filed a motion to join us and another entity, OpenALPR Technology, Inc., as parties to the litigation and made claims against them and counterclaims against OpenALPR for defamation, fraud and intentional interference with existing and future business relationships. On July 13, 2020, OpenALPR filed an opposition to the motion for joinder. On November 23, 2020, the court denied PCS's Motion for Joinder with prejudice. On August 30, 2021, OpenALPR and PCS filed a joint stipulation of dismissal with prejudice, and the court ordered dismissal of the case with prejudice on August 31, 2021. We consider this matter closed.

On September 18, 2020, Fordham Financial Management, Inc. ("Fordham") commenced a lawsuit against us in the Supreme Court for the State of New York, New York County. Fordham alleged that we breached an underwriting agreement and brought claims for breach of contract, a declaratory judgment, and attorneys' fees and expenses, seeking damages. On October 17, 2022, the Court granted Fordham's motion for summary judgment and denied the Company's cross-motions for summary judgment and to compel discovery. The Court awarded Fordham \$1,025,000, representing 3% of the gross proceeds generated from the Company's previously announced and concluded at-the-market equity program commenced on August 14, 2019, plus pre-judgment interest accruing at 9% per annum since April 14, 2019, and reasonable attorneys' fees. The Company chose not to appeal the decision and satisfied the judgement. In exchange for a payment of \$1,320,000 by the Company, the plaintiff agreed to a full and complete discharge of the plaintiff's claim. This amount was recorded in other expense, net on the Company's consolidated statements of operations.

From time to time, we may be named as a party to various lawsuits, claims and other legal and regulatory proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, infringement of proprietary rights, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, claims and proceedings we accrue reserves when a loss is probable, and the amount of such loss can be reasonably estimated. When it is our opinion that the outcome of these proceedings, individually and collectively, will not be material to our consolidated financial statements as a whole we do not provide detailed descriptions of such matters in our financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the Nasdaq Capital Market under the symbol "REKR".

Holder

As of March 29, 2023, there were 63 registered holders of record of our common stock, excluding stockholders for whom shares are held in "nominee" or "street name." The actual number of common stockholders is greater than the number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

We have never declared or paid any cash dividends on our common stock. We currently do not anticipate paying any cash dividends for the foreseeable future. Instead, we anticipate that all of our earnings will be used to provide working capital, to support our operations, and to finance the growth and development of our business, including potentially the acquisition of, or investment in, businesses, technologies or products that complement our existing business. Any future determination relating to dividend policy will be made at the discretion of our Board of Directors and will depend on a number of factors, including, but not limited to, our future earnings, capital requirements, financial condition, future prospects, applicable Delaware law, which provides that dividends are only payable out of surplus or current net profits and other factors our Board of Directors might deem relevant.

Recent Sales of Unregistered Securities

Registered Public Offering followed by Automatic Conversion of Series A Cumulative Convertible Redeemable Preferred Stock and Series B Cumulative Convertible Redeemable Preferred Stock

On February 9, 2021, we issued and sold 6,126,936 shares of our common stock, which includes 799,166 shares of common stock sold pursuant to the exercise of an overallotment option (the "2021 Public Offering"). The net proceeds to the Company, after deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company, were approximately \$70.1 million. The shares were sold pursuant to an underwriting agreement with B. Riley Securities, Inc. and Lake Street Capital Markets, LLC, as representatives of the several underwriters named therein and our shelf registration statement on Form S-3 (Registration Statement No. 333-224423) filed by the Company with the Securities and Exchange Commission (the "SEC") that became effective on April 30, 2018. On February 4, 2021, a prospectus supplement and accompanying prospectus were filed with the SEC in connection with the offering and a related registration statement (File No. 333-252735) was filed pursuant to Rule 462(b) promulgated under the Securities Act.

As a result of the closing of the 2021 Public Offering, all of our issued and outstanding Series A Cumulative Convertible Redeemable Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock") and Series B Cumulative Convertible Redeemable Preferred Stock, par value \$0.0001 per share (the "Series B Preferred Stock") were automatically converted pursuant to their respective terms into an aggregate of 1,416,785 shares of our common stock. As a result of the automatic conversion of the Series A Preferred, the Series A Preferred will no longer be quoted on the OTC Pink. The Series B Preferred was not quoted on any trading market.

Waycare Acquisition

On August 18, 2021, the Company completed its acquisition of Waycare by acquiring 100% of the issued and outstanding shares of Waycare. As a result of the acquisition, Waycare is a wholly-owned subsidiary of the Company. The aggregate purchase price for the shares of Waycare was \$60,171,000, less the amount of Waycare's debt and certain transaction expenses and subject to a customary working capital adjustment. The purchase price was comprised of \$39,884,000 of cash and 2,784,474 shares of the Company's common stock, valued at \$20,287,000. As a result of the transaction, Waycare became a wholly-owned subsidiary of the Company. Additionally, pursuant to the terms of the Waycare purchase agreement, the Company reserved for issuance to Waycare's continuing employees an aggregate of 686,248 restricted stock units, which were granted on November 3, 2021 pursuant to the terms of the Company's 2017 Equity Award Plan, as amended. The restricted stock units are subject to customary vesting schedules and are intended to incentivize the continued performance of Waycare's employees. On August 24, 2021, a registration statement on Form S-8 was filed with the SEC (File No. 333-259041), to register 597,544 shares issued in exchange for options held under Waycare's employee incentive plan. On October 29, 2021, a resale registration statement on Form S-3 was filed with the SEC (File No. 333-26067), and subsequently declared effective by the SEC on November 10, 2021, allowing for the registered resale of 2,186,931 shares of common stock received as consideration by Waycare's former stockholders.

STS Acquisition

As previously disclosed under Item 3.02 in the Company's Current Report on Form 8-K filed with the SEC on June 17, 2022, as part of the purchase price the Company issued to the sellers of STS 798,666 unregistered shares of the Company's common stock, valued at \$2,000,000. The stock consideration paid to the sellers was issued pursuant to an exemption under Section 4(a)(2) of the Securities Act of 1933, as amended, and/or Regulation D, as promulgated thereunder.

Senior Notes with Warrants

As previously disclosed under Item 3.02 in the Company's Current Report on Form 8-K filed with the SEC on January 18, 2023, the Company entered into a securities purchase agreement with certain accredited investors, pursuant to which the Company agreed to issue and sell to the investors in a private placement transaction (i) up to \$15,000,000 in aggregate principal amount of senior secured promissory notes, and (ii) warrants to purchase up to an aggregate of 7,500,000 shares of common stock of the Company. In connection with the initial closing on January 18, 2023, the Company issued \$12,500,000 in aggregate principal amount of notes and warrants to purchase 6,250,000 shares of Common Stock, resulting in proceeds to the Company of \$12,500,000 before reimbursement of expenses.

Use of Proceeds

We have generated losses since our inception and have relied on cash on hand, external bank lines of credit, short-term borrowing arrangements, issuance of debt, the sale of a note, sale of our non-core subsidiaries, and the sale of common stock to provide cash for operations. We attribute losses to financing costs, public company corporate overhead, lower than expected revenue, and lower gross profit of some of our subsidiaries. Our cash proceeds have been primarily used for the acquisitions described above, research and development, legal, financing costs, acquisition costs and sales and marketing expenses related to new product development and our strategic shift to develop and promote the capabilities of our technology offerings.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report and the historical financial statements of Rekor Systems, Inc., and the related notes thereto.

Overview

Rekor is leading the charge to become the premier provider of roadway intelligence and data-driven mobility insights on a global scale. As a technology company, we are dedicated to transforming the public safety, urban mobility, and transportation management market segments worldwide with our cutting-edge, AI-driven solutions tailored specifically to the unique needs of each sector. Our commitment to delivering mission-critical solutions for roadway intelligence is driven by our vision of creating smarter, safer, and more sustainable streets for all communities. To achieve this vision, we strive to collect, connect, and organize the world's mobility data, harnessing its full potential to provide the most essential, real-time, and predictive actionable mobility insights. With our innovative approach and relentless pursuit of excellence, we are working to make mobility data universally accessible and, empowering our customers to make informed decisions and drive meaningful progress towards a better future.

General

The information provided in this discussion and analysis of Rekor's financial condition and results of operations covers the years ended December 31, 2022 and 2021. In 2022, we divested our Automated Traffic Safety Enforcement ("ATSE") business, a non-core business unit. As a result of the divestiture, we determined that ATSE met the criteria to be considered discontinued and it is no longer presented with continuing operations. Additionally, in 2022, we completed the acquisition of 100% of the issued and outstanding capital stock of Southern Traffic Services, Inc. ("STS") and in 2021, we completed the acquisition of 100% of the issued and outstanding capital stock of Waycare Technologies, Ltd. These acquisitions are included in the presentation of our operations.

Acquisitions and Dispositions

On August 18, 2021, we completed the acquisition of Waycare Technologies Ltd. ("Waycare") for an aggregate purchase price of \$60,171,000, consisting of \$39,884,000 in cash and \$20,287,000 of stock consideration.

On June 17, 2022, we completed the acquisition of STS by acquiring 100% of the issued and outstanding capital stock of STS. The acquisition included total consideration of \$12,799,000 including: cash consideration of \$6,500,000, \$1,001,000 related to an earnout based on the achievement of certain performance metrics ("STS Earnout") and \$1,298,000 contingent on the closing of a future contract ("STS Contingent Consideration"), 798,666 shares of the Company's common stock, valued at \$2,000,000, and a \$2,000,000 note.

On December 6, 2022, we divested our ATSE business, a non-core business unit, for approximately \$3,390,000.

Opportunities, Trends and Uncertainties

We look to identify the various trends, market cycles, uncertainties and other factors that may provide us with opportunities and present challenges that impact our operations and financial condition from time to time. Although there are many that we may not or cannot foresee, we believe that our results of operations and financial condition for the foreseeable future will be primarily affected by the following:

- **Growing Smart City Market** – According to a United Nations report, about two-thirds of the world population will live in urban areas by 2050. The world's cities are getting larger, with longer commutes and the resulting impact on the environment and the quality of life. This trend requires forward-thinking officials to manage assets and resources more efficiently. We believe that advancements in "big data" connected devices and artificial intelligence can provide Intelligent Transportation System ("ITS") solutions that can be used to reduce congestion, keep travelers safe, improve transportation, protect the environment, respond to climate change, and enhance the quality of life. We believe our data-driven, artificial intelligence-aided solutions provide useful tools that can effectively tackle the challenges cities and communities are facing today and will face over the coming decades.
- **AI for Infrastructure** – We believe that the application of AI to the analysis of conditions on roadways and other transportation infrastructure can significantly affect the safety and efficiency of travel in the future. As vehicles move towards full automation, there is a need for real-time data and actionable insights around traffic flow, identification of anomalous and unsafe movements – e.g. wrong way vehicles, stopped vehicles, or/and pedestrians on the roadway. Marketers and drive-thru retailers with loyalty programs can also benefit from rapid, lower cost identification of existing and potential customers in streamlining and accelerating local vehicular flow as well as data about the vehicles on the roadway.
- **Connected Vehicle Data** – Today's new vehicles are equipped with dozens of sensors, collecting information about internal systems, external hazards, and driving behaviors. This data is a resource that transportation and other agencies are beginning to find valuable uses for. Notably, the data from these vehicles represent a virtual network that is independent of the infrastructure which is maintained and operated by the public agencies. Connected vehicle sensors can provide important information related to hazardous conditions, speed variations, intersection performance, and more. This data can help agencies and municipalities gain more visibility about conditions on their roads, supplementing data from existing infrastructure and allowing transportation information from rural areas that are not served by ITS infrastructure to be integrated into the overall analysis.
- **New and Expanded Uses for Vehicle Recognition Systems** – We believe that reductions in the cost of vehicle recognition products and services will significantly broaden the market for these systems. We currently serve many users who could not afford the cost, or adapt to the restrictions of, conventional vehicle recognition systems. These include smaller municipalities, homeowners' associations, and organizations finding new applications such as innovative customer loyalty programs. We have seen and responded to an increase in the number of smaller jurisdictions that are testing vehicle recognition systems or that issued requests for proposals to install a network of vehicle recognition sensors. We also expect the availability of faster, higher-accuracy, lower-cost systems to dramatically increase the ability of crowded urban areas to manage traffic congestion and implement smart city programs.
- **Adaptability of the Market** – We have made a considerable investment in our advanced vehicle recognition systems because we believe their increased accuracy, affordability and ability to capture additional vehicle data will allow them to compete effectively with existing providers. Based on published benchmarks, our software currently outperforms competitors. However, large users of existing technology, such as toll road operators, have long-term contracts with service providers that have made considerable investments in their existing technologies and may not consider the improvements in accuracy or reductions in cost sufficient to justify abandoning their current systems in the near future. In addition, existing providers may be able to reduce the cost of their current offerings or elect to reduce prices and accept reduced profitability while working to develop their own systems or secure advanced systems from others who are also working to develop them. As a result, our success in establishing a major position in these markets will depend on being able to effectively communicate our presence, develop strong customer relationships, and maintain leadership in providing the capabilities that customers want. As with any large market, this will require considerable effort and resources.

- *Expansion of Automated Enforcement of Motor Vehicle Laws* – We expect contactless compliance programs to be expanded as the types of vehicle related violations authorized for automated enforcement increase and experience provides localities with a better understanding of the circumstances where it is and is not beneficial. We believe that future legislation will increasingly allow for automated enforcement of regulations such as motor vehicle insurance and registration requirements. Communities are currently searching for better means of achieving compliance with minor vehicle offenses, such as lapsed registrations, and safety issues such as motorists who fail to stop for school buses. For example, due to high rates of fatalities and injuries to law enforcement and other emergency response crews on roadsides, several states are considering authorizing automated enforcement of violations where motorists fail to slow down and/or move over for emergency responders and law enforcement vehicles at the side of the road. To the extent that legislative implementation is required, a deliberative and necessarily time-consuming process is involved. However, as states expand auto-enforcement, the market for these products and services should broaden in the public safety market.
- *Graphic Processing Unit (“GPU”) Improvements* – We expect our business to benefit from more powerful and affordable GPU hardware that has recently been developed. These GPUs are more efficient for image processing because their highly parallel structure makes them more efficient than general-purpose central processing units (“CPUs”) for algorithms that process large blocks of data, such as those produced by video streams. GPUs also provide superior memory bandwidth and efficiencies as compared to their CPU counterparts. The most recent versions of our software have been designed to use the increased GPU speeds to accelerate image recognition. The GPU market is predicted to grow as a result of a surge in the adoption of the Internet of Things (“IoT”) by the industrial and automotive sectors. As GPU manufacturers increase production volume, we hope to benefit from the reduced cost to manufacture the hardware included in our products or available to others using our services.
- *Edge Processing* – Demand for actionable roadway information continues to grow in parallel with sensor improvements, such as increasingly sophisticated internal software and optical and other hardware adapted to the use of this software. Over the last several decades, sensors have evolved and unlocked new capabilities with each advancement. Further, cellular networks have been optimized for downloading data rather than uploading data. As a result, while download speeds have improved significantly due to large investments in cellular infrastructure, this has resulted in relatively small improvements to cellular upload speeds. With roadside deployments experiencing explosive growth in count and density, scalability, latency and bandwidth have become aspects of competition in the market. Our systems have been designed to address these issues through the use of more effective edge processing, enabled both by incorporating the increasingly effective new GPUs into our systems and continual improvements in the efficiency of our AI algorithms. Our edge processing systems ingest local HD video streams at the source and convert the raw video data to text data, dramatically reducing the volume of data that needs to be transferred through the network. Edge processing allows us to scale a network dramatically without the bandwidth, cost, latency and dependability limitations that are experienced by other networks where raw video needs to be streamed to the cloud for processing.
- *Accelerated Business Development and Marketing* – Our ability to compete in a large, competitive and rapidly evolving industry will require us to achieve and maintain a visible leadership position. As a result, we have made significant investments in our business development marketing and eCommerce activities to increase awareness and market adoption of our products and services within key markets. We anticipate that a sustained presence in the market, the continued development of strategic partnerships and other economies of scale will reduce the level of costs necessary to support sales of our products and services. However, the speed at which these markets grow to the degree to which our products and services are adopted is uncertain.
- *Resurgent COVID 19* - The spread of a novel strain of COVID-19 around the world since the first quarter of 2020 has caused significant volatility in U.S. and international markets. Despite the roll-out of vaccinations, there continues to be significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies. As such, we are unable to determine the full impact on our operations should the global pandemic resurface in 2023. The pandemic has accelerated the adoption of new technologies by businesses. According to a McKinsey Global Survey of executives, their companies have accelerated the digitization of their customer and supply-chain interactions and their internal operations by three to four years. Funding for digital initiatives has increased, creating opportunities for innovative solution providers such as Rekor.
- *Pressure on Government Budgets* – COVID-19 has caused significant strain on government budgets. With less money to spend and more need for resources, government agencies need affordable, effective, and scalable solutions for revenue recovery and discovery. With subscription pricing and an intelligent infrastructure platform that accomplishes multiple agency missions, we are uniquely positioned to provide agencies with force-multiplying tools when money and human resources are limited. Agencies can be better positioned to improve public safety, manage resources more effectively, and make an impact on their citizen's quality of life with limited capital expenditure. In addition, states adopting contactless compliance programs may be able to garner significant net cash contributions to their annual budgets while reducing the number of non-compliant vehicles on their roadways.

- *Infrastructure Investment and Jobs Act (“IIJA”) and the Bipartisan Infrastructure Law (“BIL”)* - The IIJA, signed into law on November 15, 2021, provides for significant national investments in the transportation systems in the United States, including over \$150 billion in new spending on roadway infrastructure, including intelligent transportation systems. We believe that our comprehensive offering of solutions positions the Company well to emerge as a technology leader in the expanded market for roadway intelligence that will benefit from this legislation. We have identified opportunities to access federal funding streams, and we are working to implement a program that capitalizes on this unprecedented U.S. federal investment in public safety, homeland security, and transportation infrastructure and ensures that our customers are positioned to capture as much of this extraordinary government spending as possible. Beyond the many recurring federal grant programs that could support customer purchases, and the \$350 billion in American Rescue Plan Act allocations that public agencies are receiving now, we are particularly excited about the prospect of benefiting from the following new grant sources that are contained in the IIJA: \$200 million annually for a “Safe Streets and Roads for All” program that would make competitive grants for state projects that significantly reduce or eliminate transportation-related fatalities. \$150 million for the current administration to establish a grant program to modernize state data collection systems \$500 million for the Strengthening Mobility and Revolutionizing Transportation (“SMART”) Grant Program that would support demonstration projects on smart technologies that improve transportation efficiency and safety.
- *Recent Acquisitions* - Over the past two years, Rekor has acquired two subsidiaries as part of its plans to advance its appeal to national and local transportation agencies. In the first of these acquisitions, we acquired an award winning leader in the development of predictive analytics for traffic management using a combination of internally generated and third party data sources. This acquisition was designed to assure transportation agencies that we were developing the most advanced data analysis systems to support their missions in safety and efficiency. In the second acquisition, we acquired one of the leading existing providers of traffic data services in the United States. Uniquely, this Company had innovated a change in the service model from providing, servicing and maintaining agency resources to a data services model where overlapping entities could benefit from our modular approach to data collection and dissemination. Each of these acquisitions has led to increased visibility for the Company among national and state level DOTs in the United States, Mexico and Israel.
- *Challenges to Executing on the Corporate Strategy* – As an acquirer and integrator of established technology companies in the ITS industry, there is an inherent risk associated with the successful implementation and execution of the strategy. If Rekor is unable to successfully implement and execute its plans, there could be a material and adverse effect on the Company’s business, results of operations, and financial condition.
- *Inability to Achieve Profitability* - Rekor continues to grow its business, its operating expenses and capital expenditures have increased and it has not yet achieved the level of sustaining profitability. As a result, if the Company is unable to generate additional revenue or achieve planned efficiencies in operations, or if its revenue declines significantly, Rekor may not be able to achieve profitability in the future, which would materially and adversely affect the Company’s business.
- *Inability to Retain Qualified Personnel* – Rekor’s success depends on the continued efforts and abilities of the senior management team and key engineering and marketing specialists. Although Rekor has employment agreements with these employees, they may not choose to remain employed by Rekor. Should one or more key personnel leave the Company or join a competitor, the Company’s business, operating results, and financial condition can be adversely affected.
- *Inability to Compete Effectively* - Competition and technology advancements by others may erode the Company’s business and result in inability to capture new business and revenue. Each business line faces significant competitive pressures within the markets in which they operate. While Rekor continues to work to develop and strengthen its competitive advantages, many factors such as market and technology changes may erode or prevent this. If the Company is unable to successfully maintain its competitive advantage, the Company’s business, operating results, and financial condition can be adversely affected.
- *Cyber Security Risks* - Rekor relies on information technology in all aspects of its business. A significant disruption or failure in the information technology systems could result in services interruptions, safety failures, security violations, regulatory compliance failures, an inability to protect information and assets against intruders, and other operational difficulties. This could result in the loss of assets and critical information and expose the Company to remediation costs and reputational damage. Although Rekor takes reasonable steps intended to mitigate these risks, a significant disruption or cyber intrusion could lead to misappropriation of assets or data corruption and could adversely affect the Company’s results of operations, financial condition, and liquidity.
- *Intellectual Property Claims* - Third parties that have been issued patents or have filed for patent applications similar to those used by the Company’s operating subsidiaries may result in intellectual property claims against the Company. Rekor cannot determine with certainty whether existing third-party patents or the issuance of any future third party patents would require any of its operating subsidiaries to alter their respective technologies, obtain licenses or cease certain activities. Should the Company be unable to defend against such claims, the Company’s business, operating results, and financial condition can be adversely affected.

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

Components of Operating Results

Revenues

The Company derives its revenues primarily from the sale of its roadway data aggregation, traffic management and licensing offerings. These offerings typically, include a mixture of data collection, software, hardware, implementation, engineering services, customer support and maintenance services. Revenue is recognized upon transfer of control of promised products and services to the Company's customers, in an amount that reflects the consideration the Company expects to receive in exchange for those products and services.

Costs of revenues, excluding depreciation and amortization

Direct costs of revenues consist primarily of the portion of technical and non-technical salaries and wages and payroll-related costs incurred in connection with revenue-generating activities. Direct costs of revenues also include production expenses, data subscriptions, sub-consultant services and other expenses that are incurred in connection with our revenue-generating activities. Direct costs of revenues exclude the portion of technical and non-technical salaries and wages related to marketing efforts, vacations, holidays, and other time not spent directly generating fees under existing contracts. Such costs are included in operating expenses. We expense direct costs of revenues when incurred.

Operating Expenses

Our operating expenses consist of general and administrative expenses, sales and marketing, research and development and depreciation and amortization. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, payroll taxes and stock-based compensation expenses. Operating expenses also include depreciation, amortization and impairment of assets.

General and Administrative

General and administrative expenses consist of personnel costs for our executive, finance, legal, human resources and administrative departments. Additional expenses include office leases, professional fees and insurance.

We expect our general and administrative expenses to continue to remain high for the foreseeable future due to the costs associated with our growth and the costs of accounting, compliance, insurance and investor relations as a public company. Our general and administrative expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses. However, our general and administrative expenses have decreased as a percentage of our revenue and, to the extent we continue to be successful in generating increased revenue, we expect our general and administrative expenses to decrease as a percentage of our revenue over the long term.

Sales and Marketing

Sales and marketing expenses consist of personnel costs, marketing programs, travel and entertainment associated with sales and marketing personnel, expenses for conferences and trade shows. We will require significant investments in our sales and marketing expenses to continue the rate of growth in our revenues, further penetrate existing markets and expand our customer base into new markets.

Research and Development

Research and development expenses consist of personnel costs, software used to develop our products and consulting and professional fees for third-party development resources. Our research and development expenses support our efforts to continue to add capabilities to and improve the value of our existing products and services, as well as develop new products and services.

We expect our research and development expenses to continue to increase in absolute dollars for the foreseeable future as we continue to invest in research and development efforts to enhance the functionality of our products and services. Our research and development expenses increased in 2022 as we focused on a significant expansion of the capabilities of our Rekor suite of products and may continue to fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses. However, to the extent we continue to be successful in generating increased revenue, we expect our research and development expenses to decrease as a percentage of our revenue over the long term.

Depreciation and Amortization

Depreciation and amortization expenses are primarily attributable to our capital investments and consist of fixed asset depreciation, amortization of intangibles considered to have definite lives, and amortization of capitalized internal-use software costs.

Other Income (Expense)

Other income (expense) consists primarily of legal settles, legal judgements, interest expense in connection with our debt arrangements, costs associated with the extinguishment of our debt arrangements, gains on the sale of subsidiaries, gains or losses on the sale of fixed assets, interest income earned on cash and cash equivalents, short-term investments and note receivables.

Income Tax Benefit

Income tax benefit consists primarily of the tax impact related to the step-up in the basis of tangible and intangible assets related to our acquisitions and income taxes in certain domestic jurisdictions in which we conduct business. We have recorded deferred tax assets for which a full valuation allowance has been provided, including net operating loss carryforwards and tax credits. We expect to maintain this full valuation allowance for the foreseeable future as it is more likely than not that some or all of those deferred tax assets may not be realized based on our history of losses.

Results of Operations

Our historical operating results in dollars are presented below. The analysis of operation is solely related to continuing operations and does not consider the results of discontinued operations. The following selected consolidated financial data should be read in conjunction with the foregoing information contained in this Item 7 and with the consolidated financial statements and the notes thereto in Item 8 of Part II, "Financial Statements and Supplementary Data." Only historical operating results are presented below. Historical results are not necessarily indicative of future results.

(Dollars in thousands)	Year ended December 31,	
	2022	2021
Revenue	\$ 19,920	\$ 11,575
Cost of revenue, excluding depreciation and amortization	10,890	4,549
Operating expenses:		
General and administrative expenses	26,612	23,006
Selling and marketing expenses	8,329	4,474
Research and development expenses	18,616	8,292
Goodwill impairment	34,835	-
Depreciation and amortization	6,422	3,088
Total operating expenses	94,814	38,860
Loss from continuing operations	(85,784)	(31,834)
Other income (expense):		
Interest expense, net	(21)	(27)
Other expense, net	(1,279)	(90)
Gain on the sale of business	2,643	-
Gain on extinguishment of debt	-	886
Total other income	1,343	769
Loss before income taxes	(84,441)	(31,065)
Income tax benefit	987	3,819
Equity in loss of investee	-	(150)
Net loss from continuing operations	\$ (83,454)	\$ (27,396)

Comparison of the Years Ended December 31, 2022 and 2021**Revenue**

(Dollars in thousands)	Year ended December 31,		Change	
	2022	2021	\$	%
Revenue	\$ 19,920	\$ 11,575	\$ 8,345	72%

The increase in revenue for the year ended December 31, 2022, compared to the year ended December 31, 2021, was primarily a result of our recent acquisition of STS and its existing customer base. During the year ended December 31, 2022, revenue attributable to our STS acquisition was \$7,692,000. As part of our change in selling strategy, we have focused on a sales model that employs contracts with recurring revenue. We expect these contracts to provide a more predictable stream of revenues, compared to one-time sales of hardware and software licenses which are generally more difficult to predict.

Our revenue with the discontinued operations of our ATSE business were \$22,280,000 for the year ended December 31, 2022, as compared to \$14,294,000 for the year ended December 31, 2021.

Cost of Revenue, Excluding Depreciation and Amortization

(Dollars in thousands)	Year ended December 31,		Change	
	2022	2021	\$	%
Cost of revenue, excluding depreciation and amortization	\$ 10,890	\$ 4,549	\$ 6,341	139%

For the year ended December 31, 2022, cost of revenue, excluding depreciation and amortization increased compared to the corresponding prior periods primarily due to an increase in personnel and other direct costs such as hardware that were incurred to support our go-to-market strategy and increase of revenue. As part of a sales strategy to more quickly expand our market reach, we have recently offered certain customers short-term pilot programs which range from three to six months. Our pilot programs generally have lower margins due to additional upfront costs we incur to establish the program, which will not be incurred again if the pilot program is converted into a long-term program. In addition, the Company experienced lower margins on certain hardware sales during the year.

Operating Expenses

(Dollars in thousands)	Year ended December 31,		Change	
	2022	2021	\$	%
Operating expenses:				
General and administrative expenses	\$ 26,612	\$ 23,006	\$ 3,606	16%
Selling and marketing expenses	8,329	4,474	3,855	86%
Research and development expenses	18,616	8,292	10,324	125%
Goodwill impairment	34,835	-	34,835	-
Depreciation and amortization	6,422	3,088	3,334	108%
Total operating expenses	\$ 94,814	\$ 38,860	\$ 55,954	144%

General and Administrative Expenses

The increase in general and administrative expenses during the year ended December 31, 2022, compared to the year ended December 31, 2021, were primarily due to a \$3,894,000 increase in personnel costs related to an increase in headcount, and increase of \$1,326,000 of rent expense primarily related to our leased space in Columbia, Maryland and Tel Aviv, Israel. These increases in expenses were partially offset by a \$2,180,000 decrease in our professional services expenses which primarily related to merger and acquisition activities that took place in 2021.

Selling and Marketing Expenses

The increase in selling and marketing expenses during the year ended December 31, 2022, compared to the year ended December 31, 2021, was attributable mainly to increased marketing efforts to promote our products and services including digital marketing and other sales efforts. In connection with these efforts, for the year ended December 31, 2022, there was an increase in staffing to support our growth plan which led to a \$4,223,000 increase in personnel costs, including a \$1,215,000 increase in stock-based compensation, compared to the year ended December 31, 2021.

Research and Development Expense

The increase in research and development expenses during the year ended December 31, 2022, compared to the year ended December 31, 2021, was primarily attributable to the development of new products and additional software capabilities, mainly as a result of an increase in headcount and hours associated with research and development activities. For the year ended December 31, 2022, there was an increase in staffing to support the Company's new products which led to a \$8,227,000 increase in personnel costs, including a \$1,498,000 increase in stock-based compensation, compared to the year ended December 31, 2021. Additionally, there was an increase in sub-contractor labor associated with the development of new products and software of \$1,062,000 during the year ended December 31, 2022 compared to the year ended December 31, 2021.

Goodwill Impairment

During the third quarter of 2022, we experienced a significant decline in our market capitalization, which management deemed a triggering event related to goodwill. As a result, we performed an interim impairment assessment as of September 30, 2022 and determined that as of the reporting date we had an impairment related to goodwill in the amount of \$34,835,000.

Depreciation and Amortization

The increase in depreciation and amortization during the year is attributable primarily to increased technology-based intangible assets that were acquired as part of our acquisition of Waycare and the customer relationships and the trade name that was acquired as part of our acquisition of STS.

Operating Expenses Excluding Goodwill Impairment, Depreciation and Amortization

In the third quarter of 2022, we started to see a reduction in our operating expenses as a result of streamlining activities and business processes. During the fourth quarter we saw the full impact of these activities which resulted in a reduction of \$2,842,000 of operating expenses across our general and administrative, sales and marketing and research and development expenses, during the fourth quarter of 2022 compared to the third quarter of 2022.

Other Income (Expense)

(Dollars in thousands)	Year ended December 31,		Change	
	2022	2021	\$	%
Other income (expense):				
Interest expense, net	\$ (21)	\$ (27)	\$ 6	22%
Other expense, net	(1,279)	(90)	(1,189)	-1321%
Gain on the sale of business	2,643	-	2,643	-
Gain on extinguishment of debt	-	886	(886)	-100%
Total other income	\$ 1,343	\$ 769	\$ 574	-75%

The increase in other expense in the current year was related to legal judgements and settlements that happened during the year ended December 31, 2022. For additional details regarding our legal settlements please see Item 3 of Part I, "Legal Proceedings".

In connection with the sale of ATSE, we recognized a gain on the sale of the business of \$2,643,000 during the year ended December 31, 2022.

The gain on the extinguishment of debt for the year ended December 31, 2021, was related to the forgiveness of PPP loans.

Income Tax Benefit

The income tax benefit for the year ended December 31, 2022, was \$987,000, which is due primarily to the step-up in the basis of tangible and intangible assets related to the STS acquisition, as compared to tax benefit of \$3,819,000 for the year ended December 31, 2021, which is due primarily to the step-up in the basis of intangible assets related to the Waycare acquisition. We established a valuation allowance against deferred tax assets in the fourth quarter of 2017 and have continued to maintain a full valuation allowance through the year ended December 31, 2022.

Non-GAAP Measures

EBITDA and Adjusted EBITDA

We calculate EBITDA as net loss before interest, taxes, depreciation and amortization. We calculate Adjusted EBITDA as net loss before interest, taxes, depreciation and amortization, adjusted for (i) impairment of intangible assets, (ii) loss on extinguishment of debt, (iii) stock-based compensation, (iv) losses or gains on sales of subsidiaries, (v) losses associated with equity method investments, (vi) one-time consulting fees, (vii) legal judgements and settlements, (viii) gains or losses on the remeasurement of earnouts or contingent considerations, and (ix) other unusual or non-recurring items. EBITDA and Adjusted EBITDA are not measurements of financial performance or liquidity under accounting principles generally accepted in the U.S. ("U.S. GAAP") and should not be considered as an alternative to net earnings or cash flow from operating activities as indicators of our operating performance or as a measure of liquidity or any other measures of performance derived in accordance with U.S. GAAP. EBITDA and Adjusted EBITDA are presented because we believe they are frequently used by securities analysts, investors and other interested parties in the evaluation of a company's ability to service and/or incur debt. However, other companies in our industry may calculate EBITDA and Adjusted EBITDA differently than we do.

The following table sets forth the components of the EBITDA and Adjusted EBITDA for the periods included (dollars in thousands):

	Year ended December 31,	
	2022	2021
Net loss from continuing operations	\$ (83,454)	\$ (27,396)
Income tax benefit	(987)	(3,819)
Interest expense, net	21	27
Depreciation and amortization	6,422	3,088
EBITDA	<u>\$ (77,998)</u>	<u>\$ (28,100)</u>
Gain on extinguishment of debt	-	(886)
Share-based compensation	6,616	3,909
Gain on the sale of ATSE	(2,643)	-
Gain due to the remeasurement of the STS Earnout and Contingent Consideration, net	(883)	-
Goodwill impairment	34,835	-
Loss due to change in value of equity investments	-	150
Legal judgements and settlements	1,608	136
One-time consulting fees	1,024	2,025
Adjusted EBITDA	<u>\$ (37,441)</u>	<u>\$ (22,766)</u>

Adjusted Gross Profit and Adjusted Gross Margin

Adjusted Gross Profit is a non-GAAP financial measure that we define as revenue less cost of revenue, excluding depreciation and amortization. We define Adjusted Gross Margin as our Adjusted Gross Profit divided by our revenue. We expect Adjusted Gross Margin to improve over time to the extent that we can gain efficiencies through the broader adoption of our technology and successfully cross-selling and upselling our current and future offerings. However, our ability to improve Adjusted Gross Margin overtime is not guaranteed and could be impacted by the factors affecting our performance. We believe Adjusted Gross Profit and Adjusted Gross Margin are useful to investors, as they eliminate the impact of certain non-cash expenses and allow a direct comparison of these measures between periods without the impact of non-cash expenses and certain other nonrecurring operating expenses.

The following table sets forth the components of the Adjusted Gross Profit and Adjusted Gross Margin for the periods included:

	Year ended December 31,	
	2022	2021
	(Dollars in thousands, except percentages)	
Revenue	\$ 19,920	\$ 11,575
Cost of revenue, excluding depreciation and amortization	10,890	4,549
Adjusted Gross Profit	\$ 9,030	\$ 7,026
Adjusted Gross Margin	45.3%	60.7%

Adjusted Gross Margin, for the year ended December 31, 2022 decreased to 45.3% from 60.7% for the year ended December 31, 2021. As part of an effort to more quickly expand our market reach, we offered certain customers short-term pilot programs in 2022 which have ranged from three to six months. Our pilot programs generally have lower margins due to the upfront costs we incur to establish the program, which will not be incurred again if the pilot program is converted into a long-term program. In addition, the Company experienced lower margins on certain hardware sales during the year.

Key Performance Indicators

We regularly review several indicators, including the following key indicators, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions.

Recurring Revenue

As more fully described in the discussion of Revenue Recognition below, we derive recurring revenue from long-term contracts with customers that provide for periodic payments over time and short-term contracts that are automatically invoiced on a monthly basis and renewed upon payment. The growth of our recurring revenue provides some insights into our future operating results and cash flow from operations. This enables us to better manage and invest in our business.

	Year ended December 31,			
	2022	2021	Change	
			\$	%
Recurring revenue	\$ 13,091	\$ 4,634	\$ 8,457	182%

As we continue to focus on long-term contracts with recurring revenue as part of our business model, we expect recurring revenue growth in future periods to continue to increase as we move to market our suite of products through our Rekor One™ platform.

Total Contract Value

The total contract value of contracts won in the current period also provides us some visibility into our future operating results and cash flows from operations. Total contract value is a non-GAAP measure in which there are certain assumptions that we make when determining the total contract value of an agreement, such as the success rate of renewal periods, cancellations and usage estimates. For the year ended December 31, 2022, we won contracts valued at \$21,962,000, compared to \$8,936,000 of contracts won for the year ended December 31, 2021. This represents growth of \$13,026,000 or 146%, period over period.

Performance Obligations

While a portion of the total contract value won in a particular period represents point-in-time revenue or recurring revenue earned during the period, the remainder represents future performance obligations that can provide an indication of our future revenues. As of December 31, 2022, we had approximately \$21,412,000 of performance obligations with respect to contracts that were closed prior to December 31, 2022 but have a contractual period beyond December 31, 2022. This represents growth of \$6,636,000 or 45% compared to \$14,776,000 of performance obligations as of December 31, 2021. These contracts generally cover a term of one to five years, which the Company will recognize revenue ratably over the contract term. We currently expect to recognize approximately \$12,678,000 of this amount over the succeeding twelve months, and the remainder is expected to be recognized over the following four years. On occasion, our customers will prepay the full contract or a substantial portion of the contract. Amounts related to the prepayment of the contract related to the performance obligation for a service period that is not yet met are recorded as part of our contract liabilities balance.

Lease Obligations

As of December 31, 2022, we had significant leased building space at the following locations:

- Columbia, Maryland – The corporate headquarters
- Tel Aviv, Israel

We believe our facilities are in good condition and adequate for their current use. We expect to improve, replace and increase facilities as considered appropriate to meet the needs of our planned operations.

Liquidity and Capital Resources

The net cash flows from operating, investing and financing activities for the periods below were as follows (dollars in thousands):

	Year ended December 31,			
	2022	2021	Change	
			\$	%
Net cash used in operating activities - continuing operations	\$ (40,070)	\$ (18,893)	\$ (21,177)	-112%
Net cash used in investing activities - continuing operations	(8,264)	(47,318)	39,054	-83%
Net cash provided by financing activities - continuing operations	23,868	70,992	(47,124)	-66%
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents - continuing operations	<u>\$ (24,466)</u>	<u>\$ 4,781</u>	<u>\$ (29,247)</u>	<u>-612%</u>

Net cash used in operating activities for the year ended December 31, 2022, had a net increase of \$21,177,000, which was attributable to the increase in the loss from continuing operations of \$56,058,000. This amount was partially offset by an increase in share-based compensation expense, a non-cash adjustment, which increased \$2,707,000 to \$6,616,000 for the year ended December 31, 2022 compared to \$3,909,000 for the year ended December 31, 2021. This increase is due to the number of equity incentive shares that were issued to employees and directors. Additionally, for the year ended December 31, 2022 we recognized an impairment related to our goodwill of \$34,835,000.

The net decrease in net cash used in investing activities of \$39,054,000 was primarily due to a decrease in the outflow of funds related to merger and acquisition activities. During the year ended December 31, 2022, the Company had net cash outflows of \$6,389,000 related to the acquisition of STS. During the year ended December 31, 2021, the Company had net cash outflows of \$39,770,000 related to the acquisition of Waycare.

Net cash provided by financing activities for the year ended December 31, 2022 decreased by \$47,124,000 from the prior year ended December 31, 2021. During the year ended December 31, 2022, as part of our 2022 Sales Agreement, we received net proceeds after deducting the underwriting discounts and commissions and offering expenses payable by us, of \$22,754,000. In the prior comparable period, through our 2021 Public Offering, we received net proceeds, after deducting the underwriting discounts and commissions and offering expenses payable by us, of \$70,125,000.

For the year ended December 31, 2022 and 2021, we funded our operations primarily through cash from the sale of equity, operating activities from our subsidiaries, the sale of our subsidiaries and the issuance of debt. As of December 31, 2022, we had unrestricted cash and cash equivalents from continuing operations of \$1,924,000 and working capital deficit of \$6,010,000, as compared to unrestricted cash and cash equivalents of \$25,796,000 and working capital of \$16,911,000 as of December 31, 2021. As more fully described in the discussion of Going Concern, Liquidity and Management's Plan below, based on the Company's current business plan assumptions and the expected cash burn rate, the Company believes that the existing cash is insufficient to fund operations for the next twelve months following the issuance of the audited financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern.

Balance Sheet Arrangements, Contractual Obligations and Commitments

As of the date of this Annual Report on Form 10-K, 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

Our discussion and analysis of our financial condition and results of our operations is based upon our audited consolidated financial statements as of and for the years ended December 31, 2022 and 2021, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions based on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our actual results could differ from these estimates under different assumptions or conditions.

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. Rekor bases its estimates on historical experience and on various other assumptions that the management of Rekor 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.

For further information on all of our significant accounting policies, see Note 1 — Business and Significant Accounting Policies in the accompanying notes to consolidated financial statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

Revenue Recognition

The Company derives its revenues primarily from the sale of its roadway data aggregation, traffic management and licensing offerings. These offerings typically, include a mixture of data collection, software, hardware, implementation, engineering services, customer support and maintenance services. Revenue is recognized upon transfer of control of promised products and services to the Company's customers, in an amount that reflects the consideration the Company expects to receive in exchange for those products and services.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

Revenues

Recurring revenue

Recurring revenue includes the Company's SaaS revenue, subscription revenue, eCommerce revenue and customer support revenue. The Company generates recurring revenue from long-term contracts with customers that provide periodic payments and short-term contracts that are automatically invoiced on a monthly basis. The Company's recurring revenue is generated by a combination of direct sales, partner-assisted sales, and eCommerce sales.

Recurring revenues are generated through the Company's SaaS model, where the Company provides customers with the right to access the Company's software solutions for a fee. These services are made available to the customer continuously throughout the contractual period. However, the extent to which the customer uses the services may vary at the customer's discretion. The Company's contracts with customers are generally for a term of one to five years. The payment for SaaS solutions may be received either at the inception of the arrangement or over the term of the arrangement. These SaaS solutions are considered to have a single performance obligation where the customer simultaneously receives and consumes the benefit, and as such, we recognize revenue for these arrangements ratably over the term of the contractual agreement.

The Company also currently receives recurring revenues under contracts entered into using a subscription model for data collection services and bundled hardware and software over a period. Payments for these services and subscriptions are received periodically over the term of the agreement and revenue is recognized ratably over the term of the agreement. In addition, some of our subscription revenue includes providing, through a web server, access to the Company's software solutions, a self-managed database, and a cross-platform application programming interface. The subscription arrangements with these customers typically do not provide the customer with the right to take possession of the Company's software at any time. Instead, customers are granted continuous access to the Company's solutions over the contractual period. The Company's subscription services arrangements are non-cancelable and do not contain refund-type provisions. Accordingly, any fixed consideration related to the arrangement is generally recognized as recurring revenue on a straight-line basis over the contract term beginning on the date access to the Company's software is provided.

eCommerce revenue is defined by the Company as revenue obtained through direct sales on the Company's eCommerce platform. The Company's eCommerce revenue generally includes subscriptions to the Company's vehicle recognition software which can be purchased online and activated through a digital key. The Company's contracts with customers are generally for a term of one month with automatic renewal each month. The Company invoices and receives fees from its customers monthly.

Customer support revenue is associated with perpetual licenses and long-term subscription arrangements and consists primarily of technical support and product updates. The Company's customer support team is ready to provide these maintenance services, as needed, to the customer during the contract term. The customer benefits evenly throughout the contract period from the guarantee that the customer support resources and personnel will be available to them. As customer support is not critical to the customers' ability to derive benefit from their right to use the Company's software, customer support is considered a distinct performance obligation when sold together with a long-term license for software. Customer support for perpetual and term licenses is renewable, generally on an annual basis, at the option of the customer. Customer support for subscription licenses is renewable concurrently with such licenses for the same duration of time. Revenue for customer support is recognized ratably over the contract period based on the start and end dates of the customer support obligation, in line with how the Company believes services are provided.

Product and service revenue

Product and service revenue is defined as the Company's implementation revenue, perpetual license sales, hardware sales, engineering services and contactless compliance revenue.

Implementation revenue is recognized when the Company provides implementation or construction services to its customers. These services, involve a fee for the implementations services and are typically associated with the sale of the Company's data collection services, software and hardware. The Company's implementation revenue is recognized over time as the implementation is completed.

In addition to the recurring software sales, the Company will recognize revenue related to the sale of perpetual software licenses. The Company sells perpetual licenses which provide customers the right to use software for an indefinite period in exchange for a one-time license fee, which is generally paid at contract inception. The Company's perpetual licenses provide a right to use intellectual property ("IP") that is functional in nature and have significant stand-alone functionality. Accordingly, for perpetual licenses of functional IP, revenue is recognized at the point-in-time when the customer has access to the software, which normally occurs once software activation keys have been made available to the customer.

The Company also generates revenue through the sale of hardware through its partner program and inside sales force distribution channels. The Company satisfies its performance obligation upon the transfer of control of hardware to its customers. The Company invoices end-user customers upon transfer of control of the hardware to its customers. The Company offers hardware installment to customers which ranges from one to six months. The revenue related to the installation component is recognized over time as the implementation is completed.

Contactless compliance solutions revenues reflect arrangements to provide hardware systems that identify uninsured motor vehicles, notify owners of non-compliance through a diversion citation, and assist them in obtaining the required insurance as an alternative to traditional enforcement methods. Revenue is recognized monthly based on the number of diversion citations collected by the relevant jurisdiction.

The Company also generates revenue through its engineering services. These services are provided at the request of its customers and the revenue related to these services is recognized over time as the services are completed.

Goodwill

The excess purchase consideration over the fair value of acquired assets and liabilities is recorded as goodwill. Goodwill is not amortized but rather subject to a periodic impairment testing on an annual basis. The Company will assess goodwill for impairment annually on October 1st of each year, or more often if events or changes in circumstances indicate that it might be impaired, by comparing its carrying value to the reporting unit's fair value.

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, the Company 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 the Company's consolidated statements of operations.

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

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 our 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 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 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 Accounting Standards Codification ("ASC") 740-10-25-related penalties and interest as a component of the income tax provision in the consolidated statements of operations.

As of December 31, 2022, and 2021, our evaluation revealed no uncertain tax positions that would have a material impact on the consolidated financial statements.

Going Concern, Liquidity and Management's Plan

For all annual and interim periods, management will assess going concern uncertainty in the Company's consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued, which is referred to as the "look-forward period", as defined in U.S. GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections and estimates and will make certain key assumptions. These assumptions include, among other factors, its ability to raise additional capital, if necessary, the expected timing and nature of the Company's programs and projected cash expenditures and its ability to delay or curtail these programs or expenditures to the extent management has the proper authority to do so and considers it probable that those implementations can be achieved within the look-forward period.

The Company has generated losses since its inception and has relied on cash on hand, external bank lines of credit, the sale of a note, proceeds from the sale of common stock, proceeds from the private sale of the Company's non-core subsidiaries, proceeds from note receivables, debt financings and a public offering of its common stock to support cash flow from operations. The Company attributes losses to non-capital expenditures related to the scaling of existing products, development of new products and service offerings and marketing efforts associated with these products and services. As of and for the year ended December 31, 2022, the Company had a net loss from continuing operations of \$83,454,000 and a working capital deficit of \$6,010,000.

The Company's net cash position was decreased by \$24,133,000 for the year ended December 31, 2022 primarily due to the loss from continuing operations of \$83,454,000. The loss from continuing operations was partially offset by certain non cash adjustments such as the goodwill impairment of \$34,835,000. Additionally, the decrease in cash was offset by the net proceeds of \$22,754,000 from the 2022 Sales Agreement (see NOTE 14 - *STOCKHOLDERS' EQUITY* for details on the 2022 Sales Agreement).

The Company's ability to generate positive operating results and complete the execution of its business strategy will depend on (i) its ability to continue the growth of its technology business, (ii) the continued performance of its contractors, subcontractors and vendors, (iii) its ability to maintain and build good relationships with its lenders and financial intermediaries, (iv) its ability to maintain timely collections from existing customers, and (v) the stability of the world economy and global financial markets. To the extent that events outside of the Company's control have a significant negative impact on economic and/or market conditions, they could affect payments from customers, services and supplies from vendors, its ability to continue to secure and implement new business, raise capital, and otherwise, depending on the severity of such impact, materially adversely affect its operating results.

The Company is actively monitoring its operations, the cash on hand and working capital. The Company is currently in the process of restructuring its operations to focus on supporting its existing customer base and continuing to develop the growth opportunities that present the highest immediate value. The Company will continue to evaluate the most sensible external financing options in order to sustain its operations. If additional financing is not available, the Company may be required to further reduce or defer expenses and cash outlays. Based on the Company's current business plan assumptions and the expected cash burn rate, the Company believes that the existing cash is insufficient to fund operations for the next twelve months following the issuance of the audited financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern for the next twelve months from the issuance of the Annual Report on Form 10-K.

New Accounting Pronouncements

See Item 8 of Part II, "Financial Statements and Supplementary Data — Note 1 — Business and Significant Accounting Policies"

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide the information required by this Item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Rekor Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Rekor Systems, Inc. (the "Company") as of December 31, 2022, the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022, and the results of its operations and its cash flows for the year ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph – Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) related to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Accounting for Acquisition of Southern Traffic Systems, Inc.

During 2022, the Company completed its acquisition of Southern Traffic Systems, Inc. (“STS”) for total consideration of \$12.8 million, as disclosed in Note 2 to the financial statements. The acquisition is accounted for as a business combination and the Company allocated approximately \$3.4 million and \$0.7 million of the purchase price to the customer relationship and tradename related intangible assets, respectively. The determination of fair value requires significant judgment by management and third-party valuation specialists to develop significant estimates and assumptions used in cash flow models. We identified the purchase price allocation as a critical audit matter. Auditing management’s judgments used in the discounted cash flow model including the forecasts of revenue and operating expense growth rates, royalty rates and discount rates involved especially challenging auditor judgment due to the nature and extent of audit effort required.

The primary procedures we performed to address this critical audit matter included evaluating the Company’s valuation model, the method and significant assumptions used, and testing the completeness and accuracy of the underlying data supporting the significant assumptions and estimates. We performed a sensitivity analysis to determine the impact to the valuation from changes to forecasted revenue growth rates. We involved personnel with specialized knowledge and skill to assist in evaluating the reasonableness of the valuation methodology and certain significant assumptions.

/s/ Marcum LLP

We have served as the Company’s auditor since 2019 (such date takes into account the acquisition of certain assets of Friedman LLP by Marcum LLP effective September 1, 2022)

East Hanover, NJ
March 29, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Rekor Systems, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rekor Systems, Inc. and Subsidiaries (the “Company”) as of December 31, 2021, and the related consolidated statements of operations, stockholders’ equity, and cash flows for the year ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Friedman LLP

We served as the Company’s auditor from 2019 through 2022.

East Hanover, New Jersey
March 31, 2022

REKOR SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

ASSETS	December 31, 2022	December 31, 2021
Current assets		
Cash and cash equivalents	\$ 1,924	\$ 25,796
Restricted cash and cash equivalents	254	390
Accounts receivable, net	3,238	953
Inventory	1,986	1,176
Note receivable, current portion	340	340
Other current assets, net	1,202	1,374
Current assets of discontinued operations	331	653
Total current assets	<u>9,275</u>	<u>30,682</u>
Long-term assets		
Property and equipment, net	16,733	9,741
Right-of-use lease assets, net	9,662	6,117
Goodwill	20,593	53,451
Intangible assets, net	21,299	21,262
Note receivable, long-term	822	1,020
SAFE investment	2,005	1,250
Deposits	3,451	1,978
Long-term assets of discontinued operations, net	-	378
Total long-term assets	<u>74,565</u>	<u>95,197</u>
Total assets	<u>\$ 83,840</u>	<u>\$ 125,879</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 5,963	\$ 7,000
Notes payable, current portion	1,000	998
Notes payable, related party	1,000	-
Loans payable, current portion	106	37
Lease liability, short-term	1,069	214
Contract liabilities	3,044	2,437
Other current liabilities	2,772	2,432
Current liabilities of discontinued operations	490	703
Total current liabilities	<u>15,444</u>	<u>13,821</u>
Long-term liabilities		
Notes payable, long-term	2,000	-
Loans payable, long-term	349	37
Lease liability, long-term	14,237	10,027
Contract liabilities, long-term	1,005	835
Deferred tax liability	52	38
Other long-term liabilities	1,416	-
Long term liabilities of discontinued operations	-	34
Total long-term liabilities	<u>19,059</u>	<u>10,971</u>
Total liabilities	<u>34,503</u>	<u>24,792</u>
Commitments and contingencies		
Stockholders' equity		
Common stock, \$0.0001 par value; authorized; 100,000,000 shares; issued: 54,446,602, shares at December 31, 2022 and 44,007,257 at December 31, 2021; outstanding: 54,405,080 shares at December 31, 2022 and 43,987,896 at December 31, 2021	5	4
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, 2022 and December 31, 2021, respectively. No preferred stock was issued or outstanding as of December 31, 2022 or 2021, respectively.		
Treasury stock - at cost, 41,522 and 19,361 shares as of December 31, 2022 and 2021, respectively	(417)	(319)
Additional paid-in capital	202,747	171,285
Accumulated deficit	(152,998)	(69,883)
Total stockholders' equity	<u>49,337</u>	<u>101,087</u>
Total liabilities and stockholders' equity	<u>\$ 83,840</u>	<u>\$ 125,879</u>

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except share data)

	Year ended December 31,	
	2022	2021
Revenue	\$ 19,920	\$ 11,575
Cost of revenue, excluding depreciation and amortization	10,890	4,549
Operating expenses:		
General and administrative expenses	26,612	23,006
Selling and marketing expenses	8,329	4,474
Research and development expenses	18,616	8,292
Goodwill impairment	34,835	-
Depreciation and amortization	6,422	3,088
Total operating expenses	94,814	38,860
Loss from continuing operations	(85,784)	(31,834)
Other income (expense):		
Interest expense, net	(21)	(27)
Other expense, net	(1,279)	(90)
Gain on the sale of business	2,643	-
Gain on extinguishment of debt	-	886
Total other income	1,343	769
Loss before income taxes and equity method investments	(84,441)	(31,065)
Income tax benefit	987	3,819
Equity in loss of investee	-	(150)
Net loss from continuing operations	(83,454)	(27,396)
Net income from discontinued operations	339	614
Net loss	\$ (83,115)	\$ (26,782)
Loss per common share from continuing operations - basic and diluted	(1.68)	(0.67)
Earnings per common share discontinued operations - basic and diluted	0.01	0.01
Loss per common share - basic and diluted	\$ (1.67)	\$ (0.66)
Weighted average shares outstanding		
Basic and diluted	49,807,475	41,164,564

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share data)

	Shares of Common Stock	Common Stock	Shares of Treasury Stock	Treasury Stock at Cost	Shares of Series B Preferred Stock	Series B Preferred Stock	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
Balance as of December 31, 2020	33,013,271	\$ 3	-	\$ -	240,861	\$ -	\$ 68,238	\$ (43,050)	\$ 25,191
Stock-based compensation	-	-	-	-	-	-	3,909	-	3,909
Exercise of cashless warrants in exchange for common stock	62,921	-	-	-	-	-	-	-	-
Exercise of warrants in exchange for common stock	54,235	-	-	-	-	-	307	-	307
Exercise of warrants related to series A preferred stock	99,793	-	-	-	-	-	103	-	103
Public underwriting	6,126,939	1	-	-	-	-	70,124	-	70,125
Shares issued as part of the Waycare Acquisition	2,784,474	-	-	-	-	-	20,287	-	20,287
Conversion of series A preferred stock	899,174	-	-	-	-	-	7,775	-	7,775
Conversion of series B preferred stock	517,611	-	-	-	(240,861)	-	179	-	179
Issuance upon exercise of stock options	208,919	-	-	-	-	-	464	-	464
Issuance upon vesting of restricted stock units	239,920	-	-	-	-	-	-	-	-
Shares withheld upon vesting of restricted stock units	(19,361)	-	19,361	(319)	-	-	-	-	(319)
Preferred stock dividends	-	-	-	-	-	-	-	(51)	(51)
Accretion of Series A preferred stock	-	-	-	-	-	-	(101)	-	(101)
Net loss	-	-	-	-	-	-	-	(26,782)	(26,782)
Balance as of December 31, 2021	<u>43,987,896</u>	<u>\$ 4</u>	<u>19,361</u>	<u>\$ (319)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 171,285</u>	<u>\$ (69,883)</u>	<u>\$ 101,087</u>
Stock-based compensation	-	-	-	-	-	-	6,616	-	6,616
Issuance of common stock pursuant to at the market offering, net	9,019,062	1	-	-	-	-	22,753	-	22,754
Issuance upon exercise of stock options	99,970	-	-	-	-	-	93	-	93
Issuance upon vesting of restricted stock units	521,647	-	-	-	-	-	-	-	-
Shares withheld upon vesting of restricted stock units	(22,161)	-	22,161	(98)	-	-	-	-	(98)
Shares issued as part of the STS Acquisition	798,666	-	-	-	-	-	2,000	-	2,000
Net loss	-	-	-	-	-	-	-	(83,115)	(83,115)
Balance as of December 31, 2022	<u>54,405,080</u>	<u>\$ 5</u>	<u>41,522</u>	<u>\$ (417)</u>	<u>-</u>	<u>\$ -</u>	<u>\$ 202,747</u>	<u>\$ (152,998)</u>	<u>\$ 49,337</u>

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year ended December 31,	
	2022	2021
Cash Flows from Operating Activities:		
Net loss from continuing operations	\$ (83,454)	\$ (27,396)
Net income from discontinued operations	339	614
Net loss	(83,115)	(26,782)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Bad debt expense	86	51
Depreciation	2,359	626
Amortization of right-of-use lease asset	362	290
Benefit for deferred taxes	(987)	(3,819)
Share-based compensation	6,616	3,909
Amortization of financing costs	2	20
Amortization of intangible assets	4,063	2,462
Goodwill impairment	34,835	-
Gain on the sale of ATSE	(2,643)	-
Gain due to the remeasurement of the STS Earnout and Contingent Consideration, net	(883)	-
Loss due to change in value of equity investments	-	150
Gain on extinguishment of debt	-	(886)
Changes in operating assets and liabilities:		
Accounts receivable	729	299
Inventory	209	65
Other current assets	331	(755)
Deposits	(292)	(127)
Accounts payable, accrued expenses and other current liabilities	(2,229)	5,076
Contract liabilities	587	1,152
Lease liability	239	(10)
Net cash used in operating activities - continuing operations	(40,070)	(18,893)
Net cash provided by operating activities - discontinued operations	458	859
Net cash used in operating activities	(39,612)	(18,034)
Cash Flows from Investing Activities:		
Cash paid for Waycare acquisition, net	-	(39,770)
SAFE Investment	(755)	(1,250)
Capital expenditures	(2,990)	(4,372)
Down payment on capital expenditures	(1,181)	(1,851)
Cash paid for STS acquisition, net	(6,389)	-
Cash proceeds from the sale of ATSE	3,051	-
Investment in unconsolidated company	-	(75)
Net cash used in investing activities - continuing operations	(8,264)	(47,318)
Net cash used in investing activities - discontinued operations	(125)	(48)
Net cash used in investing activities	(8,389)	(47,366)
Cash Flows from Financing Activities:		
Proceeds from the public offering	-	70,125
Proceeds from related party notes	1,000	-
Payment of notes payable	-	(28)
Proceeds from notes receivable	198	340
Net proceeds from the exercise of options	93	464
Net proceeds from the exercise of warrants	-	307
Net proceeds from the exercise of warrants associated with the Series A Preferred Stock	-	103
Repayments of loans payable	(79)	-
Net proceeds from the at-the-market agreement	22,754	-
Repurchases of common stock	(98)	(319)
Net cash provided by financing activities	23,868	70,992
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents - continuing operations	(24,466)	4,781
Net increase in cash, cash equivalents and restricted cash and cash equivalents - discontinued operations	333	811
Net (decrease) increase in cash, cash equivalents and restricted cash and cash equivalents	(24,133)	5,592
Cash, cash equivalents and restricted cash and cash equivalents at beginning of the period	26,601	21,009
Cash, cash equivalents and restricted cash and cash equivalents at end of the period	\$ 2,468	\$ 26,601
Reconciliation of cash, cash equivalents and restricted cash:		
Cash and cash equivalents at end of the period - continuing operations	\$ 1,924	\$ 25,796
Restricted cash and cash equivalents at end of the period - continuing operations	254	390
Cash and cash equivalents at end of the period - discontinued operations	290	415
Cash, cash equivalents and restricted cash and cash equivalents at end of the period	\$ 2,468	\$ 26,601

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

REKOR SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Rekor Systems, Inc. (“Rekor”) was formed in February 2017. The consolidated financial statements include the accounts of Rekor, the parent company, and its wholly-owned subsidiaries Rekor Recognition Systems, Inc., Southern Traffic Services, Inc. (“STS”) and Waycare Technologies Ltd. (“Waycare”) (collectively, the “Company”). The Company is a global leader in intelligent infrastructure focused on addressing the world’s most critical challenges across transportation management, public safety, and key commercial markets. With a real-time intelligence platform driven by deep access to data, AI-powered software, and smart optical devices at-the-edge, the Company combines its industry expertise and advanced proprietary technologies to deliver insights that increase roadway safety, efficiency, and sustainability while enabling safer, smarter, and more connected cities and communities.

On December 6, 2022, the Company divested its Automated Traffic Safety and Enforcement (“ATSE”) business, a non-core business unit. As of December 31, 2022, the Company determined that the ATSE business unit met the criteria to be presented as discontinued operations.

On June 17, 2022, the Company completed the acquisition of STS by acquiring 100% of the issued and outstanding capital stock of STS, which is now a wholly-owned subsidiary of the Company. Since the acquisition of STS occurred on June 17, 2022, the results of operations for STS from the date of acquisition have been included in the Company’s consolidated statement of operations for the year ended December 31, 2022.

On August 18, 2021, the Company completed its acquisition of Waycare Technologies Ltd. (“Waycare”) by acquiring 100% of the issued and outstanding capital stock of Waycare, which is now a wholly-owned subsidiary of the Company. Since the acquisition of Waycare occurred on August 18, 2021, the results of operations for Waycare from the date of acquisition have been included in the Company’s consolidated statement of operations for the year ended December 31, 2022.

Basis of Consolidation

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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires the extensive use of management’s estimates. Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. On an ongoing basis, the Company evaluates its estimates, including those related to the collectability of accounts receivable, the fair value of intangible assets, the fair value of debt and equity instruments, income taxes and determination of standalone selling prices in contracts with customers that contain multiple performance obligations. 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.

Reclassifications

Certain amounts in the prior year’s consolidated financial statements have been reclassified to conform to the current year’s presentation. Amortization related to the Company’s right-of-use assets is presented as part of general and administrative expenses on the consolidated statements of operations, whereas in prior periods these amounts were presented as part of depreciation and amortization on the consolidated statements of operations. Additionally, as of December 31, 2022, the Company began to present interest income and interest expense as a net amount on the consolidated statements of operations, whereas in prior periods, interest income was presented as part of other expense, net on the consolidated statements of operations. Amounts as of December 31, 2021, and for the year ended December 31, 2021, have been reclassified to conform to the current year’s presentation.

Going Concern

For all annual and interim periods, management will assess going concern uncertainty in the Company's consolidated financial statements to determine whether there is sufficient cash on hand and working capital, including available borrowings on loans, to operate for a period of at least one year from the date the consolidated financial statements are issued, which is referred to as the "look-forward period", as defined in U.S. GAAP. As part of this assessment, based on conditions that are known and reasonably knowable to management, management will consider various scenarios, forecasts, projections and estimates and will make certain key assumptions. These assumptions include, among other factors, its ability to raise additional capital, if necessary, the expected timing and nature of the Company's programs and projected cash expenditures and its ability to delay or curtail these programs or expenditures to the extent management has the proper authority to do so and considers it probable that those implementations can be achieved within the look-forward period.

The Company has generated losses since its inception and has relied on cash on hand, external bank lines of credit, the sale of a note, proceeds from the sale of common stock, proceeds from the private sale of the Company's non-core subsidiaries, proceeds from note receivables, debt financings and a public offering of its common stock to support cash flow from operations. The Company attributes losses to non-capital expenditures related to the scaling of existing products, development of new products and service offerings and marketing efforts associated with these products and services. As of and for the year ended December 31, 2022, the Company had a net loss from continuing operations of \$83,454,000 and a working capital deficit of \$6,010,000.

The Company's net cash position was decreased by \$24,133,000 for the year ended December 31, 2022 primarily due to the loss from continuing operations of \$83,454,000. The loss from continuing operations was partially offset by certain non cash adjustments such as the goodwill impairment of \$34,835,000. Additionally, the decrease in cash was offset by the net proceeds of \$22,754,000 from the 2022 Sales Agreement (see NOTE 14 - *STOCKHOLDERS' EQUITY* for details on the 2022 Sales Agreement).

The Company's ability to generate positive operating results and complete the execution of its business strategy will depend on (i) its ability to continue the growth of its technology business, (ii) the continued performance of its contractors, subcontractors and vendors, (iii) its ability to maintain and build good relationships with its lenders and financial intermediaries, (iv) its ability to maintain timely collections from existing customers, and (v) the stability of the world economy and global financial markets. To the extent that events outside of the Company's control have a significant negative impact on economic and/or market conditions, they could affect payments from customers, services and supplies from vendors, its ability to continue to secure and implement new business, raise capital, and otherwise, depending on the severity of such impact, materially adversely affect its operating results.

The Company is actively monitoring its operations, the cash on hand and working capital. The Company is currently in the process of restructuring its operations to focus on supporting its existing customer base and continuing to develop the growth opportunities that present the highest immediate value. The Company will continue to evaluate the most sensible external financing options in order to sustain its operations. If additional financing is not available, the Company may be required to further reduce or defer expenses and cash outlays. Based on the Company's current business plan assumptions and the expected cash burn rate, the Company believes that the existing cash is insufficient to fund operations for the next twelve months following the issuance of the audited financial statements. These factors raise substantial doubt regarding the Company's ability to continue as a going concern for the next twelve months from the issuance of the Annual Report on Form 10-K.

Rounding

Dollar amounts, except per share data, in the notes to these consolidated financial statements are rounded to the closest \$1,000.

Functional Currency

The U.S. dollar ("U.S. dollar" or "\$") is the currency of the primary economic environment in which the operations of the Company is conducted. Substantial revenues and a substantial portion of the operational costs are denominated in U.S. dollars. Accordingly, the functional currency of the Company is the U.S. dollar.

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. For non-U.S. dollar transactions and other items in the financial statements, the following exchange rates are used: (i) for transactions – exchange rates at transaction dates or average exchange rates; and (ii) for other items (derived from non-monetary balance sheet items such as depreciation and amortization) – historical exchange rates. Currency transaction gains and losses are presented in other expense, net on the audited consolidated statement of operations. The currency transaction gain for the year ended December 31, 2022 and 2021 was \$306,000 and \$22,000, respectively.

Concentration of Risk

The Company deposits its temporary cash investments with highly rated quality financial institutions that are located in the United States and Israel. The United States deposits are federally insured up to \$250,000 per account. As of December 31, 2022, and 2021, the Company had deposits, including restricted cash, totaling \$2,468,000 and \$26,601,000, respectively, in multiple U.S. financial institutions and one Israeli financial institution.

For the year ended December 31, 2022, the Company did not have a concentration related to its customer base. For the year ended December 31, 2021, the Company had a concentration of revenue and accounts receivable from continuing operations related to its customer base.

For the year ended December 31, 2022 no single customer accounted for more than 10% of the Company's total revenues.

Company A and Company B accounted for 17% and 11%, respectively of the Company's total revenues for the year ended December 31, 2021.

As of December 31, 2022 no single customer accounted for more than 10% of the Company's consolidated accounts receivable balance. As of December 31, 2021, Company C accounted for 13% of the consolidated accounts receivable balance.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments to be cash equivalents.

Cash subject to contractual restrictions and not readily available for use is classified as restricted cash and cash equivalents. The Company's restricted cash balances are primarily made up of cash collected on behalf of certain client jurisdictions. Restricted cash and cash equivalents for these client jurisdictions as of December 31, 2022 and 2021 were \$254,000 and \$390,000, respectively, and correspond to equal amounts of related liabilities.

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.

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable, unbilled accounts receivables, and contract liabilities on the consolidated balance sheets. Billed and unbilled accounts receivable are presented as part of accounts receivable, net, on the consolidated balance sheets. When billing occurs after services have been provided, such unbilled amounts will generally be billed and collected within 60 to 120 days but typically no longer than over the next twelve months. Unbilled accounts receivables of \$935,000 and \$195,000 were included in accounts receivable, net, in the consolidated balance sheets as of December 31, 2022 and December 31, 2021, respectively.

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to cover the risk of collecting less than full payment of the receivables. At each balance sheet date, the Company evaluates its receivables and will assess the allowance for doubtful accounts based on specific customer collection issues and historical write-off trends. After all reasonable attempts to collect an account receivable have failed, the amount of the receivable is written off against the allowance. Based on the information available, the Company determined that an allowance for loss of \$69,000 and \$11,000 was required on December 31, 2022 and 2021, respectively.

Note Receivables

In connection with the sale of its former TeamGlobal subsidiaries in June 2020, the Company received a \$1,700,000, five and a half year promissory note due December 2025, that carries an interest rate of 4% and is secured by a first priority security interest in the shares of TeamGlobal. Monthly principal payments on the promissory note began in 2021. Based on the general market conditions, the security interest held by the Company and the credit quality of the buyer at the time of the sale, the Company determined that the fixed interest rate approximates the current market rates.

Interest income recognized for the year ended December 31, 2022 and 2021 was \$51,000 and \$62,000, respectively, and is included as part of interest expense, net on the consolidated statement of operations.

Inventory

Inventory principally consists of parts and finished goods held temporarily until installed for service. The Company regularly evaluates its ability to realize the value of inventory based on a combination of factors including the following: historical usage rates, forecasted sales or usage, estimated current and future market values and new product introductions. Inventory is valued at the lower of cost or net realizable value. The cost is determined by the first-in, first-out ("FIFO") method.

Accounts Payable, Accrued and Other Current Liabilities

As of December 31, 2022 and 2021, amounts owed to related parties of \$253,000 and \$102,000 were presented as part of accounts payable and accrued expenses on the consolidated balance sheets.

A summary of other current liabilities is as follows (in thousands):

	December 31, 2022	December 31, 2021
Payroll and payroll related	\$ 2,483	\$ 1,615
Right of offset to restricted cash	243	338
Other	46	479
Total	<u>\$ 2,772</u>	<u>\$ 2,432</u>

Property and Equipment

Property and equipment are stated at cost or fair value at acquisition date for assets obtained through business combinations, less accumulated depreciation. Depreciation expense is presented as part of depreciation and amortization on the consolidated statements of operations.

Depreciation is recorded on a straight-line basis over the following estimated lives:

Class of assets	Useful life (in years)
Furniture and fixtures	2 - 10
Office equipment	2 - 5
Leasehold improvements	Shorter of asset life or lease term
Automobiles	3 - 5
Roadway monitoring systems	3 - 5

Repairs and maintenance are expensed as incurred. Expenditures for additions, improvements and replacements are capitalized.

The Company tests its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Recoverability of property and equipment is measured by comparing the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the sum of the expected undiscounted cash flow is less than the carrying amount of the asset, the Company recognizes an impairment loss, which is the excess of the carrying amount over the fair value of the asset, using the expected future discounted cash flows.

As of December 31, 2022 and 2021, the Company did not recognize an impairment loss on its property and equipment.

Deposits

Deposits consist of cash payments made by the Company related to security deposits for leased assets and deposits on property and equipment which the Company has not yet received.

Software Development Costs

Research and development costs to develop software to be sold, leased or marketed are expensed as incurred up to the point of technological feasibility for the related software product. There were no capitalized internally developed software costs not yet placed in service as of December 31, 2022 and 2021, respectively.

Software developed for internal use, with no substantive plans to market such software at the time of development, are capitalized during the application phase and included in intangible assets, net in the consolidated balance sheets. Costs incurred during the preliminary planning and evaluation and post implementation stages of the project are expensed as incurred. Costs incurred during the application development stage of the project are capitalized. For the years ended December 31, 2022 and 2021, the Company capitalized \$0 and \$4,000, respectively, of development costs related to internal use software.

Intangible Assets

Intangible assets include capitalized internally developed software and amounts recognized in connection with acquisitions, including customer relationships, technology and marketing related assets. Intangible assets, other than software development costs, are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. Intangible assets with definite lives are reviewed for impairment if indicators of impairment arise. Amortization expense related to intangible assets is presented as part of depreciation and amortization on the consolidated statements of operations.

Leases

The Company accounts for its leases in accordance with Accounting Standard Codification ("ASC") Topic 842, Leases ("ASC 842"). The standard provides several optional practical expedients for use in transition. The Company elected to use what the Financial Accounting Standard Board ("FASB") has deemed the "package of practical expedients," which allows the Company not to reassess the Company's previous conclusions about lease identification, lease classification and the accounting treatment for initial direct costs. ASU 2016-02 also provided several optional practical expedients for the ongoing accounting for leases. The Company has elected the short-term lease recognition exemption for all leases that qualify, meaning that for leases with terms of twelve months or less, the Company will not recognize right-of-use ("ROU") assets or lease liabilities on the Company's consolidated balance sheets. Additionally, the Company has elected to use the practical expedient to not separate lease and non-lease components for leases of real estate, meaning that for these leases, the non-lease components are included in the associated ROU asset and lease liability balances on the Company's consolidated balance sheets.

The Company determines if an arrangement contains a lease and the classification of that lease, if applicable, at inception. Operating leases are included in operating lease ROU assets, operating lease liabilities and operating lease liabilities (net of current portion) in the consolidated balance sheets. The Company does not currently have any finance leases.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments under the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The implicit rate within the Company's operating leases are generally not determinable and the Company uses its incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of the Company's incremental borrowing rate requires judgment. The Company determined the incremental borrowing rate for each lease using the Company's current borrowing rate, adjusted for various factors including level of collateralization and term to align with the terms of the lease. The operating lease ROU asset also includes any lease prepayments, offset by lease incentives. Certain of the Company's leases include options to extend or terminate the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain the Company will exercise that option. An option to terminate is considered unless it is reasonably certain the Company will not exercise the option.

Lease expense for lease payments is recognized on a straight-line basis over the term of the lease.

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, the Company 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 the Company's consolidated statements of operations.

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

Equity Method Investments

Investments in the common stock of entities other than the Company's consolidated subsidiaries are accounted for under the equity method in accordance with ASC 323, *Investments – Equity Method and Joint Ventures*. Under the equity method, the initial investment is recorded at cost and the investment is subsequently adjusted for its proportionate share of earnings or losses, including consideration of basis differences resulting from the difference between the initial carrying amount of the investment and the underlying equity in net assets. The difference between the carrying amount of the investment and the underlying equity in net assets is primarily attributable to goodwill and other intangible assets. When the fair value or income information is not readily determinable, the Company has elected to apply the measurement alternative, and report the investment at cost, less impairment.

Goodwill

The excess purchase consideration over the fair value of acquired assets and liabilities is recorded as goodwill. Goodwill is not amortized but rather subject to a periodic impairment testing on an annual basis. The Company will assess goodwill for impairment annually on October 1st of each year, or more often if events or changes in circumstances indicate that it might be impaired, by comparing its carrying value to the reporting unit's fair value.

During the third quarter of 2022, the Company experienced a significant decline in its market capitalization, which management deemed a triggering event related to goodwill. As a result, the Company performed an interim impairment assessment as of September 30, 2022, and determined that as of the reporting date the Company had an impairment related to its goodwill in the amount of \$34,835,000. As of December 31, 2022, the Company did not identify any events that would cause it to assess goodwill for further impairment.

The Company utilized a weighted combination of the income-based approach and market-based approach to determine the fair value of the reporting unit. Key assumptions used in the income-based approach included forecasts of revenue, operating income, depreciation and amortization expense, capital expenditures and future working capital requirements, terminal growth rates, and discount rates based upon the reporting unit's weighted-average cost of capital adjusted for the risk associated with the operations at the time of the assessment. The income-based approach largely relied on inputs that were not observable to active markets, which would be deemed "Level 3" fair value measurements, as defined in the Fair Value of Financial Instruments section below. Key assumptions used in the market-based approach included the selection of appropriate peer group companies and the associated valuation multiples. Changes in the estimates and assumptions used to estimate fair value could materially affect the determination of fair value and the impairment test result.

During the year ended December 31, 2021, the Company did not recognize any impairment to goodwill.

Revenue Recognition

The Company derives its revenues primarily from the sale of its roadway data aggregation, traffic management and licensing offerings. These offerings typically, include a mixture of data collection, software, hardware, implementation, engineering services, customer support and maintenance services. Revenue is recognized upon transfer of control of promised products and services to the Company's customers, in an amount that reflects the consideration the Company expects to receive in exchange for those products and services.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

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The following table presents a summary of revenue (dollars in thousands):

	Year ended December 31,	
	2022	2021
Recurring revenue	\$ 13,091	\$ 4,634
Product and service revenue	6,829	6,941
Total revenue	<u>\$ 19,920</u>	<u>\$ 11,575</u>

Information about the Company's revenue in different geographic regions, which is attributable to the Company's operations located primarily in the United States, Canada, and other countries is as follows (dollars in thousands):

	Year ended December 31,	
	2022	2021
United States	\$ 17,889	\$ 8,657
Canada	435	1,876
Other	1,596	1,042
Total revenue	<u>\$ 19,920</u>	<u>\$ 11,575</u>

For the year ended December 31, 2022, except for the United States, total revenue in any single country was less than 10% of consolidated revenue.

Revenues

Recurring revenue

Recurring revenue includes the Company's SaaS revenue, subscription revenue, eCommerce revenue and customer support revenue. The Company generates recurring revenue from long-term contracts with customers that provide periodic payments and short-term contracts that are automatically invoiced on a monthly basis. The Company's recurring revenue is generated by a combination of direct sales, partner-assisted sales, and eCommerce sales.

Recurring revenues are generated through the Company's Software-as-a-Service ("SaaS") model, where the Company provides customers with the right to access the Company's software solutions for a fee. These services are made available to the customer continuously throughout the contractual period. However, the extent to which the customer uses the services may vary at the customer's discretion. The Company's contracts with customers are generally for a term of one to five years. The payments for SaaS solutions may be received either at the inception of the arrangement or over the term of the arrangement. These SaaS solutions are considered to have a single performance obligation where the customer simultaneously receives and consumes the benefit, and as such, we recognize revenue for these arrangements ratably over the term of the contractual agreement.

The Company also currently receives recurring revenues under contracts entered into using a subscription model for data collection services and bundled hardware and software over a period. Payments for these services and subscriptions are received periodically over the term of the agreement and revenue is recognized ratably over the term of the agreement. In addition, some of our subscription revenue includes providing, through a web server, access to the Company's software solutions, a self-managed database, and a cross-platform application programming interface. The subscription arrangements with these customers typically do not provide the customer with the right to take possession of the Company's software at any time. Instead, customers are granted continuous access to the Company's solutions over the contractual period. The Company's subscription services arrangements are non-cancelable and do not contain refund-type provisions. Accordingly, any fixed consideration related to the arrangement is generally recognized as recurring revenue on a straight-line basis over the contract term beginning on the date access to the Company's software is provided.

eCommerce revenue is defined by the Company as revenue obtained through direct sales on the Company's eCommerce platform. The Company's eCommerce revenue generally includes subscriptions to the Company's vehicle recognition software which can be purchased online and activated through a digital key. The Company's contracts with customers are generally for a term of one month with automatic renewal each month. The Company invoices and receives fees from its customers monthly.

Customer support revenue is associated with perpetual licenses and long-term subscription arrangements and consists primarily of technical support and product updates. The Company's customer support team is ready to provide these maintenance services, as needed, to the customer during the contract term. The customer benefits evenly throughout the contract period from the guarantee that the customer support resources and personnel will be available to them. As customer support is not critical to the customers' ability to derive benefit from their right to use the Company's software, customer support is considered a distinct performance obligation when sold together with a long-term license for software. Customer support for perpetual and term licenses is renewable, generally on an annual basis, at the option of the customer. Customer support for subscription licenses is renewable concurrently with such licenses for the same duration of time. Revenue for customer support is recognized ratably over the contract period based on the start and end dates of the customer support obligation, in line with how the Company believes services are provided.

Product and service revenue

Product and service revenue is defined as the Company's implementation revenue, perpetual license sales, hardware sales, engineering services and contactless compliance revenue.

Implementation revenue is recognized when the Company provides implementation or construction services to its customers. These services, involve a fee for the implementations services and are typically associated with the sale of the Company's data collection services, software and hardware. The Company's implementation revenue is recognized over time as the implementation is completed.

In addition to the recurring software sales, the Company will recognize revenue related to the sale of perpetual software licenses. The Company sells perpetual licenses which provide customers the right to use software for an indefinite period in exchange for a one-time license fee, which is generally paid at contract inception. The Company's perpetual licenses provide a right to use intellectual property ("IP") that is functional in nature and have significant stand-alone functionality. Accordingly, for perpetual licenses of functional IP, revenue is recognized at the point-in-time when the customer has access to the software, which normally occurs once software activation keys have been made available to the customer.

The Company generates revenue through the sale of hardware through its partner program and inside sales force distribution channels. The Company satisfies its performance obligation upon the transfer of control of hardware to its customers. The Company invoices end-user customers upon transfer of control of the hardware to its customers. The Company offers hardware installment to customers which ranges from one to six months. The revenue related to the installation component is recognized over time as the implementation is completed.

Contactless compliance solutions revenues reflect arrangements to provide hardware systems that identify uninsured motor vehicles, notify owners of non-compliance through a diversion citation, and assist them in obtaining the required insurance as an alternative to traditional enforcement methods. Revenue is recognized monthly based on the number of diversion citations collected by the relevant jurisdiction.

The Company also generates revenue through its engineering services. These services are provided at the request of its customers and the revenue related to these services is recognized over time as the service is completed.

Revenue by Customer Type

The following table presents a summary of revenue by revenue type (dollars in thousands):

	Year ended December 31,	
	2022	2021
Urban mobility	\$ 7,692	\$ -
Traffic management	2,787	925
Licensing and other revenue	9,441	10,650
Total revenue	<u>\$ 19,920</u>	<u>\$ 11,575</u>

Urban mobility

Urban mobility revenue consists of revenue derived from the Company's roadway data aggregation activities. These activities include the use of software applications that are part of the Rekor Discover™ platform, the primary application being Rekor's count, class & speed application. The application fully automates the aggregation of Federal Highway Administration ("FHWA") 13-bin vehicle classification, speed, and volume data. Revenues associated with the deployment of other traffic sensors, traffic studies, or construction associated with traffic data collection are also part of data aggregation revenue, which is generated through both recurring pay-for-data contracts and hardware sales with a recurring software maintenance component. The Company initiated these activities in June of 2022.

Traffic management

Traffic management revenue is associated with the Rekor Command™ platform and the associated applications underneath the platform. These provide traffic operations and traffic management centers with support through actionable, real-time incident reports integrated into a cross-agency communication and response system. Revenue is generated through contracts that include an upfront as well as recurring component.

Licensing and other revenue

Licensing and other revenue consists of licensing of the Rekor Scout™ platform, licensing of Rekor CarCheck™ API, licensing of Rekor's vehicle recognition software, as well as systems deployed for security, contactless compliance and public safety. Revenue is generated through recurring and perpetual license sales as well as one-time hardware sales.

Performance obligations

The Company contracts with customers in a variety of ways, including contracts that obligate the Company to provide services over time. Some contracts include performance obligations for several distinct services. For those contracts that have multiple distinct 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 the Company's overall pricing objectives, taking into consideration market conditions and other factors. This may result in a deferral or acceleration of revenue recognized relative to cash received for each distinct performance obligation. When the Company recognizes revenue due to the sale of hardware or perpetual software licenses, the impact on the overall unsatisfied performance obligations is relatively small as the Company satisfies most of its performance obligations at the point in time that the control of the hardware or software has transferred to the customer.

Where performance obligations for a contract with a customer are not yet satisfied or have only been partially satisfied as of a particular date, the unsatisfied portion is to be recognized as revenue in the future. As of December 31, 2022 the Company had approximately \$21,412,000 of remaining performance obligations not yet satisfied or partially satisfied related to continuing operations. The Company expects to recognize approximately 45% of this amount as revenue over the succeeding twelve months, and the remainder is expected to be recognized over the next two to four years thereafter.

Contract liabilities

When the Company advance bills clients prior to providing services, revenue will generally be earned and recognized within the next month to five years, depending on the subscription or licensing period. These assets and liabilities are reported on the consolidated balance sheets on a contract-by-contract basis at the end of each reporting period. Changes in the contract asset and liability balances during the year ended December 31, 2022, were not materially impacted by any other factors. Contract liabilities as of December 31, 2022 and December 31, 2021, were \$4,049,000 and \$3,272,000, respectively. All contract liabilities as of December 31, 2022 and December 31, 2021, were attributable to continuing operations. During the year ended December 31, 2022, \$2,372,000 of the contract liabilities balance as of December 31, 2021, was recognized as revenue.

The contract liabilities as of December 31, 2022, are expected to be recognized as revenue during the following years ended December 31, (dollars in thousands):

2023	\$	3,044
2024		596
2025		260
2026		107
2027		42
Total	\$	<u>4,049</u>

Practical Expedients Election – Costs to Obtain and Fulfill a Contract – The Company's incremental costs to obtain a contract consist of sales commissions. The Company elected to use the practical expedient to expense costs to obtain a contract as incurred when the amortization period would have been one year or less. As of December 31, 2022, and 2021, costs incurred to obtain contracts in excess of one year have been immaterial to date.

Advertising

The Company expenses all non-direct response advertising costs as incurred. Advertising costs for the years ended December 31, 2022 and 2021 were \$588,000 and \$695,000, respectively, and are included in selling and marketing expenses in the consolidated statement of operations.

Income Taxes

Income tax benefit consists of U.S. federal and state income taxes. The Company is required to pay income taxes in certain state jurisdictions.

The Company uses 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.

The Company evaluates 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, outside of the deferred tax liability related to the indefinite-lived intangible, because management believes that it is not more likely than not that their benefits will be realized in future periods. The Company will continue to evaluate its 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 the Company's accounting policy to account for ASC 740-10 related penalties and interest as a component of the income tax provision in the consolidated statements of operations and comprehensive loss.

As of December 31, 2022, and 2021, the Company's evaluation revealed no uncertain tax positions that would have a material impact on the financial statements.

Equity-Based Compensation

The Company recognizes equity-based compensation costs related to all share-based payments, including stock options and restricted stock units ("RSUs"), based on the grant-date fair value of the award on a straight-line basis over the requisite service period, net of actual forfeitures. The fair value of RSUs is measured on the grant date based on the closing fair market value of the Company's common stock. 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.

Fair Value of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximate fair value as of December 31, 2022 and December 31, 2021, because of the relatively short-term maturity of these financial instruments. The carrying amount reported for long-term debt and long-term receivables approximates fair value as of December 31, 2022 and December 31, 2021, 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 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 the Company's 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:

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's goodwill and other intangible assets are measured at fair value at the time of acquisition and analyzed on a recurring and non-recurring basis for impairment, respectively, using Level 3 inputs.

The Company considers its note receivable, contingent consideration, earnout and Simple Agreement for Future Equity ("SAFE") investment to be Level 3 investments and that the fair value approximates the carrying value.

There were no changes in levels during the year ended December 31, 2022.

Earnings (Loss) per Share

Basic loss 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 are calculated using the if-converted method.

The Company calculates basic and diluted loss 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 contains a nonforfeitable right to receive dividends and therefore are considered to participate in undistributed earnings with common stockholders.

The Series A Preferred Stock and Series B Preferred Stock had 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 have been 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 did not participate in undistributed net losses because they were not contractually obligated to do so.

Treasury shares are presented as a reduction of equity, at their cost to the Company.

New Accounting Pronouncements

New Accounting Pronouncements Effective in Future Periods

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”) 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, 2022. Upon adoption of the new standard, the Company will begin recognizing an allowance for credit losses based on the estimated lifetime expected credit loss related to the Company’s financial assets. Due to the nature and extent of the Company’s financial instruments (primarily accounts receivable and a note receivable) currently within the scope of ASU 2016-13 and based on the Company’s analysis of ASU 2016-13 and the historical, current and expected credit quality of the Company’s customers, the Company does not expect ASU 2016-13 to have a material impact on its consolidated statements of operations and balance sheets.

The Company does not believe that any recently issued, but not yet effective, accounting standards, other than the standards discussed above, could have a material effect on the accompanying consolidated financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

NOTE 2 – BUSINESS ACQUISITIONS

STS Acquisition

On June 17, 2022, the Company completed its acquisition of STS by acquiring 100% of the issued and outstanding capital stock of STS. The acquisition included total consideration of \$12,799,000 including; cash consideration of \$6,500,000, \$1,001,000 related to an earnout based on the achievement of certain performance metrics ("STS Earnout") and \$1,298,000 contingent on the closing of a future contract ("STS Contingent Consideration"), 798,666 shares of the Company's common stock, valued at \$2,000,000, and a \$2,000,000 note. As a result of the transaction, STS has become a wholly-owned subsidiary of the Company.

The STS Contingent Consideration in the amount of \$2,000,000 will be paid in cash if on or prior to October 30, 2024, the Company enters into a multi-year extension of the Georgia Department of Transportation Contract on substantially similar terms and conditions as the contract being extended. The STS Contingent Consideration shall be payable within 30 days of the effectiveness of the extension of the Georgia Department of Transportation Contract. STS Contingent Consideration is presented as part of other non-current liabilities on the consolidated balance sheets and is remeasured on a quarterly basis. In connection with the Company's purchase price accounting, it evaluated the fair value of the STS Contingent Consideration at the time of acquisition and determined the fair value to be \$1,298,000. For the year ended December 31, 2022 the Company recognized \$118,000 in expense related to the remeasurement of the STS Contingent Consideration which is presented with general and administrative expenses on the consolidated statement of operations.

The Company was to pay the STS Earnout payment, up to \$2,000,000, within 60 days of December 31, 2022 based on the STS EBITDA for the twelve month period ended December 31, 2022. In connection with the Company's purchase price accounting, it evaluated the fair value of the STS Earnout at the time of acquisition and determined the fair value to be \$1,001,000. As of December 31, 2022, it was determined that the STS Earnout was not achieved and thus the Company recognized a gain related to the remeasurement of the STS Earnout of \$1,001,000. The gain related to the remeasurement of the STS Earnout is presented with general and administrative expenses on the consolidated statement of operations.

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The purchase price has been allocated to the assets acquired and liabilities assumed based on fair values as of the acquisition date. Since the acquisition of STS occurred on June 17, 2022, the results of operations for STS from the date of acquisition have been included in the Company's consolidated statement of operations for the year ended December 31, 2022. The table below shows the breakdown related to the purchase price allocation for the acquisition (dollars in thousands):

Cash paid	\$	6,500
Common stock issued		2,000
Earnout consideration		1,001
Contingent consideration		1,298
Note consideration		2,000
Total consideration	\$	<u>12,799</u>
Assets		
Cash and cash equivalents	\$	111
Inventory		295
Accounts receivable		2,761
Other current assets		159
Customer relationships		3,400
Tradenname		700
Property and equipment		5,510
Right-of-use assets		399
Total assets acquired	\$	<u>13,335</u>
Liabilities		
Accounts payable and accrued expenses	\$	880
Contract liabilities		190
Other current and non-current liabilities		43
Lease liability		399
Deferred tax liability		1,001
Total liabilities assumed	\$	<u>2,513</u>
Fair value of identifiable net assets acquired	\$	<u>10,822</u>
Goodwill	\$	<u>1,977</u>

The customer relationships and tradenname acquired by the Company as part of the acquisition has an estimated useful life of 15 and five years, respectively, and are presented as part of intangible assets, net on the consolidated balance sheets.

Waycare Technologies Acquisition

On August 18, 2021, the Company completed its acquisition of Waycare by acquiring 100% of the issued and outstanding capital stock of Waycare. The aggregate purchase price for the shares of Waycare was \$60,171,000, less the amount of Waycare's debt and certain transaction expenses and subject to a customary working capital adjustment. The purchase price was comprised of \$39,884,000 of cash and 2,784,474 shares of the Company's common stock, valued at \$20,287,000. As a result of the transaction, Waycare has become a wholly-owned subsidiary of the Company.

The purchase price has been allocated to the assets acquired and liabilities assumed based on fair values as of the acquisition date. Since the acquisition of Waycare occurred on August 18, 2021, the results of operations for Waycare from the date of acquisition have been included in the Company's consolidated statement of operations for the year ended December 31, 2022. The table below shows the breakdown related to the purchase price allocation for the acquisition (dollars in thousands):

Cash paid	\$	39,884
Common stock issued		20,287
Total consideration	\$	<u>60,171</u>
Assets		
Cash and cash equivalents	\$	25
Restricted cash and cash equivalents		89
Accounts receivable		486
Other current assets		150
Property and equipment		72
Acquired technology		16,897
Total assets acquired	\$	<u>17,719</u>
Liabilities		
Accounts payable and accrued expenses	\$	794
Contract liabilities		36
Deferred tax liability		3,833
Total liabilities assumed	\$	<u>4,663</u>
Fair value of identifiable net assets acquired	\$	<u>13,056</u>
Goodwill	\$	<u>47,115</u>

The technology acquired by the Company as part of the acquisition has an estimated useful life of seven years and is presented as part of intangible assets, net on the consolidated balance sheets.

Operations of Combined Entities

The following unaudited pro forma combined financial information gives effect to the acquisition of STS and Waycare as if they were consummated as of January 1, 2021. This unaudited pro forma financial information is presented for information purposes only and is not intended to present actual results that would have been attained had the acquisition been completed as of January 1, 2021 (the beginning of the earliest period presented) or to project potential operating results as of any future date or for any future periods.

	Year ended December 31,	
	2022	2021
	(Dollars in thousands, except per share data)	
Total revenue from continuing operations	\$ 25,805	\$ 26,418
Net loss from continuing operations	(84,254)	(29,404)
Basic and diluted loss per share continuing operations	\$ (1.68)	\$ (0.68)
Basic and diluted number of shares	50,184,867	43,722,650

NOTE 3 – INVESTMENTS

Investments in Unconsolidated Companies

In 2017, the Company contributed substantially all of the assets and certain liabilities related to its vehicle services business to Global Public Safety (the “GPS Closing”). After the GPS Closing, the Company continues to own 19.9% of the units of Global Public Safety. This equity investment does not have a readily determinable fair value and the Company reports this investment at cost, less impairment. As of December 31, 2022 and 2021 the investment in Global Public Safety had a value of \$0.

In June 2020, the Company announced a joint venture in which the Company would have a 50% equity interest in Roker Inc. (“Roker”). In the third quarter of 2020 and the first quarter of 2021, the Company contributed \$75,000 for its 50% equity interest for a total investment of \$150,000. This investment is accounted for under the equity method. During the year ended December 31, 2021, the Company recognized a loss in its unconsolidated investments of \$150,000. As of December 31, 2022 and 2021 the investment in Roker had a value of \$0.

There were no distributions or earnings received from either investment in the year ended December 31, 2022 and 2021.

Roker Simple Agreement for Future Equity (“SAFE”)

In 2021, in exchange for \$1,250,000 the Company entered into a SAFE with Roker (the “Roker SAFE”). In 2022, the Company invested an additional \$755,000 in the Roker SAFE. The Roker SAFE allows the Company to participate in future equity financings of Roker, through a share-settled redemption of the amount invested (such notional being the “invested amount”). Alternatively, upon the occurrence of a change of control or an initial public offering (other than a qualified financing), the Company has the option to receive either (i) cash payment equal to the invested amount under the SAFE, or (ii) a number of shares of common stock equal to the invested amount divided by the liquidity price set forth in the Roker SAFE. The Company’s investment in the Roker SAFE is recorded on the cost method of accounting and included under SAFE investment on the consolidated balance sheets and is shown as long-term, as it is not readily convertible into cash. If the Company identifies factors that may be indicative of impairment the Company will review the investment for impairment. For the year ended December 31, 2022 and 2021, the Company did not identify any factors indicative of impairment.

NOTE 4 – DISCONTINUED OPERATIONS**ATSE Sale**

On December 8, 2022, the Company sold its ATSE business, a non-core component, for approximately \$3,390,000. The buyer agreed to certain assets and liabilities of the ATSE component for a purchase price of \$3,390,000, comprising (i) \$3,390,000 in cash of which includes \$339,000 that was held in escrow as of December 31, 2022. As of December 31, 2022, the amount held in escrow of \$339,000 was presented as part of other current assets on the consolidated balance sheets.

The table below shows the breakdown related to the sale of ATSE (dollars in thousands):

Total assets sold	\$	347
Total liabilities assumed		13
Net assets sold		<u>334</u>
Closing costs		<u>413</u>
Cash received	\$	3,051
Cash held in escrow		<u>339</u>
Total consideration		<u>3,390</u>
Gain on sale of ATSE	\$	<u>2,643</u>

The disposition of ATSE is the result of the Company's strategic decision to prioritize its core data services business and will result in material changes in the Company's operations and financial results. As a consequence, the Company is reporting the operating results and cash flows of ATSE as discontinued operations, including for all prior periods reflected in the consolidated financial statements and these notes.

Results of Discontinued Operations

Pursuant to ASC Topic 205-20, *Presentation of Financial Statements - Discontinued Operations*, the results of operations from ATSE for the years ended December 31, 2022 and 2021 have been classified as discontinued operations and presented as part of net income from discontinued operations in the accompanying consolidated statements of operations presented herein. The assets and liabilities also have been classified as discontinued operations under the line captions of current and long term assets, net of discontinued operations and current and long term liabilities of discontinued operations in the accompanying consolidated balance sheets as of December 31, 2022 and December 31, 2021.

The assets and liabilities classified as discontinued operations in the Company's consolidated financial statements as of December 31, 2022 and December 31, 2021 are shown below (dollars in thousands):

	December 31, 2022			December 31, 2021		
	Firestorm	ATSE	Total	Firestorm	ATSE	Total
ASSETS						
Current assets						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1
Restricted cash and cash equivalents	-	290	290	-	414	414
Accounts receivable, net	-	41	41	-	220	220
Inventory	-	-	-	-	18	18
Total current assets	-	331	331	1	652	653
Long-term assets						
Property and equipment, net	-	-	-	-	188	188
Right-of-use lease assets, net	-	-	-	-	46	46
Intangible assets, net	-	-	-	-	144	144
Total long-term assets, net	-	-	-	-	378	378
Total assets	\$ -	\$ 331	\$ 331	\$ 1	\$ 1,030	\$ 1,031
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Accounts payable and accrued expenses	\$ 33	\$ 68	\$ 101	\$ 30	\$ 87	\$ 117
Lease liability, short-term	99	-	99	99	15	114
Other current liabilities	-	290	290	-	472	472
Total current liabilities	132	358	490	129	574	703
Long-Term Liabilities						
Lease liability, long-term	-	-	-	-	34	34
Total liabilities	\$ 132	\$ 358	\$ 490	\$ 129	\$ 608	\$ 737

The major components of the discontinued operations, net of tax, are presented in the consolidated statements of operations below (dollars in thousands):

	Year ended December 31,					
	2022			2021		
	Firestorm	ATSE	Total	Firestorm	ATSE	Total
Revenue	\$ -	\$ 2,360	\$ 2,360	\$ -	\$ 2,719	\$ 2,719
Cost of revenue, excluding depreciation and amortization	-	1,645	1,645	-	1,687	1,687
Operating expenses:						
General and administrative expenses	1	215	216	5	239	244
Depreciation and amortization	-	160	160	-	174	174
Total operating expenses	1	375	376	5	413	418
Net (loss) income from discontinued operations	\$ (1)	\$ 340	\$ 339	\$ (5)	\$ 619	\$ 614

NOTE 5 – SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Supplemental disclosures of cash flow information for the years ended December 31, 2022 and 2021 were as follows (dollars in thousands):

	Year ended December 31,	
	2022	2021
Cash paid for interest	\$ 59	\$ 14
Cash paid for taxes	60	53
(Decrease) increase in accounts payable and accrued expenses related to purchases of property and equipment	(528)	1,277
Increase in accounts payable and accrued expenses related to purchases of inventory	724	-
Non-cash investing activities:		
Fair market value of shares issued in connection with the acquisition of Waycare	-	20,287
Fair market value of shares issued in connection with the acquisition of STS	2,000	-
Contingent Consideration in connection with the acquisition of STS	1,298	-
Earnout Consideration in connection with the acquisition of STS	1,001	-
Note Consideration in connection with the acquisition of STS	2,000	-
Deferred tax liabilities resulting from purchase accounting adjustments in connection with business combination	1,001	3,833
Seller financed portions of property and equipment acquired	(460)	-
Non-cash financing activities:		
Loans issued for property and equipment	460	-
Series A Cumulative Convertible Redeemable Preferred stock dividends included in accounts payable and accrued expenses, settled in common stock	-	(1,005)
Series A Cumulative Convertible Redeemable Preferred stock included in temporary equity, settled in common stock	-	(6,770)
Series B Cumulative Convertible Preferred stock dividends included in accounts payable and accrued expenses, settled in common stock	-	(179)
New Leases under ASC-842		
Recognition of operating lease - right-of-use lease asset	3,508	6,042
Lease incentive recognized in property and equipment, net	919	3,830
Recognition of operating lease - lease liability	\$ (4,427)	\$ (9,872)

NOTE 6 – INVENTORY

As of December 31, 2022 and 2021, inventory consisted entirely of the following (dollars in thousands):

	December 31,	
	2022	2021
Parts and cameras	\$ 1,154	\$ 260
Finished goods	832	916
Total inventory	<u>\$ 1,986</u>	<u>\$ 1,176</u>

NOTE 7 – PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following (dollars in thousands):

	December 31,	
	2022	2021
Furniture and fixtures	\$ 1,959	\$ 1,715
Office equipment	3,969	799
Roadway monitoring systems placed in service	3,999	1,079
Vehicles	2,539	502
Leasehold improvements	4,459	3,232
Roadway monitoring systems not yet placed in service	3,144	3,408
Total	\$ 20,069	\$ 10,735
Less: accumulated depreciation	(3,336)	(994)
Property and equipment, net	\$ 16,733	\$ 9,741

Depreciation and amortization related to property and equipment, net for the years ended December 31, 2022 and 2021 was \$2,359,000 and \$626,000, respectively, and is presented as part of depreciation and amortization in the accompanying consolidated statements of operations. During the year ended December 31, 2022, the Company disposed of \$17,000 of fully depreciated assets.

Information about the Company's total assets in different geographic regions is as follows (dollars in thousands):

	December 31,	
	2022	2021
United States	\$ 18,465	\$ 10,627
Other	1,604	108
Accumulated depreciation	(3,336)	(994)
Total property and equipment, net	\$ 16,733	\$ 9,741

NOTE 8 – LEASES

The Company has operating leases for office facilities in various locations throughout the United States and Israel. The Company's leases have remaining terms of one to ten years. Certain of the Company's leases include options to extend the term of the lease or to terminate the lease prior to the end of the initial term. When it is reasonably certain that the Company will exercise the option, the Company will include the impact of the option in the lease term for purposes of determining total future lease payments.

Cash paid for amounts included in the measurement of operating lease liabilities from continuing operations was \$858,000 and \$260,000 for the year ended December 31, 2022 and 2021, respectively.

Operating lease expense from continuing operations for the year ended December 31, 2022 and 2021 was \$2,040,000 and \$621,000, respectively, and is part of general and administrative expenses in the consolidated statement of operations.

In the first quarter of 2022, the Company entered into a lease agreement for its new Israeli office. As part of the lease agreement, there were \$919,000 in tenant improvement allowances provided to the Company which was used to update the structure of the leased space and furnish the leased space.

Supplemental balance sheet information related to leases as of December 31, 2022 was as follows (dollars in thousands):

Operating lease right-of-use lease asset	\$	9,662
Current portion of lease liability		1,069
Long-term portion of lease liability		14,237
Total lease liability from continuing operations	\$	<u>15,306</u>
Weighted average remaining lease term - operating leases		9.45
Weighted average discount rate - operating leases		9%

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Maturities of operating lease liabilities for continuing operations at December 31, 2022 were as follows (dollars in thousands):

2023	\$	2,385
2024		2,335
2025		2,310
2026		2,274
2027		2,319
Thereafter		11,240
Total lease payments		22,863
Less imputed interest		7,557
Maturities of lease liabilities	\$	<u>15,306</u>

NOTE 9 – INTANGIBLE ASSETS

Goodwill

The following summarizes the change in goodwill from December 31, 2021 to December 31, 2022 (dollars in thousands):

	December 31, 2020	Waycare Acquisition	December 31, 2021	STS Acquisition	Impairment	December 31, 2022
Goodwill	\$ 6,336	\$ 47,115	\$ 53,451	\$ 1,977	\$ (34,835)	\$ 20,593

Intangible Assets Subject to Amortization

The following summarizes the change in intangible assets from December 31, 2021 to December 31, 2022 (dollars in thousands):

	December 31, 2020	Additions	Amortization	December 31, 2021	Additions	Amortization	December 31, 2022
Intangible assets subject to amortization from continuing operations							
Customer relationships	\$ 362	\$ -	\$ (34)	\$ 328	\$ 3,400	\$ (147)	\$ 3,581
Marketing related	159	-	(62)	97	700	(113)	684
Technology based	5,362	16,897	(1,955)	20,304	-	(3,455)	16,849
Internally capitalized software	940	4	(411)	533	-	(348)	185
Intangible assets subject to amortization from continuing operations	<u>\$ 6,823</u>	<u>\$ 16,901</u>	<u>\$ (2,462)</u>	<u>\$ 21,262</u>	<u>\$ 4,100</u>	<u>\$ (4,063)</u>	<u>\$ 21,299</u>

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The following provides a breakdown of identifiable intangible assets as of December 31, 2022 and 2021 (dollars in thousands):

	December 31,	
	2022	2021
Customer relationships	\$ 3,861	\$ 461
Marketing related	1,027	327
Technology based	24,107	24,107
Internally capitalized software	1,236	1,236
Total	30,231	26,131
Less: accumulated amortization	(8,932)	(4,869)
Identifiable intangible assets from continuing operations, net	\$ 21,299	\$ 21,262

These intangible assets are being amortized on a straight-line basis over their weighted average remaining estimated useful life of 6.6 years. Amortization expense attributable to continuing operations for the year ended December 31, 2022 and 2021 was \$4,063,000 and \$2,462,000, respectively, and is presented as part of depreciation and amortization in the accompanying consolidated statements of operations.

As of December 31, 2022, the estimated annual amortization expense from continuing operations for each of the next five fiscal years and thereafter is as follows (dollars in thousands):

2023	\$ 4,072
2024	3,841
2025	3,832
2026	3,019
2027	2,744
Thereafter	3,791
Total	\$ 21,299

NOTE 10 – DEBT

Firestorm Debt

On January 25, 2017, pursuant to the terms of its acquisition of Firestorm, the Company issued \$1,000,000 in the aggregate form of four unsecured, subordinated promissory notes with interest payable over five years. The principal amount of one of the notes payable is \$500,000 and provides for an interest rate of 2% and the remaining three notes are evenly divided over the remaining \$500,000 and provide for an interest rate of 7%. The notes matured on January 25, 2022. The aggregate balance of these notes payable was \$1,000,000 and \$998,000, net of unamortized interest, as of December 31, 2022 and December 31, 2021, respectively, to reflect the amortized fair value of the notes issued due to the difference in interest rates of \$0 and \$2,000, respectively. The Company has not paid the current interest on these notes since 2019 and did not pay the principal due in January 2022. The Company has requested rescission in connection with the Firestorm acquisition and is currently in litigation with the sellers. On March 22, 2023, the Company entered into a settlement agreement related to a portion of the Firestorm debt (see *NOTE 13 - COMMITMENTS AND CONTINGENCIES*).

Paycheck Protection Program Loan

On May 26, 2020, the Company entered into a loan agreement with Newtek Small Business Finance, LLC, which provided a loan in the principal amount of \$221,000 (the “Rekor PPP Loan”) pursuant to the Paycheck Protection Program under the CARES Act. The Rekor PPP Loan had a two-year term and bore interest at a rate of 1.0% per annum. Monthly principal and interest payments were deferred for six months after the date of disbursement.

On June 3, 2020, the Company’s wholly-owned subsidiary, Rekor Recognition Systems, Inc., entered into a loan agreement with Newtek Small Business Finance, LLC, which provided a loan in the principal amount of \$653,000 (the “Rekor Recognition PPP Loan”) pursuant to the Paycheck Protection Program under the CARES Act. The Rekor Recognition PPP Loan had a two-year term and bore interest at a rate of 1.0% per annum. Monthly principal and interest payments were deferred for six months after the date of disbursement.

In October 2021, the Company was informed the Loans forgiveness was processed by the Small Business Administration (“SBA”) and the Company’s Loans had been fully forgiven. The Loans are now considered paid in full by SBA. The Company recognized a gain on the extinguishment of debt of \$886,000 for the year ended December 31, 2021 related to the principal and accrued interest forgiveness. This gain is presented as part of gain on extinguishment of debt in the accompanying consolidated statement of operations for the years ended December 31, 2021.

STS Notes

On June 17, 2022, pursuant to the terms of the Company’s acquisition of STS, the Company issued an aggregate of \$2,000,000 of notes payable in the form of two unsecured, subordinated promissory notes, each in the principal amount of \$1,000,000 and bearing an interest rate of 3.0% per annum, payable quarterly. The notes mature on June 14, 2024 and June 17, 2025, respectively. The aggregate balance of these notes payable was \$2,000,000 as of December 31, 2022 and is included in notes payable long-term, in the consolidated balance sheets.

Loans Payable

As part of its operations the Company enters loans related to purchases of its vehicles. These loans have maturities between 2023 and 2028 and carry interest rates ranging from 0% to 6.99%. These loans primarily have equal monthly payments over the life of the respective loan. The loans are presented as part of loans payable, current portion and loans payable long-term on the consolidated balance sheet.

2022 Promissory Notes

On December 20, 2022, the Company entered into a Promissory Note Agreement (the “2022 Notes”) with (i) Robert A. Berman, the Company’s Chief Executive Officer and Executive Chairman, and (ii) Arctis Global Master Fund Limited (“Arctis”), an affiliate of Arctis Global, LLC, a 10.3% holder of Common Stock of the Company based on its Schedule 13G filed with the Securities and Exchange Commission on May 20, 2022 (the “2022 Lenders”), pursuant to which the 2022 Lenders loaned \$1,000,000 to the Company. The 2022 Lenders were determined to be related parties.

The 2022 Notes had a maturity date of March 20, 2023, at which time all remaining outstanding principal and accrued but unpaid interest was due. The aggregate unpaid principal amount under 2022 Notes was exchangeable for an equal principal amount of secured notes to be issued to the 2022 Lenders pursuant to that certain term sheet dated December 20, 2022 (the “Secured Notes Transaction”) together with any accrued and unpaid interest on the 2022 Notes. The 2022 Notes bore an interest rate of 12% per annum.

On January 18, 2023, the Company executed a Securities Purchase Agreement, which triggered the 2022 Notes to be exchanged for equal principal amounts of notes issued in the Secured Notes Transaction. As a result, the 2022 Notes were cancelled with no further force and effect as of the effective date of the Secured Notes Transaction. See *NOTE 17 – SUBSEQUENT EVENTS* for additional information on the Securities Purchase Agreement.

Interest Expense

The following table presents the interest expense and interest income related to the contractual interest and the amortization of debt issuance costs for the Company's debt arrangements (dollars in thousands):

	Year ended December 31,	
	2022	2021
Contractual interest	\$ 70	\$ 69
Amortization of debt issuance costs	2	20
Total interest expense	72	89
Less: contractual interest income	(51)	(62)
Total interest expense, net	\$ 21	\$ 27

Schedule of Principal Amounts Due on Debt

The principal amounts due for notes payable and loans payable are shown below as of December 31, 2022 (dollars in thousands):

2023	2,106
2024	1,073
2025	1,078
2026	83
2027	86
Thereafter	29
Total	\$ 4,455

NOTE 11 – INCOME TAXES

The Company accounts for income taxes in accordance with ASC Topic 740. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. In determining the need for a valuation allowance, the Company reviewed both positive and negative evidence pursuant to the requirements of ASC Topic 740, including current and historical results of operations, future income projections and the overall prospects of the Company's business.

The expense (benefit) from income taxes for the years ended December 31, 2022 and 2021 consists of the following (dollars in thousands):

	Year ended December 31,	
	2022	2021
Federal:		
Deferred	\$ (987)	\$ (3,819)
Total federal	(987)	(3,819)
Benefit for income taxes	<u>\$ (987)</u>	<u>\$ (3,819)</u>

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The components of deferred income tax assets and liabilities are as follows on December 31, 2022 and 2021 (dollars in thousands):

	Year ended December 31,	
	2022	2021
Deferred tax assets		
Net operating loss	\$ 29,402	\$ 13,786
163(j) limitation	2,158	2,157
Lease liabilities	3,906	2,868
Research and development	4,551	-
Fixed assets	-	358
Other	511	422
Total gross deferred tax assets	40,528	19,591
Valuation allowance for deferred tax assets	(35,606)	(14,283)
Total deferred tax assets	\$ 4,922	\$ 5,308
Deferred tax liabilities:		
Right-of-use asset	(895)	(1,701)
Goodwill and intangibles	(3,976)	(3,645)
Fixed assets	(103)	-
Total gross deferred tax liabilities	(4,974)	(5,346)
Net deferred tax liabilities	\$ (52)	\$ (38)

The difference between the income tax benefit computed at the U.S. Federal statutory rate and the effective tax rate is as follows for the years ended December 31, 2022 and 2021:

	Year ended December 31,	
	2022	2021
U.S. statutory federal rate	21.0%	21.0%
(Decrease) increase in taxes resulting from:		
State income tax rate, net of U.S. Federal benefit	3.1%	4.5%
Impact of changes in tax rates	0.0%	(2.7)%
True-ups	4.2%	(0.9)%
Other	(0.6)%	(2.7)%
Valuation allowance	(26.5)%	(6.7)%
Effective tax rate	1.2%	12.5%

The Company files income tax returns in the United States and various state and foreign jurisdictions. No U.S. Federal, state or foreign income tax audits were in process as of December 31, 2022.

The Company 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, outside of the deferred tax liability related to the goodwill, because the Company believes that it is not more likely than not that their benefits will be realized in future periods. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's net deferred income tax assets satisfy the realization standard, the valuation allowance will be reduced accordingly.

As of December 31, 2022, the Company had gross federal and state net operating loss carryforwards of \$114,742,000 and \$106,866,000, respectively. The gross NOLs generated in the years ended December 31, 2022 and 2021 of \$54,495,000 and \$19,026,000, respectively, will be carried forward indefinitely and are subject to the annual 80 percent limitation. As of December 31, 2022, Rekor had net federal and state net operating loss ("NOL") carryforwards of \$24,096,000 and \$5,306,000, respectively. The net federal and state NOLs of \$24,096,000 and \$5,306,000, respectively, are scheduled to begin to expire in 2034 and are grandfathered under the Tax Cuts and Jobs Act; thus, these NOLs are not subject to the 80 percent limitation.

As of December 31, 2021, Rekor had gross federal and state net operating loss carryforwards of \$51,838,000 and \$43,570,000, respectively. As of December 31, 2021, Rekor had net federal and state net operating loss carryforwards of \$10,886,000 and \$2,901,000, respectively.

The federal and state net operating loss and credit carryforwards may be subject to significant limitations under Sections 382 and 383 of the Internal Revenue Code ("Code") and similar provisions of state law. These Code sections limit the federal net operating loss and credit carryforwards that may be used in any year in the event of an "ownership change". A Section 382 "ownership change" generally occurs if one or more shareholders or groups of shareholders, who own at least 5% of the Company's stock, increase their ownership by more than 50 percentage points over their lowest ownership percentage within a rolling three-year period. The Company may have previously experienced, and may in the future experience, one or more Section 382 "ownership changes". If so, the Company may lose some or all of the tax benefits of its NOLs and tax credits. The extent of such limitations for prior years, if any, has not been determined.

For the years ended December 31, 2022 and 2021, the Company 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 benefit.

As a result of the acquisition of STS in 2022, the Company recognized identified definite-lived tangible and intangible asset related to customer relationships, trade names, property and equipment for which the Company received no tax basis due to the stock acquisition. As a result, the Company recorded a deferred tax liability of \$1,001,000 which increased the Company's goodwill related to the STS acquisition. Due to the overall valuation allowance position of the Company, the deferred tax liability was used to offset the Company's deferred tax asset and thus reducing the total valuation allowance. This impact to the valuation allowance was booked as a tax benefit. The tax benefit of \$1,001,000 was offset by \$14,000 of deferred tax expense for the year ended December 31, 2022.

As a result of the acquisition of Waycare in 2021, the Company recognized identified definite-lived intangible asset related to technology for which the Company received no tax basis due to the stock acquisition. As a result, the Company recorded a deferred tax liability of \$3,833,000 which increased the Company's goodwill related to the Waycare acquisition. Due to the overall valuation allowance position of the Company, the deferred tax liability was used to offset the Company's deferred tax asset and thus reducing the total valuation allowance. This impact to the valuation allowance was booked as a tax benefit. The tax benefit of \$3,833,000 was offset by \$14,000 of deferred tax expense for the year ended December 31, 2021.

NOTE 12 – EMPLOYEE BENEFIT PLAN

401 (k) Plan

In 2019, Rekor established the Rekor Systems, Inc. 401(k) Plan (the “Rekor 401(k) Plan”), a Qualified Automatic Contribution Arrangement (QACA) safe harbor plan. Employees that satisfied the eligibility requirements became participants in the Rekor 401(k) Plan. The Company contributes an amount equal to the sum of 100% of a participant’s elective deferrals that do not exceed 1% of participant’s compensation, plus 50% of the participant’s elective deferrals that exceed 1% of the participants compensation, but do not exceed 6% of the participant’s compensation. Employee contributions are fully vested, and matching contributions are subject to a two-year service vesting schedule.

Employee Severance Benefits

In accordance with the current employment terms with all its employees (Section 14 of the Israeli Severance Pay Law, 1963) located in Israel, the Company makes regular deposits with certain insurance companies for accounts controlled by each applicable employee in order to secure the employee’s full retirement benefit and severance obligation. The Company is relieved from any severance pay liability with respect to each such employee after it makes the payments on behalf of the employee. The liability accrued in respect of these employees and the amounts funded, as of the respective agreement dates, are not reflected on the Company’s consolidated balance sheet, as the amounts funded are not under the control and management of the Company and the pension or severance pay risks have been irrevocably transferred to the applicable insurance companies.

The amount of contributions recorded from continuing operations by the Company under these plans during the years ended December 31, 2022 and 2021 were \$1,338,000 and \$616,000, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Firestorm Principals

On August 19, 2019, we filed suit in the United States District Court for the Southern District of New York against three former executives of the Company who were founders of two related former subsidiaries (the “Firestorm Principals”)—Rekor Systems, Inc. v. Suzanne Loughlin, et al., Case no. 1:19-cv-07767-VEC. The Firestorm Principals answered together with counterclaims on February 28, 2020. In 2020, the Firestorm Principals filed various suits in New York, Delaware and Virginia against directors and officers of the Company, alleging breach of fiduciary duty and libel.

On March 22, 2023, the Company entered into a settlement agreement with the Firestorm Principals. Pursuant to the terms of the settlement agreement, the parties have mutually released and discharged all existing and potential actions, causes of action, suits, proceedings, debts, dues, contracts, damages or claims against each other, including certain claims for officer indemnification of the Firestorm Principals. In exchange for the mutual releases, the Company will transfer certain Firestorm assets to CrisisRisk Strategies, LLC, make a payment of \$175,000, and the Firestorm Principals have agreed to the extinguishment of all rights to enforce their claims for payment with respect to principal and interest on the promissory notes issued in connection with the Company’s acquisition of Firestorm, and are giving up their rights to exercise the warrants issued in connection with the same.

As a result of the settlement agreement, the Company expects to record a reduction to notes payable, the related accrued interest and other assets and liabilities already presented as discontinued operations. The Company will also cancel warrants to purchase 631,254 shares of common stock, which were issued in connection with the acquisition of Firestorm. The settlement also results in there being no litigation pending against the Company at this time.

Fordham

On September 18, 2020, Fordham Financial Management, Inc. (“Fordham”) commenced a lawsuit against the Company in the Supreme Court for the State of New York, New York County. Fordham alleged that the Company offended an underwriting agreement with Fordham and brought claims for breach of contract. On October 17, 2022, the Court granted Fordham’s motion for summary judgment and denied the Company’s cross-motions for summary judgment and to compel discovery. The Court awarded Fordham \$1,025,000, representing 3% of the gross proceeds generated from the Company’s previously announced and concluded at-the-market equity program commenced on August 14, 2019, plus pre-judgment interest accruing at 9% per annum since April 14, 2019, and reasonable attorneys’ fees. The Company chose not to appeal the decision and satisfied the judgement. In exchange for a payment of \$1,320,000 by the Company, the plaintiff agreed to a full and complete discharge of the plaintiff’s claim.

The Company will accrue for potential and known litigation losses when information related to a loss is probable and that the amount of the loss can be reasonably estimated. For the year ended December 31, 2022 and 2021 the company recorded expenses of \$1,608,000 and \$136,000, respectively, related to litigation settlements, judgements and estimated losses. These amounts are presented as part of other expense, net on the consolidated statement of operations for the year ended December 31, 2022 and 2021.

In addition, from time to time, the Company may be named as a party to various other lawsuits, claims and other legal and regulatory proceedings that arise in the ordinary course of business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, infringement of proprietary rights, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, claims and proceedings the Company accrues reserves when a loss is probable, and the amount of such loss can be reasonably estimated. It is the Company’s opinion that the outcome of these proceedings, individually and collectively, will not be material to the Company’s consolidated financial statements as a whole.

NOTE 14 – STOCKHOLDERS' EQUITY

Common Stock

Effective March 18, 2020, the Company adopted and approved an amendment to increase the number of authorized shares of common stock from 30,000,000 to 100,000,000, \$0.0001 par value. The rights and privileges terms of the additional authorized shares of common stock are identical to those of the currently outstanding shares of common stock. However, because the holders of common stock do not have preemptive rights to purchase or subscribe for any new issuances of common stock, the subsequent potential issuance of additional shares of common stock will reduce the current stockholders' percentage ownership interest in the total outstanding shares of common stock. The Amendment and the creation of additional shares of authorized common stock will not alter current stockholders' relative rights and limitations.

Form S-3 Registration Statement

On September 10, 2021, the Company filed a Form S-3 Registration Statement SEC, using a "shelf" registration process, which was declared effective by the SEC on September 23, 2021. By using a shelf registration statement, the Company may sell securities from time to time and in one or more offerings up to a total dollar amount of \$350,000,000.

Waycare Acquisition

In connection with the acquisition as described in *NOTE 2 – ACQUISITIONS*, the Company issued 2,784,474 shares of the Company's common stock as part of the consideration.

Public Offering

On February 9, 2021, the Company issued and sold 6,126,939 shares of its common stock (which includes 799,166 shares of common stock sold pursuant to the exercise of an overallotment option) (the "2021 Public Offering"). The net proceeds to the Company, after deducting the underwriting discounts and commissions and estimated offering expenses payable by the Company, were approximately \$70,125,000.

At-the-Market Offering

Under the S-3 registration filed in September 2021, on February 24, 2022, the Company entered into an At-the-Market Issuance Sales Agreement (the "2022 Sales Agreement") with B. Riley Securities, Inc. (the "Agent") to create an at the market equity program under which the Company from time to time may offer and sell shares of its common stock, par value \$0.0001 per share, having an aggregate offering price of up to \$50,000,000 (the "Shares") through or to the Agent. The Agent is entitled to a commission equal to 3.0% of the gross proceeds from each sale. The Company incurred issuance costs of approximately \$174,000 related to legal, accounting, and other fees in connection with the 2022 Sales Agreement. These costs were charged against the gross proceeds of the 2022 Sales Agreement and presented as a reduction to additional paid-in capital on the accompanying consolidated balance sheets.

For the year ended December 31, 2022, the Company sold 9,019,062 shares of common stock at a weighted-average selling price of \$2.62 per share in accordance with the 2022 Sales Agreement. Net cash provided from the 2022 Sales Agreement was \$22,754,000 after paying \$174,000 related to the issuance cost, as well as 3.0% or \$709,000 related to cash commissions provided to the Agent.

In December of 2022 the Company terminated the 2022 Sales Agreement.

STS Acquisition

In connection with the acquisition as described in *NOTE 2 – ACQUISITIONS*, the Company issued 798,666 shares of the Company's common stock as part of the consideration.

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, 505,000 shares were designated as \$0.0001 par value Series A Cumulative Convertible Redeemable Preferred Stock (the "Series A Preferred Stock"). The holders of Series A Preferred Stock were entitled to quarterly dividends of 7.0% per annum per share.

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 December 31, 2020.

Rekor adjusted the value of the Series A Preferred Stock to redemption value at the end of each reporting period. The adjustment to the redemption value was recorded through additional paid-in capital of \$0 and \$101,000 for the year ended December 31, 2022 and 2021, respectively.

As a result of the closing of the 2021 Public Offering in the first quarter of 2021, all of the issued and outstanding Series A Preferred Stock was converted pursuant to the original terms of the agreement into 899,174 shares of the Company's common stock.

Series B Cumulative Convertible Preferred Stock

Of the 2,000,000 authorized shares of preferred stock, 240,861 shares were designated as \$0.0001 par value Rekor Series B Cumulative Convertible Preferred Stock (the "Series B Preferred Stock"). As part of the TeamGlobal 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 TeamGlobal. The Series B Preferred Stock had a conversion price of \$5.00 per share. Each Series B Preferred Stock had an automatic conversion feature based on the share price of Rekor.

As a result of the volume weighted average share price of the Company's common stock being over \$7.50 for thirty consecutive days, in the first quarter of 2021, all of the Company's issued and outstanding Series B Preferred Stock was converted pursuant to the original terms of the agreement into 517,611 shares of the Company's common stock.

Warrants

A summary of the warrant activity for the Company for the period ended December 31, 2022 and December 31, 2021 is as follows:

	Series A Preferred Stock Warrants (1)	Firestorm Warrants (2)	Secure Education Warrants (3)	2018 Public Offering Warrants (4)	2019 Promissory Note Warrants (5)	Total
Active warrants January 1, 2021	141,789	631,254	66,666	4,886	68,750	913,345
Exercised warrants	(99,793)	-	(51,110)	(1,381)	(68,750)	(221,034)
Outstanding warrants December 31, 2021	41,996	631,254	15,556	3,505	-	692,311
Weighted average strike price of outstanding warrants as of December 31, 2021	\$ 1.03	\$ 3.09	\$ 6.06	\$ 1.00	\$ -	\$ 3.02
Intrinsic value of outstanding warrants as of December 31, 2021	\$ 232,000	\$ 2,182,000	\$ 8,000	\$ 19,000	\$ -	\$ 2,441,000
Shares of common stock issued for warrant exercises during the year ended December 31, 2021	99,793	-	51,110	1,280	64,766	216,949
Active warrants January 1, 2022	41,996	631,254	15,556	3,505	-	692,311
Exercised warrants	-	-	-	-	-	-
Outstanding warrants December 31, 2022	41,996	631,254	15,556	3,505	-	692,311
Weighted average strike price of outstanding warrants as of December 31, 2022	\$ 1.03	\$ 3.09	\$ 6.06	\$ 1.00	\$ -	\$ 3.02
Intrinsic value of outstanding warrants as of December 31, 2022	\$ 7,000	\$ -	\$ -	\$ 1,000	\$ -	\$ 8,000
Shares of common stock issued for warrant exercises during the year ended December 31, 2022	-	-	-	-	-	-

- (1) As part of a Regulation A Offering in fiscal year 2016 and 2017, the Company issued warrants to the holders of Series A Preferred Stock (the "Series A Preferred Stock Warrants"). The exercise price for these warrants is \$1.03. The expiration date of the Series A Preferred Stock Warrants is November 8, 2023.
- (2) As part of the acquisition of Firestorm on January 24, 2017, the Company issued warrants to purchase 315,627 shares of its common stock, exercisable over a period of five years, at an exercise price of \$2.5744 per share, and warrants to purchase 315,627 shares of its common stock, exercisable over a period of five years, at an exercise price of \$3.6083 per share (the "Firestorm Warrants"). The expiration date of the Firestorm Warrants was January 24, 2022. The Company has rejected requests from the holders of the Firestorm Warrants to exercise them pending resolution of pending litigation. On March 22, 2023, the Company entered into a settlement agreement with the Firestorm Principals. In connection with the settlement agreement, the Firestorm Warrants were cancelled. (see NOTE - 13 COMMITMENTS AND CONTINGENCIES)
- (3) Pursuant to the Company's acquisition of Secure Education Consultants on January 1, 2018, the Company issued warrants to purchase 33,333 shares of its common stock, exercisable over a period of five years, at an exercise price of \$5.44 per share, and warrants to purchase 33,333 shares of its common stock, exercisable over a period of five years, at an exercise price of \$6.53 per share (the "Secure Education Warrants"). The expiration date of the Secure Education Warrants is January 1, 2023.
- (4) On November 1, 2018, in connection with an underwritten public offering of its common stock, the Company issued to the underwriters warrants to purchase 206,250 shares of its common stock (the "2018 Public Offering Warrants"), exercisable over a period of five years, at an exercise price of \$1.00 per share. These warrants were exercisable commencing April 27, 2019 and expire on October 29, 2023.
- (5) On March 12, 2019, in connection with the 2019 Promissory Notes, the Company issued warrants to purchase 2,500,000 shares of its common stock (the "2019 Promissory Note Warrants"), which were immediately exercisable at an exercise price of \$0.74 per share, to certain individuals and entities. Of the 2,500,000 warrants, 625,000 were issued as partial consideration for the OpenALPR Technology Acquisition.

NOTE 15 – EQUITY INCENTIVE PLAN

In 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.

In 2021, the Company filed a registration statement on Form S-8 solely to register an additional 4,368,733 shares of its common stock available for issuance under the 2017 Plan. This increase was approved by the Company’s Board of Directors on May 7, 2021, and by the Company’s stockholders on September 14, 2021 at the Company’s annual meeting.

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 years with a contractual term of ten years.

Stock compensation expense related to stock options for the years ended December 31, 2022 and 2021 was \$43,000 and \$116,000, respectively, and is presented as part of general and administrative expenses in the accompanying consolidated statements of operations.

A summary of stock option activity under the Company's 2017 Plan for the years ended December 31, 2022 and 2021 is as follows:

	Number of Shares Subject to Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding balance at January 1, 2021	1,291,753	\$ 1.44	7.57	\$ 7,827,000
Exercised	(208,919)	2.24	-	-
Forfeited	(21,999)	1.04	-	-
Expired	(48,499)	3.81	-	-
Outstanding balance at December 31, 2021	1,012,336	\$ 1.28	6.50	\$ 5,002,000
Exercised	(99,970)	0.93	-	-
Forfeited	(6,999)	0.90	-	-
Expired	(42,987)	2.25	-	-
Outstanding balance at December 31, 2022	862,380	\$ 1.27	5.29	\$ 172,000
Exercisable at December 31, 2022	862,380	\$ 1.27	5.29	\$ 172,000

There were no options granted in the year ended December 31, 2022 and 2021. The total fair value of shares that became vested after grant during the years ended December 31, 2022 and 2021 was \$113,000 and \$121,000, respectively.

As of December 31, 2022, there was no unrecognized stock compensation expense related to stock options granted under the 2017 Plan.

Restricted Stock Units

Stock compensation expense related to RSU's for the years ended December 31, 2022 and 2021 was \$6,573,000 and \$3,793,000, respectively, and was presented as part of operating expenses in the accompanying consolidated statements of operations.

A summary of RSU activity under the Company's 2017 Plan for years ended December 31, 2022 and 2021 is as follows:

	Number of Shares	Weighted Average Unit Price	Weighted Average Remaining Contractual Term (Years)
Outstanding balance at January 1, 2021	479,984	\$ 4.45	2.12
Granted	1,217,071	12.39	2.24
Vested	(239,920)	7.54	-
Forfeited	(109,256)	6.11	-
Outstanding balance at December 31, 2021	1,347,879	\$ 10.94	2.20
Granted	1,601,213	3.74	1.98
Vested	(521,647)	10.64	-
Forfeited	(487,185)	9.61	-
Outstanding balance at December 31, 2022	1,940,260	\$ 5.58	1.81

All RSUs granted vest upon the satisfaction of a service-based vesting condition.

As of December 31, 2022, there was \$7,357,000 of unrecognized stock compensation expense related to unvested RSUs granted under the 2017 Plan that will be recognized over an average remaining period of 1.81 years.

NOTE 16 – LOSS PER SHARE

The following table provides information relating to the calculation of loss per common share (dollars in thousands, except per share data):

	Year ended December 31,	
	2022	2021
Basic and diluted loss per share		
Net loss from continuing operations	\$ (83,454)	\$ (27,396)
Less: preferred stock accretion	-	(101)
Less: preferred stock dividends	-	(51)
Net loss attributable to shareholders from continuing operations	(83,454)	(27,548)
Net loss from discontinued operations	339	614
Net loss attributable to common shareholders	<u>\$ (83,115)</u>	<u>\$ (26,934)</u>
Weighted average common shares outstanding - basic and diluted	49,807,475	41,164,564
Basic and diluted loss per share from continuing operations	\$ (1.68)	\$ (0.67)
Basic and diluted earnings per share from discontinued operations	0.01	0.01
Basic and diluted loss per share	<u>\$ (1.67)</u>	<u>\$ (0.66)</u>
Common stock equivalents excluded due to anti-dilutive effect	<u>3,494,951</u>	<u>3,052,526</u>

As the Company had a net loss for the year ended December 31, 2022, the following 3,494,951 potentially dilutive securities were excluded from diluted loss per share: 692,311 for outstanding warrants, 862,380 related to outstanding options and 1,940,260 related to outstanding RSUs.

As the Company had a net loss for the year ended December 31, 2021, the following 3,052,526 potentially dilutive securities were excluded from diluted loss per share: 692,311 for outstanding warrants, 1,012,336 related to outstanding options and 1,347,879 related to outstanding RSUs.

NOTE 17 – SUBSEQUENT EVENTS

Securities Purchase Agreement

On January 18, 2023, the Company entered into a Securities Purchase Agreement (the “Securities Purchase Agreement”) with certain accredited investors (the “2023 Investors”), pursuant to which the Company agreed to issue and sell to the 2023 Investors in a private placement transaction (the “Private Placement”) (i) up to \$15,000,000 in aggregate principal amount of senior secured promissory notes (the “2023 Notes”), and (ii) warrants (the “2023 Warrants”) to purchase, for an exercise price of \$2.00 per share, up to an aggregate of 7,500,000 shares of common stock of the Company, par value \$0.0001 per share (“Common Stock”). In connection with the initial closing on January 18, 2023, the Company issued \$12,500,000 in aggregate principal amount of 2023 Notes and 2023 Warrants to purchase 6,250,000 shares of Common Stock, resulting in proceeds to the Company of \$12,500,000 before reimbursement of expenses. The Securities Purchase Agreement triggered the 2022 Notes to be exchanged for equal principal amounts of the 2023 Notes which are included in the proceeds of \$12,500,000.

The 2023 Notes are a senior secured obligation of the Company and rank senior to all indebtedness of the Company, subject to certain exceptions. The 2023 Notes have a maturity date of July 18, 2025 (the “Maturity Date”), at which time all remaining outstanding principal and accrued but unpaid interest will be due. The 2023 Notes bear an interest rate of 12% per annum, and the Company will be required to pay interest quarterly during each calendar year through and including the Maturity Date.

At any time, the Company may prepay all, or any portion of, the 2023 Notes by redemption at a price equal to (i) 120% of the then-outstanding principal amount under the 2023 Notes plus any accrued interest thereon, if redeemed on or prior to the first anniversary of issuance, (ii) 115% of the then-outstanding principal amount under the 2023 Notes plus any accrued interest thereon, if redeemed after the first anniversary of issuance and on or prior to the second anniversary of issuance, or (iii) 110% of the then-outstanding principal amount under the 2023 Notes plus any accrued interest thereon, if redeemed after the second anniversary of issuance and prior to the Maturity Date (the “Early Redemption Schedule”). The Investors will also have the option of requiring the Company to redeem the 2023 Notes in accordance with the Early Redemption Schedule if the Company undergoes a fundamental change.

The Securities Purchase Agreement contains customary representations and warranties of the Company and the 2023 Investors. The Company has a material relationship with two of the Investors, (i) Robert A. Berman, the Company’s Chief Executive Officer and Executive Chairman, and (ii) Arctis Global Master Fund Limited (“Arctis”), an affiliate of Arctis Global, LLC, a 10.3% holder of Common Stock of the Company based on its Schedule 13G filed with the Securities and Exchange Commission on May 20, 2022. Mr. Berman and Arctis invested \$2,000,000 and \$6,500,000, respectively, in connection with the \$12,500,000 initial closing of the Private Placement. Mr. Berman has an option, upon request of the Company made within six months of the initial closing, to invest up to an additional \$2,500,000 million in a subsequent closing, or series of closings, on the same terms. In aggregate, such subsequent closings may result in the issuance of senior secured notes in the original principal amount of up to \$2,500,000 and warrants to purchase up to 1,250,000 shares of Common Stock. These lenders were determined to be related parties.

The Securities Purchase Agreement further provides Arctis with the right to designate a director to be seated on the Company’s board of directors (the “Board”) for a term expiring at the Company’s 2023 annual meeting of stockholders, at which meeting such director shall be nominated by the Board to stand for election by the Company’s stockholders to serve for a term to expire at the next annual meeting of the stockholders. Arctis has a right to a Board designee for so long as it holds the Notes, and such right may not be sold or transferred to any party not affiliated with Arctis. As of the filing date of this Annual Report on Form 10-K, Arctis has not exercised its right to designate a director to the Company’s Board.

The 2023 Notes impose certain customary affirmative and negative covenants upon the Company, as well as covenants that restrict the Company and its subsidiaries from incurring any additional indebtedness or suffering any liens, subject to specified exceptions, and restrict the declaration of any dividends or other distributions, subject to specified exceptions. If an event of default under the Note occurs, the Investors can elect to redeem the Notes for cash in accordance with the Early Redemption Schedule, plus default interest, which accrues at a rate per annum equal to 14% from the date of an event of default.

The 2023 Warrants issued in connection with the initial closing have an exercise price of \$2.00 per share, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, are immediately exercisable, have a term of five years from the date of issuance and are exercisable on a cash or cashless basis at the election of the holder.

Firestorm Settlement

On March 22, 2023, the Company entered into a settlement agreement with the Firestorm Principals. Pursuant to the terms of the settlement agreement, the parties have mutually released and discharged all existing and potential actions, causes of action, suits, proceedings, debts, dues, contracts, damages or claims against each other, including certain claims for officer indemnification of the Firestorm Principals. In exchange for the mutual releases, the Company will transfer certain Firestorm assets to CrisisRisk Strategies, LLC, make a payment of \$175,000, and the Firestorm Principals have agreed to the extinguishment of all rights to enforce their claims for payment with respect to principal and interest on the promissory notes issued in connection with the Company’s acquisition of Firestorm, and were giving up their rights to exercise the warrants issued in connection with the same.

As a result of the settlement agreement, the Company expects to record a reduction to notes payable, the related accrued interest and other assets and liabilities already presented as discontinued operations. The Company will also cancel warrants to purchase 631,254 shares of common stock, which were issued in connection with the acquisition of Firestorm. The settlement also results in there being no litigation pending against the Company at this time.

Securities Purchase Agreement

On March 23, 2023, the Company entered into a securities purchase agreement with a single institutional investor that provided for the sale and issuance by the Company in a registered direct offering of an aggregate of: (i) 6,100,000 shares of the Company’s common stock, (ii) pre-funded warrants exercisable for up to an aggregate of 772,853 shares of common stock, and (iii) warrants to purchase up to 6,872,853 shares of common stock. The offering price per share of common stock and associated warrant was \$1.455 and the offering price per pre-funded warrant and associated warrant was \$1.454. Each pre-funded warrant is exercisable for one share of common stock at an exercise price of \$0.001 per share and will expire when exercised in full. The warrants to purchase common stock became exercisable immediately upon issuance, will expire five years following the issuance date and have an exercise price of \$1.60 per share. The Company received gross proceeds from the Registered Direct Offering of approximately \$10,000,000. The Offering closed on March 27, 2023.

The Company entered into an engagement letter with H.C. Wainwright & Co., LLC to serve as exclusive placement agent, on a reasonable best-efforts basis, in connection with the offering. The Company paid the placement agent an aggregate cash fee equal to 7.5% of the gross proceeds of the offering. The Company also paid the placement agent \$75,000 for non-accountable expenses and \$16,000 for clearing fees. Additionally, the Company issued designees of the placement agent, as compensation, warrants to purchase up to 481,100 shares of common stock, equal to 7.0% of the aggregate number of shares of common stock and pre-funded warrants placed in the offering. The warrants issued to the placement agent have a term of five (5) years and an exercise price of \$1.8188 per share of common stock.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of management, including our principal executive officer and principal financial 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 Annual Report.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management as appropriate to allow timely decisions regarding required disclosure.

Based on management's review, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at December 31, 2022.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that our transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that our receipts and expenditures are being made only in accordance with authorizations; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our consolidated financial statements.

Under the supervision and with the participation with our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2022.

In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met.

Attestation Report of Registered Public Accounting Firm

This Annual Report does not include an attestation report of our independent registered public accounting firm because non-accelerated filers are not required to provide such a report.

Changes to Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our most recent fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

PART III**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The following table sets forth our directors and executive officers.

Name	Age	Position
Executive Officer		
Robert A. Berman	63	Chief Executive Officer and Executive Chairman of the Board
David Desharnais	51	President and Chief Operating Officer (January 2022)
Eyal Hen	50	Chief Financial Officer
Directors:		
Paul A. de Bary	76	Lead Director
Glenn Goord	71	Director
David Hanlon	78	Director
Richard Nathan, Ph. D.	78	Director
Steven D. Croxton	55	Director

Directors

Robert A. Berman, Chief Executive Officer and Director

Robert Berman has served as our Chief Executive Officer and a member of our Board of Directors since March 2016 and was appointed Executive Chairman of the Board of Directors in connection with the retirement of Mr. James McCarthy from the Board on July 23, 2020. Since January 2000, Mr. Berman has served as the General Partner of Avon Road Partners, L.P., a limited partnership investing in real estate and the broadcast media industry. From 2006 through March 2015, Mr. Berman held the office of Chairman and Chief Executive Officer at Cinium Financial Services Corporation, a privately-held specialty finance company, and its predecessor, Upper Hudson Holdings, LLC. Prior to Cinium, Mr. Berman was Chief Executive Officer of Empire Resorts, Inc., a NASDAQ-listed gaming company, from 2002-2005.

Director Qualifications

Mr. Berman has extensive experience in the private equity and public company markets. We believe his strong understanding of the financial markets and the M&A process, and his previous senior executive roles with public companies make him a qualified member of our Board of Directors and to serve as our Chief Executive Officer and Executive Chairman.

Richard Nathan, PhD, Director

Richard Nathan, Ph.D., has served on our Board of Directors since March 2016. From April 2016 until his retirement in February 2018, Dr. Nathan served as our Chief Operating Officer. Prior to that, Dr. Nathan was the Chief Executive Officer of AOC Key Solutions, where he worked for over 17 years. Dr. Nathan has over 45 years of corporate management, program management and business and proposal development experience and experience managing service and technical contracts for federal departments and agencies and state governments. Dr. Nathan holds a BS in Chemistry from the Massachusetts Institute of Technology and a PhD in Chemistry from the Polytechnic Institute of Brooklyn.

Director Qualifications

Dr. Nathan has a strong technical background and extensive experience in the government contracting area. We believe this expertise, when combined with his entrepreneurial background having built strong operating companies, makes him a qualified member of our Board of Directors and the committees on which he participates.

Glenn Goord, Director

Glenn Goord has served on our Board of Directors since March 2016. From 1996 until his retirement in 2006, Mr. Goord served as Commissioner of the New York State Department of Correctional Services ("NYSDCS"), where he oversaw the state prison system. Mr. Goord received the Carl Robison Award, the highest honor bestowed by the Middle Atlantic States Correctional Association, in 1997. In 1998 he received the Charles Evans Hughes Award for public service from the Albany based Capital Area Chapter for the American Society for Public Administration (ASPA). In 2002, ASPA awarded Mr. Goord its highest honor, the Governor Alfred E. Smith Award, for his direction of the NYSDCA's efforts to aid New York City following the September 11, 2001 terrorist attack. Mr. Goord holds a BA in Psychology from Fairleigh Dickinson University.

Director Qualifications

Mr. Goord has a strong background in government operations and procurement. His insights into how government operates is a key skill for board decision making on Rekor strategy in certain industry segments. We believe his management and operational experience makes him a qualified member of our Board of Directors and the committees on which he participates.

Paul A. de Bary, Lead Director

Paul A. de Bary has served on our Board of Directors since January 2017 and as Lead Director since November 2017. As an attorney, financial advisor and investment banker, Mr. de Bary has had extensive experience with financial markets, governmental operations and private businesses. From 1996 to 2015, he was a managing director at Marquette de Bary Co., Inc., a New York based broker-dealer, where he served as a financial advisor for state and local government agencies, public and private corporations and non-profit organizations, as well as general counsel. He previously served as a director of Empire Resorts, Inc. (Nasdaq: NYNY) from 1996 to 2010, where he served as chairman of its audit committee as well as, at various times throughout his tenure as a director, a member of the governance and compensation committees and various special committees. Mr. de Bary has also served as Chairman of the Board of Ethics of the Town of Greenwich, Connecticut since 2008. Mr. de Bary is a member of the American Bar Association, the New York State Bar Association and the Association of the Bar of the City of New York. Mr. de Bary holds a JD, an MBA and an A.B. from Columbia University.

Director Qualifications

Mr. de Bary has a diverse background that includes experience as a lawyer, investment banker, corporate officer and member of several boards of directors, including those of public companies. We believe these experiences, combined with his skills and knowledge related to public market decision-making and audit committee roles and responsibilities, makes him qualified member of our Board of Directors and the committees on which he participates.

David P. Hanlon, Director

David Hanlon has served on our Board of Directors since November 2018. Mr. Hanlon is a founding principal of Executive Hospitality Partners, a strategic and asset management firm. Since 2008, he has served as Chief Executive Officer of Hanlon Investments which provides project development consulting services to casinos, hotels and resorts. Mr. Hanlon has served as a member of Cornell University's Industry Advisory Board, as well as on the Board of Directors of the Cornell Football Association and was elected to be a lifetime member of the Cornell University Administrative Advisory Board. He was also an advisor to the Wharton Entrepreneurial Program. Mr. Hanlon holds a B.S. in Hotel Administration from Cornell, an MBA in Finance and an M.S. in Accounting from the Wharton School at the University of Pennsylvania and graduated from the Advanced Management Program at the Harvard Business School.

Director Qualifications

Mr. Hanlon has extensive leadership and executive management experience and experience serving on public company boards of directors. We believe his skills and experience make him a qualified member of our Board of Directors and the committees on which he participates.

Steven D. Croxton, Director

Mr. Croxton is Managing Director of Rice, Voelker, LLC and has more than 30 years' experience in investment and commercial banking. During his career, Mr. Croxton has been involved in financing and advisory transactions totaling more than \$35 billion for a variety of public and private corporations. He has previously served on the Board of Directors of Peninsula Gaming, LLC, and has held leadership roles with responsibilities related to investment, corporate, and international banking. Mr. Croxton earned a B.S. in Finance from Louisiana State University, and a Master of International Management from the American Graduate School of International Management (now Thunderbird School of Global Management), and holds FINRA Series 7, 24, 63, and 79 licenses.

Director Qualifications

Mr. Croxton has in-depth knowledge of the capital markets, as well as extensive background in financing and advisory of public corporations. We believe his skills and experiences make him a qualified member of our Board of Directors and the committees on which he participates.

Executive Officers

Robert A. Berman, Chief Executive Officer and Executive Chairman of the Board

The biography for Robert A. Berman is set forth above in the section entitled “Directors.”

David Desharnais, President

On January 3, 2022, we publicly announced the appointment of David Desharnais as our President. Mr. Desharnais has over two decades of experience leading growth strategies for technology driven businesses from start-ups to multinational corporations and across multiple industries. Mr. Desharnais most recently served as Executive Vice President, Chief Digital Product Officer and as a member of the board of directors for IDEMIA, where he was responsible for global strategy and teams across product management, engineering and application development, customer delivery and integration, cybersecurity, data and analytics, strategic alliances and digital labs. Prior to IDEMIA, Mr. Desharnais was an executive at Amazon, where he served as the General Manager of Worldwide Industries for Amazon Web Services (AWS). Prior to Amazon, Mr. Desharnais was an executive at American Express, where he served as Senior Vice President and General Manager for Digital and Commercial Platforms and Global Commercial Payments. Mr. Desharnais graduated summa cum laude with a Bachelor of Science in electrical engineering technology from University of Calgary, and received a Master of Business Administration in strategy, finance, and marketing from the University of Washington, Michael G. Foster School of Business.

Eyal Hen, Chief Financial Officer

Mr. Hen has served as our Chief Financial Officer since May of 2019. He has more than 18 years’ experience as a global finance and business management executive in corporate environments, most recently with VAYA Pharma Inc. and Ormat Technologies, Inc. (NYSE: ORA). His expertise working as a finance executive in the public markets, where he oversaw financial reporting, compliance initiatives, investor communications, and financing, is instrumental as the Company continues its growth. Mr. Hen holds a BA in Economics and Accounting from Ben Gurion University (Israel) and an MBA from the University of Phoenix.

Independence of Directors

Our Board is currently comprised of six members, five of whom are independent directors. As of December 31, 2022, Robert A. Berman is not an independent director.

The Board, upon recommendation of the Governance Committee, unanimously determined that each of our five non-employee directors is “independent,” as such term is defined in the Nasdaq Stock Market Rules (“Stock Market Rules”).

The definition of “independent director” included in the Stock Market Rules includes a series of objective tests, such as that the director is not an employee of the Company, has not engaged in various types of specified business dealings with the Company, and does not have an affiliation with an organization that has had specified business dealings with the Company. Consistent with the Company’s Corporate Governance Principles, the Board’s determination of independence is made in accordance with the Stock Market Rules, as the Board has not adopted supplemental independence standards. As required by the Stock Market Rules, the Board also has made a subjective determination with respect to each director that such director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company), even if the director otherwise satisfies the objective independence tests included in the definition of an “independent director” included in the Stock Market Rules.

In determining that each individual who served as a member of the Board is independent, the Board considered that, in the ordinary course of business, transactions may occur between the Company and entities with which some of our directors are affiliated. The Board unanimously determined that the relationships discussed in Item 13 below were not material. No unusual discounts or terms were extended.

There are no family relationships among any of our directors or executive officers.

Committees of the Board

Our Board has four standing committees: Audit, Compensation, Governance and Nominations. Each of the committees is solely comprised of and chaired by independent directors, each of whom the Board has affirmatively determined is independent pursuant to the Stock Market Rules. Each of the committees operates pursuant to its charter. The committee Charters are reviewed annually by the Governance Committee. If appropriate, and in consultation with the chairs of the other committees, the Corporate Governance Committee proposes revisions to the charters. The responsibilities of each committee are described in more detail below. The charters for the four committees are available on the Company’s website at www.rekor.ai by following the link to “Investors” and then to “Corporate Governance.”

The Chair and members of each standing committee are summarized in the table below:

Name	Audit Committee	Compensation Committee	Governance Committee	Nominations Committee
Paul A. de Bary - (Independent)	Chair	-	Member	-
Richard Nathan - (Independent)	-	Member	Chair	Member
Glenn Goord- (Independent)	-	Chair	Member	Member
David Hanlon - (Independent)	Member	-	-	Chair
Steven D. Croxton - (Independent)	Member	-	-	-

Audit Committee

We have an Audit Committee comprised of directors who are “independent” within the meaning of Nasdaq Rule 5605(b)(1). The Audit Committee assists our Board in overseeing the financial reporting process and maintaining the integrity of our financial statements, and of our financial reporting processes and systems of internal audit controls, and our compliance with legal and regulatory requirements. The Audit Committee is responsible for reviewing the qualifications, independence and performance of our independent registered public accounting firm and reviews our internal controls, financial management practices and investment functions and compliance with financial legal and regulatory requirements. The Audit Committee is also responsible for performing risk and risk management assessments as well as preparing any report of the Audit Committee that may be required by the proxy rules of the SEC to be included in the Corporation’s annual proxy statement. Our Board has identified and appointed Paul de Bary as its “audit committee financial expert,” as defined by the SEC in Item 407 of Regulation S-K. Mr. de Bary serves as the Chair of the Audit Committee, and is joined on the committee by Mr. Croxton, and Mr. Hanlon.

Compensation Committee

We have a Compensation Committee comprised of members who are “Non-Employee Directors” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”). They are also “independent” directors within the meaning of NASDAQ Rule 5605(b)(1). The Compensation Committee is responsible for overseeing the establishment and maintenance of our overall compensation and incentive programs to discharge the Board’s responsibilities relating to compensation of our executive officers and directors, including establishing criteria for evaluating performance and setting appropriate levels of compensation, and to produce an annual report on executive compensation for inclusion in the Corporation’s proxy statement in accordance with the rules and regulations of the SEC. The Compensation Committee advises and makes recommendations to our Board on all matters concerning director compensation. Mr. Goord serves as Chair of the Compensation Committee and is joined by Mr. Nathan.

Governance Committee

Our Board has a Governance Committee that (1) reviews and recommends improvements to our governance guidelines and corporate policies; (2) monitors compliance with our Code of Conduct; (3) evaluates and makes recommendations concerning changes in the charters of the various Committees of the Board of Directors, and (4) such other matters as may be required to ensure compliance with applicable federal and state laws or the requirements of any exchange on which the Company maintains a listing for its securities. The committee is required to be comprised of entirely “independent” directors within the meaning of NASDAQ Rule 5605(b)(1). Mr. Nathan currently serves as the Chair of the Governance Committee and is joined on the committee by Mr. Goord and Mr. de Bary.

Nominations Committee

Our Nominations Committee that ensures proper performance of people and practices of the Company by (1) recommending new members of the Board; (2) training new members of the Board; (3) reviewing the performance of the Board and its various committees and making recommendations intended to improve that performance, (4) evaluating and making recommendations to the Governance Committee as to changes in the charters of the various committees of the Board, (5) evaluating the performance of the Chief Executive Officer, (6) overseeing the development and implementation of succession planning for senior management positions; and (7) identifying and recommending candidates for membership of the Board committees. Mr. Hanlon currently serves as the Chair of the Nominations Committee and is joined on the committee by Mr. Goord and Mr. Nathan.

Compensation of Rekor Directors

The following table provides the total compensation for each person who served as a non-employee member of our Board of Directors during fiscal year 2022, including all compensation awarded to, earned by or paid to each person who served as a non-employee director for some portion or all of fiscal year 2022:

Name	Fees earned or paid in		Restricted stock awards (\$)(1)(2)(3)	Total (\$)
	cash (\$)			
Paul de Bary	\$	104,750	\$ 218,619	\$ 323,369
Glenn Goord		71,250	218,619	289,869
Richard Nathan, Ph. D.		70,750	218,619	289,369
David Hanlon		71,000	218,619	289,619
Steven D. Croxton		57,000	218,619	275,619

- (1) The amount shown reflects the aggregate grant date fair value of awards computed in accordance with Financial Accounting Standards Board Accounting Standards Codification 718.
- (2) Amount represents the fair value of the issuances of 45,832 restricted stock units issued on January 20, 2022. Shares will vest on March 15, 2023, for all directors who have remained independent directors as of the end of the calendar year in which the grant was made.
- (3) Beginning in 2021, the number of RSU's that will be granted to the independent directors as a group each January will be determined by taking one third of one percent of the preceding November's average daily market capitalization as reported by NASDAQ, divided by the closing share price on the day preceding the grant. The number of shares granted to each independent director will be determined by dividing the total number of units so determined by the number of independent directors as of the date of the grant.

For the year ended December 31, 2022 our non-employee directors are compensated for their services as follows:

Position	Annual Fee (S) (1)	Board Meeting Fee		Committee Meeting Fee	
		In Person (S)	Telephonic (S)	In Person (S)	Telephonic (S)
Board Member	50,000	1,000	500	500	250
Audit Committee Chair	30,000	1,500	500	500	250
Compensation Committee Chair	10,000	1,500	500	500	250
Governance Committee Chair	10,000	1,500	500	500	250
Nominations Committee Chair	10,000	1,500	500	500	250
Special Committee	-	500	250	500	250
Lead Director	10,000	-	-	-	-

(1) Payments are made on a quarterly basis.

Directors who are officers or employees of Rekor or its subsidiaries do not receive any compensation for service on our Board, but employee directors will be reimbursed for expenses incurred in attending meetings of our Board or any committees thereof.

Code of Conduct

We have adopted a Code of Conduct, which serves as our Code of Ethics, which applies to all of our employees, including our Chief Executive Officer and our Chief Financial Officer. Our Code of Conduct is available on our website at www.rekor.ai. If we amend or grant a waiver of one or more of the provisions of our Code of Conduct, we intend to satisfy the requirements under Item 5.05 of Item 8-K regarding the disclosure of amendments to or waivers from provisions of our Code of Conduct that apply to our Principal Executive and Principal Financial Officer by posting the required information on our website at the above address. Our website is not part of this Annual Report on Form 10-K.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers, and shareholders who own more than 10% of the Company's stock to file forms with the SEC to report their ownership of the Company's stock and any changes in ownership. The Company assists its directors and executives by identifying reportable transactions of which it is aware and preparing and filing the forms on their behalf. All persons required to file forms with the SEC must also send copies of the forms to the Company. We have reviewed all forms provided to us. Based on that review and written information given to us by our executive officers and directors, we believe that all Section 16(a) filings during the past fiscal year were filed on a timely basis.

ITEM 11. EXECUTIVE COMPENSATION

This section discusses material components of our 2022 compensation program for our named executive officers identified in the 2022 Summary Compensation Table below.

2022 Summary Compensation Table

Name/Capacities in which compensation was received	Year	Base Salary	Bonus	Equity incentive awards	All other compensation (3)	Total
Robert Berman	2022	\$ 695,000 (1)	\$ -	\$ -	\$ 15,086	\$ 710,086
Chief Executive Officer	2021	645,000	-	1,000,004 (2)	24,877	1,669,881
Eyal Hen	2022	445,000 (4)	-	142,800 (5)	7,197	594,997
Chief Financial Officer	2021	405,000	-	187,900 (6)	7,868	600,768
David Desharnais	2022	728,750 (7)	200,000 (8)	2,118,750 (9)	10,675	3,058,175
President Chief Operating Officer	2021	-	-	-	-	-

(1) In 2021, we increased Mr. Berman's base salary from \$495,000 to \$695,000 per year effective April 1, 2021.

(2) Amount represents the fair value of the issuance of 53,220 restricted stock units to Mr. Berman on March 17, 2021.

(3) Amount represents 401(k) matching and health insurance contributions.

(4) In 2021, we increased Mr. Hen's base salary from \$375,000 to \$405,000 per year effective January 3, 2021. Additionally, in 2021, we increased Mr. Hen's base salary from \$405,000 to \$445,000 per year effective December 20, 2021.

(5) Amount represents the fair value of the issuance of 40,000 restricted stock units to Mr. Hen on March 15, 2022.

(6) Amount represents the fair value of the issuance of 10,000 restricted stock units to Mr. Hen on March 17, 2021.

(7) Mr. Desharnais has served as the Company's President since January 17, 2022 and Chief Operating Officer since September 30, 2022.

(8) Amount represents a bonus that was guaranteed to Mr. Desharnais as part of his employment agreement date December 10, 2021.

(9) Amount represents the fair value of the issuance of 375,000 restricted stock units to Mr. Desharnais on January 17, 2022.

Narrative Disclosure to Summary Compensation Table

The primary components of our compensation program for named executive officers include salary, cash incentive compensation and equity incentive awards.

Base Salary

We pay our executive officers a base salary as the fixed component of our compensation program for named executive officers.

Equity Incentive Awards

In August 2017, the Company approved and adopted the 2017 Equity Award Plan (the "2017 Plan"). The purpose of the 2017 Plan is to promote the interests of Rekor (including its subsidiaries and affiliates, if any) and its stockholders by using equity interests in Rekor to attract, retain and motivate its management, nonemployee directors and other eligible persons and to encourage and reward their contributions to our performance and profitability. 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. The 2017 Plan reserved 3,000,000 shares of our common stock for future grants from time to time under awards administered by our Board of Directors. In 2021, the Company filed a registration statement on Form S-8 solely to register an additional 4,368,733 shares of its common stock available for issuance under the 2017 Plan. This increase was approved by the Company's Board of Directors on May 7, 2021, and by the Company's stockholders on September 14, 2021 at the Company's annual meeting.

Rekor has also designed the 2017 Plan to include a number of provisions that Rekor's management believes promote best practices by reinforcing the alignment of equity compensation arrangements for non-employee 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. Rekor cannot, without stockholder approval, reduce the exercise price of an award (except for adjustments in connection with a Rekor recapitalization), and at any time when the exercise price of an award is above the market value of Rekor common stock, Rekor 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.

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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 Rekor, such awards will not automatically vest and payout 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 Rekor’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.

Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information with respect to unexercised stock options, stock that has not vested, and equity incentive plan awards held by our named executive officers at December 31, 2022.

Name	Grant Date	Option Awards (3)				Restricted Stock Awards(3)	
		Number of Securities Underlying Unexercised Option - Exercisable	Number of Securities Underlying Unexercised Options - Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares that Have Not Vested	Market Value of Shares of Stock that Have not Vested (2)
Robert Berman	5/8/2019	50,000	- (1)	1.00	5/8/2029	-	-
Chief Executive Officer	5/8/2019	50,000	- (1)	1.50	5/8/2029	-	-
Eyal Hen	3/15/2022					40,000 (1)	48,000
Chief Financial Officer	3/17/2021					6,667 (1)	8,000
	2/21/2020					16,666 (1)	19,999
	5/15/2019	50,000	- (1)	0.78	5/15/2029	-	-
David Desharnais	1/17/2022					375,000 (1)	450,000
President Chief Operating Officer							

(1) The options and awards vest in equal annual installments over three years.

(2) Represents the market value of the restricted stock award or restricted stock unit based on the closing price of our common stock of \$1.20 per share on December 31, 2022.

(3) All of the options and restricted stock unit awards listed in the table were granted under our 2017 Equity Award Plan.

Employment Agreements and Potential Payments Upon Termination or Change in Control

We entered into written employment offer letters with each of our Named Executive Officers in connection with their initial employment with us.

Some of these employment offer letters were superseded and replaced in their entirety by amended and restated employment agreements which were entered into and effective as of May 2019.

Potential Payments Upon Termination or Change in Control

In the event of a “Change of Control”, as defined in the Employment Agreement, whether during the initial term or thereafter, we shall have the right to terminate the Named Executive Officers Employment Agreement. The Named Officer Executive is eligible to receive two times his base salary then in effect if his employment with the Company is terminated within 120 days of a change in control.

The Named Executive Officers also agreed as consideration for entering into the Employment Agreements, that for the period during his employment and for twelve months thereafter, (i) he will not compete with the Company in the “Geographic Area”, as defined in the Employment Agreement, and (ii) he will not solicit any of our existing employees, suppliers or customers.

Securities authorized for issuance under equity compensation plans

The following table provides information about our equity compensation plans as of December 31, 2022.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options and restricted stock units (a)	Weighted-average exercise price of outstanding options and restricted stock units (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,802,640	\$ 1.27	3,183,247
Total	2,802,640	\$ 1.27	3,183,247

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of March 24, 2023, information concerning the beneficial ownership of our common stock by, each person or group of persons known to beneficially own more than 5% of the outstanding shares of our common stock, each person who is our executive officer or director, and all such executive officers and directors as a group. Beneficial ownership and percentage ownership are determined in accordance with the rules of the SEC. Under these rules, beneficial ownership generally includes any shares as to which the individual or entity has sole or shared voting power or investment power and includes any shares that an individual or entity has the right to acquire beneficial ownership of within 60 days of March 24, 2023, through the exercise of any option, warrant, conversion privilege or similar right. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of our common stock that could be issued upon the exercise of outstanding options and warrants that are exercisable within 60 days of March 24, 2023, are considered to be outstanding. These shares, however, are not considered outstanding when computing the percentage ownership of any other person.

To our knowledge, except as indicated in the footnotes to the following table, all beneficial owners named in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them. The percentage of ownership is based on 55,020,612 shares of common stock outstanding as of March 24, 2023.

Name and address of beneficial owner (1)	Shares Beneficially Owned	
	Number of Shares beneficially owned (2)	Percent of class
Directors and Named Executive Officers		
Robert A. Berman	4,265,323 (3)	7.8%
Richard Nathan	1,680,271 (4)	3.1%
Paul de Bary	193,001 (5)	*
Glenn Goord	231,501 (6)	*
David Hanlon	135,501 (7)	*
Steven Croxton	113,001 (8)	*
Eyal Hen	118,638 (9)	*
David Desharnais	84,516(10)	*
All directors and named executive officers as a group (11 persons)	6,821,752	12.4%
5% or Greater Shareholders		
Robert A. Berman	4,265,323 (3)	7.8%
Arctis Global, LLC	9,339,591 (11)	17.0%
Goldman Sachs Group Inc	2,767,852(12)	5.0%
BlackRock, Inc.	2,264,368(13)	4.1%

* Less than 1%

- (1) Unless otherwise indicated, the address of those listed is c/o Rekor Systems, Inc., 6721 Columbia Gateway Drive, Suite 400, Columbia, MD 21046. Unless otherwise indicated, all shares are owned directly by the beneficial owner.
- (2) Based on 55,020,612 shares of our common stock issued and outstanding as of the March 24, 2023.
- (3) Mr. Berman may be deemed to be the beneficial owner of 4,265,323 shares of Rekor Systems, Inc. common stock, or 6.5% of the class of securities, consisting of options to purchase 100,000 shares of our common stock exercisable within 60 days of March 24, 2023, warrants to purchase up to 1,000,000 shares of common stock that are exercisable within 60 days of March 24, 2023, 1,000,219 shares of our common stock, and, as the general partner and manager of Avon Road Partners, L.P., he may be deemed to share with Avon Road (and not with any third-party) the power to vote or direct the vote of and to dispose or direct the disposition of the 2,165,104 shares of Rekor Systems, Inc. common stock beneficially owned by Avon Road based on the Schedule 13D/A Amendment No. 7 filed with the SEC by Avon Road and Mr. Berman on November 19, 2021.
- (4) Consists of 1,680,271 shares of our common stock and an Unit Warrant to purchase 4,849 shares of our common stock exercisable within 60 days of March 24, 2023.
- (5) Consists of options to purchase 108,499 shares of our common stock exercisable within 60 days of March 24, 2023, and 84,502 shares of our common stock.
- (6) Consists of options to purchase 70,999 shares of our common stock exercisable within 60 days of March 24, 2023, and 160,502 shares of our common stock.
- (7) Consists of options to purchase 70,999 shares of our common stock exercisable within 60 days of March 24, 2023, and 64,502 shares of our common stock.
- (8) Consists of options to purchase 48,499 shares of our common stock exercisable within 60 days of March 24, 2023, and 64,502 shares of our common stock.
- (9) Consists of options to purchase 50,000 shares of our common stock exercisable within 60 days of March 24, 2023, and 68,638 shares of our common stock.
- (10) Consists of 84,516 shares of our common stock.
- (11) Based on the Schedule 13G/A Amendment No.1 filed with the Securities and Exchange Commission on February 14, 2023, reporting beneficial ownership of 6,089,591 shares of Rekor Systems, Inc. common stock, reporting beneficial ownership of 10.51%. In addition the shares filed with Schedule 13 G/A Amendment No.1, as part of the Securities Purchase Agreement this beneficial owner received warrants to purchase up to 3,250,000 shares of common stock that are exercisable within 60 days of March 24, 2023. The address of the reporting person is 07 Calle Del Parque, 7th Floor, San Juan, Puerto Rico, 00912-3242.
- (12) Based on the Schedule 13G/A Amendment 1 filed with the Securities and Exchange Commission on February 8, 2023, reporting indirect ownership of 2,767,852 shares of Rekor Systems, Inc. common stock, representing a beneficial ownership of 5.1%. The address of the reporting person is 200 West Street, New York, New York 10282.
- (13) Based on the Schedule 13G filed with the Securities and Exchange Commission on May 9, 2022, reporting indirect ownership of 2,236,436 shares of Rekor Systems, Inc. common stock, representing a beneficial ownership of 5.0%. The address of the reporting person is 55 East 52nd Street New York, NY 10055.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Governance Committee has responsibility for reviewing and, if appropriate, for approving any related party transactions that would be required to be disclosed pursuant to applicable SEC rules.

Described below are any transactions since January 1, 2021 through December 31, 2022 and any currently proposed or subsequent transactions to which the Company was a party in which:

- The amounts involved exceeded or will exceed the lower of either \$120,000 or 1% of the average of the Company's total assets at year-end for the last two completed fiscal years; and
- A director, executive officer, holder of more than 5% of the outstanding capital stock of the Company, or any member of such person's immediate family had or will have a direct or indirect material interest.

Review and Approval, or Ratification of Transactions with Related Parties

Prior to adoption of the Company's Code of Conduct in August 2017, we had no formal, written policy or procedure for the review and approval of related-party transactions. The Code of Conduct requires all Company personnel to seek review of and obtain approval or ratification of any Company transaction which involves them or certain family members or businesses they have economic interests in. The Charter of our Governance Committee also requires that any transaction with a related person that must be reported under applicable rules of the SEC must be reviewed and either approved, disapproved or ratified by our Governance Committee.

In February 2020, to further implement these requirements, the Board of Directors adopted a Conflict of Interest and Related Parties Transaction Policy upon the recommendation of the Governance Committee. In the case of all directors and senior officers, this policy requires review and approval of such transactions to be obtained from the Governance Committee.

Each of the transactions described below was approved by the Board of Directors after review and recommendation by the Governance Committee, which consists entirely of officers and directors without any personal, business or family interest in the transactions described:

2022 Promissory Notes

On December 20, 2022, the Company entered into a Promissory Note Agreement (the "2022 Notes") with (i) Robert A. Berman, the Company's Chief Executive Officer and Executive Chairman, and (ii) Arctis Global Master Fund Limited ("Arctis"), an affiliate of Arctis Global, LLC, a 10.3% holder of Common Stock of the Company based on its Schedule 13G filed with the Securities and Exchange Commission on May 20, 2022 (the "2022 Lenders"), pursuant to which the 2022 Lenders loaned \$1,000,000 to the Company. The Company has determined that it has a material relationship with the 2022 Lenders.

The 2022 Notes have a maturity date of March 20, 2023, at which time all remaining outstanding principal and accrued but unpaid interest will be due, however, the aggregate unpaid principal amount under 2022 Notes shall be exchangeable for an equal principal amount of secured notes to be issued by the 2022 Lenders pursuant to that certain term sheet dated December 20, 2022 (the "Secured Notes Transaction") together with any accrued and unpaid interest on this 2022 Notes, in which case the 2022 Notes shall be cancelled with no further force and effect as of the effective date of the Secured Notes Transaction. The 2022 Notes bear an interest rate of 12% per annum.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees for services performed by Marcum LLP ("Marcum") and Friedman LLP ("Friedman"), prior to the acquisition of certain assets of Friedman by Marcum effective September 1, 2022, for the years ended December 31, 2022 and 2021 were:

	Year ended December 31,	
	2022	2021
	(Dollars in thousands)	
Audit fees	\$ 295	\$ 289
Total	\$ 295	\$ 289

The Company was notified that certain assets of Friedman, the Company's independent registered public accounting firm, were acquired by Marcum effective September 1, 2022. On September 13, 2022, the Audit Committee of the Board approved the dismissal of Friedman and the engagement of Marcum to serve as the independent registered public accounting firm of the Company. As of September 1, 2022, the services previously provided by Friedman are provided by Marcum. Approximately \$219,000 of the total fees for audit services during the year ended December 31, 2022 were for services provided by Marcum.

The Audit Committee reviews and pre-approves both audit and all permissible non-audit services provided by our independent registered public accounting firm.

The Audit Committee has considered whether the provision of services, other than services rendered in connection with the audit of our annual financial statements, is compatible with maintaining Marcum's independence.

Audit Fees for 2022 and 2021 include fees associated with the audits of the annual financial statements and the quarterly reviews of the unaudited interim financial statements included in the Company's Annual and Quarterly Reports on Form 10-K and 10-Q, respectively.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES

(a) (1) List Financial Statements

See Index to Financial Statements in Part II, Item 8 of this annual report.

(2) List of Financial Statements Schedules

All applicable schedule information is included in our Financial Statements in Part II, Item 8 of this annual report.

(b) Exhibits Index. We hereby file, as exhibits to this Annual Report, those exhibits listed on the Exhibit Index immediately following the signature page hereto.

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
2.1	Second Amended and Restated Agreement and Plan of Merger dated July 12, 2017, by and among Novume Solutions, Inc., KeyStone Solutions, Inc., Brekford Traffic Safety, Inc., KeyStone Merger Sub, LLC, and Brekford Merger Sub, Inc.	S-4/A	333-216014	2.1	7/13/17	
3.1	Amended and Restated Certificate of Incorporation of Novume Solutions, Inc. as filed with the Secretary of State of Delaware on August 21, 2017	8-K	333-216014	3.1	8/25/17	
3.2	Certificate of Amendment to Certificate of Incorporation of Novume Solutions, Inc. as filed with the Secretary of State of Delaware on April 30, 2019	8-K	001-38338	3.1	4/30/19	

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3.3	Second Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Rekor Systems, Inc., dated March 18, 2020	8-K	001-38338	3.1	3/18/20
3.5	Amended and Restated Bylaws of Rekor Systems, Inc.	8-K	001-38338	3.2	12/15/21
4.1	Form of Common Stock Purchase Warrant issued by Novume Solutions, Inc. on January 25, 2017	S-4/A	333-216014	4.3	6/9/17
4.2	Form of Common Stock Purchase Warrant issued by Novume Solutions, Inc. on January 25, 2017	S-4/A	333-216014	4.4	6/9/17
4.3	Unsecured Subordinated Promissory Note issued to Harry Rhulen by Novume Solutions, Inc. on September 29, 2017	8-K	000-55833	10.2	10/3/17
4.4	Unsecured Subordinated Promissory Note issued to Suzanne Loughlin by Novume Solutions, Inc. on September 29, 2017	8-K	000-55833	10.3	10/3/17
4.5	Unsecured Subordinated Promissory Note issued to James Satterfield by Novume Solutions, Inc. on September 29, 2017	8-K	000-55833	10.4	10/3/17
4.6	Unsecured Subordinated Promissory Note issued to Lancer Financial Group, Inc. by Novume Solutions, Inc. on September 29, 2017	8-K	000-55833	10.5	10/3/17
4.7	Form of Warrant (January 2023)	8-K	001-38338	4.1	1/23/23
4.8	Form of Senior Secured Note (January 2023)	8-K	001-38338	4.2	1/23/23
4.9	Form of Pre-Funded Common Stock Purchase Warrant (March 2023)	8-K	001-38338	4.1	3/27/23
4.10	Form of Common Stock Purchase Warrant (March 2023)	8-K	001-38338	4.2	3/27/23
4.11	Form of Placement Agent Common Stock Purchase Warrant (March 2023)	8-K	000-38338	4.3	3/27/23
10.1#	2017 Equity Award Plan of Novume Solutions, Inc. (as amended and restated as of September 14, 2021)	10-K	001-38338	10.1	3/31/22
10.2	Assignment and Assumption Agreement, dated as of October 1, 2017, by and between KeyStone Solutions LLC and Novume Solutions, Inc.	8-K	000-55833	10.1	10/3/17
10.3#	Form of Rekor Systems, Inc. Incentive Stock Option Award Agreement	10-K	001-38338	10.18	4/11/19
10.4#	Form of Rekor Systems, Inc. Non-Qualified Stock Option Award Agreement	10-K	001-38338	10.19	4/11/19
10.5#	Employment Agreement with Eyal Hen effective May 15, 2019	8-K	001-38338	10.1	5/21/19

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10.6#	Employment Agreement with Robert Berman effective May 15, 2019	8-K	001-38338	10.2	5/21/19	
10.7#	Employment Agreement with David Desharnais dated as of December 10, 2021	8-K	001-38338	10.1	1/3/22	
10.8	Form of Rekor Systems, Inc. Restricted Stock Unit Agreement	10-K	001-38338	10.8	3/31/22	
10.9	First Amendment to Note Purchase Agreement, dated March 26, 2020, by and among the Company, the Purchasers from time to time party thereto and the Agent.	8-K	001-38338	10.1	3/26/20	
10.10	Limited Waiver, dated as of March 26, 2020, by and among the Company and the undersigned Purchasers.	8-K	001-38338	10.2	3/26/20	
10.11	Share Purchase Agreement, dated August 6, 2021, by and among Rekor Systems Inc., Waycare Technologies Ltd., the sellers named therein, and Shareholder Representative Services LLC, solely in its capacity as representative of the sellers.	8-K	001-38338	10.1	8/9/21	
10.12	Securities Purchase Agreement, dated as of January 18, 2023, by and among the Company and the investors party thereto	8-K	001-38338	10.1	1/23/23	
10.13	Form of Securities Purchase Agreement (March 2023)	8-K	001-38338	10.1	3/27/23	
21.1	Subsidiaries of Rekor Systems, Inc.					*
23.1	Consent of Marcum LLP., Independent Registered Public Accounting Firm					*
23.2	Consent of Friedman LLP., Independent Registered Public Accounting Firm					*
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer					*
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer					*
32.1	Section 1350 Certification of Chief Executive Officer					**
32.2	Section 1350 Certification of Chief Financial Officer					**
101.INS	Inline XBRL Instance Document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
104	Cover Page Interactive Data File (formatted in Inline XBRL and included in Exhibit 101)					

* Filed herewith.

** Furnished herewith.

Indicates management contract or compensatory plan.

ITEM 16. FORM 10-K SUMMARY

None.

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.

Rekor Systems, Inc.

/s/ Robert A. Berman
Name: Robert A. Berman
Title: Chief Executive Officer
Principal Executive Officer
Date: March 29, 2023

/s/ Eyal Hen
Name: Eyal Hen
Title: Chief Financial Officer (Principal Financial and Accounting Officer)
Date: March 29, 2023

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Robert A. Berman</u> Robert A. Berman	Chief Executive Officer (Principal Executive Officer), Chairman of the Board and Director	March 29, 2023
<u>/s/ Eyal Hen</u> Eyal Hen	Chief Financial Officer (Principal Financial and Accounting Officer)	March 29, 2023
<u>/s/ Richard Nathan</u> Dr. Richard Nathan	Director	March 29, 2023
<u>/s/ Glenn Goord</u> Glenn Goord	Director	March 29, 2023
<u>/s/ Paul de Bary</u> Paul de Bary	Director	March 29, 2023
<u>/s/ David Hanlon</u> David Hanlon	Director	March 29, 2023
<u>/s/ Steven D. Croxton</u> Steven D. Croxton	Director	March 29, 2023

Subsidiaries of Rekor Systems, Inc.

Legal Name of Subsidiary	Jurisdiction of Organization
Rekor Recognition Systems, Inc.	Delaware
Rekor Public Safety Network, LLC	Delaware
Firestorm Franchising, LLC	Delaware
Firestorm Holdings, LLC	Delaware
Firestorm Solutions, LLC	Delaware
Global Public Safety, LLC (19.99% ownership)	Delaware
Columbia Gateway Investors, LLC	Delaware
OpenALPR Software Solutions, LLC	Delaware
Ollie Dee LLC	Delaware
Roker, Inc. (50% ownership)	Delaware
Waycare Technologies Ltd.	Israel
Waycare Technologies Inc.	Delaware
Southern Traffic Services, Inc.	Florida

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement of Rekor Systems, Inc. on Form S-8 (File Nos. 333-220864, 333-259041, and 333-260153) and Form S-3 (File Nos. 333-224423, 333-252735, 333-259447, 333-260607) of our report dated March 29, 2023, which includes an explanatory paragraph as to the Company's ability to continue as a going concern, with respect to our audit of the consolidated financial statements of Rekor Systems, Inc. and Subsidiaries as of December 31, 2022 and for the year ended December 31, 2022, which report is included in this Annual Report on Form 10-K of Rekor Systems, Inc. for the year ended December 31, 2022.

/s/ Marcum LLP

Marcum LLP
East Hanover, NJ
March 29, 2023

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM'S CONSENT

We consent to the incorporation by reference in the Registration Statement of Rekor Systems, Inc. on Form S-8 (File Nos. 333-220864, 333-259041, and 333-260153) and Form S-3 (File Nos. 333-224423, 333-252735, 333-259447, 333-260607) of our report dated March 31, 2022, with respect to our audit of the consolidated financial statements of Rekor Systems, Inc. and Subsidiaries as of December 31, 2021 and for the year ended December 31, 2021, which report is included in this Annual Report on Form 10-K of Rekor Systems, Inc. for the year ended December 31, 2022. We were dismissed as auditors on September 13, 2022 and, accordingly, we have not performed any audit or review procedures with respect to any financial statements incorporated by reference for the periods after the date of our dismissal.

/s/ Friedman LLP

Friedman LLP
East Hanover, NJ
March 29, 2023

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

I, Robert A. Berman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rekor Systems, 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: March 29, 2023

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

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

I, Eyal Hen, certify that:

1. I have reviewed this Annual Report on Form 10-K of Rekor Systems, 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: March 29, 2023

/s/ Eyal Hen
Eyal Hen
Chief Financial Officer

**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 Sarbanes-Oxley Act of 2002, that the Annual Report of Rekor Systems, Inc. (the "Company") on Form 10-K for the period ended December 31, 2022 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2023

/s/ Robert A. Berman

Robert A. Berman
Chief Executive Officer
Principal Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Rekor Systems, Inc. and will be retained by Rekor Systems, 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.

**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 Sarbanes-Oxley Act of 2002, that the Annual Report of Rekor Systems, Inc. (the "Company") on Form 10-K for the period ended December 31, 2022 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 29, 2023

/s/ Eyal Hen

Eyal Hen
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Rekor Systems, Inc. and will be retained by Rekor Systems, 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.